

Management's Discussion and Analysis

(Unaudited)

The following is a discussion and analysis of the Commonwealth of Virginia's (the Commonwealth) financial performance, including an overview and analysis of the financial activities of the Commonwealth for the fiscal year ended June 30, 2007. Readers should consider this information in conjunction with the transmittal letter, which is located in the Introductory Section of this report, and the Commonwealth's financial statements, including the notes to the financial statements, which are located after this analysis.

Financial Highlights

Government-wide Highlights

The Primary Government's assets exceeded its liabilities at June 30, 2007, by \$17.8 billion. Net assets of governmental activities increased by \$380.7 million and net assets of business-type activities increased by \$274.6 million. Component units reported an increase in net assets of \$3.3 billion from June 30, 2006.

Fund Highlights

At the end of the fiscal year, the Commonwealth's governmental funds reported a combined ending fund balance of \$5.56 billion, an increase of \$209.0 million in comparison with the prior year. Of this total fund balance, \$3.76 billion represents unreserved fund balance and the remaining \$1.8 billion represents amounts reserved for specific purposes, such as the Revenue Stabilization Fund and education. The enterprise funds reported net assets at June 30, 2007, of \$1.1 billion, an increase of \$273.2 million during the year.

While the Commonwealth's combined governmental funds increased during fiscal year 2007, the General Fund actual revenues were \$231.7 million less than final budgeted revenues. This has contributed to a projected budgeted shortfall of \$638.4 million for the fiscal year 2007 and 2008 biennial budget cycle. See page 36 for additional information.

Long-term Debt

The Commonwealth's total debt rose during the fiscal year to \$24.3 billion, an increase of \$2.8 billion or 12.8 percent. During fiscal year 2007, the Commonwealth issued new debt in the amount of \$776.3 million for the primary government and \$3.6 billion for the component units. More detailed information regarding these activities begins on page 127.

Overview of the Financial Statements

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

Government-wide Statements

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

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

The Statement of Activities (pages 42 through 44) presents information showing how the Commonwealth's net assets changed during fiscal year 2007. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

Discretely Presented Component Units – account for functions of legally separate entities for which the Commonwealth is financially accountable. The Commonwealth has 26 non-higher education component units and 22 higher education institutions that are reported as discretely presented component units. Information regarding the individual financial statements of the component units is presented in the notes to the financial statements.

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

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

Fund Financial Statements

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

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

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

The Commonwealth reports 14 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 10 governmental funds are aggregated into a single column on the fund statements. Individual fund data for these nonmajor governmental funds is provided in the combining financial statements immediately following the Required Supplementary Information.

- **Proprietary funds** – The Commonwealth maintains two different types of proprietary funds, enterprise and internal service. These funds report activities that operate more like those of private sector business and use the full accrual basis of accounting. Enterprise funds report activities that charge fees for supplies or services to the general public like the State Lottery. Enterprise funds are reported as business-type activities on the government-wide financial statements. The enterprise funds use the full accrual basis of accounting and the only differences between amounts reported on the government-wide statements and the Enterprise Fund statements are due to internal service fund activity (see reconciliations on pages 54 and 56). Internal Service funds report activities that charge fees for supplies and services to other Commonwealth agencies, like Fleet Management. Internal Service funds are reported as governmental activities in the government-wide statements because these types of services predominantly benefit governments rather than business-type functions.
- The Commonwealth reports 25 individual proprietary funds. Information is presented separately in the proprietary fund statements for the State Lottery Department, Virginia College Savings Plan, and Unemployment Compensation Funds, all of which are considered major funds. Data from the other enterprise funds are aggregated into a single column on the fund statements. All internal service funds are aggregated into a single column on the fund statements. Individual fund data for all nonmajor proprietary funds is provided in the combining financial statements immediately following the Required Supplementary Information.
- **Fiduciary funds** – These funds are used to account for resources held for the benefit of parties outside the government and use the full accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because the resources of these funds are restricted and cannot be used to finance the Commonwealth's operations. The Commonwealth's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 63.

The Commonwealth's fiduciary funds are the:

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at June 30. It also includes information concerning the Commonwealth's funding progress for pension and other post-employment benefits, as well as 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 \$17.8 billion during the fiscal year. The net assets of the governmental activities increased \$380.7 million or 2.3 percent. Business-type activities had an increase of \$274.6 million or 32.7 percent, primarily due to increases for the Virginia College Savings Plan and the Unemployment Compensation Fund. The government-wide beginning balance was restated for changes in accounting principle and the correction of prior year errors to arrive at a restated beginning balance of \$17.1 billion.

Figure 14
Net Assets as of June 30, 2007 and 2006
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 11,064,189	\$ 10,464,130	\$ 3,707,277	\$ 3,350,846	\$ 14,771,466	\$ 13,814,976
Capital assets	17,147,969	16,256,479	32,444	38,288	17,180,413	16,294,767
Total assets	28,212,158	26,720,609	3,739,721	3,389,134	31,951,879	30,109,743
Long-term liabilities outstanding	5,751,429	5,347,968	2,071,852	1,992,856	7,823,281	7,340,824
Other liabilities	5,789,202	5,081,771	553,441	556,420	6,342,643	5,638,191
Total liabilities	11,540,631	10,429,739	2,625,293	2,549,276	14,165,924	12,979,015
Net assets:						
Invested in capital assets, net of related debt	13,834,236	12,906,863	29,834	32,322	13,864,070	12,939,185
Restricted	1,892,920	1,581,079	872,174	790,087	2,765,094	2,371,166
Unrestricted	944,371	1,802,928	212,420	17,449	1,156,791	1,820,377
Total net assets	\$ 16,671,527	\$ 16,290,870	\$ 1,114,428	\$ 839,858	\$ 17,785,955	\$ 17,130,728

The largest portion of the Primary Government's net assets (78.0 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 (**Figure 14**).

An additional portion of the Primary Government's net assets (15.6 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 \$1.16 billion is unrestricted net assets (**Figure 14**).

Approximately 58.2 percent of the Primary Government's total revenue came from taxes. While the Primary Government's expenses cover many services, the largest expenses are for Education and Individual and Family Services. General revenues normally fund governmental activities. For fiscal year 2007, governmental activity expenses exceeded program and general revenues by \$203.3 million. Program revenues exceeded expenses from business-type activities by \$814.9 million. The following condensed financial information (**Figure 15**) was derived from the Government-wide Statement of Activities and provides detail regarding the change in net assets (see page 42).

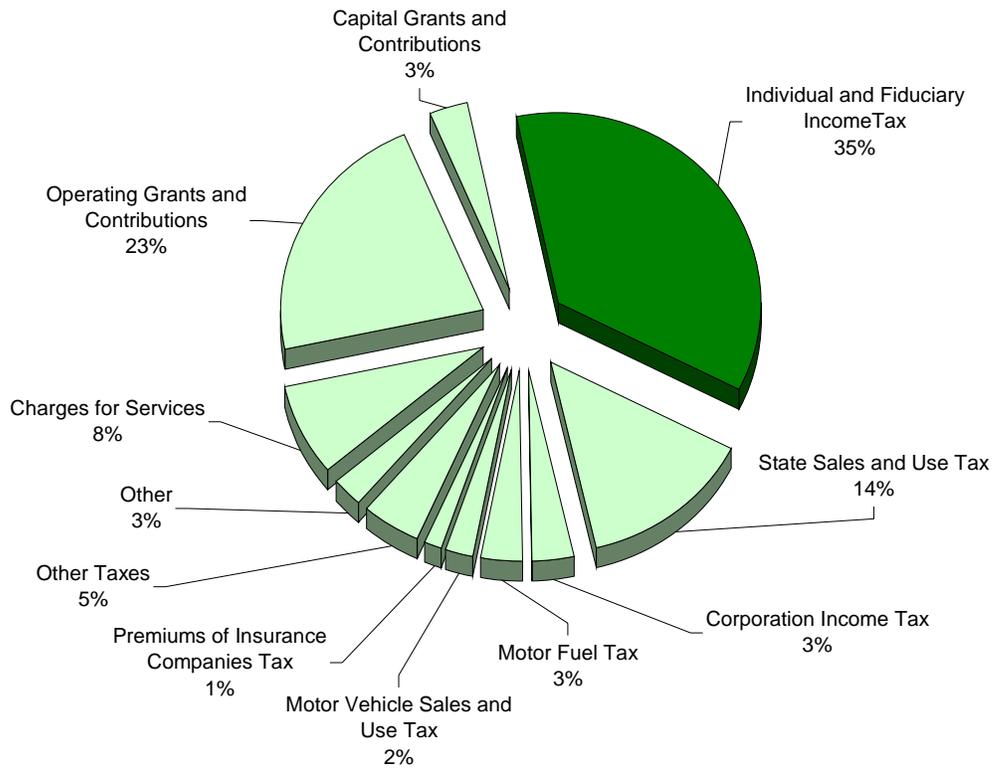
Figure 15
Changes in Net Assets for the Fiscal Years Ended June 30, 2007 and 2006
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for Services	\$ 2,109,855	\$ 2,122,637	\$ 2,991,653	\$ 2,990,035	\$ 5,101,508	\$ 5,112,672
Operating Grants and Contributions	5,869,805	5,670,650	36,091	26,508	5,905,896	5,697,158
Capital Grants and Contributions	850,561	706,661	-	-	850,561	706,661
General Revenues:						
Taxes:						
Individual and Fiduciary Income	9,639,024	9,338,553	-	-	9,639,024	9,338,553
State Sales and Use	3,755,896	3,678,736	-	-	3,755,896	3,678,736
Corporation Income	905,852	857,577	-	-	905,852	857,577
Motor Fuel	929,723	937,614	-	-	929,723	937,614
Motor Vehicle Sales and Use	588,471	593,092	-	-	588,471	593,092
Deeds, Contracts, Wills, and Suits	583,782	695,711	-	-	583,782	695,711
Premiums of Insurance Companies	384,894	373,781	-	-	384,894	373,781
Alcoholic Beverage Sales Tax	100,160	94,364	-	-	100,160	94,364
Tobacco Products	187,726	189,492	-	-	187,726	189,492
Estate	140,379	166,573	-	-	140,379	166,573
Public Service Corporations	88,672	91,000	-	-	88,672	91,000
Beer and Beverage Excise	43,804	44,035	-	-	43,804	44,035
Wine and Spirits/ABC Liter	18,020	16,372	-	-	18,020	16,372
Bank Stock	12,624	12,405	-	-	12,624	12,405
Other Taxes	74,906	77,241	12,430	12,159	87,336	89,400
Unrestricted Grants and Contributions	50,138	48,109	-	-	50,138	48,109
Investment Earnings	477,212	221,533	10,779	12,179	487,991	233,712
Miscellaneous	153,506	114,732	391	584	153,897	115,316
Total Revenues	26,965,010	26,050,868	3,051,344	3,041,465	30,016,354	29,092,333
Expenses:						
General Government	2,644,920	1,902,292	-	-	2,644,920	1,902,292
Education	9,542,461	8,027,980	-	-	9,542,461	8,027,980
Transportation	2,255,720	2,560,183	-	-	2,255,720	2,560,183
Resources and Economic Development	840,722	834,189	-	-	840,722	834,189
Individual and Family Services	9,022,492	8,569,529	-	-	9,022,492	8,569,529
Administration of Justice	2,658,644	2,462,645	-	-	2,658,644	2,462,645
Interest and Charges on Long-term Debt	203,372	209,116	-	-	203,372	209,116
State Lottery	-	-	929,369	908,040	929,369	908,040
Virginia College Savings Plan	-	-	179,530	238,158	179,530	238,158
Unemployment Insurance	-	-	381,660	338,624	381,660	338,624
Alcoholic Beverage Control	-	-	433,944	408,099	433,944	408,099
Local Choice Health Care	-	-	179,032	164,526	179,032	164,526
Nonmajor	-	-	109,261	146,940	109,261	146,940
Total Expenses	27,168,331	24,565,934	2,212,796	2,204,387	29,381,127	26,770,321
Excess/deficiency before transfers	(203,321)	1,484,934	838,548	837,078	635,227	2,322,012
Transfers	563,978	580,712	(563,978)	(580,712)	-	-
Contributions to Permanent Funds	20,000	-	-	-	20,000	-
Special Items	-	-	-	164,216	-	164,216
Increase in net assets	380,657	2,065,646	274,570	420,582	655,227	2,486,228
Net assets, July 1, as restated	16,290,870	14,225,224	839,858	419,276	17,130,728	14,644,500
Net assets, June 30	\$ 16,671,527	\$ 16,290,870	\$ 1,114,428	\$ 839,858	\$ 17,785,955	\$ 17,130,728

Governmental Activities Revenues

Figure 16 is a graphical representation of the Statement of Activities revenues for governmental activities. Governmental activities revenues increased by \$914.1 million, or 3.5 percent. This increase is mainly attributable to activities of the General Fund which are discussed further on page 36.

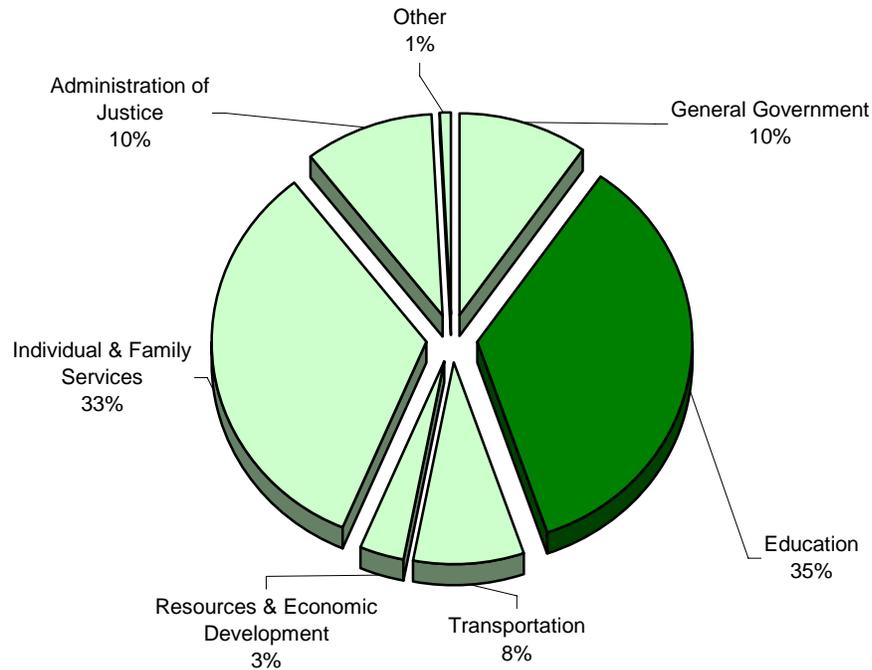
Figure 16
Revenues by Source – Governmental Activities
Fiscal Year 2007



Governmental Activities Expenses

Figure 17 is a graphical representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses increased by \$2.6 billion or 10.6 percent. The majority of the increase is related to the General Fund which is discussed further on page 36.

Figure 17
Expenditures by Type – Governmental Activities
Fiscal Year 2007



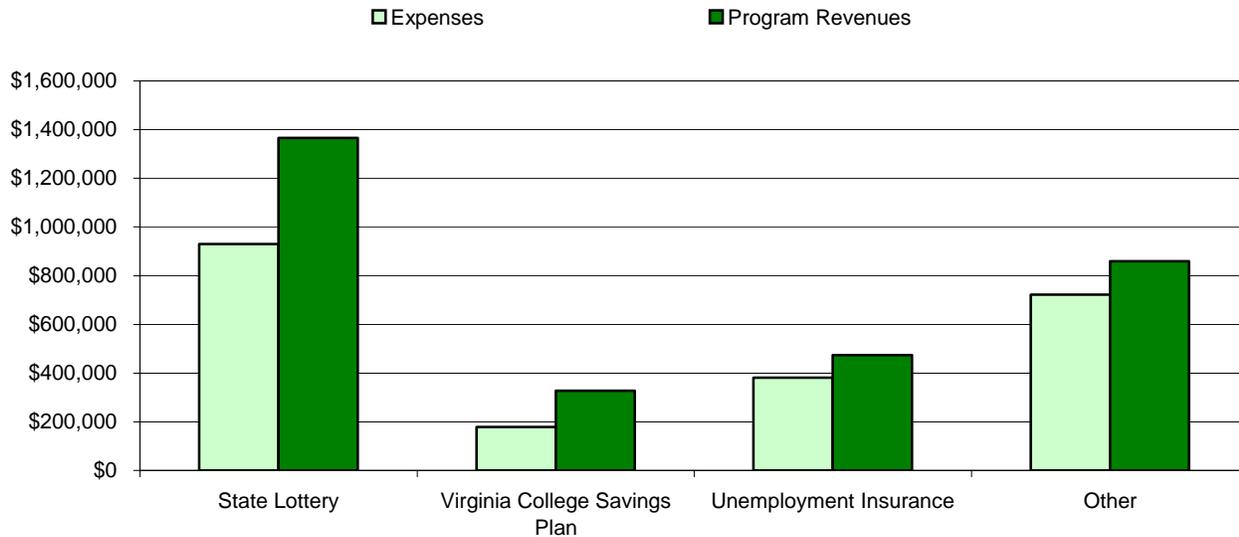
Net Assets of Business-type Activities

Net assets of business-type activities increased by \$274.6 million during the fiscal year. Highlights of the changes in net assets for the major Enterprise funds were as follows:

- Lottery sales were virtually unchanged from last year's record sales figure of \$1.4 billion. Net income was \$447.7 million, a decrease of \$21.1 million (4.5 percent) from fiscal year 2006. Sales of scratch games increased by \$9.0 million (1.3 percent) and online sales decreased by \$11.9 million (1.8 percent).
- Virginia College Savings Plan's net assets increased by \$148.3 million (554.1 percent), from a deficit of \$26.8 million to a surplus of \$121.6 million. This improvement in financial position is primarily attributable to much better than anticipated investment performance, lower than projected increases in the actual tuition rates at Virginia's higher education institutions for the academic year, and sound pricing pertaining to the issuance of approximately 4,200 new contracts during the fiscal year. Continued favorable market conditions generated greater than anticipated interest income as well as increased the fair value of investments. These market conditions, combined with an increased actuarial reserve resulting from the new contract sales and the savings related to lower than projected tuition increases, account for the improved financial position of the Plan.
- Unemployment Compensation Fund net assets increased by \$82.1 million during fiscal year 2007. This increase is due to net operating income of \$56.7 million plus interest income of \$35.2 million, offset by \$9.8 million transfers out for administration. This operating income reflects the continued strong employment conditions in the Commonwealth as demonstrated by premium revenues exceeding claim benefits by \$56.7 million. Unemployment benefit claims were slightly higher than those of 2006 due to a 5 percent increase in the maximum benefit amount, and an increase in the number of individuals receiving the maximum benefit. The average insurance rate for 2007 was 1.23 percent, including

pool charge of 0.07 percent, versus a fiscal year 2006 average rate of 1.45 percent. Unemployment rates of 3.1 percent in fiscal year 2007 versus 3.2 percent in fiscal year 2006 show the continued economic expansion.

Figure 18
Business-type Activities
Program Revenues and Expenses
 For the Fiscal Year Ended June 30, 2007
 (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 \$5.56 billion. Of this total amount, \$3.76 billion, or 67.6 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 the Revenue Stabilization Fund, outstanding debt and capital outlay.

General Fund Highlights

The General Fund is the chief budgetary operating fund of the Primary Government. At the end of the current fiscal year, unreserved fund balance of the general fund was \$563.4 million and reserved fund balance was \$1.4 billion. Total fund balance of the General Fund decreased by \$272.2 million during the fiscal year. Fiscal year 2007 General Fund revenues were 3.2 percent or \$498.2 million greater than fiscal year 2006 revenues. This was attributable to a \$261.5 million increase (2.8 percent) in Individual and Fiduciary Income Tax revenue as well as a \$207.4 million increase (177 percent) in Interest revenue. Fiscal year 2007 expenditures increased \$1.7 billion as compared to fiscal year 2006. The increase is primarily attributable to an \$835.1 million increase in Education expenditures related to the re-basing of the Standards of Quality required each biennium. Additionally, Individual and Family Service expenditures increased \$377.0 million primarily due to increases in Medicaid enrollment and utilization of services.

Budget Highlights

The original budget revenue for fiscal year 2007 was adjusted upward by \$334.8 million, which is primarily attributable to a \$318.5 million increase in the final budget for Individual and Fiduciary Income Tax revenue. Total actual revenues were less than final budgeted revenues by \$231.7 million. The variance is due to the moderating economic growth in Virginia and refunds in excess of the forecast for the Land Preservation Tax Credit.

Due to slower revenue growth than anticipated during fiscal year 2007, the general fund revenue estimate for fiscal year 2008 has been reduced by approximately \$406.7 million generating a total projected revenue shortfall of approximately \$638.4 million for the fiscal years 2007 and 2008 biennial budget cycle. Accordingly, in September the Governor instructed Cabinet Secretaries to prepare and submit plans for a 5 percent reduction in general fund spending. This action along with other budgetary adjustments will be addressed during the 2008 General Assembly Session.

Total final budget expenditures exceeded original budget expenditures by \$501.6 million or 3.0 percent. Approximately \$362.5 million (72.3 percent) of the increase relates to additional capital outlay projects, as well as additional appropriations to supplement

existing projects for increases in material costs. Transportation expenditures increased by \$161.0 million or 47.5 percent. The increase was related to additional funding for the 2007 Transportation Initiative.

The total final budget expenditures exceeded actual expenditures by \$1.0 billion or 6.0 percent. This variance was primarily a result of \$500 million Transportation budget for the 2007 Transportation Initiative that was not expended in fiscal year 2007 as the amounts were not needed to fund active transportation projects during the fiscal year. Additionally, Capital Outlay final budget exceeded actual expenditures by \$254.9 million or 59.2 percent.

Major Special Revenue Fund Highlights

The Commonwealth Transportation Fund ended the fiscal year with a fund balance of \$1.95 billion, an increase of \$121.5 million from the prior year. Of this amount, \$1.4 billion is committed for various highway, public transportation, and rail preservation projects (see Note 18). The increase in fund balance was primarily the result of the following activities: in fiscal year 2007, revenues and expenditures both increased 3 percent and 2 percent, respectively, with revenues exceeding expenditures by approximately \$227.7 million. This increased activity is primarily due to increased federal funds available for construction and increased interest earnings received during the year. In addition, other sources decreased by \$250 million as there was no debt issuance in fiscal year 2007.

The Federal Trust Fund balance increased by \$5.9 million or 11.9 percent. The net increase was primarily related to an increase of approximately \$13.0 million reported for block grants at the Department of Social Services and a decrease of \$4.6 million in inventory at the Department of Health. The decrease in inventory was attributable to the federal government's procedural change of distributing immunizations to local health departments through a third party vendor instead of through the Department of Health. Federal Grants and Contracts revenue increased by approximately \$109.4 million or 2 percent. This increase was offset with an increase in total expenditures of approximately \$68.3 million or 1.2 percent.

The Literary Fund's fund balance decreased by \$556,292 or less than 1.0 percent in fiscal year 2007 from fiscal year 2006. The decrease is the result of net disbursements exceeding net receipts by \$11.3 million, offset by a cash transfer in of \$10.8 million from the State Lottery representing unclaimed prizes.

Capital Asset and Long-term Debt

Capital Assets. The Primary Government's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounts to \$17.2 billion (net of accumulated depreciation totaling \$10.3 billion). This investment in capital assets includes land, buildings, improvements, equipment, construction in progress, and infrastructure. Infrastructure assets are items that are normally immovable such as roads, bridges, drainage systems, and other similar assets. The increase in the Primary Government's investment in governmental capital assets was primarily attributable to increases in infrastructure and buildings of \$566.7 million and \$176.7 million, respectively. The Primary Government reports equipment with a value of \$50,000 or greater and an expected useful life of two or more years. The Primary Government capitalizes all property, plant, and infrastructure that have a cost or value greater than \$100,000.

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

Figure 19
Capital Assets as of June 30, 2007
(Net of Depreciation)
(Dollars in Thousands)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 1,853,367	\$ 1,977	\$ 1,855,344
Buildings	1,604,734	6,637	1,611,371
Equipment	433,520	23,090	456,610
Infrastructure	10,363,027	-	10,363,027
Construction in Progress	2,893,321	740	2,894,061
Total	<u>\$ 17,147,969</u>	<u>\$ 32,444</u>	<u>\$ 17,180,413</u>

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 \$24.3 billion, including total tax-supported debt of \$7.3 billion and total debt not supported by taxes of \$17.0 billion. Bonds backed by the full faith and credit of the government and tax-supported total \$1.3 billion. An additional \$1.1 billion is considered moral obligation debt which is not tax-supported. The remainder of the Commonwealth's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

During fiscal year 2007, the Commonwealth issued \$4.3 billion of new debt for various projects. \$776.3 of the new debt was for the primary government and \$3.56 billion for the component units. Additional information on the Commonwealth's outstanding debt can be found in Note 23. 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 2007. 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 2005, 2006, and 2007. 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 2005, 2006, and 2007. The current debt limitation for the Commonwealth is \$4.8 billion, \$14.2 billion, and \$14.5 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. Currently, there is no 9(a) debt outstanding.

Figure 20
Outstanding Debt as of June 30, 2007
General Obligation Bonds
(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
General obligation bonds				
9(b)	\$ 821,563	\$ -	\$ 821,563	\$ -
9(c)	78,766	-	78,766	411,842
Total	\$ 900,329	\$ -	\$ 900,329	\$ 411,842

Economic Factors and Outlook

In fiscal year 2007, Virginia's economy continued to expand, however this growth was slightly below the national growth rate for the first time since 1996. Virginia's personal income in current dollars grew by 5.2 percent, the lowest growth in the three previous years. Unemployment in Virginia declined for the fourth consecutive year to 3 percent. New housing in Virginia again fell during fiscal year 2007 (28 percent), however, personal income and employment have helped the Commonwealth continue its economic expansion during fiscal year 2007. For a more in-depth discussion on the Commonwealth's economy see "Economic Outlook" on page 10.

Requests for Information

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

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