

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, 2009. 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, 2009, by \$16.3 billion. Net assets of governmental activities decreased by \$1.3 billion and net assets of business-type activities decreased by \$685.9 million. Component units reported a decrease in net assets of \$1.6 billion from June 30, 2008.

Fund Highlights

At the end of the fiscal year, the Commonwealth's governmental funds reported a combined ending fund balance of \$2.75 billion, a decrease of \$2.0 billion in comparison with the prior year. Of this total fund balance, \$1.77 billion represents unreserved fund balance and the remaining \$976 million represents amounts reserved for specific purposes, such as the Revenue Stabilization Fund. The enterprise funds reported net assets at June 30, 2009, of \$216.6 million, a decrease of \$685.6 million during the year.

The General Fund actual revenues for fiscal year 2009 were \$1.5 billion less than the prior year. Additionally, the actual fiscal year 2009 revenues fell short of the final budgeted revenues by \$361.2 million. This decrease, coupled with continued economic concerns, have contributed to projected budget shortfalls for the fiscal years 2008-2010 and 2011-2012 biennial budgets. See page 34 for additional information.

Long-term Debt

The Commonwealth's total debt rose during the fiscal year to \$29.5 billion, an increase of \$2.6 billion or 9.5 percent. During the fiscal year, the Commonwealth issued new debt in the amount of \$782.5 million for the primary government and \$3.9 billion for the component units. These debt issuances increased the debt balances to \$8.7 billion for the primary government and \$20.8 billion for component units.

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 38 and 39) 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 40 through 42) presents information showing how the Commonwealth's net assets changed during fiscal year 2009. 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 27 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 46 and 50) 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 44 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 52 and 54). 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 22 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 62.

The Commonwealth's fiduciary funds are the:

- Private-purpose Trusts, which reports the activities for 7 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 Trusts, which reports the activities of 12 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 21 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 179 of this report. The individual fund information is aggregated into a single total on the combining financial statements, which carries forward to the fund financial statements.

Government-wide Financial Analysis

The primary government's assets exceeded its liabilities by \$16.3 billion during the fiscal year. The net assets of the governmental activities decreased \$1.3 billion or 7.6 percent, primarily due to decreases in current and other assets offset by increases to capital assets as discussed further on page 35. Business-type activities had a decrease of \$685.9 million or 76.1 percent, primarily due to decreases for the Virginia College Savings Plan and the Unemployment Compensation Fund. The government-wide beginning balance was restated primarily for the correction of prior year errors to arrive at a restated beginning balance of \$18.3 billion.

Figure 10
Net Assets as of June 30, 2009 and 2008
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008 as restated	2009	2008	2009	2008 as restated
Current and other assets	\$ 8,356,433	\$ 10,312,003	\$ 2,920,608	\$ 3,640,278	\$ 11,277,041	\$ 13,952,281
Capital assets	19,691,571	18,615,827	25,740	30,673	19,717,311	18,646,500
Total assets	<u>28,048,004</u>	<u>28,927,830</u>	<u>2,946,348</u>	<u>3,670,951</u>	<u>30,994,352</u>	<u>32,598,781</u>
Long-term liabilities outstanding	6,469,039	5,964,751	2,239,130	2,257,431	8,708,169	8,222,182
Other liabilities	5,503,854	5,564,943	491,709	512,154	5,995,563	6,077,097
Total liabilities	<u>11,972,893</u>	<u>11,529,694</u>	<u>2,730,839</u>	<u>2,769,585</u>	<u>14,703,732</u>	<u>14,299,279</u>
Net assets:						
Invested in capital assets, net of related debt	16,208,688	15,262,095	22,856	26,592	16,231,544	15,288,687
Restricted	1,421,086	1,711,491	372,274	816,061	1,793,360	2,527,552
Unrestricted	(1,554,663)	424,550	(179,621)	58,713	(1,734,284)	483,263
Total net assets	<u>\$ 16,075,111</u>	<u>\$ 17,398,136</u>	<u>\$ 215,509</u>	<u>\$ 901,366</u>	<u>\$ 16,290,620</u>	<u>\$ 18,299,502</u>

The largest portion of the primary government's net assets (99.6 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, infrastructure, and construction in progress), 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 10**).

An additional portion of the primary government's net assets (11.0 percent) represents restricted net assets. These resources are subject to external restrictions or constitutional provisions specifying how they may be used. The remaining balance of (\$1.7 billion) is unrestricted net assets (**Figure 10**).

Approximately 53.8 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 2009, governmental activity expenses exceeded governmental program and general revenue by \$1.9 billion. Expenses exceeded program revenues from business-type activities by \$112.3 million. The following condensed financial information (**Figure 11**) was derived from the Government-wide Statement of Activities and provides detail regarding the change in net assets (see page 40).

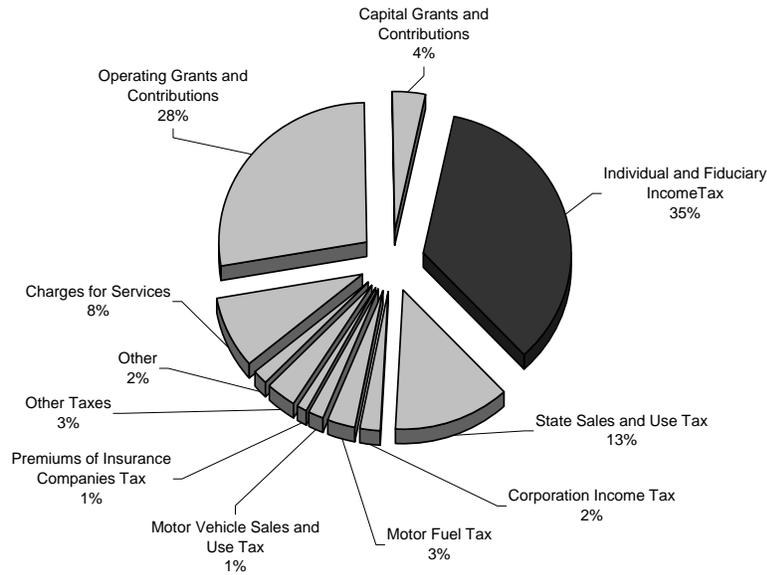
Figure 11
Changes in Net Assets for the Fiscal Years Ended June 30, 2009 and 2008
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008 as restated	2009	2008	2009	2008 as restated
Revenues:						
Program Revenues:						
Charges for Services	\$ 2,294,236	\$ 2,390,900	\$ 2,517,206	\$ 2,706,165	\$ 4,811,442	\$ 5,097,065
Operating Grants and Contributions	7,583,725	6,067,358	104,868	39,243	7,688,593	6,106,601
Capital Grants and Contributions	996,875	1,152,439	-	-	996,875	1,152,439
General Revenues:						
Taxes:						
Individual and Fiduciary Income	9,558,764	10,099,573	-	-	9,558,764	10,099,573
State Sales and Use	3,553,675	3,820,715	-	-	3,553,675	3,820,715
Corporation Income	545,800	772,323	-	-	545,800	772,323
Motor Fuel	889,245	923,894	-	-	889,245	923,894
Motor Vehicle Sales and Use	406,400	533,755	-	-	406,400	533,755
Deeds, Contracts, Wills, and Suits	350,614	456,984	-	-	350,614	456,984
Premiums of Insurance Companies	365,404	355,896	-	-	365,404	355,896
Alcoholic Beverage Sales Tax	109,643	105,655	-	-	109,643	105,655
Tobacco Products	182,484	182,850	-	-	182,484	182,850
Estate	3,569	135,781	-	-	3,569	135,781
Public Service Corporations	102,611	106,378	-	-	102,611	106,378
Beer and Beverage Excise	44,597	44,357	-	-	44,597	44,357
Wine and Spirits/ABC Liter	19,625	18,552	-	-	19,625	18,552
Bank Stock	21,323	13,724	-	-	21,323	13,724
Other Taxes	82,047	66,319	12,668	12,531	94,715	78,850
Unrestricted Grants and Contributions	60,001	53,709	-	-	60,001	53,709
Investment Earnings	142,557	348,446	4,550	11,743	147,107	360,189
Miscellaneous	237,423	224,072	599	910	238,022	224,982
Total Revenues	27,550,618	27,873,680	2,639,891	2,770,592	30,190,509	30,644,272
Expenses:						
General Government	2,540,812	2,470,234	-	-	2,540,812	2,470,234
Education	9,565,969	9,300,444	-	-	9,565,969	9,300,444
Transportation	2,786,165	3,053,704	-	-	2,786,165	3,053,704
Resources and Economic Development	1,002,873	877,905	-	-	1,002,873	877,905
Individual and Family Services	10,757,071	9,248,538	-	-	10,757,071	9,248,538
Administration of Justice	2,611,297	2,607,327	-	-	2,611,297	2,607,327
Interest and Charges on Long-term Debt	200,782	204,855	-	-	200,782	204,855
State Lottery	-	-	919,818	936,416	919,818	936,416
Virginia College Savings Plan	-	-	115,447	244,165	115,447	244,165
Unemployment Insurance	-	-	880,989	432,805	880,989	432,805
Alcoholic Beverage Control	-	-	466,734	456,986	466,734	456,986
Local Choice Health Care	-	-	231,215	202,318	231,215	202,318
Nonmajor	-	-	120,219	117,741	120,219	117,741
Total Expenses	29,464,969	27,763,007	2,734,422	2,390,431	32,199,391	30,153,438
Excess/deficiency before transfers	(1,914,351)	110,673	(94,531)	380,161	(2,008,882)	490,834
Transfers	591,326	593,223	(591,326)	(593,223)	-	-
Increase (Decrease) in net assets	(1,323,025)	703,896	(685,857)	(213,062)	(2,008,882)	490,834
Net assets, July 1, as restated	17,398,136	16,694,240	901,366	1,114,428	18,299,502	17,808,668
Net assets, June 30	\$ 16,075,111	\$ 17,398,136	\$ 215,509	\$ 901,366	\$ 16,290,620	\$ 18,299,502

Governmental Activities Revenues

Figure 12 is a graphical representation of the Statement of Activities revenues for governmental activities. Governmental activities revenues decreased by \$323.1 million, or 1.2 percent. The net decrease is mainly attributable to overall decreases in revenue, primarily due to taxes, offset by increases in the Federal Trust Fund, which are discussed on pages 34 and 35.

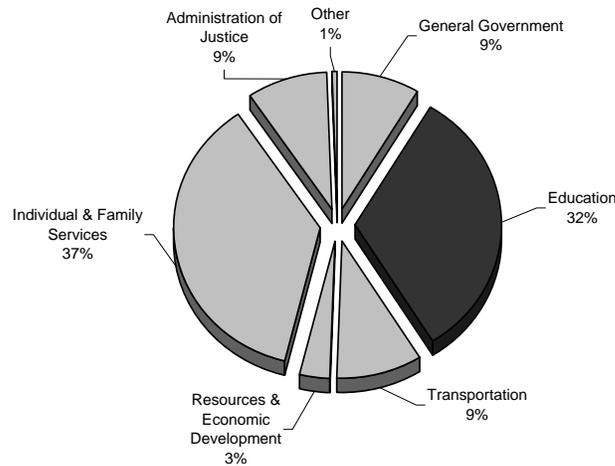
Figure 12
Revenues by Source – Governmental Activities
 Fiscal Year 2009



Governmental Activities Expenses

Figure 13 is a graphical representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses increased by \$1.7 billion or 6.1 percent. The majority of the increase is related to individual and family services expenses funded by increased federal support, which is discussed further on page 35.

Figure 13
Expenses by Type – Governmental Activities
 Fiscal Year 2009

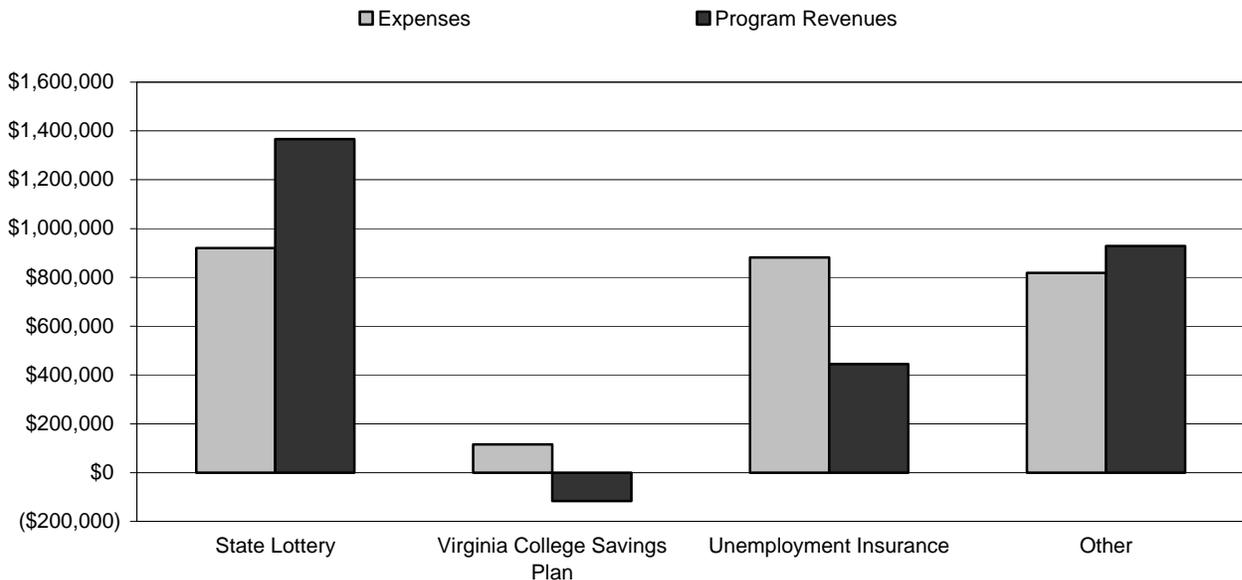


Net Assets of Business-type Activities

Net assets of business-type activities decreased by \$685.9 million during the fiscal year. Highlights of the changes in net assets for the major enterprise funds were as follows:

- Lottery sales were \$1.4 billion, consistent with the prior year. Net income was \$451.6 million, a decrease of \$13.5 million (2.9 percent) from fiscal year 2008. Sales of scratch games decreased by \$4.5 million (0.7 percent) and online sales decreased by \$16.3 million (2.4 percent). This is offset by a decrease of \$14.8 million (1.6 percent) in total expenses, primarily attributable to the cost of sales and services.
- Virginia College Savings Plan's net assets decreased by \$232.6 million (441.9 percent). This deterioration in financial position is primarily attributable to much worse than anticipated investment performance and a change in the tuition growth assumption that significantly increased the projected unfunded actuarial liability calculated by the Plan's actuary. The decrease in net assets was offset somewhat by revenue from new contract sales.
- Unemployment Compensation Fund net assets decreased by \$443.8 million during fiscal year 2009 as a result of significant increases in benefit claim payments due to the rise of unemployment rates resulting from the recession. These decreases were offset by interest income of \$27.6 million and federal distributions under the American Recovery and Reinvestment Act of \$76.3 million for expanded unemployment benefits. For fiscal year 2009 the average employer assessment rate increased from 1.11 percent in fiscal year 2008 to 1.19 percent, but taxable employer wages decreased by approximately \$400 million, contributing to an overall premium revenue decrease of \$8.7 million. For benefit payments, which are reflective of Virginia's softening employment market, the overall average unemployment rate for fiscal year 2009 rose from 3.4 percent to 5.6 percent. The increase in the unemployment rate translated into an additional 352,633 benefit claimants for fiscal year 2009 over the prior year. Additionally, the average weekly benefit payment increased from \$269 to \$282 per week, a 4.8 percent increase, and the average claim duration also slightly increased from an average 12.5 weeks to 12.6 weeks. These multiple influences led to total increased benefit payments of \$448.2 million over the prior year.

Figure 14
Business-type Activities
Program Revenues and Expenses
 For the Fiscal Year Ended June 30, 2009
 (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 \$2.75 billion. Of this amount, \$1.77 billion, or 64.5 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 (\$928.0) million and reserved fund balance was \$669.5 million. As discussed in Note 5, the decrease in reserved fund balance is due largely to a withdrawal of \$490.0 million from the Revenue Stabilization Fund during the fiscal year to offset declining revenue. When compared to the prior year, the net change in fund balance of the General Fund is a decrease of \$680.6 million. Fiscal year 2009 General Fund revenues were 9.1 percent or \$1.5 billion less than fiscal year 2008 revenues. This was primarily attributable to a \$1.4 billion decrease (8.7 percent) in overall tax revenue. Fiscal year 2009 expenditures decreased \$624.2 million as compared to fiscal year 2008. This was attributable to increases in education expenditures of \$201.5 million, and decreases in capital outlay expenditures, general government expenditures, administration of justice expenditures, and individual and family services expenditures of \$364.0 million, \$149.3 million, \$133.0 million, and \$120.8 million, respectively. Net other financing sources and uses increased by \$178.4 million which is due to both higher transfers in and lower transfers out.

Budget Highlights

The General Fund recognized decreases in overall growth when compared to 2008. Additionally, the economic conditions contributed to a decrease in the original revenue budget by \$1.5 billion. This reduction was primarily attributable to decreases in the final budget for individual and fiduciary income tax revenue of \$1.1 billion, sales and use tax revenue of \$290.2 million, and deeds, contracts, wills, and suits tax revenues of \$82.7 million. Total actual revenues were less than final budgeted revenues by \$275.4 million.

Total final budget expenditures were less than original budget expenditures by \$665.4 million or 3.8 percent, primarily due to actions taken to reduce spending as a result of declining revenue collections. Approximately \$343.6 million of the decrease is related to individual and family services expenditures. Additionally, budgeted expenditures for education and capital outlay decreased by \$236.5 and \$85.4 million, respectively.

The Commonwealth spent less than planned so actual expenditures were \$388.2 million or 2.3 percent lower than final budget expenditures. This General Fund variance was due mostly to a decrease in administration of justice expenditures of \$140.3 million. Of this amount, \$109.5 million was paid using State Fiscal Stabilization Funds received from the American Recovery and Reinvestment Act and is recorded in the Federal Trust Fund.

Budget Outlook

The economic climate for fiscal year 2010 revenue continues to reflect a slowing economy. Slower income growth, lower consumer confidence, and the downward trends in the housing market continue to drive shortfalls in withholding, sales, and recordation taxes. The two General Fund revenue sources most closely tied to current economic activity – payroll withholding and retail sales taxes – were significantly lower than the estimated revenue collections and growth rate for fiscal year 2009. The current economic climate, coupled with lower than anticipated revenue growth during fiscal year 2009, have contributed to a \$1.2 billion reduction in the General Fund revenue forecast for fiscal year 2010. Based on the most recent General Fund revenue estimate, the fiscal year 2010 revenue is projected to decline by 1.6 percent from the fiscal year 2009 revenue collections. In addition, projected fiscal year 2010 revenue will be less than the actual revenue collected in both fiscal year 2008 and fiscal year 2009. Due to the downwardly revised estimated revenue collections, the Commonwealth will accordingly adjust the planned General Fund spending. The Governor instructed Cabinet Secretaries to prepare and submit plans for five, ten, and fifteen percent reductions in General Fund spending for the fiscal year 2010. The Governor will release his fiscal year 2010 budget reductions in conjunction with his amendments to the 2008-2010 biennial budget on December 18, 2009.

Major Special Revenue Fund Highlights

The Commonwealth Transportation Fund ended the fiscal year with a fund balance of \$1.43 billion, a decrease of \$413.5 million from the prior year. Approximately \$2.2 billion is committed for various highway, public transportation, and rail preservation projects (see Note 18). The decrease in fund balance was primarily the result of the following activities: revenues and expenditures both decreased \$277.4 million, or 7.4 percent and \$187.9 million, or 4.8 percent, respectively, with expenditures exceeding revenues by approximately \$263.3 million. This decreased activity is primarily due to decreased federal funds available for construction and decreases in secondary highway maintenance. Additionally, interest earnings decreased.

The Federal Trust Fund balance decreased by \$32.4 million, or 37.4 percent. Federal Grants and Contracts revenue increased by approximately \$1.59 billion, or 27.8 percent. This increase was offset with an increase in total expenditures of approximately \$1.69 billion, or 29.5 percent. The increases in Federal Grants and Contracts revenue included \$587.5 million in American Recovery and Reinvestment Act receipts, \$214.0 million in food stamps, \$191.9 million for the Virginia Employment Commission and \$136.9 million for Medicaid funding due to the economic downturn to supplement individual and family services payments.

The Literary Fund's fund balance decreased by \$95.3 million, or 32.4 percent, in fiscal year 2009 from fiscal year 2008. Net disbursements exceeded net receipts due to an increase of \$112.7 million in disbursements for school employee retirement and social security contributions per Chapter 781, 2009 Acts of Assembly.

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, 2009, amounts to \$19.7 billion (net of accumulated depreciation totaling \$11.5 billion). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction-in-progress. Infrastructure assets are items that are normally immovable such as roads, bridges, drainage systems, and other similar assets. As noted on page 30, decreases in current and other assets offset by increases to capital assets resulted in a decrease in net assets of the governmental activities of \$1.3 billion or 7.6 percent. The increase in the primary government's investment in capital assets was primarily attributable to increases in infrastructure of \$838.5 million related to transportation. 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 land, buildings, and infrastructure that have a cost or value greater than \$100,000 and an expected useful life of two or more years. Additional information on the primary government's capital assets can be found in Note 12, "Capital Assets."

Figure 15
Capital Assets as of June 30, 2009
(Net of Depreciation)
(Dollars in Thousands)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 2,067,422	\$ 1,977	\$ 2,069,399
Buildings	2,019,713	7,190	2,026,903
Equipment	452,412	16,237	468,649
Infrastructure	11,887,962	-	11,887,962
Construction in Progress	3,264,062	336	3,264,398
Total	\$ 19,691,571	\$ 25,740	\$ 19,717,311

Long-term Debt. The Commonwealth is prohibited from issuing general obligation bonds for operating purposes. At the end of the current fiscal year, the Commonwealth had total debt outstanding of \$29.5 billion, including total tax-supported debt of \$9.0 billion and total debt not supported by taxes of \$20.5 billion. Bonds backed by the full faith and credit of the government and tax-supported total \$1.7 billion. Debt is considered tax supported if Commonwealth tax revenues are used or pledged for debt service payments. An additional \$726.4 million is considered moral obligation debt which is not tax-supported. The Commonwealth has no direct or indirect pledge of tax revenues to fund reserve deficiencies. However, in some cases, the Commonwealth has made a moral obligation pledge to consider funding deficiencies in debt service reserves that may occur. The remainder of the Commonwealth's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

During fiscal year 2009, the Commonwealth issued \$4.7 billion of new debt for various projects. \$782.5 million of the new debt was for the primary government and \$3.9 billion for the component units. Additional information on the Commonwealth's outstanding debt can be found on page 132 in Note 24, "Long-Term Liabilities," as well as in the section entitled "Debt Schedules." 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 may be issued to fund the defense of the Commonwealth; to meet casual deficits in revenue or in anticipation of the collection of revenues; or to redeem previous debt obligations, and are limited to 30 percent of 1.15 times the annual tax revenues for fiscal year 2009. 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 2007, 2008, and 2009. 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 2007, 2008, and 2009. The current debt limitation for the Commonwealth is \$4.6 billion, \$14.8 billion, and \$15.3 billion, respectively, for the 9(a), 9(b), and 9(c) general obligation bond issues. These limits significantly exceed the Commonwealth's outstanding general obligation debt. Currently, there is no 9(a) debt outstanding.

Figure 16
Outstanding Debt as of June 30, 2009
General Obligation Bonds
(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
General obligation bonds				
9(b)	\$ 1,040,636	\$ -	\$ 1,040,636	\$ -
9(c)	36,884	-	36,884	573,550
Total	<u>\$ 1,077,520</u>	<u>\$ -</u>	<u>\$ 1,077,520</u>	<u>\$ 573,550</u>

Economic Factors and Review

In fiscal year 2009, the nation experienced what many have called “the Great Recession” – the most severe economic downturn since the Great Depression of the 1930s. The Commonwealth was not immune to this economic downtrend. Virginia’s nonfarm employment growth rate fell slightly; however the national growth rate fell even lower. The Commonwealth’s personal income in current dollars grew by just 1.1 percent, by far the lowest growth in the four previous years. Although it increased sharply in fiscal year 2009, unemployment in the Commonwealth was only 5.6 percent, substantially lower than the national average, which was 7.6 percent. Taxable sales suffered a 4.1 percent decline in fiscal year 2009 following only a slight rise of 1.2 percent in fiscal year 2008. During fiscal year 2009, new housing in Virginia continued to fall by 31 percent. Compared to national averages, the Commonwealth generally fared better than the nation. For a more in-depth discussion on the Commonwealth’s economy see “Economic Review” on page 8.

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.