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Notes to the Financial Statements

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

B. Reporting Entity

For financial reporting purposes, the Commonwealth of Virginia's (the Commonwealth's) reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable (blended component units), and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government (discrete component units). The funds of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (GASB Statement No. 39) requires the inclusion of numerous organizations that raise and hold funds for the direct benefit of the primary government.

Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) describes the criteria for determining which organizations, functions, and activities should be considered part of the Commonwealth for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, and the Commonwealth's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

(1) Primary Government – A primary government consists of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, and departments are, for financial reporting purposes, part of the primary government.

(2) Blended Component Units – Though legally separate entities, these component units are, in substance, part of the primary government's operations. The blended component unit serves or benefits the primary government almost exclusively. Financial information from these units is combined with that of the primary government. The Commonwealth's only blended component unit is:

Virginia Public Building Authority (VPBA) (nonmajor governmental fund) – The Authority was created as a body politic and corporate and is fiscally independent. A government instrumentality, the Authority finances the acquisition and construction of buildings for the use of the Commonwealth and other approved purposes. The Governor appoints the seven-member board, and the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

(3) Discrete Component Units – Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discrete component units serve or benefit those outside of the primary government.

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

Discretely presented component units are:

Higher Education Institutions – The Commonwealth's higher education institutions are granted broad corporate powers by state statutes. The Governor appoints the members of each institution's board of trustees. In addition to the annual appropriations to support the institutions' operations, the Commonwealth provides funding for, and construction of, major academic plant facilities for the institutions. Institutions reported Operating Appropriations from Primary Government of approximately $1.7 billion and Program Revenue Capital Grants and Contributions of approximately $15.9 million from the primary government. Institutions paid the Commonwealth approximately $100.6 million. Therefore, there is a financial benefit/burden to the primary government. The bonds issued to finance the construction of these facilities are obligations of the Commonwealth. The major higher education institutions are: University of Virginia, including the University of Virginia Medical Center and the University of Virginia's College at Wise; Virginia Polytechnic Institute and State University; and Virginia Commonwealth University, including the Virginia Commonwealth University Health System Authority. The nonmajor higher education institutions are: the College of William & Mary, including Richard Bland College and the Virginia Institute of Marine Science; Virginia Military Institute; Virginia State University; Norfolk State University; University of Mary Washington; James Madison University; Radford University; Old Dominion University; George Mason University; Virginia Community College System; Christopher Newport University; and Longwood University. The Southwest Virginia Higher Education Center, Roanoke Higher Education Authority, Institute for Advanced Learning and Research, Southern Virginia Higher Education Center, and New College Institute are also included as nonmajor higher education institutions. The colleges and universities are funded through state appropriations, tuition, federal grants, and private donations and grants. As previously noted, certain foundations are considered component units of the higher education institutions, and are included in the accompanying financial statements as well as the higher education institutions' individually published financial statements. The Auditor of Public Accounts (APA) does not audit the Roanoke Higher Education Authority, the Institute for Advanced Learning and Research, and the component units of the higher education institutions, including foundations, but relies on the reports issued by other auditors to render his opinion.

The APA audits the colleges and universities, and individual reports are issued under separate cover. Complete financial statements for each institution may be obtained from their respective administrative offices. The addresses for these institutions may be obtained from the Department of Accounts, 101 North 14th Street, Richmond, Virginia 23219-3638.

Innovation and Entrepreneurship Investment Authority (IEIA) (nonmajor) – The Authority is granted corporate powers by the *Code of Virginia*. The Authority serves to facilitate the marketing, organization, and development of scientific research and technology by the state's institutions of higher education and private industry in the Commonwealth. In addition, the Authority serves to promote the economic development of the Commonwealth by attracting and retaining high technology jobs and businesses in Virginia. The Governor and General Assembly appoint the 13-member board, and there is a financial benefit/burden to the primary government. The Authority's combined financial statements include the accounts of the Center for Innovative Technology (CIT) after elimination of all significant intercompany balances and transactions. CIT is a non-stock, not-for-profit corporation, which acts as the operating arm of the Authority. The address for the administrative offices of the Authority is CIT Building, Suite 600, 2214 Rock Hill Road, Herndon, Virginia 20170-4228. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia College Building Authority (VCBA) (nonmajor) – The Authority was created as a public body corporate, a political subdivision, and an agency and instrumentality of the Commonwealth. The Governor appoints a majority of the board and members serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Authority finances certain capital projects and equipment purchases of state-supported colleges and universities. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Only the activity of the Authority that relates to the financing of capital projects and equipment purchases by state-supported colleges and universities is included in the financial statements. The state-supported colleges and universities reported revenue from the Authority of $408.0 million as Program Revenue Capital Grants and Contributions for the 21st Century Program and $37.3 million as Program Revenue Operating Grants and Contributions for equipment. The Authority reported approximately $26.1 million in payments from the state-supported colleges and universities for debt service costs and approximately $11.1 million in interest on Build America Bonds. The Authority assists private institutions of higher education in the financing and refinancing of a broad range of facilities. The Authority is authorized to issue obligations and lend the proceeds to private institutions; however, such financings or refinancings are not obligations of the primary government nor the Authority, but are payable solely from the revenues pledged by the respective private institution. This indebtedness, totaling $634.4 million, is not included in the financial statements.

Virginia Housing Development Authority (VHDA) (major) – The Authority was created as a political subdivision and instrumentality of the Commonwealth and is granted both politic and corporate powers by the *Code of Virginia*. The Governor appoints a majority of the Authority's board members and the remaining board members are ex-officio. The Commonwealth may make grants to the Authority including, but not limited to, reserve funds, which is a potential financial benefit/burden to the primary government. The Commonwealth is not legally obligated by the debt of the Authority. The Authority was created in the public interest to provide investment in and stimulate construction of low to moderate income housing which benefits the citizens of the Commonwealth. The administrative offices of the Authority are located at 601 South Belvidere Street, Richmond, Virginia 23220. KPMG, LLP audits the Authority, and a separate report is issued.

Virginia Public School Authority (VPSA) (major) – The Authority was created as a public body corporate, and an agency and instrumentality of the Commonwealth to finance capital projects of city and county school boards. The Governor appoints the board members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Virginia Economic Development Partnership (VEDP) (nonmajor) – The Partnership was created as a body corporate and operates to encourage, stimulate, and support the development and expansion of commerce in the Commonwealth. The Governor appoints the 15-member board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

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

Virginia Port Authority (VPA) (nonmajor) – The Authority was established as a corporate body and operates to serve the citizens and promote commerce through the harbors and ports of Virginia. The Governor appoints a majority of the 12-member board, and the primary government is able to impose its will on the Authority. There is also a financial benefit/burden to the primary government. The administrative offices of the Authority are located at 600 World Trade Center, Norfolk, Virginia 23510. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Resources Authority (VRA) (nonmajor) – The Authority was created as a statewide public body corporate political subdivision of the Commonwealth to provide financing of infrastructure projects for water supply, wastewater, storm water, solid waste treatment, airports, public safety, brownfields remediation and redevelopment, and recycling. The Governor appoints the 11-member board and the Executive Director of the Authority. The primary government is able to impose its will on the Authority, and there is a financial benefit/burden to the primary government. The Commonwealth does not guarantee any bonds issued by the Virginia Resources Authority. The administrative offices of the Authority are located at 1111 East Main Street, Suite 1920, Richmond, Virginia 23219. Clifton Gunderson, LLP, audits the Authority, and a separate report is issued.

Virginia Tourism Authority (nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority encourages, stimulates, and promotes tourism and film production industries of the Commonwealth. The Governor appoints all of the board members, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, 19th Floor, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Foundation for Healthy Youth – The Foundation was created as a body corporate and as a political subdivision of the Commonwealth. The Foundation was established to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund and to distribute monies in this fund for such efforts as restricting the use of tobacco products by minors and the enforcement of laws restricting the distribution of tobacco products to minors. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 501, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation, and a separate report is issued.

Tobacco Indemnification and Community Revitalization Commission (nonmajor) – The Commission was created as a body corporate and as a political subdivision of the Commonwealth. The Commission was established to determine the appropriate recipients of the monies in the Tobacco Indemnification and Community Revitalization Fund. This fund is to provide payments to tobacco farmers as compensation for the adverse economic effects resulting from loss of investment in specialized tobacco equipment and barns, and lost tobacco production opportunities. It also provides monies to revitalize tobacco dependent communities. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 501, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Commission, and a separate report is issued.

Hampton Roads Sanitation District Commission (nonmajor) – The Commission was established as a political subdivision of the Commonwealth and a government instrumentality. The Commission, which is the governing board of the district, was granted corporate powers by the *Code of Virginia*. The Governor appoints the Commission members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Commission. The Commonwealth is not obligated by the debt of the Commission. The Commission was established to benefit the inhabitants of the district and operates a sewage system for 17 localities in the Chesapeake Bay area. The address for the administrative offices of the Commission is 1436 Air Rail Avenue, Virginia Beach, Virginia 23455. KPMG, LLP, audits the Commission, and a separate report is issued.

Virginia Biotechnology Research Partnership Authority (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in the development of a biotechnology research park. The Governor appoints the board members of the Authority, and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at 800 East Leigh Street, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

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

Virginia Small Business Financing Authority (SBFA) (nonmajor) – The Virginia Small Business Financing Act of 1984 (Chapter 28, Title 9, *Code of Virginia*) established the Authority as a public body corporate and a political subdivision of the Commonwealth. The Governor appoints the 11-member board, and the primary government is able to impose its will on the Authority. The Authority was created to assist small businesses in the Commonwealth in obtaining financing for new businesses or the expansion of existing businesses. The Authority can provide financial assistance to small businesses by providing loans, guarantees, insurance, and other assistance, thereby encouraging the investment of private capital in small businesses in the Commonwealth. The Authority can loan money to local governments as defined by the *Code of Virginia* for economic development purposes. The Authority also guarantees loans made to small businesses by banks. The administrative offices of the Authority are located at 707 East Main Street, Suite 300, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

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

Virginia School for the Deaf and Blind Foundation (nonmajor) – The Foundation operates as a non-private educational and fundraising organization solely in connection with, and exclusively for the benefit of the Virginia School for the Deaf and Blind (School) (part of primary government). The Foundation uses a December 31 calendar year-end. The administrative offices of the Foundation are located at the Virginia Department of Education, 101 North 14th Street, 25th Floor, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Virginia School for the Deaf and the Blind, and discloses its existence in that report.

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

Virginia Commercial Space Flight Authority (VCSFA) (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to facilitate and coordinate scientific and technological research and development and to promote the industrial and economic development of the Commonwealth. There is a potential financial benefit/burden to the primary government. The Commonwealth provided $26 million in bond offerings through the Virginia Public Building Authority (VPBA) to the VCSFA in fiscal year 2009. A third party provides 75.0 percent of the debt service payments to the VCSFA annually. The administrative offices of the Authority are located at 4111 Monarch Way, Suite 201, Norfolk, Virginia 23508. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

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

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

A. L. Philpott Manufacturing Extension Partnership (nonmajor) – The Partnership has the mission to foster economic growth by enhancing the competitiveness of Virginia's manufacturers. The Partnership provides manufacturing firms with fee-based technology consulting services, access to business modernization resources, and support for interfirm collaboration. Further, the Partnership provides direct assistance to increase sales, decrease costs, and improve quality, productivity, and competitiveness. The Partnership has a 23-member board of trustees. The board consists of the presidents of two public four-year institutions of higher education; three community college presidents; the director of Virginia's Center for Innovative Technology; Virginia's Secretary of Commerce and Trade; and 15 citizen members, representing manufacturing industries, appointed by the Governor. There is also a financial benefit/burden to the primary government. The administrative office is located at Patrick Henry Community College, 645 Patriot Avenue, Martinsville, Virginia 24112-6693. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

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

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

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

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

Virginia National Defense Industrial Authority (nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority fosters and promotes business, technology, transportation, education, economic development and other efforts in support of the mission, execution, and transformation of the United States military and national defense activities located in the Commonwealth. The Governor appoints a majority of the 16-member board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

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

Virginia Land Conservation Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (part of primary government) by acquiring interests in preservation land and providing grants to other entities to acquire interests in preservation land. The Governor appoints the 18-member board, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 203 Governor Street, Suite 302, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Department of Conservation and Recreation and discloses its existence in that report.

Virginia Arts Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Virginia Commission for the Arts (part of primary government) by promoting the arts in the Commonwealth. The Governor appoints the board of trustees for the Virginia Commission for the Arts, which also serves as the board for the Virginia Arts Foundation. The Director of the Virginia Commission for the Arts serves as the board chairman. In addition, the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 223 Governor Street, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Virginia Commission for the Arts.

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

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

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

Virginia Recreational Facilities Authority – The Authority was created as a political subdivision and instrumentality of the Commonwealth and given separate corporate powers by the *Code of Virginia*. The Governor appoints the 13-member board of directors. The Authority operates educational programs, tourism, and commerce in the Roanoke Valley. The address for the administrative offices of the Authority is 5204 Bernard Drive SW, Post Office Box 29800, Roanoke, Virginia 24018. Robinson, Farmer, Cox Associates audits the Authority, and a separate report is issued.

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

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

Virginia Birth-Related Neurological Injury Compensation Program – The Program was created to provide a no-fault alternative for birth-related neurological injuries. The Governor appoints the seven-member board. The administrative offices of the Program are located at 7501 Boulders View Drive, Suite 210, Richmond, Virginia 23225. KPMG, LLP, audits the Program, and a separate report is issued.

Chesapeake Bay Bridge and Tunnel Commission – The Commission was created to establish policy and administer operations of the Chesapeake Bay Bridge Tunnel District. Any of the 11 members of the Commission appointed or reappointed on or after July 1, 1998, shall be appointed by the Governor, subject to confirmation by each house of the General Assembly. The administrative offices of the Commission are located at 32386 Lankford Highway, Cape Charles, Virginia 23310. KPMG, LLP, audits the Commission, and a separate report is issued.

C. Government-wide and Fund Financial Statements

The Government-wide Financial Statements, the Statement of Net Assets and the Statement of Activities, report information on all nonfiduciary activities of the primary government and component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Also, the primary government activity is reported separately from the legally separate component units for which the Commonwealth is financially accountable.

The Statement of Activities demonstrates the degree to which direct expenses of a specific function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit, as well as investment income generated by operations. Program revenues also include grants, contributions, and investment income that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items properly excluded from program revenues are reported as general revenues.

Fund equity is restricted when constraints are placed on them that are imposed by external parties or constitutional provisions. When both restricted and unrestricted resources are available for use, the Commonwealth's policy is to use the restricted resources first. Some institutions of higher education may follow a different policy. When committed, assigned, and unassigned resources are available for use, the Commonwealth's policy is to use the committed resources first, assigned resources next, and unassigned resources last.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and component units. However, fiduciary funds are not included in the government-wide statements. Major governmental funds, enterprise funds, and component units are reported as separate columns in the fund financial statements, with nonmajor funds being aggregated into a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the primary government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year (or one year for Medicaid). Significant revenues subject to accrual include federal grants and income and sales taxes. Income tax revenues for tax underpayments are only recognized to the extent of the primary government's estimated refunds for tax overpayments received. Revenues that the primary government earns by incurring obligations are recognized in the same period as when the obligations are recognized.

Expenditures generally are recorded when a liability is incurred, as under full accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when the payment is due.

The primary government reports the following major governmental funds:

General Fund – Accounts for the transactions related to resources received and used for those services traditionally provided by a state government, and which are not accounted for in any other fund. These services include general government, legislative and judicial activities, public safety, health and mental health programs, resources and economic development, licensing and regulation, and primary and secondary education.

Commonwealth Transportation Special Revenue Fund – Accounts for the revenues and expenditures associated with highway operations, maintenance, construction, and other transportation related activities. Funding for these programs is received from highway user taxes, fees, and funds received from the federal government.

Federal Trust Special Revenue Fund – Accounts for all federal dollars received by the Commonwealth except those received by the Commonwealth Transportation Fund, the Unemployment Compensation Fund, and institutions of higher education.

Literary Fund Special Revenue Fund – Accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements – The financial statements of the proprietary funds, fiduciary funds, and component units are reported using the economic resources measurement focus and the full accrual basis of accounting. As with the government-wide statements, revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus since they only report assets and liabilities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides governments two options for reporting their enterprise funds (including component units reporting as business-type activities). All enterprise funds reported herein, with the exception of the State Lottery (major enterprise fund), Behavioral Health Local Funds (nonmajor enterprise fund), the Virginia Biotechnology Research Partnership Authority (nonmajor component unit), the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit), and the Innovation and Entrepreneurship Investment Authority (nonmajor component unit) apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The State Lottery (major enterprise fund), Behavioral Health Local Funds (nonmajor enterprise fund), the Virginia Biotechnology Research Partnership Authority (nonmajor component unit), the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit), and the Innovation and Entrepreneurship Investment Authority (nonmajor component unit) apply all of these pronouncements, and also apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Foundations' (component units) financial statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. The financial statements are prepared under FASB rather than GASB standards. In some instances, activities of the foundations (component units) are reported separately within the footnotes because of the different reporting standards. Also, some foundations (component units) have a December 31st or March 31st year-end rather than a fiscal year-end. Foundations (component units) with different year-ends are included in these financial statements for the year ending December 31, 2010, or March 31, 2011. Significant intrafund activity/balances between each higher education institution and their foundations have been eliminated. However, Old Dominion University (nonmajor component unit) reported the following intrafund balances that could not be eliminated because of differing year-ends: institution assets of $75.9 million and liabilities of $71.1 million, and foundation assets of $63.1 million and liabilities of $72.9 million. Longwood University (nonmajor component unit) reported the following intrafund balances that could not be eliminated because of differing year-ends: institution expenses of $2.9 million and foundation assets of $0.3 million and revenues of $2.7 million.

The primary government reports the following major enterprise funds:

State Lottery Fund – Accounts for all receipts and expenses of the State Lottery.

Virginia College Savings Plan Fund – Administers the Virginia Prepaid Education Program.

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

Additionally, the primary government reports the following fund types:

Governmental Fund Types:

Special Revenue Funds – Account for transactions related to resources received and used for restricted, committed, or specific purposes.

Debt Service Funds – Account for transactions related to resources retained and used for the payment of interest and principal on long-term obligations.

Capital Project Funds – Account for transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental or proprietary funds. The primary resource for these funds is the proceeds of bond issues and energy performance contracts. Principal uses are for construction and improvement of state office buildings, correctional and mental health facilities, and parks.

Permanent Funds – Account for transactions of the Commonwealth Health Research Fund and the Behavioral Health Endowment Funds whose principal must remain intact and whose income is used to benefit the Commonwealth's citizens and mental health patients.

Proprietary Fund Types:

Enterprise Funds – Account for transactions related to resources received and used for financing self-supporting activities of the primary government that offer products and services on a user-charge basis to external users.

Internal Service Funds – Account for transactions related to the financing and sale of goods or services provided by the agencies of the primary government to other agencies and institutions of the Commonwealth. Activities include the provision of information technology, manufacturing activities, insurance programs, fleet services, facilities and property management, engineering and payroll services.

Fiduciary Fund Types:

Private Purpose Trust Funds – Account for transactions of all other trust arrangements in which the principal and income benefit individuals, private organizations, or other governments. These trusts include those for escheat property, educational savings plan, and others.

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

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

Agency Funds – Account for amounts held in trust by the primary government for others. Agency funds include those funds established to account for the collection of taxes and fees for distribution to localities and other states, employee benefits, deposits of insurance carriers, child support collections and other miscellaneous accounts.

E. Budgetary Process

Budgetary amounts shown in the Required Supplementary Information and Combining and Individual Fund Statements and Schedules Sections represent the total of the original budgeted amounts and all supplemental appropriations. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the *Code of Virginia*, submits a budget composed of all proposed expenditures for the Commonwealth, and of estimated revenues and borrowing for a biennium, to the General Assembly. Budgets are adopted for the General and Special Revenue Funds, except for the Literary – Special Revenue (major). Formal budgetary integration is not employed for the Capital Projects (nonmajor), Debt Service (nonmajor), Permanent Funds (nonmajor), and the Literary – Special Revenue (major) because effective budgetary control is alternatively achieved through the General Fund and the remaining Special Revenue Funds.

The budget is prepared on a biennial basis; however, the budgets of the General and Special Revenue Funds contain separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor. For management control purposes, the budget is controlled at the program level. The Governor may transfer an appropriation within a state agency or from one state agency to another, provided that total fund appropriations, as contained within the budget, are not exceeded. Increases in General Fund appropriations must be approved by the General Assembly.

Appropriations for programs funded from Special Revenue Funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

F. Cash, Cash Equivalents, and Investments

Cash

In order to maximize the Commonwealth's earning potential, the majority of the primary government's cash balances are pooled together in the general account for investment purposes. The amounts required for operations are liquidated as needed. Since all amounts not required for operations are held in investment securities, it is possible that the cash balances could be negative due to timing differences in liquidating the investments.

As of June 30, 2011, the General Fund had a negative cash balance of $4.0 billion. In order to properly reflect the general account position, this negative cash balance has been eliminated in the accompanying statements and offset against the primary government's cash equivalents and investments (see Note 6).

Cash Equivalents

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

Investments

Investments are principally comprised of monies held by component units, Pension and Other Employee Benefit Trust Funds, and monies held by the State Treasurer in both the general account and other fiduciary accounts.

Governmental and proprietary funds, both primary government and component units, report investments in money market and in the Commonwealth sponsored investment pools at amortized cost which approximates fair value. All other investments are reported at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Investments administered by the Virginia Retirement System (the System) are reported at fair value. The cost of investments sold is the average cost of the aggregate holding of the specific investment sold. Investments in affiliated organizations are accounted for on the equity method of accounting and the System's share of their earnings (losses) for the period is included in investment income using the equity method.

Investments of higher education institutions (component units) are reported at fair value, except for money market investments and investments in the Commonwealth sponsored investment pools, which are reported at amortized cost.

Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes (see Note 13).

G. Receivables

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

H. Contributions Receivable, Net

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

I. Internal Balances

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities (see Note 9).

J. Inventory

Inventories consist of materials and supplies and are reported as expenditures when consumed. These assets are classified as nonspendable fund balance. Inventories exceeding $1 million of the General and the Special Revenue Funds are maintained at cost using the first-in, first-out (FIFO) methodology, except for the following:

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

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

In addition to inventories maintained as stated above, the following agencies reported donated inventory on hand at June 30, 2011:

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

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

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

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

Institutions of higher education (component units) use several methods for inventory valuations, including cost using FIFO, the lower of cost or market using FIFO, or weighted average methods. Inventories maintained by the Virginia Horse Center Foundation (nonmajor component unit) are stated at the lower of cost or market using FIFO. Inventories maintained by the Virginia Port Authority (nonmajor component unit) are reported using the moving average unit cost methodology. Inventories at the gift shop run by the Library of Virginia Foundation are stated at net realizable value.

K. Prepaid Items

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

L. Interfund Loans Receivable/Payable

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

M. Other Assets

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

N. Capital Assets

Capital assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the Government-wide Statement of Net Assets. Capital assets of the other funds and component units are capitalized in the fund in which they are utilized. All depreciable capital assets are depreciated on the straight-line basis over their useful lives (see Note 12).

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

The primary government's capitalization policy regarding works of art/historical treasures is that capitalization is encouraged, but not required, for works of art/historical treasures that meet the following conditions:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain;
- The collection is protected, kept unencumbered, cared for and preserved; and,
- The collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

The primary government capitalizes construction-in-progress when project expenditures, including construction of intangible assets, exceed $100,000. Interest incurred during construction is not capitalized in governmental funds. Interest incurred during the construction of proprietary fund assets is included in the capitalized value of the asset. Expenditures are classified as construction-in-progress if:

(1) They extend the asset life, improve productivity, or improve the quality of service; and,

(2) They fall into the planning, acquisition, construction, improvement, renovation, repair, replacement, relocation, or demolition phase of the asset life.

The estimated lives of capital assets are as follows:

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

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

O. Accounts Payable

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, accounts payable also includes payments for nonexchange transactions that met eligibility requirements prior to year-end (see Note 23).

P. Unearned and Deferred Revenue

Unearned revenue represents monies received or revenues accrued but not earned as of June 30, 2011. Deferred revenue represents revenues accrued but not available to finance expenditures of the current fiscal period. The majority of unearned revenue is reported by higher education institutions (component unit), where it is primarily composed of revenue for student tuition accrued in advance of the semester and advance payments on grants and contracts. In the General Fund (major), deferred revenue represents receivables that will be collected after August 31, 2011. In the special revenue funds, unearned revenue is composed primarily of prepaid toll revenue and contributions from localities and private sectors for highway construction projects recorded in the Commonwealth Transportation Fund (major). In the enterprise funds, a majority of unearned revenue represents on-line ticket monies received by the State Lottery (major) for which corresponding drawings have not been held and unearned revenues of Consolidated Laboratory (nonmajor). In the internal service funds, it represents primarily unearned premiums for the Risk Management Fund and prepaid rent and work orders for the Property Management Fund. Additionally, in the Virginia Information Technologies Agency internal service fund, unearned revenue relates to the transfer and purchase of assets for transition agencies and advanced customer receipts. Unearned revenues in the other component units consist primarily of the deferral of fees related to various activities.

Q. Deferred Taxes

Deferred taxes represent the deferral of income taxes withheld or received for the period January through June 2011. This amount is the estimate to be refunded (overpayments by taxpayers) reduced by the estimate to be received (underpayments from taxpayers) that will be finalized when income tax returns are filed in subsequent years. Individual income tax estimated overpayments total $863,558,714 and estimated underpayments total $400,160,207. This results in deferred taxes of $463,398,507.

Corporate income tax estimated overpayments total $50,754,343 and estimated underpayments total $63,528,586. When underpayments exceed overpayments, revenue on the fund statements is only recognized to the extent of estimated overpayments. Since underpayments exceed overpayments for corporate income taxes, the deferred tax amount is zero for the fiscal year.

R. Obligations Under Securities Lending Program

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, liabilities resulting from these transactions have been recorded as obligations under securities lending transactions.

S. Other Liabilities

Other liabilities represent amounts owed for various governmental and proprietary activities. Some of these amounts will be paid shortly after fiscal year-end (see Note 24).

T. Claims Payable

Claims payable, reported in the proprietary funds of the primary government, represent both health and liability insurance claims payable at June 30, 2011. This includes both actual claims submitted, as well as actuarially determined claims incurred but not reported. Claims relating to the primary government's liability insurance programs are reported in the Risk Management – internal service fund and the Risk Management – nonmajor enterprise fund. Also, health insurance claims are reported in the Health Care – internal service fund and the Local Choice Health Care – nonmajor enterprise fund (see Notes 22.A. and 22.B.). Claims payable reported by the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit) represents estimated malpractice, workers' compensation, and medical claims payable amounts. Accrued workers' compensation costs for the Virginia International Terminals (a discrete component unit of the Virginia Port Authority – nonmajor component unit) represent accrued costs for the Company's estimate of its continuing liability for injuries which occurred during periods of self-insurance.

U. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. The governmental fund statements reflect the portion of long-term liabilities that will be paid from expendable resources that represent payments to employees for separations that occurred prior to June 30. The proprietary fund statements and discrete component unit statements reflect total long-term liabilities and distinguish between those portions payable within one year and those payable in future years (see Note 25).

Bond premiums and discounts, as well as significant issuance costs, are deferred and amortized over the life of the bond. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Expenditures for principal and interest payments for governmental fund general obligation bonds and revenue bonds are recognized in the Debt Service Fund (nonmajor) when due. In these fund statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures (see Note 25).

V. Nonspendable Fund Balances

Nonspendable fund balances indicate that portion of fund balance that cannot be spent because it is either not in spendable form or is legally or contractually required to be maintained intact.

W. Restricted Fund Balances

Restricted fund balances are amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

X. Committed Fund Balances

Committed fund balances are amounts that have constraints placed on the use of resources that are imposed by the formal action of the government's highest level of decision-making authority. The highest level of decision authority for the Commonwealth is the General Assembly and the Governor.

Y. Assigned Fund Balances

Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Z. Unassigned Fund Balances

Unassigned fund balance is the amount of fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

AA. Cash Management Improvement Act

Included in "Due to Other Governments" is the Commonwealth's Cash Management Improvement Act (CMIA) interest liability to the federal government, which is calculated in accordance with the interest calculation and exchange provisions of the Federal Cash Management Improvement Act of 1990. The Commonwealth's interest liability is subject to review and final confirmation by the Financial Management Service (FMS) of the U.S. Treasury. The payment is to be made on

March 31, 2012. Payment will be made from a sum sufficient appropriation authorized for this purpose by the Appropriation Act. The CMIA interest rate of exchange is based by law on the average of the bond equivalent rates of 13-week Treasury Bills auctioned during the annual reporting period as calculated by FMS.

BB. Investment Income

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

CC. Intrafund Eliminations

Eliminations have been incorporated into the report to eliminate intrafund transactions within the related fund type. These eliminations prevent overstatement of financial activity.

DD. Interfund Activity

Generally, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions.

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

2. RESTATEMENT OF BEGINNING BALANCES

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

Governmental Activities

- Capital Asset balances were restated by $104.1 million regarding the understatement of capital assets due primarily to the Department of Conservation and Recreation not recording assets at the time of acquisition.

- The Internal Service Funds have been restated by $7.3 million to correct an overstatement resulting from billing disputes, deferred revenue adjustments and reduction of credits by the Virginia Information Technologies Agency.

- The Virginia Public Building Authority Capital Project Funds have been restated by $1.5 million due to property sales proceeds that were omitted from prior year financial statements.

Business-type Activities

- The Enterprise Funds have been restated by $5.9 million to correct an understatement related to:
  - Virginia College Savings Plan of $1.7 million related to capital assets and investment values; and
  - Wireless E-911 grants to localities that were incorrectly accrued prior to eligibility requirements being met.

Fund Statements

- The Commonwealth implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for the fiscal year ending June 30, 2011. As a result of this Statement, the Water Quality Improvement Fund (nonmajor special revenue), as well as portions of the Commonwealth Transportation (major special revenue), Health and Social Services (nonmajor special revenue) and Other nonmajor special revenue funds have been reclassified and are now reported as part of the General Fund. Accordingly, the governmental funds have been restated by $99.0 million due to this reclassification.

- The Nonmajor Governmental Funds have been restated for the following reasons:

  - Permanent Funds have been restated by $20.9 million to correct a prior year error regarding the reporting of the Prescription Monitoring Fund. This fund was previously reported as a Permanent Fund due to a legal interpretation that the principal was required to be maintained intact. An updated legal interpretation determined the principal may be spent. Accordingly, this fund is now being reported in the Health and Social Services Fund (nonmajor special revenue).

  - The Capital Projects Fund has been restated by $1.5 million as discussed above.

- The Enterprise Fund has been restated by $5.9 million as discussed above.

- The Internal Service Fund has been restated by $7.3 million as discussed above.

Beginning Balance Restatement

(Dollars in Thousands)

	Balance as of June 30, 2010	GASBS No. 54 Fund Balance Reporting	Correction of Prior Year Errors	Balance June 30, 2010 as restated
Government-wide Activities:				
Primary Government:				
Governmental Activities	$ 16,697,499	$ -	$ 98,323	$ 16,795,822
Business-type Activities	(122,364)	-	5,949	(116,415)
Total Primary Government	$ 16,575,135	$ -	$ 104,272	$ 16,679,407
Component Units	$ 19,045,859	$ -	$ -	$ 19,045,859
Fund Statements - Governmental Funds				
Major Governmental Funds:				
General	$ (674,292)	$ 99,489	$ -	$ (574,803)
Special Revenue Funds:				
Commonwealth Transportation	2,009,603	(525)	-	2,009,078
Federal Trust	42,557	-	-	42,557
Literary	151,445	-	-	151,445
Total Major Governmental Funds	1,529,313	98,964	-	1,628,277
Nonmajor Governmental Funds				
Special Revenue Funds:				
Health and Social Services Fund	133,740	(11,024)	20,903	143,619
Water Quality Improvement Fund	31,568	(31,568)	-	-
Other Special Revenue Fund	542,848	(56,372)	-	486,476
Total Special Revenue	708,156	(98,964)	20,903	630,095
Debt Service Funds:				
Primary Government	105,325	-	-	105,325
Virginia Public Building Authority	-	-	-	-
Total Debt Service	105,325	-	-	105,325
Capital Project Funds:				
Primary Government	75,300	-	-	75,300
Virginia Public Building Authority	130,433	-	1,510	131,943
Total Capital Projects	205,733	-	1,510	207,243
Permanent Funds:				
Commonwealth Health Research Fund	25,903	-	-	25,903
Prescription Monitoring Fund	20,903	-	(20,903)	-
Behavioral Health Endowment Funds	256	-	-	256
Total Permanent Funds	47,062	-	(20,903)	26,159
Total Nonmajor Governmental Funds	1,066,276	(98,964)	1,510	968,822
Total Governmental Funds	$ 2,595,589	$ -	$ 1,510	$ 2,597,099
Fund Statements - Proprietary Funds				
State Lottery	$ (5,713)	$ -	$ -	$ (5,713)
Virginia College Savings Plan	(209,333)	-	1,728	(207,605)
Unemployment Compensation	(36,336)	-	-	(36,336)
Nonmajor Enterprise	131,280	-	4,221	135,501
Total Proprietary Funds	$ (120,102)	$ -	$ 5,949	$ (114,153)
Internal Service	$ (200,261)	$ -	$ (7,343)	$ (207,604)

3. FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* became effective for the Commonwealth beginning with fiscal year 2011. The purpose of GASB Statement 54 is to improve the reporting of fund balance. This Statement also clarifies certain terms used in the definition of existing governmental fund types so that classifications are more easily understood and can be applied consistently between information reported in the government-wide financial statements and the governmental fund financial statements. The new governmental fund balance classifications introduced in GASB Statement 54 are: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

Nonspendable fund balance includes inventories, prepaid items, and the principal of a permanent fund. These funds are not available for expenditure in the current or following period.

Restricted fund balances include amounts that have constraints placed on the use of resources by the *Constitution of Virginia* or a party external to the Commonwealth.

Committed fund balances include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the General Assembly and Governor. The distinction between restricted and committed fund balances is the source and strength of the constraints placed on them.

Assigned fund balances are those that the government intends to use for a specific purpose, but for which the use is not legislatively mandated. The following schedule includes committed and assigned amounts that share the same purpose and title. The distinction between these classifications results from whether there is a statutory restriction on certain amounts contained within the fund.

Unassigned funds are the residual classification for the General Fund. A negative amount indicates that restricted and committed amounts exceed the available modified accrual basis fund balance.

The governmental fund balance classifications and amounts at June 30, 2011, are shown in the following table.

Governmental Fund Balance Classifications

(Dollars in thousands)

	General Fund	Commonwealth Transportation	Federal Trust	Literary	Nonmajor Governmental	Total
Nonspendable						
Inventory	$ 45,444	$ 62,503	$ 13,541	$ -	$ 5,576	$ 127,064
Prepaid Items	67,584	9,537	1,953	-	18,103	97,177
Permanent Funds	-	-	-	-	28,763	28,763
Total Nonspendable	113,028	72,040	15,494	-	52,442	253,004
Restricted						
Agriculture and Forestry	-	-	-	-	1,009	1,009
Capital Projects/Construction/Capital Acquisition	-	-	-	-	145,524	145,524
Debt Service	-	-	-	-	67,825	67,825
Economic and Technological Development	-	-	-	-	1,076	1,076
Educational and Training Programs	-	-	-	-	6,818	6,818
Environmental Quality and Natural Resource Preservation	-	-	-	-	10,604	10,604
Gifts and Grants	-	98,450	12,137	-	1,943	112,530
Government Operations:						
Legislative Services	-	-	-	-	10	10
Administrative Services	-	-	-	-	191	191
Health and Public Safety	-	-	-	-	130,398	130,398
Literary Fund	-	-	-	119,618	-	119,618
Lottery Proceeds Fund	19,144	-	-	-	-	19,144
Revenue Stabilization Fund	432,049	-	-	-	-	432,049
Transportation Activities	-	39,638	-	-	-	39,638
Virginia Water Supply Assistance Grant Fund	13,343	-	-	-	-	13,343
Total Restricted	464,536	138,088	12,137	119,618	365,398	1,099,777
Committed						
Agriculture and Forestry	-	-	-	-	17,828	17,828
Amount Required for Mandatory Reappropriation	86,442	-	-	-	-	86,442
Amount Required for Reappropriation of 2011 Unexpended Balances for Capital Outlay	2,325	-	-	-	-	2,325
Base Realignment Commission	7,500	-	-	-	-	7,500
Capital Projects/Construction/Capital Acquisition	529	-	-	-	613	1,142
Central Capital Planning Fund	2,024	-	-	-	-	2,024
Communications Sales and Use Tax	7,344	-	-	-	-	7,344
Contract and Debt Administration	-	35,701	-	-	-	35,701
Economic and Technological Development	2,434	-	-	-	21,672	24,106
Educational and Training Programs	872	3,248	-	-	4,281	8,401
Environmental Quality and Natural Resource Preservation	1,236	-	-	-	90,000	91,236
Government Operations:						
Legislative Services	-	-	-	-	504	504
Administrative Services	218	-	-	-	31,044	31,262
Governor's Opportunity Fund	45,036	-	-	-	-	45,036
Health and Public Safety	6,473	1,913	-	-	176,013	184,399
Natural Disaster Sum Sufficient	17,320	-	-	-	-	17,320
Nonrecurring Expenditures	18,747	-	-	-	-	18,747
Regulatory Oversight	-	-	-	-	109,177	109,177
Supplemental Public Safety Funding	7,374	-	-	-	-	7,374
Transportation Activities	-	2,183,540	-	-	7,344	2,190,884
Transportation Trust Fund	67,241	-	-	-	-	67,241
Unemployment Compensation Trust Fund	8,900	-	-	-	-	8,900
Virginia Health Care Fund	18,771	-	-	-	-	18,771
Virginia Water Quality Improvement Fund	108,765	-	-	-	-	108,765
Total Committed	409,551	2,224,402	-	-	458,476	3,092,429
Assigned						
Educational and Training Programs	-	-	-	-	3,181	3,181
Environmental Quality and Natural Resource Preservation	-	-	-	-	903	903
Government Operations:						
Administrative Services	-	-	-	-	7	7
Health and Public Safety	-	-	-	-	6,125	6,125
Total Assigned	-	-	-	-	10,216	10,216
Unassigned	(1,045,892)	-	-	-	-	(1,045,892)
Total Fund Balance (Deficit)	$ (58,777)	$ 2,434,530	$ 27,631	$ 119,618	$ 886,532	$ 3,409,534

4. DEFICIT FUND BALANCES/NET ASSETS

The General Fund ended fiscal year 2011 with a deficit fund balance of $58.8 million on a modified accrual basis of accounting. This is due primarily to the effects of accrual items. These accruals generally result in decreases to fund balance and are similar in nature to previous years.

The State Lottery (major enterprise fund), the Department of Alcoholic Beverage Control (nonmajor enterprise fund), the Department of Environmental Quality's Title V, Air Pollution Permit Fund (nonmajor enterprise fund), and the Payroll Service Bureau (internal service fund) ended the year with deficit net assets of $7.9 million, $22.9 million, $1.3 million, and $477 thousand, respectively. This was solely attributable to the net pension obligation resulting from GASB Statement No. 27*, Accounting for Pensions by State and Local Governmental Employers* and the net other postemployment benefits (OPEB) obligation resulting from GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Since the Commonwealth is the employer, the agencies do not report this liability in their individually published financial statements.

The Unemployment Compensation Fund (major enterprise fund) ended the year with a deficit net assets balance of $23.7 million. The deficit was the result of benefits paid to claimants in accordance with the Virginia Unemployment Compensation Act exceeding employer contributions and reserve balances in the Unemployment Trust Fund.

The Virginia Information Technologies Agency (internal service fund) ended the year with a deficit net assets balance of $35.7 million. The deficit was a result of operating expenses exceeding revenues in previous years.

The Property Management Fund (internal service fund) ended the year with a deficit net assets balance of $10.5 million. This deficit was the result of the purchase of a leasehold interest in a state-owned building in fiscal year 2006. Also, the Property Management Fund incurred additional capital lease liabilities due to transfers of leases from other state agencies in fiscal year 2009.

The Risk Management Fund (internal service fund) ended the year with a deficit net assets balance of $397.7 million. The deficit was the result of the Worker's Compensation Program having estimated claims payable exceeding the available equity in the fund. Claims are paid on a pay-as-you-go basis. To the extent that claims exceed current resources, they will ultimately become a liability of the fund from which the claim originated.

The Virginia Public School Authority (major component unit) ended the year with a deficit net assets balance of $22.1 million. This deficit is the result of an accrued credit against future debt service payments on Local School Bonds due from the localities subsequent to June 30.

The Virginia Economic Development Partnership (nonmajor component unit) ended the year with a deficit net assets balance of $776 thousand. This deficit occurs because the partnership's Statement of Net Assets reflects $3.7 million in non-current liabilities related to compensated absences, net pension obligation, and net other postemployment benefit obligation. The Partnership is funded mainly by state appropriations, which show current funding only.

The Virginia College Building Authority (nonmajor component unit) ended the year with a deficit net assets balance of $2.0 billion. This deficit occurred because the Authority issued bonds for the 21st Century College and Equipment programs subject to future appropriations from the General Fund of the Commonwealth without any other security.

5. REVENUE STABILIZATION FUND

In accordance with Article X, Section 8 of the *Constitution of Virginia*, the amount estimated as required for deposit to the Revenue Stabilization Fund must be appropriated for that purpose by the General Assembly. During fiscal year 2011, no withdrawal or deposit other than interest earnings were required for the Revenue Stabilization Fund.

The *Constitution* requires a deposit based on growth in income and retail sales tax revenue and allows revenue growth from increases in tax rates or the repeal of exemptions to be excluded, in whole or part, from the deposit calculation for up to six years. During fiscal years 2005 through 2010, a dual computation was performed to identify potential deposits both including and excluding the effects of the tax rate structure changes. A dual computation is not required for fiscal year 2011. Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, a deposit of $132.7 million is required during fiscal year 2013 based on fiscal year 2011 revenue collections.

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the fund when specific criteria have been met. No such deposit is required since the specified criteria were not met for fiscal year 2011.

The Revenue Stabilization Fund has principal and interest on deposit of $299.3 million. This balance, along with the constitutionally required deposit of $132.7 million discussed above (totaling $432.0 million), are both restricted as a part of General Fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed 15 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. This is an increase of the previous limit of 10 percent.

6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2011, the carrying amount of cash for the primary government was $3,296,851,009 and the bank balance was $204,920,638. The carrying amount of cash for component units was $1,596,450,992 and the bank balance was $685,630,645. Cash equivalents are investments with an original maturity of 90 days or less. Cash and cash equivalents for foundations (component units) totaled $324,020,074 as of year-end. A portion of this amount and some balances during the year exceeded Federal Deposit Insurance Corporation (FDIC) insurance coverage. Foundation investments are disclosed in the Interest Rate Risk section of this note.

For purposes of this note, primary government includes governmental, business-type activities, and fiduciary funds. The deposits of the primary government and the component units, excluding foundations (component units), are secured in accordance with the provisions of the Virginia Security for Public Deposits Act, Section 2.2-4400 of the *Code of Virginia*. The act requires any public depository that receives or holds public deposits to pledge collateral to the Treasury Board to cover public deposits in excess of Federal deposit insurance. The required collateral percentage is determined by the Treasury Board and ranges from 50 percent to 100 percent for financial institutions choosing the pooled method of collateralization, and from 105 percent to 130 percent for financial institutions choosing the dedicated method of collateralization. As stated in Note 1.BB., unrealized gains or losses for the Treasurer's Portfolio are recorded in the General Fund.

Certain deposits are held by trustees in accordance with the Trust Subsidiary Act, Section 6.1-32.8 et seq. of the *Code of Virginia*. The act requires that cash held by trustees while awaiting investment or distribution is not to be used by an affiliate bank of the trustee in the conduct of its business unless the affiliate bank delivers securities to the trust department as collateral that is at least equal to the fair value of the trust funds held on deposit in excess of amounts insured by the FDIC.

The Commonwealth is authorized, in accordance with the guidelines set forth in Section 2.2-4500 et seq. of the *Code of Virginia*, to invest public funds in the following:

- U.S. Treasury and agency securities
- Corporate debt securities
- Asset–backed securities
- Mortgage–backed securities
- Municipal securities
- AAA rated obligations of foreign governments
- Bankers' acceptances and bank notes
- Negotiable certificates of deposit
- Repurchase agreements
- Money market funds

Permitted investments include agency mortgage-backed securities, corporate or private label mortgage-backed securities, and asset-backed securities which by definition usually expose the investor to prepayment risk.

Prepayment risk, or the prepayment option granted the borrower, can create uncertainty concerning cash flows, can affect the price of the security causing negative convexity, and can expose the investor to reinvestment risk. Similarly, many agency and corporate securities are callable after some predetermined date at a predetermined price. The call options in regular agency debentures and some corporate securities can be open ended and may significantly impact cash flows, security pricing, and reinvestment risks of these securities.

Public funds held by the Commonwealth, public officers, municipal corporations, political subdivisions, and any other public body of the Commonwealth shall be held in trust for the citizens of the Commonwealth. Any investment of such funds pursuant to the provisions of this chapter shall be made solely in the interest of the citizens of the Commonwealth and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Certain investments held in trust by the Treasurer of Virginia in accordance with bond indentures and resolutions may have more restrictive investment policies. Investment policies of institutions of higher education (component units) are established by the institutions' governing boards.

The Board of Trustees of the Virginia Retirement System (the System) (part of primary government) has full power to invest and reinvest the trust funds in accordance with Section 51.1–124.30 of the *Code of Virginia*, as amended. This section requires the Board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so. The System does not have investment policies that place specific restrictions on investments related to custodial risk, interest rate risk, credit risk, or foreign currency risk. The System investment portfolio is intended to be managed through diversification and prudent judgment, rather than through specific policy restrictions.

The information presented for the external investment pool was obtained from audited financial statements. Copies of the Local Government Investment Pool (LGIP) report may be obtained by writing the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218. Participation in this pool is voluntary.

Custodial Risk

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

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

As of June 30, 2011, the primary government had $943,599,929 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. The System had $941,837,301 of this amount that consisted of various types of debt and equity securities that were held by counterparties' trust departments or agents, but not in the System's name. Common and preferred stocks represented $855,172,332 of the total. The remainder was for various types of debt and equity securities. The component units had $21,956,073 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. Mutual and money market funds represented $19,152,343 and common and preferred stocks represented $1,690,418 of the total and the remainder was for various types of debt and equity securities.

As of June 30, 2011, the investments of the Pension and Other Employee Benefit Trust Funds were approximately 79 percent of the primary government investments, and 99 percent of those that were exposed to custodial risk.

Interest Rate Risk

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

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

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

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

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

At June 30, 2011, the Commonwealth had the following investments and maturities:

Primary Government Investments

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 2,067,331	$ 431,892	$ 1,166,042	$ 275,479	$ 193,918
Corporate Notes	8,435,722	4,636,388	1,852,026	1,444,833	502,475
Corporate Bonds	5,001,928	1,983,476	1,912,985	870,488	234,979
Corporate Mortgage-Backed Securities	74,428	-	417	686	73,325
Commercial Paper	2,613,505	2,613,505	-	-	-
Negotiable Certificates of Deposit	2,172,248	2,169,053	3,195	-	-
Repurchase Agreements	2,992,604	2,992,604	-	-	-
Municipal Securities	172,616	28,909	25,861	29,159	88,687
Asset-Backed Securities	483,412	204,760	148,325	22,451	107,876
Agency Mortgage-Backed Securities	2,776,773	201,872	1,765,582	649,874	159,445
Agency Unsecured Bonds and Notes	1,246,624	669,709	509,166	61,815	5,934
Mutual and Money Market Funds (Includes SNAP)	1,247,812	1,247,640	172	-	-
Guaranteed Investment Contracts	279,603	73,346	206,257	-	-
Fixed Income and Commingled Funds	2,277,733	1,506,023	497,871	273,839	-
Deposits with the U.S. Treasury for Unemployment Compensation	58,742	58,742	-	-	-
Investments held by broker-dealers under securities loans					
U. S. Government and Agency Securities	1,620,653	102	1,015,548	378,543	226,460
Corporate Notes	210,506	8,604	91,938	88,006	21,958
Corporate Bonds	95,082	3,581	34,590	45,852	11,059
Agency Unsecured Bonds and Notes	47,432	-	29,496	11,906	6,030
Asset Backed Securities	8,287	8,287	-	-	-
Other Bonds	3,516	-	3,516	-	-
Other	750,636	245,972	384,341	54,085	66,238
Total	$ 34,637,193	$ 19,084,465	$ 9,647,328	$ 4,207,016	$ 1,698,384

Component Unit Investments

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 1,014,461	$ 528,476	$ 168,447	$ 32,555	$ 284,983
Corporate Notes	93,917	21,011	65,291	6,285	1,330
Corporate Bonds	299,959	53,669	162,140	77,464	6,686
Corporate Mortgage-Backed Securities	13,840	-	-	478	13,362
Commercial Paper	336,284	336,284	-	-	-
Negotiable Certificates of Deposit	66,092	64,392	1,700	-	-
Repurchase Agreements	32,836	32,836	-	-	-
Municipal Securities	3,490,985	32,112	113,009	120,142	3,225,722
Asset-Backed Securities	190,592	13,020	106,282	13,864	57,426
Agency Unsecured Bonds and Notes	63,805	53,178	10,627	-	-
Agency Mortgage-Backed Securities	164,593	7,006	21,882	10,391	125,314
Mutual and Money Market Funds (Includes SNAP)	1,418,341	1,323,679	14,111	62,493	18,058
Guaranteed Investment Contracts	97,057	1,855	39	485	94,678
Fixed Income and Commingled Funds	9,047	9,047	-	-	-
Other	499,506	494,199	5,142	66	99
Total	$ 7,791,315	$ 2,970,764	$ 668,670	$ 324,223	$ 3,827,658

Foundation Investments

(Dollars in Thousands)

Investment Type	Fair Value
U.S. Treasury and Agency Securities	$ 742,118
Common & Preferred Stocks	1,127,139
Corporate Notes	4,602
Corporate Bonds	141,721
Commercial Paper	2,994
Negotiable Certificates of Deposit	3,293
Municipal Securities	4,052
Repurchase Agreements	43,964
Asset Backed Securities	6,527
Agency Mortgage Backed	21,452
Mutual Funds	416,195
Real Estate	351,890
Index Funds	61,913
Fixed Income and Commingled Funds	779
Equity Index and Pooled Funds	447
Others	5,692,236
Total	$ 8,621,322

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

Credit Risk

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

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

The following tables present the credit ratings for the majority of the investments of the primary government and component units as of June 30, 2011. The ratings presented below are using Standard & Poor's (S&P) and Moody's Investors Service (Moody's) rating scales. Within the primary government, the investments presented in the table represented 75.2 percent of the total debt securities, 8.4 percent of which were invested in corporate investments rated Aaa by Moody's. Within the component units, the investments presented in the table represented 86.6 percent of the total debt securities, 40.7 percent of which were invested in unrated Municipal Securities.

Credit risk for derivative instruments held by the Commonwealth results from counterparty risk assumed by the Commonwealth. This is essentially the risk that the borrower will be unable to meet its obligation. Information regarding the Commonwealth's credit risk related to derivatives is found in Note 13, "Derivatives."

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

Credit Rating - Primary Government
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Corporate Bonds	$ 3,703,894	Moody's	NR	10.69%
Corporate Notes	2,896,277	Moody's	Aaa	8.36%
Commercial Paper	2,238,651	Moody's	P-1	6.46%
U. S. Treasury and Agency Securities	2,067,331	N/A	N/A	5.97%
Agency Mortgage-Backed Securities	1,918,350	N/A	N/A	5.54%
Repurchase Agreements	1,655,000	Standard & Poor's	AAA	4.78%
Investments held by broker-dealers under securities loans (U.S. Government and Agency Securities)	1,619,899	N/A	N/A	4.68%
Negotiable Certificates of Deposit	1,418,397	Moody's	P-1	4.10%
Fixed Income and Commingled Funds	1,270,917	Moody's	NR	3.67%
Agency Unsecured Bonds and Notes	1,053,501	Standard & Poor's	AAA	3.04%
Mutual and Money Market Funds (Includes SNAP)	1,018,457	Standard & Poor's	AAA	2.94%
Negotiable Certificates of Deposit	672,094	Standard & Poor's	A-1	1.94%
Agency Mortgage-Backed Securities	655,460	Moody's	NR	1.89%
Corporate Notes	564,063	Moody's	Baa1	1.63%
Corporate Notes	556,293	Moody's	Aa3	1.61%
Corporate Notes	522,365	Moody's	AA2	1.51%
Corporate Notes	518,255	Moody's	Baa2	1.50%
Corporate Notes	446,129	Moody's	A2	1.29%
Repurchase Agreements	430,919	Standard & Poor's	A-1	1.24%
Repurchase Agreements	410,254	Moody's	P-1	1.18%
Corporate Notes	402,469	Moody's	B1	1.16%

Credit Rating - Component Units
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Municipal Securities	$ 3,167,715	N/A	N/A	40.66%
U.S. Treasury and Agency Securities	968,284	N/A	N/A	12.43%
Mutual and Money Market Funds (Include SNAP)	729,547	Standard & Poor's	AAA	9.36%
Other Debt Securities	494,200	Moody's	Aaa	6.34%
Mutual and Money Market Funds (Include SNAP)	481,858	Moody's	P-1	6.18%
Mutual and Money Market Funds (Include SNAP)	187,238	N/A	N/A	2.40%
Commercial Paper	186,873	Moody's	P-1	2.40%
Agency Mortgage-Backed Securities	125,786	Standard & Poor's	AAA	1.61%
Commercial Paper	111,775	Standard & Poor's	A-1+	1.43%
Municipal Securities	84,712	Standard & Poor's	AAA	1.09%
Asset Backed Securities	77,030	Moody's	Aaa	0.99%
Guaranteed Investment Contracts	67,330	Moody's	Aa3	0.86%
Municipal Securities	65,943	Standard & Poor's	AA	0.85%

Concentration of Credit Risk

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

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

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. All investments exposed to foreign currency risk were part of the System portfolio at June 30, 2011.

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

Currency Exposures by Asset Class
(Dollars in Thousands)

Currency	Cash & Cash Equivalents	Equity	Fixed Income	Private Equity	Real Estate	International Funds	Total
U.S. Dollar	$ -	$ -	$ -	$ -	$ -	$ 1,085,777	$ 1,085,777
British Pound Sterling	4,855	804,618	168,095	2,318	9,738	-	989,624
Euro Currency Unit	32,295	988,366	(125,555)	10,192	-	-	905,298
Hong Kong Dollar	4,694	680,743	-	-	-	-	685,437
Japanese Yen	13,699	651,313	(54,916)	-	2,955	-	613,051
South Korean Won	5,457	580,800	1,520	-	-	-	587,777
Canadian Dollar	2,168	343,188	4,926	-	-	-	350,282
Brazil Real	8,005	279,069	36,959	-	-	-	324,033
Swedish Krona	1,074	167,644	154,270	907	-	-	323,895
New Taiwan Dollar	7,864	318,978	(4,189)	-	-	-	322,653
Indian Rupee	3,198	294,523	1,010	-	-	-	298,731
South African Comm Rand	2,514	151,314	22,933	-	-	-	176,761
Norwegian Krone	781	96,639	69,859	-	-	-	167,279
Mexican New Peso	2,838	65,834	35,626	-	-	-	104,298
New Turkish Lira	1,099	91,621	10,890	-	-	-	103,610
Australian Dollar	2,352	278,608	(179,936)	-	-	-	101,024
Thailand Baht	252	73,023	16,726	-	-	-	90,001
Singapore Dollar	1,255	74,885	7,583	-	-	-	83,723
Malaysian Ringgit	1,369	48,379	30,590	-	-	-	80,338
Indonesian Rupian	848	46,595	25,763	-	-	-	73,206
New Zealand Dollar	405	77,930	(9,345)	-	-	-	68,990
Polish Zloty	374	46,580	19,922	-	-	-	66,876
Russian Ruble (New)	1	15,092	25,314	-	-	-	40,407
Philippines Peso	1,276	14,108	10,112	-	-	-	25,496
Danish Krone	1,619	17,009	-	-	-	-	18,628
Israeli Shekel	389	16,601	-	-	-	-	16,990
Egyptian Pound	264	10,318	-	-	-	-	10,582
Columbian Peso	-	-	9,876	-	-	-	9,876
Uruguayan Peso	-	-	8,274	-	-	-	8,274
Kazakhstan Tenge	-	-	7,950	-	-	-	7,950
Turkish Lira	7,189	-	-	-	-	-	7,189
UAE Dirham	-	5,137	-	-	-	-	5,137
Hungarian Forint	81	207	3,954	-	-	-	4,242
Chinese Yuan Renminbi	-	620	2,498	-	-	-	3,118
Czech Koruna	110	6,293	(4,271)	-	-	-	2,132
Omani Rial	-	2,069	-	-	-	-	2,069
Peruvian Nuevo Sol	-	-	1,503	-	-	-	1,503
Moroccan Dirham	43	1,362	-	-	-	-	1,405
Argentina Peso	537	-	-	-	-	-	537
Chilean Peso	21	461	(3,863)	-	-	-	(3,381)
Swiss Franc	9,547	299,409	(367,298)	-	-	-	(58,342)
Total	$ 118,473	$ 6,549,336	$ (73,220)	$ 13,417	$ 12,693	$ 1,085,777	$ 7,706,476

Securities Lending

The State Treasury's securities lending program is managed by Deutsche Bank AG, New York (Deutsche Bank), under a contract dated March 31, 2006 and Novation Agreement dated November 23, 2009. The enabling legislation for the securities lending program is Section 2.2-4506 of Chapter 45 of the *Code of Virginia*, as amended. No violations of legal or contractual provisions were noted during the year. The general account participated in a securities lending program for the entire year.

All securities lending loans are on an open-ended or one-day basis and may be terminated by Treasury with a 24-hour notice or are term loans with the right of substitution. While all securities may be recalled on a daily basis, securities are often on loan for much longer periods. Generally cash reinvestments security maturities do not match the maturities of loans. Per the contract with Deutsche Bank, all cash collateral reinvestment securities attributable to loans made on the Commonwealth's behalf shall be maintained by Deutsche Bank, and Treasury cannot pledge or sell such collateral absent a default.

The State Treasury's contract with Deutsche Bank provides for loss indemnification against insolvency default with respect to lending transactions and in the case of reverse transactions as defined in the applicable Agency Securities Lending and Repurchase Agreement. Additionally, Deutsche Bank AG is liable for any losses experienced from reinvestment of cash collateral in investments not authorized by the provisions of the investment guidelines for the Commonwealth of Virginia agreed upon by both parties and made a part of the Agency Securities Lending and Repurchase Agreement. There were no realized losses resulting from default or recoveries of prior period losses during this reporting period.

When securities are loaned, the collateral received is at least 100.0 percent of fair value of the securities loaned and must be maintained at 100.0 percent or greater. There are no stated restrictions on the amount of securities that may be loaned, but the basic composition of the general account portfolio effectively restricts the maximum percentage of the portfolio that may be loaned. During the past fiscal year, approximately 27.0 percent of the general account securities were on loan.

During the past year, a combination of U.S. Treasury, agency, agency mortgage and corporate securities have been loaned, with the majority of the loaned securities being U.S. Treasury and agency securities. At June 30, 2011, all collateral received was in the form of cash.

Securities loaned for the Treasurer's cash collateral reinvestment pool, which consisted of 82.7 percent general account funds and 17.3 percent State Lottery funds as of June 30, 2011, had a carrying value of $1,140,784,966 and a fair value of $1,254,959,973. The fair value of the collateral received was $1,272,312,971 providing for coverage of 101.4 percent. As a result, the State Treasury assumes no credit risk on securities loaned. The carrying value of the cash collateral reinvestment pool received was $1,272,444,588 and the fair value of the investments purchased with the cash collateral was $1,268,972,929. As of June 30, 2011, the Treasurer's cash collateral reinvestment pool had an unrealized loss of $3,340,042, and is recorded in the General Fund as stated in Note 1.BB. This amount is included in the total Treasurer's Portfolio discussed earlier in this note.

Current cash collateral reinvestment guidelines allow for a maximum maturity of up to nine months on floating rate investments and up to six months on fixed rate investments. Term repurchase agreements are limited to 60 days. At June 30, 2011, the cash collateral reinvestment portfolio had a weighted average maturity of 10 days using the next interest reset date as the maturity date for floating rate securities. Using the expected maturity date, the weighted average maturity was 109 days and using the final maturity date, which assumes no pay downs on any asset-backed or mortgage-backed securities, the weighted average maturity was 2.6 years.

Treasury's current cash reinvestment guidelines allow for investment in government securities, bank obligations, commercial paper, corporate bonds and notes, indemnified repurchase agreements, and U.S. government money market funds. Each type of reinvestment security has to meet predetermined minimum credit criteria. At June 30, 2011, the majority of cash collateral reinvestments were in indemnified repurchase agreements, asset-backed (including mortgage-backed) floating rate securities, and bank certificates of deposit.

At June 30, 2011, $26.0 million or 2.0 percent of the total par value of the cash collateral reinvestment portfolio was out of compliance with Treasury's current cash collateral reinvestment guidelines due to various security ratings downgrades during the past few years and adoption of more restrictive reinvestment guidelines. Included in the $26.0 million of out of compliance securities is a $12.8 million asset-backed security that Treasury has reason to believe is other than temporarily impaired. Treasury has written off $3.8 million or $0.30 per dollar of par value of this security as of June 30, 2011. This security is not in default and is making principal and interest payments. Approximately 82.7 percent of these out of compliance securities are part of the general account portion of the securities lending program and the other 17.3 percent is the State Lottery's portion of the securities lending program. The Commonwealth regularly evaluates these positions to determine the most beneficial course of action going forward.

Under authorization of the Board, the Virginia Retirement System (the System) lends its fixed income and equity securities to various broker-dealers on a temporary basis. This program is administered through an agreement with the System's custodial agent bank. All security loan agreements are collateralized by cash, securities, or an irrevocable letter of credit issued by a major bank, and have a market value equal to at least

102 percent of the market value for domestic securities and 105 percent for international securities. Securities received as collateral cannot be pledged or sold by the System unless the borrower defaults. Contracts require the lending agents to indemnify the System if the borrowers fail to return the securities lent. All securities loans can be terminated on demand by either the System or the borrowers. The majority of loans are open loans, meaning the rebate is set daily. This results in a maturity of one or two days on average, although securities are often on loan for longer periods. The maturity of loans generally does not match the maturity of collateral investments, which averages 33 days. At year-end, the System has no credit risk exposure to borrowers because the amounts it owes the borrowers exceeded the amounts the borrowers owe the System. All securities are marked to market daily and carried at market value. The market value of securities on loan at June 30, 2011 was $4,543,731,000. The June 30, 2011 balance was composed of U.S. Government and agency securities of $1,667,331,000, corporate and other bonds of $316,725,000 and common and preferred stocks of $2,559,675,000. The value of collateral (cash and non-cash) at June 30, 2011, was $4,717,646,000.

At June 30, 2011, the invested cash collateral had a market value of $3,662,195,000 and was composed of commercial paper of $1,069,811,000, time deposits of $519,135,000, certificates of deposit of $595,687,000, floating rate notes of $1,103,811,000, asset backed securities of $7,319,000, and repurchase agreements of $366,432,000. As of June 30, 2011, the System's cash collateral reinvestment pool had an unrealized loss of $22.0 million.

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

A foundation of the University of Virginia (major component unit) reports an obligation under securities lending of approximately $7.9 million. Since this foundation follows FASB rather than GASB reporting requirements, disclosures can be found in the individually published financial statements of the foundation.

7. RECEIVABLES

The following schedule (dollars in thousands) details the accounts, loans, interest, taxes, prepaid tuition contributions, security transactions, and other receivables presented in the major funds, aggregated nonmajor funds by type, internal service funds, fiduciary funds, major component units, and aggregated nonmajor component units, as of June 30, 2011:

	Accounts Receivable	Loans / Mortgage Receivable	Interest Receivable	Taxes Receivable	Prepaid Tuition Contributions Receivable
Primary Government:					
General	$ 843,769	$ 171	$ 418,959	$ 1,612,464	$ -
Major Special Revenue Funds:					
Commonwealth Transportation	167,904	37,770	-	129,147	-
Federal Trust	688,276	228	-	-	-
Literary	201,490	262,348	15,704	-	-
Nonmajor Governmental Funds	119,272	-	8,991	6,966	-
Major Enterprise Funds:					
State Lottery	45,799	-	-	-	-
Virginia College Savings Plan	8,088	-	2,557	-	257,361
Unemployment Compensation	175,896	-	-	-	-
Nonmajor Enterprise Funds	35,031	-	-	-	-
Internal Service Funds	12,947	-	-	-	-
Private Purpose Trust Funds	-	5	1,671	-	-
Pension and Other Employee Benefit Trust (1)	109,957	-	203,504	-	-
Investment Trust Fund	-	-	271	-	-
Agency Funds	308	-	-	116,681	-
Total Primary Government (2)	$ 2,408,737	$ 300,522	$ 651,657	$ 1,865,258	$ 257,361
Discrete Component Units:					
Virginia Housing Development Authority (3)	$ -	$ 8,053,106	$ 39,156	$ -	$ -
Virginia Public School Authority	-	-	67,040	-	-
University of Virginia	517,043	49,867	1,116	-	-
Virginia Polytechnic Institute and State University	69,579	32,877	1,504	-	-
Virginia Commonwealth University	372,176	27,997	929	-	-
Nonmajor Component Units	173,994	3,440,011	57,555	5,898	-
Total Component Units	$ 1,132,792	$ 11,603,858	$ 167,300	$ 5,898	$ -

Note (1): Other Receivables of the Pension and Other Employee Benefit Trust Fund of $115,041 (dollars in thousands) are made up $107,213 (dollars in thousands) in pending investment transactions, including the offsetting entries for $104,190 (dollars in thousands) in the investment overlay and swaps, $1,534 (dollars in thousands) in securities lending, and $1,489 (dollars in thousands) in other investment receivable; as well as $7,828 (dollars in thousands) in other receivables related to benefit plans.

Note (2): Fiduciary net receivables in the amount of $1,913,778 (dollars in thousands) are not included in the Government-wide Statement of Net Assets.

Note (3): VHDA reports $7,825,530 (dollars in thousands) as Restricted Loans Receivable, $37,660 (dollars in thousands) as Restricted Interest Receivable, and $5,975 (dollars in thousands) as Restricted Other Receivables.

Security Transactions	Other Receivables	Allowance for Doubtful Accounts	Net Accounts Receivable	Amounts to be Collected Greater than One Year
$ -	$ -	$ (1,766,905)	$ 1,108,458	$ 8,455
-	-	(23,011)	311,810	37,827
-	-	(18,057)	670,447	-
-	-	(193,987)	285,555	238,859
-	18	(61,659)	73,588	978
-	-	-	45,799	-
-	-	-	268,006	197,908
-	3,773	(42,200)	137,469	-
-	-	(1,091)	33,940	-
-	-	(419)	12,528	-
-	-	-	1,676	-
1,425,051	115,041	-	1,853,553	-
-	-	-	271	-
-	-	(58,711)	58,278	144
$ 1,425,051	$ 118,832	$ (2,166,040)	$ 4,861,378	$ 484,171
$ -	$ 13,637	$ (151,809)	$ 7,954,090	$ 7,734,096
-	-	-	67,040	67,040
-	48,357	(318,731)	297,652	48,682
-	23	(3,361)	100,622	38,435
-	50,884	(176,649)	275,337	56,176
-	138,035	(14,901)	3,800,592	3,317,807
$ -	$ 250,936	$ (665,451)	$ 12,495,333	$ 11,262,236

8. CONTRIBUTIONS RECEIVABLE, NET

The following schedule details the contributions receivable for foundations[1] included with the major component units, and aggregated nonmajor component units, as of June 30, 2011:

(Dollars in Thousands)

	Due in Less Than One Year	Due Between One and Five Years	Due in More Than Five Years	Subtotal	Present Value Discount (2)	Allowance for Doubtful Accounts	Contributions Receivable, Net
Discrete Component Units:							
University of Virginia	$ 43,989	$ 40,839	$ 19,905	$ 104,733	$ (3,596)	$ (12,788)	$ 88,349
Virginia Polytechnic Institute & State University	27,283	39,965	16,381	83,629	(1,411)	(1,304)	80,914
Virginia Commonwealth University	10,527	28,083	-	38,610	(1,729)	(1,656)	35,225
Nonmajor Component Units	41,199	56,940	34,044	132,183	(10,903)	(4,704)	116,576
Total Component Units	$ 122,998	$ 165,827	$ 70,330	$ 359,155	$ (17,639)	$ (20,452)	$ 321,064

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.
Note (2): The discount rate used to determine present value ranges from 0.21 percent to 8.00 percent.

9. INTERFUND AND INTER-ENTITY ASSETS/LIABILITIES

Due from/to Other Funds

Due from Other Funds are amounts to be received from one fund by another fund for goods sold or services rendered. Due to Other Funds are amounts owed by one fund to another fund for goods purchased or services obtained.

The following line items are included in the category "Due from Other Funds":

- Due from Other Funds
- Due from Internal Parties (Governmental Funds and Business-type Activities)
- Due from External Parties (Fiduciary Funds)

The following line items are included in the category "Due to Other Funds":

- Due to Other Funds
- Due to Internal Parties (Governmental Funds and Business-type Activities)
- Due to External Parties (Fiduciary Funds)

The following schedule shows the Due from/to Other Funds as of June 30, 2011.

Schedule of Due from/to Other Funds

June 30, 2011

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 22,561	Major Special Revenue Funds:	
		Commonwealth Transportation	$ 340
		Federal Trust	910
		Nonmajor Governmental Funds	1,370
		Major Enterprise Funds:	
		State Lottery	9,069
		Virginia College Savings Plan	21
		Nonmajor Enterprise Funds	9,754
		Internal Service Funds	1,097
Major Special Revenue Funds:			
Commonwealth Transportation	25,954	General Fund	25,954
Federal Trust	2,431	Nonmajor Governmental Funds	23
		Major Enterprise Funds:	
		Unemployment Compensation	2,394
		Internal Service Funds	14
Nonmajor Governmental Funds	8,032	Major Special Revenue Funds:	
		Commonwealth Transportation	5,115
		Federal Trust	1,761
		Nonmajor Governmental Funds	200
		Major Enterprise Funds:	
		Unemployment Compensation	321
		Nonmajor Enterprise Funds	635
Major Enterprise Funds:			
Unemployment Compensation	820	General Fund	404
		Major Special Revenue Funds:	
		Commonwealth Transportation	127
		Federal Trust	153
		Nonmajor Governmental Funds	97
		Major Enterprise Funds:	
		State Lottery	5
		Nonmajor Enterprise Funds	28
		Internal Service Funds	6
Nonmajor Enterprise Funds	860	General Fund	89
		Major Special Revenue Funds:	
		Commonwealth Transportation	318
		Federal Trust	411
		Nonmajor Governmental Funds	16
		Nonmajor Enterprise Funds	1
		Internal Service Funds	25
Internal Service Funds	40,912	General Fund	19,949
		Major Special Revenue Funds:	
		Commonwealth Transportation	9,327
		Federal Trust	4,244
		Nonmajor Governmental Funds	4,807
		Major Enterprise Funds:	
		State Lottery	146
		Virginia College Savings Plan	31
		Nonmajor Enterprise Funds	2,018
		Internal Service Funds	390
Pension and Other Employee Benefit Trust	10,770	Pension and Other Employee Benefit Trust	10,731
		Private Purpose Trust	39
Total Primary Government	$ 112,340	Total Primary Government	$ 112,340

Schedule of Due from/to Internal/External Parties
June 30, 2011

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 87	Investment Trust	$ 1
		Pension and Other Employee Benefit Trust	78
		Private Purpose Trust	8
Nonmajor Governmental Funds	1,016	Agency	1,016
Internal Service Funds	129	Pension and Other Employee Benefit Trust	111
		Private Purpose Trust	18
Pension and Other Employee Benefit Trust	54,360	General Fund	33,009
		Major Special Revenue Funds:	
		Commonwealth Transportation	7,515
		Federal Trust	4,160
		Nonmajor Governmental Funds	7,550
		Major Enterprise Funds:	
		State Lottery	273
		Virginia College Savings Plan	99
		Nonmajor Enterprise Funds	1,041
		Internal Service Funds	713
Total Primary Government	$ 55,592	Total Primary Government	$ 55,592

Interfund Receivables/Payables

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

The following schedule shows the Interfund Receivables/Payables for the primary government as of June 30, 2011. There were no Interfund Receivables/Payables for the component units as of June 30, 2011.

Interfund Receivables/Payables
June 30, 2011

(Dollars in Thousands)

Receivable From:	Amount	Payable To:	Amount
Primary Government		**Primary Government**	
Nonmajor Governmental Funds	$ 114,505	General Fund	$ 13,885
		Major Special Revenue Funds:	
		Commonwealth Transportation	3,000
		Federal Trust	22,122
		Nonmajor Enterprise Funds	29,468
		Internal Service Funds	46,030
Total	$ 114,505	**Total**	$ 114,505

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

Due from/to Primary Government and Component Units

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

The following due from primary government amounts represent General Fund (major governmental fund) appropriation available amounts that are due from the General Fund: University of Virginia (major component unit) - $8.2 million, Virginia Commonwealth University (major component unit) - $0.3 million, and nonmajor component units - $3.1 million. The General Fund reports $0.5 million of the due to component units in the governmental funds and the entire amount of $11.6 million is reported in the government-wide financial statements.

The following due from primary government amounts represent amounts due from the General Fund (major governmental fund) related to interest/rebate allocations: University of Virginia (major component unit) - $0.1 million, Virginia Polytechnic Institute and State University (major component unit) - $0.1 million, Virginia Commonwealth University (major component unit) - $0.1 million, and nonmajor component units - $4.7 million. In addition, a due from primary government amount due from the Federal Trust Special Revenue Fund (major governmental fund) to the Virginia College Building Authority (nonmajor component unit) of $5.6 million is for interest on Build America Bonds (BABs).

A $2.6 million due from primary government amount represents an amount due from a nonmajor governmental fund and a $0.3 million due from the General Fund (major governmental fund) related to the Department of the Treasury's reimbursement programs primarily to nonmajor component units. A $0.4 million due from primary government amount represents an amount due from a nonmajor governmental fund related to the pledging of monies towards an acquisition for the Virginia Museum of Fine Arts Foundation (nonmajor component unit). The $0.4 million nonmajor governmental amount is reported in the government-wide financial statements.

A $12.2 million due from component units in the Health Care Fund (internal service fund) represents amounts due from the following: Virginia Polytechnic Institute and State University (major component unit) - $2.5 million, Virginia Commonwealth University (major component unit) - $2.4 million, and nonmajor component units - $7.3 million. A $5.2 million due from component units represents amounts due to the General Fund (major governmental fund) related to the VRS rate differentials: University of Virginia (major component unit) - $0.7 million, Virginia Polytechnic Institute and State University (major component unit) - $0.8 million, Virginia Commonwealth University (major component unit) - $0.5 million, and nonmajor component units - $3.2 million.

A $0.6 million due from component units represents monies owed for administrative and project expenses from the Science Museum of Virginia Foundation (nonmajor component unit) to a nonmajor governmental fund. The entire nonmajor governmental amount is reported in the government-wide financial statements.

The following due from component units amounts represent amounts due from the Virginia College Building Authority (nonmajor component unit) related to the Department of the Treasury's reimbursement programs: Virginia Polytechnic Institute and State University (major component unit) - $12.3 million, Virginia Commonwealth University (major component unit) - $6.8 million, and nonmajor component units - $100.4 million. There is a due to component units of $0.8 million from a foundation of the Old Dominion University (nonmajor component unit) to the Virginia Commercial Space Flight Authority (nonmajor component unit). There is a $0.2 million due to component units from the Virginia Economic Development Partnership (nonmajor component unit) to the Virginia National Defense Industrial Authority (nonmajor component unit). There is a $0.1 million due to component units from the Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) to the Virginia Economic Development Partnership (nonmajor component unit).

Due from/to Component Units and Fiduciary Funds

A $26.4 million due from component units in the Pension and Other Employee Benefit Trust Funds (fiduciary funds) represents amounts due from the following: University of Virginia (major component unit) - $5.7 million, Virginia Polytechnic Institute and State University (major component unit) - $3.9 million, Virginia Commonwealth University (major component unit) - $3.4 million, and nonmajor component units - $13.4 million.

Loans Receivable/Payable Between Primary Government and Component Units

The Virginia Commonwealth University (major component unit) loan of $17.9 million and the Virginia State University (nonmajor component unit) loan of $1.2 million were used to fund programs until bonds were issued. The Virginia Community College System (nonmajor component unit) loan of $1.4 million was used primarily to advance fund federally-funded grant programs. The Virginia Port Authority (nonmajor component unit) loan of $13.9 million was used for short term financing for the development of Craney Island.

The $164.8 million in loans receivable from primary government represents loans from the Virginia Public School Authority (VPSA) to the Literary Special Revenue Fund (major governmental fund). The VPSA makes grants to local school divisions to finance the purchase of educational technology equipment. The VPSA makes these grants using the proceeds of notes issued for that purpose which will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Special Revenue Fund (major governmental fund).

10. OTHER ASSETS

The following table summarizes Other Assets as of June 30, 2011:

(Dollars in Thousands)

	Cash and Travel Advances	Unamortized Bond Issuance Expense	Other Assets	Total Other Assets
Primary Government:				
General	$ 2,740	$ -	$ -	$ 2,740
Major Special Revenue Funds:				
Commonwealth Transportation	319	-	-	319
Federal Trust	2,013	-	-	2,013
Nonmajor Governmental Funds	919	-	1,018	1,937
Major Enterprise Funds:				
State Lottery	1	-	-	1
Nonmajor Enterprise Funds	169	-	-	169
Internal Service Funds (1)	105	-	13,595	13,700
Agency Funds (2)	-	-	40	40
Total Primary Government (2)	$ 6,266	$ -	$ 14,653	$ 20,919
Discrete Component Units:				
Virginia Housing Development Authority	$ -	$ 5,364	$ 45,872	$ 51,236
University of Virginia	1,704	471	23,279	25,454
Virginia Polytechnic Institute and State University	-	1,365	5,079	6,444
Virginia Commonwealth University	362	3,986	15,890	20,238
Nonmajor Component Units	6,363	64,542	16,383	87,288
Total Component Units	$ 8,429	$ 75,728	$ 106,503	$ 190,660

Note (1): The $13,595 (dollars in thousands) shown above represents a Virginia Information Technologies Agency interfund asset due from various governmental funds that will not be received within 60 days. This amount is reclassified to an internal balance on the Government-wide Statement of Net Assets.

Note (2): Other Assets of the Agency Funds represent prepaid expenses and advances to third party agents. The $40 (dollars in thousands) shown above is not included in the Government-wide Statement of Net Assets. Governmental assets of $2 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but are excluded from the above amounts.

11. RESTRICTED ASSETS

Restricted assets represent monies or other resources that must be used for specific legal or contractual requirements. The Commonwealth Transportation Fund (major special revenue) and Debt Service and Capital Projects (nonmajor governmental funds) reported $667.9 million in restricted assets related to bond agreements.

The Virginia Housing Development Authority (major component unit) reported restricted assets totaling $1.5 billion. The Virginia Public School Authority (major component unit) reported restricted assets of $81.3 million. Both major component unit's assets are restricted for debt service under a bond indenture agreement or other agreements.

The Virginia Port Authority (nonmajor component unit) reported restricted assets of $101.6 million primarily for debt service under bond agreements, construction and other project funds.

The Virginia Resources Authority (nonmajor component unit) reported restricted assets of $615.0 million. Of this amount, $607.7 million is restricted for loans to local governments, bond indentures, or federal and state regulations for various revolving funds, and $7.3 million is restricted for the Operating Reserve Fund for the Virginia Pooled Financing Program.

The Hampton Roads Sanitation District Commission (nonmajor component unit) reported restricted assets of $76.6 million. Of this amount, $14.9 million is for debt service and $61.7 million is revenue bond construction funds. The Tobacco Indemnification and Community

Revitalization Commission (nonmajor component unit) reported restricted assets of $323.9 million to be used for financial aid to tobacco growers and to foster community economic growth.

The Virginia Small Business Financing Authority (nonmajor component unit) reported restricted assets of $15.7 million for gifts and grants.

The higher education institutions (component units) reported restricted assets totaling approximately $4.0 billion primarily for endowment and other contractual obligations. Included in this amount is approximately $3.1 billion of foundations' restricted assets. The two museum foundations, the Virginia Museum of Fine Arts Foundation (nonmajor component unit) and the Science Museum of Virginia Foundation (nonmajor component unit) had restricted assets of $167.5 million and $14.8 million, respectively, primarily for donor-imposed restricted endowments.

The remaining $4.3 million is spread among the Virginia Outdoors Foundation (nonmajor component unit), the Virginia Horse Center Foundation (nonmajor component unit), the Fort Monroe Authority (nonmajor component unit), the Assistive Technology Loan Fund Authority, the Virginia Arts Foundation (nonmajor component unit), the Library of Virginia Foundation (nonmajor component unit) and the Danville Science Center (nonmajor component unit).

12. CAPITAL ASSETS

The following schedule presents the changes in the Capital Assets:

Schedule of Changes in Capital Assets

Governmental Activities

(Dollars in Thousands)

	Balance July 1, as restated (1)	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 2,387,245	$ 184,673	$ (43,661)	$ 2,528,257
Water Rights and/or Easements	17,483	9,745	-	27,228
Construction-in-Progress	3,150,887	1,598,547	(1,351,699)	3,397,735
Total Nondepreciable Capital Assets	5,555,615	1,792,965	(1,395,360)	5,953,220
Depreciable Capital Assets:				
Buildings (2)	3,074,390	148,369	(13,430)	3,209,329
Equipment	841,582	66,061	(21,153)	886,490
Infrastructure	23,529,705	1,502,697	(197,270)	24,835,132
Software	304,902	18,166	(322)	322,746
Total Capital Assets being Depreciated	27,750,579	1,735,293	(232,175)	29,253,697
Less Accumulated Depreciation for:				
Buildings	1,026,203	74,473	(12,093)	1,088,583
Equipment	472,680	48,688	(15,613)	505,755
Infrastructure	10,455,377	616,582	(18,799)	11,053,160
Software	120,724	19,983	-	140,707
Total Accumulated Depreciation	12,074,984	759,726	(46,505)	12,788,205
Total Depreciable Capital Assets, Net	15,675,595	975,567	(185,670)	16,465,492
Total Capital Assets, Net	$ 21,231,210	$ 2,768,532	$ (1,581,030)	$ 22,418,712

Note (1): Beginning balances have been restated by $104,156 (dollars in thousands) due to the correction of prior year errors, as discussed in Note 2. Additionally, there have been reclassifications in the beginning balances of certain line items above.
Note (2): Includes a temporarily impaired asset with a carrying value of $2.84 million.

Depreciation Expense Charged to Functions of the Primary Government
June 30, 2011

(Dollars in Thousands)

Governmental Activities:		
General Government	$	14,829
Education		9,781
Transportation		635,237
Resources and Economic Development		15,845
Individual and Family Services		27,596
Administration of Justice		44,275
Capital Assets held by the Internal Service Funds are charged to various functions		12,163
Total	$	759,726

Schedule of Changes in Capital Assets

Business-type Activities

(Dollars in Thousands)

	Balance July 1, as restated	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 1,977	$ -	$ -	$ 1,977
Construction-in-Progress	7,526	2,867	(5,835)	4,558
Total Nondepreciable Capital Assets	9,503	2,867	(5,835)	6,535
Depreciable Capital Assets:				
Buildings	19,269	-	-	19,269
Equipment	70,628	11,980	(16,157)	66,451
Software	1,104	1,105	-	2,209
Total Capital Assets being Depreciated	91,001	13,085	(16,157)	87,929
Less Accumulated Depreciation for:				
Buildings	11,008	215	-	11,223
Equipment	56,365	6,236	(16,157)	46,444
Software	257	284	-	541
Total Accumulated Depreciation	67,630	6,735	(16,157)	58,208
Total Depreciable Capital Assets, Net	23,371	6,350	-	29,721
Total Capital Assets, Net	$ 32,874	$ 9,217	$ (5,835)	$ 36,256

Schedule of Changes in Capital Assets

Component Units

(Dollars in Thousands)

	Balance July 1 (1)	Increases	Decreases	Subtotal June 30	Foundations (2)	Total June 30
Nondepreciable Capital Assets:						
Land	$ 478,462	$ 41,685	$ (6,386)	$ 513,761	$ 262,165	$ 775,926
Construction-in-Progress	1,541,205	1,311,565	(1,168,935)	1,683,835	37,959	1,721,794
Inexhaustible Works of Art/Historical Treasures	75,238	304	(236)	75,306	17,412	92,718
Livestock	579	86	-	665	1,858	2,523
Total Nondepreciable Capital Assets	2,095,484	1,353,640	(1,175,557)	2,273,567	319,394	2,592,961
Depreciable Capital Assets:						
Buildings	10,013,195	929,376	(27,909)	10,914,662	1,036,268	11,950,930
Infrastructure	2,374,860	198,243	(592)	2,572,511	4,907	2,577,418
Equipment	2,598,543	248,063	(128,374)	2,718,232	125,567	2,843,799
Improvements Other Than Buildings	375,164	14,124	(1,925)	387,363	63,400	450,763
Library Books	724,277	40,473	(11,400)	753,350	-	753,350
Software	231,079	108,723	(2,715)	337,087	-	337,087
Other Intangible Assets	2,000	-	-	2,000	-	2,000
Total Capital Assets being Depreciated	16,319,118	1,539,002	(172,915)	17,685,205	1,230,142	18,915,347
Less Accumulated Depreciation for:						
Buildings	3,019,980	294,850	(20,012)	3,294,818	205,609	3,500,427
Infrastructure	1,108,880	75,005	(536)	1,183,349	2,227	1,185,576
Equipment	1,626,614	206,086	(121,518)	1,711,182	81,578	1,792,760
Improvements Other Than Buildings	210,160	16,286	(793)	225,653	30,411	256,064
Library Books	590,275	33,921	(10,838)	613,358	-	613,358
Software	139,591	63,060	(1,800)	200,851	-	200,851
Other Intangible Assets	800	133	-	933	-	933
Total Accumulated Depreciation	6,696,300	689,341	(155,497)	7,230,144	319,825	7,549,969
Total Depreciable Capital Assets, Net	9,622,818	849,661	(17,418)	10,455,061	910,317	11,365,378
Total Capital Assets, Net	$ 11,718,302	$ 2,203,301	$ (1,192,975)	$ 12,728,628	$ 1,229,711	$ 13,958,339

Note (1): There have been reclassifications in the beginning balances of certain line items above.
Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Since foundations follow FASB rather than GASB reporting requirements, no amounts are reported in the software and other intangible assets categories for foundations.

13. DERIVATIVES

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

Primary Government

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indexes. They include futures, forwards, options and swap contracts. Some traditional securities, such as structured notes, can have derivative-like characteristics. In this case, the return may be linked to one or more indexes and asset-backed securities, such as collateralized mortgage obligations (CMOs), which are sensitive to changes in interest rates and pre-payments. Futures, forwards, options and swaps generally are not recorded on the financial statements, whereas structured notes and asset-backed investments generally are recorded.

The Virginia Retirement System (the System) is a party, both directly and indirectly, to various derivative financial investments that may or may not appear on the financial statements and that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value resulting from fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements.

At June 30, 2011, the System had four types of derivative financial instruments: futures, currency forwards, options and swaps. Futures, currency forwards and options contracts provide the System with the opportunity to build passive benchmark positions, manage portfolio duration in relation to various benchmarks, adjust portfolio yield curve exposure and gain market exposure to various indexes in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange-traded or exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates.

Futures Contracts

Futures contracts are contracts to deliver or receive securities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange-traded) and require an initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily, in cash, with the exchanges. The net gains or losses resulting from the daily settlements are included in the System's financial statements. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk posed by nonperformance of counterparties to futures contracts is minimal. The notional value of the System's investment in futures contracts at June 30, 2011 and 2010 is shown in the following table.

Futures Contracts
as of June 30
(Dollars in Thousands)

	2011	2010
Cash & Cash Equivalent Derivatives Futures:		
Long	$ -	$ -
Short	(52,582)	(82,430)
Equity Derivatives Futures:		
Long	1,226,545	3,301,983
Short	(69,000)	(134,667)
Fixed Income Derivatives Futures:		
Long	632,094	758,934
Short	(416,406)	(655,468)
Total Futures	$ 1,320,651	$ 3,188,352

Currency Forwards

Currency forwards represent foreign exchange contracts and are used by the System to effect settlements and to protect the base currency ($US) value of portfolio assets denominated in foreign currencies against fluctuations in the exchange rates of those currencies. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated price. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the-counter lies with the counterparty, and exposure usually is equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates. Information on the System's currency forwards contracts at June 30, 2011 and 2010 is shown in the following table.

Currency Forwards
as of June 30

(Dollars in Thousands)

Currency	Cost	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Market Value 2011	Market Value 2010
Australian Dollar	$ (433,226)	$ 197,103	$ (633,923)	$ (436,820)	$ (243,677)
Brazil Real	(11,666)	937	(12,926)	(11,989)	(4,244)
British Pound Sterling	(740,062)	636,784	(1,373,698)	(736,914)	(392,551)
Canadian Dollar	(349,136)	194,824	(544,564)	(349,740)	(184,777)
Chilean Peso	(3,856)	250	(4,113)	(3,863)	-
Chinese Yuan Renminbi	2,500	2,498	-	2,498	-
Columbian Peso	1,000	1,006	-	1,006	-
Czech Koruna	(4,031)	4,258	(8,529)	(4,271)	-
Danish Krone	(53,697)	15,691	(69,670)	(53,979)	(36,667)
Euro Currency Unit	(2,461,194)	722,560	(3,196,676)	(2,474,116)	(2,233,734)
Hong Kong Dollar	(119,368)	37,317	(156,652)	(119,335)	(52,492)
Hungarian Forint	918	3,293	(2,343)	950	-
Indian Rupee	1,000	1,010	-	1,010	-
Indonesian Rupian	333	533	(200)	333	-
Israeli Shekel	(19,593)	9,598	(29,226)	(19,628)	(18,856)
Japanese Yen	(940,379)	320,879	(1,261,983)	(941,104)	(548,766)
Kazakhstan Tenge	8,033	7,950	-	7,950	-
Malaysian Ringgit	26,399	26,587	-	26,587	-
Mexican New Peso	(801)	-	(801)	(801)	(2,097)
New Taiwan Dollar	(4,181)	-	(4,189)	(4,189)	-
New Turkish Lira	4,091	4,019	-	4,019	-
New Zealand Dollar	58,658	201,809	(141,794)	60,015	85,378
Norwegian Krone	86,337	253,502	(165,471)	88,031	(4,502)
Peruvian Nuevo Sol	(560)	-	(563)	(563)	-
Philippines Peso	9,653	9,644	-	9,644	-
Polish Zloty	14,245	14,337	-	14,337	-
Russian Ruble (New)	15,039	15,083	-	15,083	-
Singapore Dollar	(35,080)	56,389	(91,373)	(34,984)	(45,949)
South African Comm Rand	(5,921)	2,625	(8,537)	(5,912)	(2,123)
South Korean Won	1,500	1,520	-	1,520	-
Swedish Krona	135,750	337,653	(203,284)	134,369	81,375
Swiss Franc	(527,822)	263,731	(792,882)	(529,151)	(107,504)
Thailand Baht	11,945	11,911	-	11,911	-
U.S. Dollar	533,172	8,572,477	(3,239,305)	5,333,172	3,705,400
Total Forwards Subject to Foreign Currency Risk				$ (14,924)	$ (5,786)

Options Contracts

Options may be either exchange-traded or negotiated directly between two counterparties over-the-counter. Options grant the holder the right, but not the obligation, to purchase (call) or sell (put) a financial instrument at a specified price and within a specified period of time from the writer of the option. As a purchaser of options, the System typically pays a premium at the outset. This premium is reflected as an asset on the financial statements. The System then retains the right, but not the obligation, to exercise the options and purchase the underlying financial instrument. Should the option not be exercised, it expires worthless and the premium is recorded as a loss.

A writer of options assumes the obligation to deliver or receive the underlying financial instrument on exercise of the option. Certain option contracts may involve cash settlements based on specified indexes such as stock indexes. As a writer of options, the System receives a premium at the outset.

This premium is reflected as a liability on the financial statements, and the System bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Information on the System's options balances at June 30, 2011 and 2010 is shown in the following table.

Options Contracts
As of June 30
(Dollars in Thousands)

	2011	2010
Cash & Cash Equivalent Options:		
Call	$ -	$ -
Put	40	12
Equity Options:		
Call	(182)	(350)
Put	(95)	(29)
Fixed Income Options:		
Call	87	(89)
Put	144	-
Swaptions:		
Call	(5,557)	(6,783)
Put	601	(1,499)
Total Options	$ (4,962)	$ (8,738)

Swap Agreements

Swaps are negotiated contracts between two counterparties for the exchange of payments at certain intervals over a predetermined timeframe. The payments are based on a notional principal amount and calculated using either fixed or floating interest rates or total returns from certain instruments or indices. Swaps are used to manage risk and enhance returns. To reduce the risk of counterparty nonperformance, the System generally requires collateral on any material gains from these transactions. During fiscal year 2011, the System entered into credit defaults, inflation, interest rate and total return swaps. Information on the System's swap balances at June 30, 2011 and 2010 is shown in the following table.

Swap Agreements
As of June 30

(Dollars in Thousands

Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/Selling Protection	Pay/Receive Rate	Market Value 2011	Market Value 2010
Credit Default Swaps:								
Credit Suisse AG	$ 2,500			6/20/2016	Buying	5.0000%	$ (223)	$ -
Credit Suisse AG	7,000			6/20/2016	Buying	5.0000%	(917)	-
Credit Suisse AG	15,948			6/20/2016	Buying	1.0000%	1,211	-
Credit Suisse AG	35,000			6/20/2016	Selling	1.0000%	131	-
Credit Suisse AG	25,000			6/20/2015	Selling	5.0000%	-	(1,370)
Deutsche Bank AG/London	6,800			6/20/2021	Selling	1.0000%	(295)	-
Deutsche Bank AG/London	7,750			6/20/2016	Selling	5.0000%	1,015	-
Deutsche Bank AG/London	200			9/20/2015	Selling	1.0000%	3	-
Deutsche Bank AG/London	500			6/20/2021	Selling	1.0000%	(19)	-
Deutsche Bank AG/London	2,000			3/20/2015	Selling	1.0000%	(13)	-
Deutsche Bank AG/London	2,100			9/20/2014	Selling	5.0000%	269	-
Deutsche Bank AG/London	2,300			6/20/2015	Selling	1.0000%	(35)	-
Deutsche Bank AG/London	3,600			12/20/2015	Selling	1.0000%	80	-
Deutsche Bank AG/London	5,000			6/20/2015	Selling	1.0000%	(21)	-
Deutsche Bank AG/London	2,180			6/20/2018	Selling	1.0000%	(93)	-
Deutsche Bank AG/New York NY	400			9/20/2010	Selling	5.0000%	-	1
Deutsche Bank AG/New York NY	5,000			9/20/2014	Selling	5.0000%	-	568
Deutsche Bank AG/New York NY	10,000			9/20/2014	Selling	5.0000%	-	1,136
Deutsche Bank AG/New York NY	5,800			3/20/2015	Selling	1.0000%	-	(528)
Deutsche Bank AG/New York NY	100,000			6/20/2015	Selling	5.0000%	-	(5,480)
Deutsche Bank AG/New York NY	3,000			6/20/2015	Selling	1.0000%	-	(340)
Deutsche Bank AG/New York NY	5,000			6/20/2015	Selling	1.0000%	-	(483)
Deutsche Bank AG/New York NY	5,000			6/20/2015	Selling	1.0000%	-	(229)
Deutsche Bank AG/New York NY	5,000			6/20/2015	Selling	1.0000%	-	(251)
Deutsche Bank AG/New York NY	7,200			6/20/2015	Buying	1.0000%	-	292
Goldman Sachs & Co	800			12/20/2010	Selling	1.0000%	-	(1)
Goldman Sachs & Co	5,000			6/20/2011	Selling	1.0000%	-	(4)
Goldman Sachs & Co	575			6/20/2012	Selling	5.0000%	-	34
Goldman Sachs & Co	1,200			6/20/2012	Buying	Variable Rate	-	23
Goldman Sachs & Co	9,147			12/20/2012	Selling	1.4000%	-	(268)
Goldman Sachs & Co	4,400			9/20/2013	Buying	2.6700%	-	(164)
Goldman Sachs & Co	1,000			12/20/2013	Buying	5.0000%	-	(4)
Goldman Sachs & Co	4,400			3/20/2015	Selling	1.0000%	-	(400)
Goldman Sachs & Co	10,000			3/20/2015	Selling	1.0000%	-	(427)
Goldman Sachs & Co	5,000			6/20/2015	Selling	1.0000%	-	(836)
Goldman Sachs Bank USA/New York NY	544			6/20/2016	Selling	1.0000%	(2)	-
Goldman Sachs Bank USA/New York NY	1,200			6/20/2012	Buying	Variable Rate	(1)	-
Goldman Sachs Bank USA/New York NY	3,600			6/20/2016	Selling	1.0000%	(60)	-
Goldman Sachs Bank USA/New York NY	3,827			6/20/2016	Selling	1.0000%	(10)	-
Goldman Sachs Bank USA/New York NY	5,401			6/20/2016	Selling	1.0000%	(14)	-
Goldman Sachs Bank USA/New York NY	15,560			6/20/2016	Buying	1.0000%	(58)	-
Goldman Sachs International	500			3/20/2016	Selling	1.0000%	(16)	-
Goldman Sachs International	1,100			6/20/2016	Selling	1.0000%	10	-
UBS AG/London	11,850			6/20/2021	Selling	1.0000%	(775)	-
UBS AG/Stamford CT	1,850			9/20/2016	Selling	1.0000%	(182)	-
UBS AG/Stamford CT	4,475			12/20/2013	Buying	1.8000%	(115)	-
UBS Financial Services Inc	3,000			9/20/2012	Selling	5.0000%	-	127
UBS Financial Services Inc	2,840			12/20/2013	Buying	1.6000%	-	(59)
UBS Financial Services Inc	4,475			12/20/2013	Buying	1.8000%	-	(104)
UBS Financial Services Inc	6,500			3/20/2014	Selling	3.1500%	-	246
UBS Financial Services Inc	13,000			6/20/2015	Selling	5.0000%	-	(712)
Total Credit Default Swaps	385,522						(130)	(9,233)
Inflation Swaps:								
Deutsche Bank AG/New York NY	25,000	CPI Urban Consumers NSA	2.8300%	1/13/2020			-	1,236
Goldman Sachs & Co	4,900	US CPI Urban Consumer	2.4900%	6/8/2020			-	70
Goldman Sachs & Co	4,900	US CPI Urban Consumer	2.4300%	6/10/2020			-	41
Merrill Lynch Capital Services	10,000	US CPI Urban Consumer NSA	3.2700%	7/5/2021			(19)	-
Total Inflation Swaps	44,800						(19)	1,347

Continued on next page

Swap Agreements
As of June 30
(Continued from previous page)

(Dollars in Thousands

Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/Selling Protection	Pay/Receive Rate	Market Value 2011	Market Value 2010
Interest Rate Swaps:								
Credit Suisse AG	40,000	3-month LIBOR	1.2438%	6/7/2012			-	221
Goldman Sachs & Co	20,000	3-month LIBOR	1.1500%	5/13/2012			-	104
Goldman Sachs & Co	8,800	2.4275%	3-month LIBOR	4/9/2014			-	(260)
Goldman Sachs & Co	17,000	5.7250%	3-month LIBOR	7/9/2017			-	(3,515)
Goldman Sachs & Co	15,254	4.0770%	3-month LIBOR	11/15/2021			-	(393)
Goldman Sachs & Co	15,000	3-month LIBOR	4.3900%	5/4/2040			-	2,051
Goldman Sachs Bank USA/New York NY	500	4.09%	3-month LIBOR	5/24/2041			(2)	-
Goldman Sachs Bank USA/New York NY	1,700	2.0975%	3-month LIBOR	5/23/2016			(11)	-
Goldman Sachs Bank USA/New York NY	2,900	3-month LIBOR	3.41%	3/18/2021			50	-
Goldman Sachs Bank USA/New York NY	3,300	2.40%	3-month USD LIBOR	3/8/2016			(78)	-
Goldman Sachs Bank USA/New York NY	4,500	3.37%	3-month USD LIBOR	10/5/2040			541	-
Goldman Sachs Bank USA/New York NY	6,000	4.2825%	3-month USD LIBOR	4/19/2041			(231)	-
Goldman Sachs Bank USA/New York NY	6,800	2.18%	3-month USD LIBOR	1/13/2016			(110)	-
Goldman Sachs Bank USA/New York NY	7,200	3-month USD LIBOR	3.30%	5/6/2021			43	-
Goldman Sachs Bank USA/New York NY	10,000	3-month USD LIBOR	3.32%	5/23/2021			76	-
Goldman Sachs Bank USA/New York NY	11,000	0.66%	3-month USD LIBOR	6/29/2013			3	-
Goldman Sachs Bank USA/New York NY	18,500	0.66%	3-month USD LIBOR	6/29/2013			6	-
Goldman Sachs Bank USA/New York NY	22,000	0.85%	3-month USD LIBOR	1/25/2013			(114)	-
Goldman Sachs Bank USA/New York NY	30,100	0.89%	3-month USD LIBOR	3/3/2013			(169)	-
UBS AG/Stamford CT	12,378	JIBA3M INDEX	8.4500%	3/31/2021			235	-
UBS AG/Stamford CT	47,212	6.75%	JIBA3M INDEX	3/31/2013			(290)	-
UBS AG/Stamford CT	38,970	0%	3-month USD LIBOR	2/15/2025			(3,013)	-
UBS Financial Services Inc	40,000	3-month LIBOR	1.6675%	6/7/2013			-	434
UBS Financial Services Inc	38,970	0%	3-month LIBOR	2/15/2025			-	(3,159)
Total Interest Rate Swaps	418,084						(3,064)	(4,517)
Total Return Swaps:								
Blackrock Advisors UK Ltd	61,900	1-Month LIBOR +22 bps	BRCLYS Fixed Rate MBS	9/30/2011			-	-
Credit Suisse AG	97,748	1-Month LIBOR -16 bps	MSCI Daily EAFE Canada	8/31/2011			(1,286)	-
Deutsche Bank AG/London	7,003	1-month LIBOR	IOS FN30 450.10	1/12/2041			47	-
Goldman Sachs & Co	220,730	3 Month LIBOR	MSCI AC WORLD INDEX IMI	3/31/2011			-	(1,268)
Goldman Sachs Bank USA/New York NY	145	1-month LIBOR	FL US Tbill	1/12/2040			1	-
Goldman Sachs Bank USA/New York NY	726	1-month LIBOR	IOS FN30 450.09	1/12/2040			-	-
Goldman Sachs Bank USA/New York NY	2,813	1-month LIBOR	IOS FN30 600.08	1/12/2039			-	-
Goldman Sachs International	237,298	3-Month LIBOR +55 bps	MSCI AC WORLD INDEX IMI	3/31/2012			(26)	-
UBS AG/Stamford CT	43,600	1-Month LIBOR +15 bps	BRCLYS Fixed Rate MBS	7/31/2011			31	-
UBS AG/Stamford CT	61,800	3-Month LIBOR +26 bps	BRCLYS Fixed Rate MBS	12/31/2011			-	-
UBS AG/Stamford CT	277,212	1-Month LIBOR -14 bps	MSCI Daily EAFE Canada USD	11/30/2011			(4,018)	-
UBS Financial Services Inc	117,000	1-month LIBOR +5 bps	1-month LIBOR	9/30/2010			-	1,309
UBS Financial Services Inc	21,400	1-month LIBOR +7 bps	1-month LIBOR	10/31/2010			-	239
Total Total Return Swaps	1,149,375						(5,251)	280
Total Swaps	$ 1,997,781						$ (8,464)	$ (12,123)

Additional information is available in the Systems' separately issued financial statements which may be obtained from the Virginia Retirement System at P.O. Box 2500, Richmond, Virginia 23218-2500.

Component Units

Hedging Derivative Instruments

In December 2005, Virginia Commonwealth University (VCU) (major) entered into an interest rate swap agreement in anticipation of the issuance of General Revenue Pledge Bonds, Series 2006A and Series 2006B, which carry variable interest rates. The swap has a notional amount of $70,395,000 as of year-end, which declines over time to $5,035,000 at the termination date of November 1, 2030. VCU pays a fixed rate of 3.436 percent and the counterparty pays 67.0 percent of the London Interbank Offered Rate (LIBOR) (0.19 percent as of June 30, 2011). The payments are settled monthly at the first of each month. In December 2005, the Medical College of Virginia Hospitals (MCVH) which is a division of the Virginia Commonwealth University Health System Authority (a blended component unit of VCU), entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 tax-exempt bonds. The swap has a notional amount of $72,900,000 as of year-end, which declines over time to $8,000,000 at the maturity date of July 1, 2030. MCVH pays a fixed rate of 3.499 percent and the counterparty pays 67.0 percent of LIBOR (0.19 percent as of June 30, 2011). The payments are settled monthly at the first of each month. In June 2007, the MCVH entered into two interest rate swap agreements in anticipation of the issuance of the Series 2008 tax-exempt bonds. The swaps have a combined notional amount of $123,410,000 as of year-end, which declines over time to $15,700,000 at the termination date of July 1, 2037. MCVH pays a fixed rate of 3.84 percent and the counterparty pays 67.0 percent of LIBOR (0.19 percent as of June 30, 2011). The payments are settled monthly at the first of each month. At June 30, 2011, the negative fair market value of VCU's swap of $7,791,248 and MCVH's swaps of $31,805,159 are included in other liabilities in the accompanying financial statements. For the year ended June 30, 2011, the change in fair value of VCU's swap was a reduction of approximately $1,731,682 to the prior year's deferred outflows amount of $9,522,930 and the change in MCVH's swaps was a reduction of approximately $7,487,142 to the prior year's deferred outflows amount of $39,292,301 resulting in deferred outflows as of June 30, 2011 of $39,596,407 included in the accompanying financial statements.

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

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

At June 30, 2011, the University of Virginia (UVA) (major) had two fixed-payer interest rate swaps totaling $100.0 million in notional amount. The swaps are used as cash flow hedges by UVA in order to provide a cash flow hedge against changes in interest rates on approximately $82.0 million of the variable rate Series 2003A Bonds maturing in June 2034 and a portion of approximately $20.0 million of outstanding commercial paper which may have various maturities of no greater than 270 days each. UVA pays fixed rates of 4.154 percent and 4.066 percent and the underlying index for the swaps is the Securities Industry and Financial Markets Municipal Swap Index (SIFMA). The floating rate on June 30, 2011 was 0.09 percent. The payments are settled monthly at the first of each month. The swaps were entered into in January 2007 and February 2007 and both swaps mature June 1, 2038. The swaps were entered into at a zero market value and no payments were made or received when they were initiated. At June 30, 2011, the negative market value of the swaps of $11,122,730 is in other liabilities in the accompanying financial statements. For the year ended June 30, 2011, the change in fair value of UVA's swaps was a reduction of approximately $2,653,120 to the prior year's deferred outflows amount of $13,775,850 resulting in deferred outflows as of June 30, 2011 of $11,122,730 in the accompanying financial statements.

The fair value was determined by using the quoted SIFMA index curve at the time of market valuation. UVA would be exposed to the credit risk of its swap counterparties any time the swaps had a positive market value. At June 30, 2011, UVA had no credit risk related to its swaps. As of June 30, 2011, UVA's swap counterparties were rated A from Standard & Poor's and A2 by Moody's. To mitigate credit risk, UVA limits market value exposure and requires the posting of collateral based on the credit rating of the counterparty. All counterparties are required to have at least an A-/A3 rating by Standard & Poor's and Moody's, respectively. As of June 30, 2011, no collateral was required to be posted by the counterparties.

Interest rate risk is the risk that an unexpected change in interest rates will negatively affect the collective value of a hedge and a hedged item. When viewed collectively, the hedges and the hedged item are subject to interest rate risk in that a change in interest rate will impact the collective market value of both the hedge and hedged item. Conversely, the collective effect of the hedges and the hedged item serve to reduce cash flow variability caused by changes in interest rates. Basis risk arises when different indexes are used in connection with a derivative resulting in the hedge and hedged item not experiencing price changes in entirely opposite directions from each other. UVA's swaps are deemed to be effective hedges of its variable rate debt with an amount of basis risk that is within the guidelines for establishing hedge effectiveness. Termination risk arises when the unscheduled termination of a derivative could have an adverse effect on UVA's strategy or could lead to potentially significant unscheduled payments. UVA's derivative contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an additional termination event. That is, the swap may be terminated by either party if the counterparty's credit rating falls below BBB/Baa2 in the case of Standard & Poor's and Moody's, respectively. UVA or the counterparty may also terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative market value, UVA would be liable to the counterparty for a payment equal to the swap's market value.

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

Maturity	Principal	Variable Interest	Derivative Instruments, Net	Total
2012	$ 5,185,000	$ 154,777	$ 12,597,992	$ 17,937,769
2013	5,305,000	152,569	12,423,311	17,880,880
2014	5,605,000	150,242	12,238,844	17,994,086
2015	5,810,000	147,823	12,047,277	18,005,100
2016	6,040,000	145,311	11,848,030	18,033,341
2017-2021	33,870,000	685,354	55,965,605	90,520,959
2022-2026	57,450,000	592,818	48,520,653	106,563,471
2027-2031	70,335,000	443,148	38,070,464	108,848,612
2032-2036	149,550,000	195,100	20,825,471	170,570,571
2037-2041	30,815,000	6,908	583,362	31,405,270
Total	$ 369,965,000	$ 2,674,050	$ 225,121,009	$ 597,760,059

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

14. RETIREMENT AND PENSION SYSTEMS

A separately issued financial report that includes financial statements and required supplemental information for each of the individual plans discussed below is publicly available. Copies may be obtained by writing to Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

A. Administration

The Virginia Retirement System (the System) is an independent agency of the Commonwealth that administers two defined benefit pension plans, the VRS Plan 1 and the VRS Plan 2, other employee benefit plans and other funds for Commonwealth employees, teachers, political subdivision employees, and other qualifying employees. The Board of Trustees is responsible for the general administration and operation of the plans. The Board consists of five members appointed by the Governor and four members appointed by the Joint Rules Committee, all subject to confirmation by the General Assembly. The Board of Trustees appoints a director to serve as the chief administrative officer of the System and a chief investment officer to direct, manage and administer the investment of the System's funds. The Board of Trustees has appointed BNY Mellon as the custodian of designated assets of the System.

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

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

Basis of Accounting

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

Method Used to Value Investments

Investments are reported at fair value as determined by the System's master custodian, BNY Mellon, from its Global Pricing System. This pricing system assigns a price source, based on asset type and the vendor pricing products to which the master custodian subscribes, for every security held immediately following its acquisition. Prices supplied by these sources are monitored on a daily basis by the master custodian.

When a pricing source is unable to provide a price, quotes are sought from major investment brokers and market-making dealers; or internal calculations are applied if feasible. As a last resort, the master custodian will contact investment managers for a price. The master custodian prices commingled funds, partnerships, and real estate assets from statements received from the funds, partnerships, or investment managers.

The pricing sources utilized by the master custodian provide daily prices for equity securities, corporate, government and mortgage-backed fixed income securities, private placement securities, futures and options on futures, open-ended funds, and foreign exchange rates. Depending on the vendor, collateralized mortgage obligations (CMOs), adjustable rate mortgages (ARMs) and asset-backed securities are priced either daily, weekly or twice a month and at month-end. Municipal fixed income securities and options on Treasury/Government National Mortgage Association securities are priced at month-end.

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

C. Plan Description

Retirement Plans

The Virginia Retirement System is a qualified governmental retirement plan that provides defined benefit coverage for state employees, public school board employees, employees of participating political subdivisions and other qualifying employees. VRS is a mixed-agent and cost-sharing, multiple-employer retirement plan, which administers two defined benefit plans, the VRS Plan 1 and the VRS Plan 2. The plan's accumulated assets may legally be used to pay all plan benefits provided to any of the plan members or beneficiaries. Contributions for fiscal year 2011 were $1.5 billion with a reserve balance available for benefits of $51.3 billion. At June 30, 2011, the VRS had 829 contributing employers.

Single-employer Retirement Plans

The Commonwealth administers the following single-employer retirement plans:

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

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

Benefits vest for all plans after five years of service credit. Vested VRS members in the VRS Plan 1 are eligible for an unreduced retirement benefit at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit as elected by the employer. Vested VRS members in the VRS Plan 2 are eligible for an unreduced retirement benefit at normal social security retirement age with at least five years of service credit or when age and service credit equal 90. Vested SPORS and VaLORS members in both the VRS Plan 1 and the VRS Plan 2 are eligible for an unreduced benefit at age 60 with at least five years of hazardous duty service credit or age 50 with at least 25 years of total service credit.

Annual retirement benefits are payable monthly for life in an amount equal to 1.7 percent of eligible members' average final compensation (AFC) for each year of service credit. AFC is the average of the member's 36 consecutive months of highest creditable compensation for members under the VRS Plan 1. Under the VRS Plan 2, member's AFC is the average of the member's 60 consecutive months of highest creditable compensation. The benefit for members of SPORS is calculated using a 1.85 percent multiplier. Members of SPORS also are eligible for a hazardous duty supplement, paid monthly, until they reach full Social Security retirement age.

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

Members of JRS receive weighted years of service credit for each year of actual service under JRS. VRS, SPORS, VaLORS, and JRS also provide death and disability benefits. A cost-of-living adjustment, based on changes in the Consumer Price Index and limited to 5.0 percent per year for VRS Plan 1 and 6.0 percent for VRS Plan 2, is granted on July 1 of the second calendar year after retirement and is effective each July 1 thereafter.

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

As required by Title 51.1 of the *Code of Virginia*, as amended, members contribute 5.0 percent of their annual compensation to the defined benefits plans. Employers may assume the 5.0 percent member contribution. If a member leaves covered employment, the accumulated contributions plus earned interest may be refunded to the member. Each participating employer is required by state statute to contribute the remaining amounts necessary to fund the retirement plans using the entry age normal actuarial cost method adopted by the Board of Trustees. Contributions for fiscal year 2011, were $12.3 million, $20.3 million, and $34.4 million, and reserved balances available for benefits were $598.6 million, $361.3 million, and $910.5 million, for SPORS, JRS, and VaLORS, respectively. State statute may be amended only by the General Assembly. When funding rates are lower than required, the Commonwealth incurs a Net Pension Obligation liability which is reported in the accompanying financial statements as a component of Long-term Liabilities Due in More than One Year.

D. Funding Policy

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

The System's actuary, Cavanaugh MacDonald Consulting, LLC, computed the amount of contributions to be provided by state agency employers, state police and other Virginia law employers. The contribution rates for fiscal year 2011 were based on the actuary's valuation as of June 30, 2009. Employer contributions by the Commonwealth to VRS, SPORS, VaLORS, and JRS were 2.13 percent, 7.76 percent, 5.12 percent, and 28.81 percent, respectively, of covered payrolls. These rates were lower than the actuary's recommended rates to VRS, SPORS, VaLORS, and JRS of 8.46 percent, 25.56 percent, 15.93 percent, 46.79 percent, respectively.

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

E. Annual Pension Cost and Net Pension Obligation

The following table (dollars in thousands) shows the Commonwealth's annual pension cost and net pension obligation to the VRS, SPORS, JRS, and VaLORS for the current and prior years.

	VRS			SPORS		
	2011	2010	2009	2011	2010	2009
Annual required contribution	$ 383,620	$ 360,232	$ 355,608	$ 34,402	$ 32,341	$ 31,894
Interest on net pension obligation	85,192	71,709	62,199	9,285	8,075	7,227
Adjustment to annual required contribution	(90,255)	(75,995)	(65,798)	(9,831)	(8,550)	(7,653)
Annual pension cost	378,557	355,946	352,009	33,856	31,866	31,468
Contributions made	(73,874)	(176,189)	(225,079)	(7,460)	(15,730)	(20,175)
Increase in net pension obligation	304,683	179,757	126,930	26,396	16,136	11,293
Net pension obligation, beginning of year	1,135,943	956,186	829,256	123,798	107,662	96,369
Net pension obligation, end of year	$ 1,440,626	$ 1,135,943	$ 956,186	$ 150,194	$ 123,798	$ 107,662
Percentage of annual pension cost contributed	19.5%	49.5%	63.9%	22.0%	49.4%	64.1%

	JRS			VaLORS		
	2011	2010	2009	2011	2010	2009
Annual required contribution	$ 34,907	$ 29,483	$ 28,427	$ 79,596	$ 80,603	$ 80,509
Interest on net pension obligation	6,427	5,520	4,985	24,469	21,446	19,313
Adjustment to annual required contribution	(6,806)	(5,845)	(5,279)	(25,910)	(22,708)	(20,450)
Annual pension cost	34,528	29,158	28,133	78,155	79,341	79,372
Contributions made	(17,303)	(17,065)	(21,000)	(17,255)	(39,027)	(50,932)
Increase in net pension obligation	17,225	12,093	7,133	60,900	40,314	28,440
Net pension obligation, beginning of year	85,698	73,605	66,472	326,260	285,946	257,506
Net pension obligation, end of year	$ 102,923	$ 85,698	$ 73,605	$ 387,160	$ 326,260	$ 285,946
Percentage of annual pension cost contributed	50.1%	58.5%	74.6%	22.1%	49.2%	64.2%

The amounts in the previous table include governmental and component unit activity for which the Commonwealth is considered the employer. It does not include the VRS liability for the Virginia Economic Development Partnership (component unit), the Virginia Tourism Authority (component unit), the Fort Monroe Authority (component unit), and the Virginia National Defense Industrial Authority (component unit) of $2.8 million, $1.5 million, $268,008, and $87,266, respectively. The table also excludes the non-VRS pension liability of $84.3 million for all other component units and includes the fiduciary pension liability of $8.9 million.

The contribution rates were determined during the actuarial valuation conducted as of June 30, 2009. These valuations were prepared using the entry age normal cost method. The actuarial assumptions included (a) 7.0 percent investment rate of return, per year compounded annually; (b) projected salary increases ranging from 3.5 percent to 6.2 percent, including a 2.5 percent inflation component; and (c) 2.5 percent per year COLA. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining closed amortization period at June 30, 2011, was 20 years. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

F. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, per the most recent actuarial valuation, was as follows:

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Virginia Retirement System (VRS)			
2010	$ 52,729	$ 72,801	$ 20,072	72.4%	$ 14,758	136.0%
			State Police Officers' Retirement System (SPORS)			
2010	$ 634	$ 949	$ 315	66.8%	$ 98	323.2%
			Virginia Law Officers' Retirement System (VaLORS)			
2010	$ 925	$ 1,579	$ 654	58.6%	$ 346	189.0%
			Judicial Retirement System (JRS)			
2010	$ 372	$ 560	$ 188	66.5%	$ 61	307.8%

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

G. Defined Contribution Plan for Political Appointees

Officers appointed by the Governor, officers elected by popular vote or the General Assembly, and executive branch chief deputies and confidential assistants may participate in the deferred contribution plan for Political Appointees, rather than the VRS. This optional retirement plan is authorized by the *Code of Virginia* and offered through the ING Institutional Plan Services (ING). This is a defined contribution plan where the retirement benefits are based upon the Commonwealth's (2.13 percent) and the employee's (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2011, the total contributions to this plan were $860,362.

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

H. Defined Contribution Plan for Public School Superintendents

The Public School Superintendent Plan is a defined contribution pension plan that provides optional postemployment benefits for school superintendents. This plan is authorized by the *Code of Virginia*. The Board of Trustees of the System manages the investments of the fund as custodian. School boards may elect to offer this plan as an option to the standard VRS plan that is available for school board members. Contributions are provided by the school board for credit to the member. At June 30, 2011, there were two participants in this plan. Total contributions to the plan for fiscal year 2011 were $31,862.

I. Virginia Supplemental Retirement Plan

The Virginia Supplemental Retirement Plan is a defined contribution pension plan established by the Department of Education to provide an optional postemployment benefit plan for turnaround specialists in the public school system. This plan is utilized as an incentive to attract highly skilled teachers for participating public schools pursuant to the *Code of Virginia* by Title 51.1-617. The Board of Trustees of the System manages the investments of the fund as custodian. School boards may elect to offer this plan as an option to the standard VRS plan that is available for school board members. Contributions are provided by the school boards for credit to the members. At June 30, 2011, there were two participants in this plan. There were no contributions to the plan for fiscal year 2011.

J. Higher Education Fund (Component Unit)

The Commonwealth's colleges and universities participate in the defined benefit retirement plan administered by VRS. In addition, full-time faculty and certain administrative staff of the Commonwealth's colleges and universities may participate in optional retirement plans as authorized by the *Code of Virginia* rather than the VRS defined benefit retirement plan. These optional retirement plans are defined contribution plans offered through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) Insurance Companies, Variable Annuity Life Insurance Company (VALIC), Fidelity Investments, Inc., and Vanguard. Starting in fiscal year 2011, there were two defined contribution plans. Plan 1 is for employees hired prior to July 1, 2010 and retirement benefits received are based upon the employer's 10.4 percent contributions, plus interest and dividends. Plan 2 is for employees hired on or after July 1, 2010 and retirement benefits received are based upon the employer's 8.5 percent not to exceed 8.9 percent contribution and the employee's 5.0 percent contribution, plus interest and dividends. For Plan 2, the employer contributions for fiscal year 2011 were 8.5 percent except the employer contributions for the University of Virginia were 8.9 percent. During the year ended June 30, 2011, the total contributions to these plans were:

	Plan 1	Plan 2		
	Employer	Employer	Employee	Total
TIAA-CREF	$ 77,979,697	$ 2,047,456	$ 1,169,375	$ 81,196,528
VALIC	1,128,875	24,210	16,770	1,169,855
Fidelity Investments	32,356,876	1,521,348	886,962	34,765,186
Vanguard	4,454,227	274,658	155,071	4,883,956
Total	$ 115,919,675	$ 3,867,672	$ 2,228,178	$ 122,015,525

University of Virginia Medical Center employees cannot participate in Plan 1 or Plan 2 noted above but have the option of participating in the Medical Center's Optional Retirement Plan. This is a defined contribution plan offered through TIAA-CREF, Fidelity Investments, Inc., and Vanguard. Under this plan, the employer contributions are 4.0 percent if hired on or after September 30, 2002 and 8.0 percent if hired prior to September 30, 2002. There are no employee contributions under this plan. During the year ended June 30, 2011, the total employer contributions to this plan were $12,087,268.

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – major) contributes to the VRS. The System issues a separate stand-alone report that is publicly available as previously discussed. Effective July 1, 1997, the Authority established the Virginia Commonwealth University Health System Authority Defined Contribution Plan (the plan). All employees, excluding house staff, working at least 20 hours per week in a benefit eligible position are eligible to participate in the plan. Per the plan document as approved by the Authority's Board of Directors, the Authority contributes up to ten percent of the participant's salary to the plan not to exceed the lesser of (a) the amount in accordance with Internal Revenue Code 415(d), or (b) 100 percent of the participant's compensation for such limitation year. Total contributions for the year ended June 30, 2011, were approximately $15,803,000. The Authority has the right at anytime, and without the consent of any party, to terminate the plan in its entirety. The Authority's Board of Directors must approve any changes to the provisions of the plan, including the contribution requirements, in writing. The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP plan). All persons hired as a health care provider on or after July 1, 1993, and prior to July 1, 1997, and working at least 35 hours of service per week were eligible to participate in the HCP plan. At June 30, 2011, there were five actively employed participants in the HCP plan. Total contributions to the HCP plan for the year ended June 30, 2011, were approximately $37,000.

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

MCVAP also sponsors the VCUHS 401(a) Retirement Plan, a defined contribution plan which covers all non-medical employees of MCVP and the VCUHS 457(b) Savings Plan, a salary reduction plan that represents employee contributions. These plans became effective on January 1, 2002, and replaced the MCVAP 403 (b) plan for all non-medical staff. The contributions to the VCUHS 401(a) for the period ended June 30, 2011, were approximately $2,820,000.

MCVAP also sponsors the MCVAP 401(a) Retirement Plan (the 401(a) plan), a noncontributory, defined contribution plan which covers substantially all full-time eligible clinical providers of MCVAP. Contributions to the 401(a) plan, as determined annually at the discretion of the board of directors were approximately $11,851,000 for the year ended June 30, 2011.

VA Premier (a component unit of the Authority) adopted a 401(k) plan sponsored by Fidelity Investments. Employees become eligible to participate in the plan after completing one year of service. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute one percent to 15 percent of their compensation. VA Premier will match 50 percent of the employees' contributions up to four percent of the employees' compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes three percent of the employee's compensation after each bi-weekly payroll effective when the employee begins employment. Employees are fully vested after four years of service in which the employees have at least 1,000 hours of service each year. The total expense to VA Premier in fiscal year 2011 was approximately $1,533,000.

Effective January 1, 1997, James Madison University (nonmajor) established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. Since it is a governmental plan, the plan is not subject to the Employee Retirement Income Security Act of 1974 as amended. Since inception, 183 faculty members have elected to enroll in the plan. As of June 30, 2011, 66 participants remain, including 8 new participants who retired under this plan during fiscal year 2011. In order to satisfy IRS requirements, a trust fund has been established as a means to make the payments to the plan participants. The University prepaid $1,776,394 of the fiscal year 2012 plan contribution in 2011. The remaining 2012 plan contribution of $26,492 will be paid in 2012.

The Center for Innovative Technology (CIT) is a blended component unit of the Innovation and Entrepreneurship Investment Authority (nonmajor). The CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, contributions are fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by TIAA-CREF. Contributions for the plan totaled $399,812 in fiscal year 2011.

K. Other Component Units

Note 1.B. outlines the component units included in the Commonwealth's reporting entity. The Virginia Public Building Authority (blended - primary government), the Virginia Public School Authority (major), the Virginia College Building Authority (nonmajor), the Virginia University Research Partnership (nonmajor), and the Virginia Schools for the Deaf and Blind Foundation (nonmajor) have no employees. The Virginia Economic Development Partnership, the Small Business Financing Authority, the Hampton Roads Sanitation District Commission, the Virginia Biotechnology Research Partnership Authority, the A. L. Philpott Manufacturing Extension Partnership, the Virginia Tourism Authority, the Tobacco Indemnification and Community Revitalization Commission, the Virginia Foundation for Healthy Youth, the Virginia Land Conservation Foundation, the Virginia Arts Foundation, the Virginia National Defense Industrial Authority, and the Library of Virginia Foundation (all nonmajor) contribute solely to the VRS, a mixed-agent and cost-sharing multiple-employer retirement plan. The System issues a separate stand-alone report that is publicly available as previously discussed.

Full-time employees of the Virginia Housing Development Authority (major) participate in a defined contribution employees' retirement savings plan administered by the Authority. This is a noncontributory plan where the Authority incurs employment retirement savings expense equal to eight percent of full-time employees' compensation. Total retirement savings expense under this plan was $2,584,237 in fiscal year 2011.

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

The Virginia Port Authority (nonmajor) contributes to the VRS. The Authority also sponsors two single-employer noncontributory defined benefit pension plans. The Virginia Port Authority Pension Plans are administered by the Authority and provide retirement, disability, and death benefits to plan members and beneficiaries. Benefit provisions and obligations are established and may be amended by the board of commissioners of the Authority.

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

Trend Information

	2011	2010	2009
Service cost - benefits earned during the year	$ 3,589,900	$ 2,834,000	$ 2,234,100
Interest cost on projected benefit obligation	4,886,100	4,762,200	3,976,700
Expected return on assets	(4,212,000)	(3,535,600)	(4,027,000)
Net amortization and deferral	3,589,200	3,205,400	1,446,200
Annual pension cost	7,853,200	7,266,000	3,630,000
Contributions made	-	(7,920,000)	(2,482,000)
Increase (Decrease) in prepaid pension obligation	7,853,200	(654,000)	1,148,000
Prepaid pension obligation, beginning of year	(8,246,800)	(7,592,800)	(8,740,800)
Prepaid pension obligation, end of year	$ (393,600)	$ (8,246,800)	$ (7,592,800)

Costs have been computed in accordance with the aggregate cost method. Changes in plan provisions and actuarial assumptions, and actuarial gains and losses are not separately amortized under this method. Rather the impact is spread through the nominal cost component over the future working lifetime of participants. The actuarial present value of accumulated plan benefits is determined by an actuary using end of year benefit information as of September 30, 2010 and 2009, respectively, and is determined by applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money and the probability of payment.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2011, 2010, and 2009.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2011	$ 7,853,200	- %	$ (393,600)
2010	$ 7,266,000	109 %	$ (8,246,800)
2009	$ 3,630,000	68 %	$ (7,592,800)

In November 2001, the second plan was amended to provide benefits to sworn police officers that more closely resemble the new retirement benefits provided to members of the Virginia Law Officers Retirement System. The effect of those changes is included in the accompanying pension data.

The components of annual pension cost and prepaid pension obligation for the second single-employer noncontributory defined benefit pension plan are shown in the following schedule.

Trend Information

	2011	2010	2009
Service cost - benefits earned during the year	$ 1,101,909	$ 1,111,163	$ 655,361
Interest cost on projected benefit obligation	82,643	83,337	435,006
Expected return on assets	(109,452)	(135,251)	1,096,215
Net amortization and deferral	171,448	208,410	(1,310,223)
Annual pension cost	1,246,548	1,267,659	876,359
Contributions made	(1,575,234)	(923,681)	(1,185,944)
Increase (Decrease) in pension obligation	(328,686)	343,978	(309,585)
Pension obligation, beginning of year	(1,459,366)	(1,803,344)	(1,493,759)
Prepaid pension obligation, end of year	$ (1,788,052)	$ (1,459,366)	$ (1,803,344)

The annual pension cost for the current year was determined as part of the July 2011 actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. Because of this, information about the funded status and funding progress is presented using the entry age actuarial cost method. The information presented is intended to serve as a surrogate for the funded status and funding progress of the plan. Actual value of assets was determined using market value. The discount rate used in determining the actuarial liability was based on a 7.5 percent discount rate and a 4.0 percent future compensation level was used for future years.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2011, 2010, and 2009.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2011	$ 1,246,548	126 %	$ (1,788,052)
2010	$ 1,267,659	73 %	$ (1,459,366)
2009	$ 876,359	135 %	$ (1,803,344)

The Authority also sponsors two noncontributory supplemental plans covering certain key employees. The plans had assets of $3,053,827 and an accrued liability of $3,569,294. No contributions were made to the plans for the year ended June 30, 2011.

As of January 1, 2005, the Virginia Resources Authority began mandatory participation for all new employees and optional participation for then-current employees who chose to enroll in the VRS. For the year ended June 30, 2011, the Authority's annual pension cost of $117,133 was equal to the Authority's required and actual contributions.

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

Employees of the Virginia Museum of Fine Arts Foundation who are age 21 or older are eligible to participate in the Employee's Savings Plan (the plan), a 401(k) defined contribution profit sharing plan. Under the plan, the Foundation may make a discretionary contribution. For the plan years ended June 30, 2011, and 2010, the Foundation contributed 8.4 percent of employees' gross income to the plan. In addition, contributions made by an employee up to 3 percent are matched 100 percent and contributions between 3 and 5 percent of the employee's gross income are matched 50 percent by the Foundation. Employees may contribute up to 100 percent of gross income each year as long as it is within the IRS limitation. Contributions paid to the plan by the Foundation on behalf of its employees were $118,140 for the fiscal year ended June 30, 2011. Also, the Foundation entered into a supplemental retirement agreement to pay a key employee of the Museum upon retirement the difference between the amount accrued under the VRS defined benefit plan, based on salary, and the amount based on the supplemental salary. The plan vests July 31, 2011. Therefore, no liability was recorded in the financial statements in fiscal year 2011. Contributions made to the plan began in 2010 totaling $12,611 as of June 30, 2011 and $22,170 as of June 30, 2010.

The Science Museum of Virginia Foundation has a 403(b) defined contribution pension plan through the Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) Retirement Plan for employees meeting age and service requirements. The Foundation contributes an amount not to exceed three percent of the regular salary of each participant. The Foundation's employer contributions totaled $13,309 in 2011.

15. OTHER EMPLOYMENT BENEFITS

In addition to the pension plans, the Commonwealth participates in two other employment benefit plans, Group Life Insurance and the Virginia Sickness and Disability Program, which are administered by the Virginia Retirement System (the System). The System administers a third other employment benefit plan, the Volunteer Firefighters' and Rescue Squad Workers' Fund, in which the Commonwealth does not participate, but may provide funding. The significant accounting policies for all three plans are the same as those described in Note 14 for pension plans. A separately issued financial report that includes financial statements for the Group Life Insurance and Virginia Sickness and Disability Program is publicly available. Copies may be obtained by writing to the Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Group Life Insurance

The Group Life Insurance Plan was established for Commonwealth employees, teachers, employees of political subdivisions participating in the VRS, state police officers, other state law enforcement and correctional officers, judges, and other qualifying employees. The program provides life insurance for natural death coverage equal to a member's annual compensation rounded to the next highest $1,000 and then doubled. Accidental death coverage is double the natural death benefit. The program also provides coverage for accidental dismemberment and accidental blindness, a safety belt benefit, a repatriation benefit, a felonious assault benefit and an accelerated death benefit for terminal conditions. Approximately 355,397 members participate in the program at June 30, 2011.

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

An optional Group Life Insurance Fund was established for members covered under the group life program as a supplement to that plan. Members may purchase optional life insurance coverage for themselves, their spouses and/or their dependent children. The optional program provides natural death coverage equal to one, two, three or four times the member's annual compensation rounded to the next highest $1,000, up to a maximum of $600,000. Spouse coverage is available for up to one-half of the member's optional insurance amount. Minor children who are at least 15 days old can be insured for $10,000, $20,000 or $30,000, depending on the option chosen by the member. An additional accidental death and dismemberment benefit is payable for death or bodily injuries. Approximately 64,229 members were covered under this program at June 30, 2011.

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

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

Virginia Sickness and Disability Program

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

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

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

Eligible state employees and state police officers employed before January 1, 1999 had the option to elect to participate in the VSDP or remain under the Commonwealth's existing sick leave program and retain their eligibility for disability retirement benefits under VRS and SPORS. (Members of VaLORS have been automatically enrolled in the VSDP since October 1, 1999 when VaLORS was created.) Eligible employees enrolled in the VSDP are not eligible for disability retirement benefits under VRS, SPORS, or VaLORS. Approximately 74,972 members were covered under the program at June 30, 2011.

Volunteer Firefighters' and Rescue Squad Workers' Fund

Volunteer firefighters and rescue squad workers may participate in an optional employment benefit plan. This optional plan is authorized by the *Code of Virginia*. The Board of Trustees of the System manages the investments of the fund as custodian. Members of the plan contribute $30 per quarter. The Commonwealth will contribute an amount determined by the Board and appropriated by the General Assembly, if such funds are appropriated, for a period not to exceed 20 years. For fiscal year 2011, there were no monies appropriated for administration of the program. At June 30, 2011, there were 1,577 workers participating in the fund.

16. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Virginia Retirement System (The System) Administered Plans

The Government Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which requires additional reporting and disclosures for OPEB plans. The statement became effective for System-administered OPEB plans beginning with the fiscal year ended June 30, 2007. The assets and actuarial accrued liabilities for the following other postemployment benefits were determined through an actuarial valuation performed as of June 30, 2010, by Cavanaugh Macdonald Consulting, LLC, and are presented in the Required Supplemental Schedule of Funding Progress for Other Postemployment Benefit Plans. The significant accounting policies for all four plans are the same as those described in Note 14 for pension plans and a separately issued report is available as previously discussed.

Group Life Insurance Benefits

Employees who retire or terminate from service after age 50 with at least ten years of service credit or at age 55 with at least five years of service credit (age 50 for vested state police officers, other state law enforcement and correctional officers and hazardous duty employees of participating political subdivisions), or who retire because of disability, are entitled to postemployment group life insurance benefits. At retirement or termination, accidental death benefits cease and natural death coverage reduces at a rate equal to 25 percent on January 1 of the first full calendar year following retirement or termination and on January 1 of each year thereafter, until it reaches 25 percent of its original value. These group life insurance benefit provisions and requirements are established by Title 51.1 of the *Code of Virginia*. There were approximately 137,784 retirees in the Basic Group Life Insurance Program and 2,099 retirees were covered under the Optional Group Life Insurance Program in fiscal year 2011.

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

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

Retiree Health Insurance Credit Program

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

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

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the *Code of Virginia*. The amount required to fund all credits is financed by the employers based on contribution rates determined by the System's actuary. Approximately 96,671 retired members were covered under this program at June 30, 2011. The Retiree Health Insurance Credit Program is an agent, multiple-employer defined benefit OPEB plan.

Disability Insurance Trust Fund

The Commonwealth provides OPEB disability insurance benefits, in accordance with state statutes, to eligible retired and terminated employees. State agencies are required by Title 51.1 of the *Code of Virginia* to contribute to the cost of providing long-term disability benefits and administering the program. There were approximately 2,698 former members receiving benefits from the program during fiscal year 2011. The Disability Insurance Trust Fund is a single-employer defined benefit OPEB plan.

Line of Duty Death and Disability

The Commonwealth provides death and health benefits to the beneficiaries of certain law enforcement and rescue personnel disabled or killed in the line of duty. A trust fund has been established to account for this activity. Benefit provisions and eligibility requirements are established by Title 9.1 Chapter 4 of the *Code of Virginia*. The significant accounting policies for this plan are the same as those described in Note 14 for pension plans. There were approximately 720 retirees and 655 other participants in the program in fiscal year 2011. The Line of Duty Death and Disability Program is a cost-sharing, multiple-employer defined benefit OPEB plan. Additionally, the Department of Accounts provides certain administrative support in claims administration.

B. Pre-Medicare Retiree Healthcare

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

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

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. The significant accounting policies for this plan are the same as those described in Note 14 for pension plans. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan and is administered by the Department of Human Resource Management. There were approximately 8,793 retirees in the program in fiscal year 2011.

C. Annual OPEB Cost and Net OPEB Obligation

The Government Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which required additional reporting and disclosures for OPEB plans beginning with the fiscal year ending June 30, 2008. The Commonwealth calculated an OPEB liability as of June 30, 2011 for each of the four OPEB plans. The Retiree Health Insurance Credit Fund, Disability Insurance Trust Fund, and Pre-Medicare Retiree Healthcare OPEB liabilities were \$79.2 million, \$109.6 million, and \$446.4 million, respectively. These amounts are reported in the accompanying financial statements as a component of Long-Term Liabilities Due in More than One year. There is no liability for the Group Life Insurance Fund or Line of Duty Death and Disability.

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

	Group Life Insurance Fund			Retiree Health Insurance Credit Fund		
	2011	2010	2009	2011	2010	2009
Annual required contribution	$ 13,360	$ 28,887	$ 40,248	$ 58,785	$ 66,510	$ 66,979
Interest on net OPEB obligation	-	-	-	1,922	165	-
Adjustment to annual required contribution	-	-	-	(1,728)	(143)	-
Annual OPEB cost	13,360	28,887	40,248	58,979	66,532	66,979
Contributions made	(13,360)	(28,887)	(40,248)	(5,383)	(43,094)	(64,783)
Increase in net OPEB obligation	-	-	-	53,596	23,438	2,196
Net OPEB obligation (asset), beginning of year	-	-	-	25,634	2,196	-
Net OPEB obligation (asset), end of year	$ -	$ -	$ -	$ 79,230	$ 25,634	$ 2,196
Percentage of annual OPEB cost contributed	100.0%	100.0%	100.0%	9.1%	64.8%	96.7%

	Disability Insurance Trust Fund			Line of Duty Death and Disability (1)		
	2011	2010	2009	2011	2010	2009
Annual required contribution	$ 33,643	$ 78,117	$ 79,450	$ -	$ 16,901	$ 16,523
Interest on net OPEB obligation	5,650	2,080	1,467	-	386	(12)
Adjustment to annual required contribution	(5,082)	(1,808)	(1,552)	(15,607)	(367)	11
Annual OPEB cost	34,211	78,389	79,365	(15,607)	16,920	16,522
Contributions made	-	(30,771)	(71,142)	-	(9,084)	(8,511)
Increase in net OPEB obligation	34,211	47,618	8,223	(15,607)	7,836	8,011
Net OPEB obligation (asset), beginning of year	75,379	27,761	19,538	15,607	7,771	(240)
Net OPEB obligation (asset), end of year	$ 109,590	$ 75,379	$ 27,761	$ -	$ 15,607	$ 7,771
Percentage of annual OPEB cost contributed	-	39.3%	89.6%	-	53.7%	51.5%

	Pre-Medicare Retiree Healthcare		
	2011	2010	2009
Annual required contribution	$ 166,637	$ 136,426	$ 131,654
Interest on net OPEB obligation	13,304	9,751	4,733
Adjustment to annual required contribution	(13,356)	(9,265)	(4,489)
Annual OPEB cost	166,585	136,912	131,898
Contributions made	(29,583)	(23,780)	(30,722)
Increase in net OPEB obligation	137,002	113,132	101,176
Net OPEB obligation (asset), beginning of year	309,408	196,276	95,100
Net OPEB obligation (asset), end of year	$ 446,410	$ 309,408	$ 196,276
Percentage of annual OPEB cost contributed	17.8%	17.4%	23.3%

(1) Line of Duty Death and Disability became a cost sharing plan effective July 1, 2010. Accordingly, the net OPEB obligation at the beginning of the transition period has been reduced to zero. Fiscal year 2011 activity was funded with a $10.7 million loan that will be repaid in future periods with contributions received. This amount is reflected as both a receivable and a contribution in the accompanying statements.

The amounts in the previous table include Governmental and Component Unit activity for which the Commonwealth is considered the employer. It does not include the OPEB liability for the Virginia Economic Development Partnership (component unit), the Virginia Tourism Authority (component unit), Fort Monroe Authority (component unit), Virginia Outdoors Foundation (component unit) and the Virginia National Defense Industrial Authority (component unit) of $852,645, $455,905, $81,407, $24,331, and $26,547, respectively. The table also excludes non-Commonwealth sponsored OPEB liabilities of $19.0 million for all other component units and includes the fiduciary OPEB liability of $2.7 million.

The annual required contributions for the current year were determined during the actuarial valuations conducted as of June 30, 2009, as that is the most recent report that reflects the current funding policies. For fiscal year 2011, employer contributions by the Commonwealth for Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance were 0.28 percent, 0.10 percent, and 0.00 percent, respectively, of covered payrolls. The valuations were prepared using the entry age normal cost method for all plans except for the Disability Insurance trust fund for which the Projected Unit Credit actuarial cost method was used. The Pre-Medicare Retiree Healthcare plan uses a 4.30 percent investment rate of return, per year compounded annually, which approximates the projected rate of return on the Treasurer's Portfolio. The Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance use a 7.0 percent investment rate of return, per year compounded annually, The actuarial assumptions for all but the Pre-Medicare Retiree Healthcare plan included a projected salary increase of 3.0 percent, including a 2.5 percent inflation component. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five year period. The remaining closed amortization period at June 30, 2011, was 30 years. The actuarial assumptions for the Pre-Medicare Retiree Healthcare plan as to current claim cost, projected increases in health insurance costs, mortality, turnover, retirement, disability and discount rate include (a) projected salary increases ranging from 3.75 percent to 5.6 percent, including a 2.5 percent inflation component; and, (b) assumption that there is no liability associated with those retirees eligible for Medicare, as costs for members aged 65 and older are not subsidized by the active population (no implicit subsidy), participants pay 100 percent of the costs, and the liability associated with the health insurance credit is measured and held by the Virginia Retirement System. Initial healthcare costs trend rates used were 10.0 percent, 11.0 percent, and 6.0 percent for medical, pharmacy, and dental benefits, respectively. The ultimate trend rates used were 5.0 percent, 5.0 percent, and 4.0 percent for medical, pharmacy, and dental benefits, respectively. The remaining closed amortization period at June 30, 2011 was 30 years.

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, per the most recent actuarial valuation, was as follows:

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
Group Life Insurance Fund						
2010	$ 929	$ 2,245	$ 1,316	41.4%	$ 16,526	8.0%
Retiree Health Insurance Credit Fund						
2010	$ 278	$ 2,127	$ 1,849	13.1%	$ 13,474	13.7%
Disability Insurance Trust Fund						
2010	$ 303	$ 282	$ (21)	107.3%	$ 3,168	(0.7%)
Line of Duty Death and Disability						
2010	$ -	$ 576	$ 576	-	N/A	-
Pre-Medicare Retiree Healthcare						
2009	$ -	$ 1,298	$ 1,298	-	$ 3,297	39.4%

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

E. Higher Education Fund (Component Unit)

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

F. Other Component Units

The Virginia Housing Development Authority (major) has a Retiree Health Care Plan, a single-employer defined benefit plan which is administered through the Virginia Housing Development Authority Retiree Health Care Plan Trust, an irrevocable trust to be used solely for providing benefits to eligible participants. Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service or at least 55 years of age with 10 years of service if employed by the Authority prior to such date. For the year ended June 30, 2011, the Authority's Annual OPEB cost was $980,325; the percentage of Annual OPEB Cost Contributed was 96.9 percent; and the ending Net OPEB asset was $8,913.

Hampton Roads Sanitation District Commission (nonmajor) provides other postemployment benefits for its employees through a single employer defined benefit plan. The plan was established and may be amended by the Commission. The plan furnishes health and dental benefits for life for all employees with at least 15 years of service and who also qualify for an unreduced retirement benefit through the VRS. The plan allows the retiree at their expense to cover their spouse and dependent under the district's health care provider. Contribution requirements are actuarially determined and funding is subject to approval by the Commission. The current rate is 6.0 percent of annual covered payroll. For 2011, the Commission's annual OPEB cost was $2.2 million; the percentage of annual OPEB cost contributed was 100 percent.

The Virginia Port Authority (VPA) (nonmajor) offers post retirement medical and dental benefits to employees who retire under either VRS or the VPA pension plan. For employees and their spouses, who are participants in the VPA medical plan, not participants under the state health care plan VRS, benefit provisions and obligations are established and may be amended by the board of commissioners of the Authority. For the year ended June 30, 2011, the Authority's annual OPEB cost was $43,241; contribution towards OPEB cost was $26,458; the percentage of annual OPEB cost contributed was 61.2 percent; and the ending net OPEB obligation was $130,129.

17. DEFERRED COMPENSATION PLANS

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The Virginia Retirement System (the System) administers the deferred compensation plan, pursuant to the Government Employees Deferred Compensation Plan Act, Section 51.1, Chapter 6 et seq. of the *Code of Virginia*. The System contracts with private corporations or institutions subject to the standards set forth in the *Code* to provide investment products as well as any other goods and services related to the administration of the deferred compensation plan. The Department of Accounts is responsible for the accounting, reconciliation, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the System for investment. The plan provides a number of investment options and is designed so that each participant retains investment control of his/her individual account. The plan, available to all state employees, permits them to defer a portion of their salary until future years. The deferred compensation is held in trust for the exclusive benefit of plan participants and their beneficiaries and is not available to employees until termination, retirement, death, unforeseeable emergency, or an in-service distribution at age 70 ½ or later. Since the System has no fiduciary relationship with plan participants, plan assets of $1.4 billion are not included in the financial statements.

In addition, the Commonwealth provides a cash match under Internal Revenue Code Section 401(a) for employees participating in the deferred compensation plan. The match amount for an employee was established at 50 percent of the voluntary contributions to the deferred compensation plan. During the current fiscal year, the maximum match was $10 per pay period or $20 per month. The fair value of assets in the cash match savings plan at June 30, 2011, was $236.5

million, which is also excluded from the financial statements.

Most employees of the Commonwealth's colleges and universities may participate in the Commonwealth's deferred compensation plan in accordance with Internal Revenue Code Section 457(b) and/or the institution's deferred compensation plan in accordance with Internal Revenue Code Section 403(b). Under either plan, the institution's cash match under the Internal Revenue Code Section 401(a) during fiscal year 2011 was a maximum match up to $10 per pay period or $20 per month. This employer match is for either plan but not both plans. Employer contributions under these plans were approximately $7.3 million for fiscal year 2011.

The deferred compensation plan for the University of Virginia Medical Center employees hired on or after September 30, 2002 allows employee contributions up to 4.0 percent of their salary and the employer match is 50.0 percent of the 4.0 percent deferral not to exceed 2.0 percent of the employees' salary. Employer contributions under this plan were approximately $1.3 million for fiscal year 2011.

The Virginia Housing Development Authority (major component unit) and the Virginia Resource Authority (nonmajor component unit) have deferred compensation plans available to all employees created in accordance with Internal Revenue Section 457. The plans permit participants to defer a portion of their salary or wage until future years. The deferred compensation is not available to employees until termination, retirement, or death. The assets of the plans are in irrevocable trusts with an external trustee and, accordingly, no assets or liabilities are reflected in the financial statements.

The Virginia Port Authority (VPA) (nonmajor component unit) offers three deferred compensation plans and two matching savings plans under Internal Revenue Code Sections 457 and 401(a), respectively. Employees who maintain status under VRS are covered under the deferred compensation plan administered by the System as discussed above. The VPA deferred compensation plan covers all employees hired after July 1, 1997, and those employees electing coverage under the authority's deferred compensation plan. The VPA also offers a matching savings plan that covers substantially all employees. The matching savings plan requires the VPA to match contributions in an amount equal to 50 percent of the first six percent of the participant's base pay contributed to the plan. VPA's total contribution to the matching savings plan was $140,696 for the fiscal year ended June 30, 2011. Further, the right to modify, alter, amend, or terminate the deferred compensation plan and matching savings plan rests with the VPA Board of Commissioners.

The third deferred compensation plan and second matching savings plan covers substantially all non-union employees with 90 days or more of service. The matching savings plan requires the VPA to match employee contributions in an amount equal to 50 percent of the first three percent of the participant's base pay contributed to the deferred compensation plan. VPA's total contribution to the matching savings plan was $318,828 for the fiscal year ended June 30, 2011.

18. STATE NON-ARBITRAGE POOL

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

The SNAP fund is a class of the PFM Funds Prime Series, a money market mutual fund registered with the Securities and Exchange Commission. PFM Funds is a diversified, open-end management investment company organized as a Virginia business trust. Shares of the SNAP fund are solely available to investors participating in the SNAP program. The PFM Funds Board of Trustees has overall responsibility for supervising the SNAP fund's business and affairs, including the oversight of organizations providing investment advisory, administration, and distribution services to the SNAP fund. PFM Asset Management LLC serves as the investment adviser of the SNAP fund. The SNAP individual investment portfolios are the responsibility of the SNAP investment manager and the governments investing proceeds in the portfolios. These investments are held solely in the SNAP participants' names. Since the Commonwealth has no fiduciary relationship with local governmental entities participating in the plan, these assets of $2.0 billion are not included in the financial statements.

19. COMMITMENTS

A. Construction Projects

Primary Government

Highway Projects

At June 30, 2011, the Department of Transportation had contractual commitments of approximately $2.4 billion for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) federal funds – approximately 45 percent or $1.1 billion, (2) state funds – approximately 54 percent or $1.3 billion, and (3) Proceeds from Bonds – approximately 1 percent or $22 million.

Mass Transit Projects

At June 30, 2011, the Department of Rail and Public Transportation had contractual commitments of approximately $257.2 million for various public transportation, rail preservation, and rail enhancement projects. Funding of the future expenditures is expected to be as follows: (1) state funds - approximately 87.9 percent or $226.2

million, and (2) federal funds - approximately 12.1 percent or $31.0 million.

Wastewater Treatment Projects

At June 30, 2011, the Department of Environmental Quality was committed to grant contracts with localities to reimburse a portion of construction costs for nutrient reduction facilities at wastewater treatment plants totaling $177.9 million.

Cemetery Project

At June 30, 2011, the Department of Veterans Services had contractual commitments of approximately $5.8 million for construction related to Dublin Cemetery.

Component Units

Port Projects

At June 30, 2011, the Virginia Port Authority (nonmajor) was committed to construction contracts totaling $267.6 million.

Sanitation District Project

At June 30, 2011, the Hampton Roads Sanitation District Commission (nonmajor) was committed to construction programs totaling $186.0 million.

Wallops Island Project

At June 30, 2011, the Virginia Commercial Space Flight Authority (nonmajor) was committed to construction programs totaling $82.5 million.

Higher Education Institutions

Colleges and universities had contractual commitments as of June 30, 2011, of approximately $756.8 million primarily for construction contracts. Higher education foundations' commitments total approximately $14.1 million and are primarily for construction contracts.

B. Operating Leases

The Commonwealth has entered into numerous agreements to lease land, buildings, and equipment. Most of the operating leases contain the provision that the Commonwealth may renew the operating leases at the expiration date of the lease on a month-to-month basis. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases of a similar nature. Rental expense for the primary government under these operating leases for the year ended June 30, 2011, was $69.1 million for governmental activities (including internal service funds) and $21.3 million for business-type activities. Rental expense for the discrete component units (excluding foundations) for the year ended June 30, 2011, was $123.1 million. The Commonwealth has, as of June 30, 2011, the following minimum rental payments due under the above leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-type Activities	Component Units (1)
2012	$ 58,452	$ 19,208	$ 97,288
2013	48,142	16,216	86,787
2014	41,118	11,819	75,152
2015	36,530	8,698	71,043
2016	28,075	5,606	63,457
2017-2021	58,556	2,472	266,767
2022-2026	6,987	-	238,226
2027-2031	1,109	-	181,811
2032-2036	552	-	3,323
2037-2041	313	-	3,323
2042-2046	22	-	3,323
2047-2051	17	-	2,994
2052-2056	-	-	2,500
2057-2061	-	-	2,500
Total	$ 279,873	$ 64,019	$ 1,098,494

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

	Foundations (2)
2012	$ 1,915
2013	1,560
2014	1,317
2015	1,090
2016	1,024
Thereafter	4,231
Total	$ 11,137

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Rental expense for the year ended June 30, 2011, was approximately $2.7 million.

Lease agreements are for various terms and contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

C. Investment Commitments – Virginia Retirement System

The Virginia Retirement System extends investment commitments in the normal course of business, which, at June 30, 2011, amounted to $3.5 billion.

D. Tobacco Grants

The Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) has $220.8 million in grant award commitments not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2011, in accordance with GASB Statement No. 33.

The Virginia Foundation for Healthy Youth (nonmajor component unit) has $9.6 million in grant commitments and outstanding contracts not reflected in these statements since eligibility requirements were not met as of June 30, 2011, in accordance with GASB Statement No. 33.

E. Other Commitments

Primary Government

At June 30, 2011, the Department of Motor Vehicles had contractual commitments of approximately $42.4 million for security technology services.

At June 30, 2011, the Virginia Employment Commission had contractual commitments of approximately $27.4 million for an information systems modernization project.

At June 30, 2011, the Department of Correctional Education had contractual commitments of approximately $7.9 million for teacher services.

The Virginia Wireless E-911 (nonmajor enterprise fund) has $3.9 million in outstanding grants awarded but not yet disbursed to localities since all of the eligibility criteria have not been met, in accordance with GASB Statement No. 33.

Component Units

The Virginia Small Business Financing Authority (nonmajor) has $2.0 million in loan commitments in the Federal Economic Development Loan Fund as of June 30, 2011. In addition, the Child Care Financing Program had $787,770 in loan commitments in accordance with GASB Statement No. 33.

The Virginia University Research Partnership (nonmajor) has $2.0 million in grant award commitments not reflected in these statements since eligibility requirements were not met as of June 30, 2011, in accordance with GASB Statement No. 33.

The Fort Monroe Authority (nonmajor) has commitments totalling $564,539 for various construction programs, as well as $546,802 for marketing and public relations. These amounts were not dispersed since eligibility was not met as of June 30, 2011, in accordance with GASB Statement No. 33.

20. ACCRUED LIABILITY FOR COMPENSATED ABSENCES

Employees accrue annual leave at a rate of four to nine hours semimonthly, depending on their length of service. The maximum leave accumulation is dependent upon years of service, but in no case may it exceed 432 hours. The maximum compensation for annual leave balances is also dependent upon years of service, but in no case may an employee be compensated for more than 336 hours.

All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program (VSDP) (see Note 15). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the calendar year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the original sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the original sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave state service after a minimum of five years employment receive the lesser of 25 percent of the value of their disability credits or accumulated sick leave at their current earnings rate or $5,000. All employees leaving state service are paid for accrued annual leave up to the maximum calendar year limit at their current earnings rate.

In conformance with Section C60 of the GASB Codification, the monetary value of accumulated annual and sick leave and disability credits payable upon termination is included in the accompanying financial statements and is reported as Compensated Absences. In the government-wide statements, proprietary fund statements, and discrete component unit fund statements, compensated absence amounts are segregated into two components – the amount due within one year and the amount due in more than one year. Compensated absences due within one year consist of an estimate of the amount that will be used by active employees for paid time off and/or paid upon termination, plus the actual amount paid after June 30 for employees terminating on or before June 30. In the governmental fund statements, amounts to be paid from expendable resources are recognized as fund liabilities in the applicable governmental fund types as long-term liabilities and represent payments to employees for separations that occurred on or before June 30. Amounts not payable from expendable resources are reflected in the governmental activities column in the Government-wide Statement of Net Assets (see Note 25). All amounts related to the fiduciary funds are recognized in those funds.

The liability at June 30, 2011, was computed using salary rates effective at that date, and represents vacation, compensatory and sick leave earned or disability credits held by employees up to the allowable ceilings.

21. POLLUTION REMEDIATION OBLIGATIONS

The Commonwealth has pollution remediation obligations of $4.8 million of which $748,979 is due within one year. With the exception of the Department of Environmental Quality (DEQ), agencies estimated future obligations based on professional consultant estimates and/or historical project expenses of similar projects; however, there is the potential for change in estimates due to price increase or reductions, technology, or applicable laws and regulations. Remediations for DEQ are not estimates but contractual obligations between the Commonwealth and the U.S. Environmental Protection Agency (EPA), and any change due to a reconciliation of incurred costs requires mutual consent and contract amendment.

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

Agencies involved in remediation include:

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

A Facility Lead Agreement was signed between the EPA and VDOT to resolve an issue concerning the storage of lab wastewater in an outdoor lined surface impoundment that operated between 1979 and 1983 for which contamination is present in soil and groundwater. VDOT is expected to recover $230,654 to offset remediation costs related to two contaminated groundwater sites, one site of asbestos abatement and one underground storage tank leakage site. DOC was fined by the EPA in September/October 2003. DOC proposed to conduct a Supplemental Environmental Project (SEP) which included the formation of the Pollution Prevention Section of the Environmental Services Unit, disclosure of all environmental deficiencies to both the EPA and DEQ and corrections of those deficiencies.

The following pollution remediation outlays could not reasonably be estimated as of June 30, 2011:

- Department of Juvenile Justice (DJJ) relating to groundwater contamination & underground fuel storage removal
- Department of State Police (DSP) relating to underground gasoline tank leakage
- Department of Transportation (VDOT) relating to groundwater contamination

22. INSURANCE

A. Self-Insurance

The Commonwealth maintains two types of self-insurance plans. The first type of self-insurance is a health care plan administered by the Department of Human Resource Management for Commonwealth employees. The plan is accounted for in the Health Care Internal Service Fund. Interfund premiums are accounted for as internal activity receipts from other funds. At June 30, 2011, $81.5 million is reported as the estimated claims payable for this fund, which is undiscounted as nearly all health care claims are current in nature. The estimated liability is based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported as described in Note 1.T. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2010-2011	$ 94,376	$ 904,861	$ (917,757)	$ 81,480
2009-2010	$ 104,911	$ 918,686	$ (929,221)	$ 94,376

(1) Of the balance shown above, $81.5 million is due within one year.

The second type of plan, Risk Management, is administered by the Department of the Treasury, Division of Risk Management and the Department of Human Resource Management, Worker's Compensation Program. These plans are accounted for in the Risk Management Internal Service Fund. The Department of the Treasury administers risk management programs providing property, general (tort) liability, medical malpractice, automobile and surety bond exposures for the Commonwealth of Virginia as provided in Sections 2.2-1834 through 1838 and Section 2.2-1840 of the *Code of Virginia*. Established subject to the approval of the Governor, risk management plans provide state agencies with protection through purchased insurance, self-insurance or a combination thereof. Interfund premiums for the fund are accounted for as internal activity receipts from other funds. The claims payable is an estimated liability based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported. At June 30, 2011, $488.2 million is reported as the estimated claims payable for the risk management plan. This amount is discounted to present value at a rate of three percent. Undiscounted claims payable at June 30, 2011, is $582.9 million. The estimated losses are based upon actual claims that have been submitted, as well as claims incurred but not reported. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2010-2011	$ 444,467	$ 112,138	$ (68,417)	$ 488,188
2009-2010	$ 409,056	$ 101,793	$ (66,382)	$ 444,467

(1) Of the balance shown above, $76.2 million is due within one year.

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

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

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

Estimated Malpractice Losses

	Balance July 1,	Claims Expense (2)	Claims Settled	Balance June 30, (1)
2010-2011	$ 26,910	$ (727)	$ (2,682)	$ 23,501
2009-2010	$ 30,415	$ 788	$ (4,293)	$ 26,910

(1) Of the balance shown above, $4.0 million is due within one year.
(2) This column represents malpractice claims expense, net of actuarial adjustments.

Estimated Workers' Compensation Losses

	Balance July 1,	Claims Expense	Claims Settled	Balance June 30, (1)
2010-2011	$ 17,007	$ 3,397	$ (1,995)	$ 18,409
2009-2010	$ 16,334	$ 3,383	$ (2,710)	$ 17,007

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

In addition, expenses and liabilities arising from services rendered to VA Premier's Plan (component unit of the Authority) HMO members are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable includes an estimate of claims that have been incurred but not reported. At June 30, 2011 the amount of these liabilities is $49,075,641 and is reported as Claims Payable – Due within One Year. This liability is VA Premier's best estimate based on available information.

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

Virginia International Terminals, Inc., a component unit of the Virginia Port Authority (nonmajor component unit) is partially self-insured for certain workers' compensation claims. The Authority maintains insurance coverage of $5,000,000 per claim, but is obligated to pay the first $1,000,000 of any individual's claims per incident. The Authority is also partially self-insured for employee health coverage. The Authority is responsible for actual claim costs up to $125,000 per individual per calendar year. Insurance coverage is maintained for claims in excess of the individual employee limit and for aggregate claims in excess of $5,349,751.

B. Public Entity Risk Pools

The Commonwealth administers two types of public entity risk pools for the benefit of local governmental units: health care and risk management insurance. The Local Choice Health Care plan was established to make comprehensive health care insurance available to localities and political subdivisions at affordable rates and with stable premiums. During the fiscal year, there were 277 local government units participating in the pool. This includes 28 school districts, 34 counties, 98 cities/towns, and 117 other subdivisions. This program is accounted for in the Local Choice Health Care Enterprise Fund (nonmajor).

The Department of Human Resource Management, under Section 2.2-1204 of the *Code of Virginia*, has the authority to design, set rates, and administer the Local Choice Health Care fund. The pool's standard contract period is one year. However, a member group may withdraw on the last day of any month with three month's written notice. Contributions are based on the current necessary contribution and the amortization of experience adjustments in the pool. At June 30, 2011, $18.7 million is reported as the actuarially determined estimated claims payable for this fund based on claims incurred but not reported.

The actuarial liability is determined for the membership pool in total and then adjusted for each locality based on individual historic and demographic data. If the pool's assets were to be exhausted, the program participants would share the responsibility for any liabilities or deficits.

The Department of the Treasury, Division of Risk Management administers risk management programs for political subdivisions, constitutional officers and others in accordance with Section 2.2-1839 of the *Code of Virginia*. These pools were established to provide an economical, low-cost alternative to the commercial insurance market for the Commonwealth's political subdivisions. These risk programs are accounted for in the Risk Management Enterprise Fund (nonmajor). The pool is established subject to approval by the Governor. It may be insurance, self-insurance, or any combination thereof, and must provide protection and legal defense against liability. Local participation is voluntary and open to any political subdivision. As of June 30, 2011, there were 520 units of local government in the pool, including 4 cities, 36 towns, and 32 counties. The remaining 448 units include a large variety of boards, commissions, authorities, and special districts.

The pool has a minimum membership period of one year. However, a member group can cancel their membership and withdraw from the plan on their coverage anniversary date or at the end of the fiscal year with 30 days notice.

The pool is actuarially valued annually and is considered sound. Investment income is considered in the anticipation of premium deficiencies. No excess insurance or reinsurance is provided, but a "stability fund" is incorporated into the actuarially determined required reserves. If, however, the plan assets and reserves were to be exhausted, the members would be responsible for any deficits or liabilities. For the liability insurance pool, participation is voluntary and open to those identified in Section 2.2-1839 of the *Code of Virginia*. The risk assumed by the local public entity pool for member liability is $1,000,000 per occurrence.

At June 30, 2011, $18.6 million is reported as estimated claims payable for these programs. This figure is actuarially determined for the fund in total and is reported at gross and does not reflect possible reimbursements for insurance recoveries.

The following schedule (dollars in thousands) shows the changes in claims liabilities for the past two fiscal years.

	Local Choice Health Care		Risk Management	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	$ 22,874	$ 23,607	$ 16,309	$ 14,550
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	212,233	221,273	1,473	(498)
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	757	1,274
Total Incurred Claims and Adjustment Expenses	212,233	221,273	2,230	776
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	216,451	222,006	396	412
Total Payments	216,451	222,006	396	412
Change in Provision for Discounts	-	-	412	375
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted) (1) (2) (3)	$ 18,656	$ 22,874	$ 18,555	$ 15,289
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	$ 18,656	$ 22,874	$ 19,799	$ 16,309

Note (1): The entire balance for Local Choice Health Care, $18,656 (dollars in thousands) is due within one year.

Note (2): Of the balance shown above for Risk Management, $5,930 (dollars in thousands) is due within one year.

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

23. ACCOUNTS PAYABLE

The following table (dollars in thousands) summarizes Accounts Payable as of June 30, 2011.

	Vendor	Salary/ Wage	Retainage	Other	Foundations (1)	Total
Primary Government:						
General	$ 163,974	$ 87,601	$ 142	$ -	$ -	$ 251,717
Major Special Revenue Funds:						
Commonwealth Transportation	204,567	27,504	5,699	-	-	237,770
Federal Trust	110,887	16,300	207	-	-	127,394
Literary	27	-	-	-	-	27
Nonmajor Governmental Funds	19,478	26,399	6,235	187	-	52,299
Major Enterprise Funds:						
State Lottery (2)	4,759	952	-	3,492	-	9,203
Virginia College Savings Plan (2)	39	349	-	77	-	465
Unemployment Compensation	162	-	-	-	-	162
Nonmajor Enterprise Funds	22,207	4,150	-	-	-	26,357
Internal Service Funds	50,006	2,697	-	-	-	52,703
Private Purpose Trust Funds	1,216	136	-	-	-	1,352
Pension and Other Employee Benefit Trust (3)	453	1,729	-	36,691	-	38,873
Agency Funds	1,941	-	-	2,002	-	3,943
Total Primary Government (4)	$ 579,716	$ 167,817	$ 12,283	$ 42,449	$ -	$ 802,265
Discrete Component Units:						
Virginia Housing Development Authority	$ 1,279	$ 1,136	$ -	$ 9,831	$ -	$ 12,246
Virginia Public School Authority	917	-	-	-	-	917
University of Virginia	86,806	51,051	895	4,250	58,151	201,153
Virginia Polytechnic Institute and State University	62,414	48,104	4,200	-	12,062	126,780
Virginia Commonwealth University	62,005	79,976	306	-	1,605	143,892
Nonmajor Component Units	166,916	150,429	33,283	8,575	24,142	383,345
Total Component Units	$ 380,337	$ 330,696	$ 38,684	$ 22,656	$ 95,960	$ 868,333

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

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

Note (3): Other Accounts Payable for the Pension and Other Employee Benefit Trust Fund consists of $25,633 (dollars in thousands) in investment management expense, $11,030 (dollars in thousands) in program benefit liabilities, and $28 (dollars in thousands) of other investment payables generally related to Futures and month-end rebalancing items.

Note (4): Fiduciary liabilities of $44,168 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. In addition, governmental fund liabilities of $84,213 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

24. OTHER LIABILITIES

The following table (dollars in thousands) summarizes Other Liabilities as of June 30, 2011.

	Primary Government				
	General	Commonwealth Transportation	Federal Trust	Nonmajor Governmental Funds	State Lottery
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ 51,839
Due to Program Participants, Escrows, and Providers	-	-	-	-	-
Medicaid Payable	228,941	-	230,450	-	-
Family Access to Medical Insurance Security Payable	1,642	-	3,050	-	-
Tax Refunds Payable	423,383	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	4,001	7,041	-	1,663	-
Car Tax Payable	263,025	-	-	-	-
Title XII Federal Advances	-	-	-	-	-
Other Liabilities	61	1	9	503	-
Total Other Liabilities	$ 921,053	$ 7,042	$ 233,509	$ 2,166	$ 51,839

	Primary Government				
	Virginia College Savings Plan	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds (1)	Private Purpose Funds
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ -
Due to Program Participants, Escrows, and Providers	67	28,584	-	-	31
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Tax Refunds Payable	-	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	-	-	179	140	-
Car Tax Refund Payable	-	-	-	-	-
Title XII Federal Advances	-	182,219	-	-	-
Other Liabilities	-	-	123	5,047	-
Total Other Liabilities	$ 67	$ 210,803	$ 302	$ 5,187	$ 31

Note (1): The Other Liabilities amount of $5,047 (dollars in thousands) is due to third party clearing amounts that have increased from the prior year due to timing issues with checks clearing the bank.

	Primary Government		
	Pension and Other Employee Benefit Trust Funds (2)	Agency Funds	Total Primary Government (3)
Lottery Prizes Payable	$ -	$ -	$ 51,839
Due to Program Participants, Escrows, and Providers	-	34,545	63,227
Medicaid Payable	-	-	459,391
Family Access to Medical Insurance Security Payable	-	-	4,692
Tax Refunds Payable	-	-	423,383
Insurance Carrier Surety Deposit	-	434,129	434,129
Deposits Pending Distribution	-	41,208	54,232
Car Tax Refund Payable	-	-	263,025
Title XII Federal Advances	-	-	182,219
Other Liabilities	197,594	2,013	205,351
Total Other Liabilities	$ 197,594	$ 511,895	$ 2,141,488

Note (2): Other Liabilities of $197,594 (dollars in thousands) reported in pension and other employee benefit trust funds are made up of $29,808 (dollars in thousands) in funds held for the Commonwealth Health Research Fund; $12,111 (dollars in thousands) in other funds managed by the System; $150,411 (dollars in thousands) in pending investment transactions, including $104,190 (dollars in thousands) for investment overlay and swaps, $30,000 (dollars in thousands) for securities lending, $16,063 (dollars in thousands) for net foreign exchange contracts, $158 (dollars in thousands) in other investment payables; $949 (dollars in thousands) in other payable related to the System benefit plans; $3,455 (dollars in thousands) in foreign taxes payables related to the System benefit plans, and $860 (dollars in thousands) in interest and dividends payable related to the System benefit plans.

Note (3): Fiduciary liabilities of $709,520 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. Governmental fund liabilities of $553,515 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

	Component Units				
	Virginia Housing Development Authority	Virginia Public School Authority	University of Virginia (4)	Virginia Polytechnic Institute & State University	Virginia Commonwealth University (4)
Accrued Interest Payable	$ 98,798	$ 59,513	$ 5,711	$ 4,013	$ 5,022
Other Liabilities	2,238	20	89,095	27,337	105,257
Deposits Pending Distribution	-	-	449,260	14,669	29,757
Short-term Debt	-	-	115,850	870	-
Grants Payable	-	-	-	-	-
Total Other Liabilities	$ 101,036	$ 59,533	$ 659,916	$ 46,889	$ 140,036

	Component Units	
	Nonmajor Component Units	Total Component Units
Accrued Interest Payable	$ 132,055	$ 305,112
Other Liabilities	41,726	265,673
Deposits Pending Distribution	30,059	523,745
Short-term Debt	13,015	129,735
Grants Payable	10,134	10,134
Total Other Liabilities	$ 226,989	$ 1,234,399

Note (4): Other Liabilities of $11,123 (dollars in thousands) for the University of Virginia and $39,596 (dollars in thousands) for the Virginia Commonwealth University represent hedging derivative instruments reported in accordance with GASBS No. 53 (see Note 13 for additional information).

Medicaid Payable

Medicaid Payable represents services rendered but not billed by providers and potential liability resulting from cost reports not settled as of year-end. Providers subject to cost settlement are paid in the interim based on established per diem or diagnosis related group rates for services.

The Department of Medical Assistance Services (DMAS) estimates, based on past experience, the total amount of Medicaid claims that will be paid from the Medicaid program in the future which relate to services provided before year-end. At June 30, 2011, the estimated liability related to Medicaid claims totaled $459.4 million. Of this amount, $228.9 million is reflected in the General Fund (major) and $230.5 million in the Federal Trust Special Revenue Fund (major).

Family Access to Medical Insurance Security Payable

DMAS estimates the total amount of claims that will be paid from the Family Access to Medical Insurance Security program in the future which relate to services provided before year-end. At June 30, 2011, the estimated liability related to claims totaled $4.7 million. Of this amount, $1.6 million is reflected in the General Fund (major) and $3.1 million in the Federal Trust Special Revenue Fund (major).

Tax Refunds Payable

Tax refunds payable represent refunds due on individual tax returns filed for the calendar year ended on or before December 31, 2010, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2011. The individual tax return filing deadline is May 1 of each year for the preceding calendar year. The corporate tax return filing deadline is the 15th day of the fourth month following the close of the corporate fiscal year.

Car Tax Refund Payable

During the year ended June 30, 1998, the General Assembly passed the Personal Property Tax Relief Act. Under the terms of this legislation, the Commonwealth assumed financial responsibility for a portion, ranging from 12.5 percent to 70.0 percent, of the personal property taxes assessed by localities.

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

Title XII Federal Advances

The Virginia Unemployment Trust Fund became insolvent during fiscal year 2010. As a result, the Virginia Employment Commission obtained Federal repayable advances under Title XII of the Social Security Act which enabled the Fund to continue payments of benefits and cover increased unemployment claims payments. As of June 30, 2011, the outstanding balance of the advances is $182.2 million.

Termination Benefits

As of June 30, 2011, the Commonwealth had laid off 50 employees. The affected employees had the option of volunteering for enhanced retirement benefits or severance benefits. The enhanced retirement benefits option was elected by 6 employees, and the remaining 44 employees elected severance benefits. The severance benefits include salary payments based on years of service and insurance premium payments for health and life insurace. All severance benefits were initiated during fiscal year 2011 and will end no later than June 30, 2012. The benefit cost expended and the outstanding liability as of June 30, 2011, is $740,811 and $282,320 respectively. Since the severace benefits last for a maximum of 12 months, discounting of future cash flows is unnecessary. Additionally, the estimated payments are calculated using the Department of Human Resources' Termination Benefits Calculator and actual costs.

Short-term Debt

Short-term debt results from borrowings from anticipation notes, lines of credit, and similar loans with parties external to the primary government. The primary government's policy is to disclose activity related to short-term borrowings occurring during the fiscal year. For fiscal year 2011, the primary government's agencies did not participate in short-term borrowings with external parties.

Various higher education institutions' foundations (component units) have short-term debt. University of Virginia Foundations (major component unit) report $39.0 million and nonmajor component unit foundations report approximately $13.0 million. This short-term debt is for working capital, property acquisition, construction costs, and operating costs. The University of Virginia (major component unit) has commercial paper of approximately $76.8 million and the Virginia Polytechnic Institute and State University (major component unit) reports approximately $0.9 million of commercial paper that provides bridge financing for capital projects. The Virginia Horse Center Foundation (nonmajor component unit) has a $44,000 note with a related party. This note has been paid in full during fiscal year 2011. The Library of Virginia Foundation (nonmajor component unit) has a $60,000 note with a related party. During the year ended June 30, 2011, $10,000 of the loan was forgiven and has been recognized as a contribution.

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

25. LONG–TERM LIABILITIES

Commonwealth bonds are issued pursuant to Section 9 of Article X of the *Constitution of Virginia*. Section 9(a) bonds have been issued to redeem previous debt obligations. Section 9(b) bonds have been authorized by the citizens of Virginia through bond referenda to finance capital projects. These bonds are retired through the use of state appropriations. Section 9(c) bonds are issued to finance capital projects which, when completed, will generate revenue to repay the debt. Section 9(a), 9(b), and 9(c) bonds are tax-supported general obligation bonds and are backed by the full faith, credit, and taxing power of the Commonwealth. No other long-term debt or obligations are backed by the full faith, credit, and taxing power of the Commonwealth.

Section 9(d) bonds are revenue bonds and are not backed by the full faith, credit and taxing power of the Commonwealth. These bonds are not general obligation bonds and are not deemed to constitute a legal liability of the Commonwealth. This debt may be supported by state appropriations in whole or in part, as in the case of certain debt of the Virginia Port Authority (nonmajor component unit). Other 9(d) revenue bonds are payable from general revenues of the component units, or from revenues of specific revenue-producing capital projects such as the teaching hospitals, dormitories, student centers, and dining halls at the various colleges and universities (component units). Additionally, the 9(d) Transportation Bonds (primary government) are payable solely from revenues or earnings, and other available sources of funds appropriated by the General Assembly.

Certain 9(d) bonds are considered, with 9(a), 9(b), and 9(c) bonds, to be tax-supported debt of the Commonwealth. Tax-supported debt includes all bond issues and short-term debt supported by tax revenues (net of sinking fund requirements), for which debt service payments are made or are ultimately pledged to be made from general governmental funds.

Other 9(d) revenue bonds are considered debt not supported by taxes. For this debt, the Commonwealth has no direct or indirect pledge of tax revenues. However, in some cases, the Commonwealth has made a moral obligation pledge. A government's moral obligation pledge provides a deficiency make-up for bondholders should underlying project revenues prove insufficient. The mechanics involve funding a debt service reserve fund when the bonds are issued. If a revenue deficiency exists, reserve fund monies are used to pay bondholders. The issuer then informs the legislative body requesting that it replenish the reserve fund before subsequent debt service is due. The legislative body may, but is not legally required to, replenish the reserve fund. These bonds are considered to be moral obligation debt.

The following schedule presents the total long-term liabilities of the Commonwealth, and the portion of these amounts which are due within one year, as reported on the Government-wide Statement of Net Assets.

Total Long-term Liabilities
June 30, 2011

(Dollars in Thousands)	**Balance At June 30**	**Amount Due Within One Year**
Primary Government:		
Governmental Activities:(1)		
General Obligation Bonds: (2)		
9(b) Public Facilities (3)	$ 914,574	$ 78,721
9(c) Parking Facilities (3)	19,445	740
9(c) Transportation Facilities (3)	26,355	2,080
Total General Obligation Bonds	960,374	81,541
Nongeneral Obligation Bonds - 9(d):		
Transportation Debt (3) (4)	2,283,251	160,125
Virginia Public Building Authority (3)	2,418,513	169,340
Total Nongeneral Obligation Bonds	4,701,764	329,465
Other Long-term Obligations:		
Pension Liability	1,405,714	-
OPEB Liability	301,771	-
Compensated Absences	311,523	159,950
Capital Lease Obligations	87,219	11,006
Pollution Remediation Obligations	4,772	749
Regional Jail Financing Payable	4,617	1,869
Notes Payable	70,295	20,605
Installment Purchase Obligations	101,014	7,952
Economic Development Authority Obligations (3)	85,827	3,875
Other Liabilities	24,308	3,900
Total Other Long-term Obligations	2,397,060	209,906
Total Governmental Activities (3)	8,059,198	620,912
Business-type Activities: (1) (5)		
Other Long-term Obligations:		
Pension Liability	34,054	-
OPEB Liability	9,099	-
Compensated Absences	9,044	5,098
Capital Lease Obligations	918	469
Tuition Benefits Payable	2,215,261	177,955
Lottery Prizes Payable	216,408	41,416
Total Other Long-term Obligations	2,484,784	224,938
Total Business-type Activities	2,484,784	224,938
Total Primary Government	10,543,982	845,850

Total Long-term Liabilities
June 30, 2011

(Dollars in Thousands)	**Balance At June 30**	**Amount Due Within One Year**
Component Units:		
General Obligation Bonds: (2)		
Higher Education Fund - 9(c) Bonds (3)	765,280	40,821
Nongeneral Obligation Bonds:		
Higher Education Institutions - 9(d) (3) (5)	1,450,714	22,834
Virginia College Building Authority (3)	1,909,586	124,340
Innovation and Entrepreneurship Investment Authority	3,465	1,090
Virginia Port Authority (3) (6)	470,569	13,082
Virginia Housing Development Authority (3) (5)	6,438,200	288,402
Virginia Resources Authority (3) (7)	2,744,403	107,801
Virginia Public School Authority (3) (5)	3,215,448	220,448
Hampton Roads Sanitation District Commission (5)	560,996	18,229
Virginia Biotechnology Research Park Authority (3) (8)	41,080	3,048
Foundations (5) (9)	866,679	24,849
Total Nongeneral Obligation Bonds	17,701,140	824,123
Other Long-term Obligations:		
Pension Liability (10)	644,481	-
OPEB Liability (11)	342,066	-
Compensated Absences	248,149	167,919
Capital Lease Obligations	119,519	5,941
Notes Payable (5)	2,403,627	669,891
Installment Purchase Obligations	118,277	17,655
Trust and Annuity Obligations (5) (12)	2,376	-
Other Liabilities (5)	335,307	83,242
Total Other Long-term Obligations (Excluding Foundations)	4,213,802	944,648
Other Long-term Obligations (Foundations): (5) (9)		
Pension Liability	76,652	-
OPEB Liability	28	-
Compensated Absences	11,045	9,658
Capital Lease Obligations	128	50
Notes Payable	214,456	41,569
Trust and Annuity Obligations (12)	77,118	2,741
Other Liabilities	109,671	1,506
Total Other Long-term Obligations - Foundations	489,098	55,524
Total Other Long-term Obligations	4,702,900	1,000,172
Total Component Units	23,169,320	1,865,116
Total Long-term Liabilities	$ 33,713,302	$ 2,710,966

1. Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.
2. Total general obligation debt of the Commonwealth is $1.73 billion.
3. Amounts are net of any unamortized discounts, premiums, and deferrals.
4. This debt includes $274.7 million that is not supported by taxes.
5. This debt is not supported by taxes.
6. This debt includes $284.6 million that is not supported by taxes.
7. This debt is not supported by taxes; however, $684.0 million from VRA is considered moral obligation debt.
8. This debt includes $1.1 million that is not supported by taxes.
9. Foundations represent FASB reporting entities defined in Note 1.B.
10. This includes pension obligations that do not relate to the Virginia Retirement System from Virginia Commonwealth University of $4.1 million and Virginia Port Authority of $3.6 million. It does not include pension obligations from fiduciary funds of $8.9 million.
11. This includes OPEB obligations that do not relate to the Virginia Retirement System from University of Virginia of $18.9 million, and Virginia Port Authority of $130,198. It does not include OPEB obligations from fiduciary funds of $2.7 million.
12. These generally represent split-interest agreements that represent donor contributed assets with the requirement that an annual distribution be made to the donor or specified beneficiary. The annual distributions are usually for a fixed dollar amount or a fixed percentage of the trust's fair market value. The present value of these commitments is reported as Trust and Annuity Obligations.

Primary Government

Transportation Facilities Debt

Transportation Facilities Bonds include $26,354,667 of Section 9(c) general obligation bonds and $2,008,600,982 of Section 9(d) revenue bonds. The Transportation Facilities Section 9(d) debt of $2,283,250,626 includes $274,649,644 of outstanding Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes in addition to the outstanding Section 9(d) revenue bonds. 9(b) Principal and interest requirements for the current year totaled $6,310,500. 9(c) Principal and interest requirements for the current year totaled $3,187,600. 9(d) Principal and interest requirements for the current year totaled $281,535,676. The Section 9(b) Transportation Facilities bonds represent Powhite Refunding Bonds, which were retired in full during the current year. The Section 9(c) Transportation Facilities Bonds were issued to fund the construction and improvement of the George P. Coleman Bridge. The Section 9(d) Transportation Facilities Bonds were issued to fund the construction of State Route 28, U.S. Route 58, the Northern Virginia Transportation District Program, and the Oak Grove Connector (Chesapeake). The Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes were issued to finance various capital transportation projects throughout the Commonwealth. The interest rates for these bonds range from 2.00 percent to 5.95 percent and the issuance dates range from October 10, 2001, to May 15, 2011.

The following schedules detail the annual funding requirements necessary to amortize Transportation Facilities 9(c) bonds and 9(d) debt. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35 percent interest subsidy to reimburse interest payments of $135,045,895 for Build America Bonds (BABs) issued. The BABs are applicable to Commonwealth of Virginia Transportation Series 2010A Capital Project Revenue Bonds and Series 2009A Northern Virginia Transportation District Revenue Bonds.

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

Maturity	*Principal*	*Interest*	*Total*
2012	$ 2,080,000	$ 1,113,850	$ 3,193,850
2013	2,185,000	1,009,850	3,194,850
2014	2,290,000	900,600	3,190,600
2015	2,405,000	786,100	3,191,100
2016	2,520,000	665,850	3,185,850
2017-2021	14,205,000	1,749,000	15,954,000
Less:			
Deferral on Debt Defeasance	(50,000)	-	(50,000)
Add:			
Unamortized Premium	719,667	-	719,667
Total	$ 26,354,667	$ 6,225,250	$ 32,579,917

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

Maturity	*Principal*	*Interest*	*Total*
2012	$ 160,125,000	$ 100,562,154	$ 260,687,154
2013	175,555,000	93,462,898	269,017,898
2014	120,315,000	86,404,285	206,719,285
2015	126,180,000	80,422,604	206,602,604
2016	132,280,000	74,122,403	206,402,403
2017-2021	492,109,776	293,137,814	785,247,590
2022-2026	352,469,196	197,214,352	549,683,548
2027-2031	291,960,275	120,550,975	412,511,250
2032-2036	306,569,420	43,353,220	349,922,640
Less:			
Unamortized Discount	(114,846)	-	(114,846)
Deferral on Debt Defeasance	(2,507,300)	-	(2,507,300)
Add:			
Accretion on Capital Appreciation Bonds	19,864,668	-	19,864,668
Unamortized Premium	108,444,437	-	108,444,437
Total	$ 2,283,250,626	$ 1,089,230,705	$ 3,372,481,331

Fairfax Economic Development Authority Obligations

In fiscal year 2006, the Fairfax County Economic Development Authority (EDA) issued Section 9(d) revenue bonds to pay for the Commonwealth's (VDOT) costs of the planning, design and construction of a transportation infrastructure and related public safety operations complex to be developed on the contiguous sites in the county commonly referred to as "Camp 30" for the joint use of VDOT and the county. The Commonwealth's obligation is set out in a payment agreement between Fairfax County EDA and the Commonwealth of Virginia, Department of Transportation, in which the Commonwealth agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 4.25 percent to 5.00 percent and the issue date was April 12, 2006. The principal and interest requirements for current year totaled $7,827,688. The following schedule details the annual funding requirements necessary to repay these bonds.

FAIRFAX COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2012	$ 3,875,000	$ 3,953,188	$ 7,828,188
2013	4,070,000	3,759,438	7,829,438
2014	4,270,000	3,555,938	7,825,938
2015	4,485,000	3,342,438	7,827,438
2016	4,710,000	3,118,188	7,828,188
2017-2021	27,220,000	11,925,288	39,145,288
2022-2026	34,145,000	4,995,950	39,140,950
Add:			
Unamortized Premium	3,051,622	-	3,051,622
Total	$ 85,826,622	$ 34,650,428	$ 120,477,050

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 2002 Refunding, Series 2003A Refunding, Series 2004A, Series 2004B Refunding, Series 2005A, Series 2006A Refunding, Series 2006B, Series 2007A, Series 2007B, Series 2008A, Series 2008B, Series 2008B Refunding, Series 2009A, Series 2009D Refunding, and Series 2009E. Bonds were issued to fund construction projects for higher educational institutions, mental health, and/or park facilities. The Series 2003A bonds were issued to advance refund outstanding Series 1993A and B, Series 1994, and Series 1996 bonds. The Series 2004B bonds were issued to advance refund outstanding Series 1997, Series 1998, and Series 1999A bonds. The Series 2006A bonds were issued to advance refund outstanding Series 1996 bonds. The Series 2008B bonds were issued to advance refund outstanding Series 1998 refunding bonds. The Series 2009D Bonds were issued to advance refund outstanding Series 2004A, Series 2005A, and Series 2006B bonds. Principal and interest requirements for the current year totaled $119,582,001. The interest rates for all bonds range from 1.2 percent to 5.5 percent and the issuance dates range from October 23, 2002, to October 21, 2009. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35 percent interest subsidy to reimburse interest payments of $6,159,472 for Build America Bonds (BABs) issued. The BABs are applicable to Series 2009E Public Facilities Revenue Bonds.

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

Maturity	*Principal*	*Interest*	*Total*
2012	$ 78,721,071	$ 40,597,234	$ 119,318,305
2013	78,507,178	36,888,838	115,396,016
2014	73,465,000	33,226,925	106,691,925
2015	68,410,000	29,756,935	98,166,935
2016	60,815,000	26,477,835	87,292,835
2017-2021	249,855,000	94,293,179	344,148,179
2022-2026	214,520,000	38,625,306	253,145,306
2027-2031	49,195,000	3,588,438	52,783,438
Less: Deferral on Debt Defeasance	(16,210,000)	-	(16,210,000)
Add: Unamortized Premium	57,295,322	-	57,295,322
Total	$ 914,573,571	$ 303,454,690	$ 1,218,028,261

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, 2002 Refunding, 2003A, 2004A, 2009B, and 2009D Refunding. The Series 2002 Refunding bonds were issued to advance refund outstanding Series 1996 and Series 1993 Refunding bonds. The Series 2004A bonds were issued to fund the renovation of the 9th and Franklin Street parking deck. The Series 2009B bonds were issued to fund the construction of a new 1,000 vehicle parking structure at 7th and Franklin Streets. The Series 2009D Refunding bonds were issued to advance refund outstanding Series 2004A and 2006B Refunding bonds. The interest rates for these bonds range from 2.5 percent to 5.5 percent and the issuance dates range from October 23, 2002, to October 21, 2009. Current year principal and interest requirements totaled $2,449,762.

The following schedule details the annual funding requirements necessary to repay these bonds.

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

Maturity	*Principal*	*Interest*	*Total*
2012	$ 740,000	$ 852,055	$ 1,592,055
2013	770,000	819,855	1,589,855
2014	805,000	781,355	1,586,355
2015	845,000	746,355	1,591,355
2016	722,093	704,105	1,426,198
2017-2021	4,935,000	2,870,750	7,805,750
2022-2026	5,415,000	1,538,950	6,953,950
2027-2031	3,090,000	314,000	3,404,000
Less: Deferral on Debt Defeasance	(220,900)	-	(220,900)
Add: Unamortized Premium	2,343,387	-	2,343,387
Total	$ 19,444,580	$ 8,627,425	$ 28,072,005

Virginia Public Building Authority

Virginia Public Building Authority (VPBA) Section 9(d) bonds consist of Series 2001A, 2002A, 2003A Refunding, 2004A Refunding, 2004B, 2004C Refunding, 2004D Refunding, 2005A Refunding, 2005B Refunding, 2005C, 2005D, 2006A, 2006B, 2007A, 2008A Refunding, 2008B, 2009A, 2009B, 2009C, 2009D Refunding, 2010A, 2010B-1, 2010B-2, and 2010B-3 Refunding. All bonds were issued for the purpose of constructing, improving, furnishing, maintaining, and acquiring public buildings for the use of the Commonwealth and also to reimburse localities, regional jail authorities or other combination of localities under the Regional Jail Financing Program. The Series 2004C and 2005A bonds were issued to refinance certain capital lease obligations of the Commonwealth. The Series 2004D bonds were issued to advance refund outstanding Series 1997A, Series 1999B, and Series 2000A bonds. The Series 2005B bonds were issued to advance refund outstanding Series 1996A, Series 1998B, and Series 1999A bonds. The Series 2008A bonds were issued to advance refund outstanding series 1998A Refunding bonds. The Series 2009D bonds were issued to advance refund outstanding series 2001A and 2002A Revenue bonds. The Series 2010B-3 bonds were issued to advance refund outstanding series 2002A and 2004B Revenue bonds. The interest rates for all fixed rate bonds range from 2.0 percent to 5.75 percent and the issuance dates range from August 1, 2001, to October 26, 2010. The Series 2005D bonds are variable rate bonds and the rates are reset weekly by the remarketing agent. Current year principal and interest requirements totaled

$249,331,754. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35 percent interest subsidy to reimburse interest payments of $114,003,148 for Build America Bonds (BABs) issued. The BABs are applicable to Series 2010 Revenue Bonds.

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

Maturity	*Principal*	*Interest*	*Total*
2012	$ 169,340,000	$ 111,062,514	$ 280,402,514
2013	173,585,000	99,927,449	273,512,449
2014	164,430,000	91,703,920	256,133,920
2015	168,255,000	83,515,216	251,770,216
2016	164,995,000	75,568,494	240,563,494
2017-2021	616,355,000	281,262,938	897,617,938
2022-2026	530,730,000	151,334,222	682,064,222
2027-2031	333,195,000	39,092,669	372,287,669
Less: Deferral on Debt Defeasance	(22,200,636)	-	(22,200,636)
Add: Unamortized Premium	119,829,054	-	119,829,054
Total	$ 2,418,513,418	$ 933,467,422	$ 3,351,980,840

Regional Jail Financing Program

The Regional Jail Financing Program of the Commonwealth of Virginia Treasury Board was created during the 1993 Session of the General Assembly to establish a method of reimbursing localities, regional jail authorities or other combination of localities for a portion of the capital and financing costs of a jail project, made pursuant to Sections 53.1-80, 53.1-81, or 53.1-82 of the *Code of Virginia*. The General Assembly, upon recommendation from the Department of Planning and Budget, may determine to reimburse localities for approved capital costs over time through a contractual reimbursement agreement between the localities or authority and the Treasury Board. The Board of Corrections determines the amount of reimbursable capital costs. If approved for reimbursement over time, the Treasury Board determines the amount of reimbursable financing costs and calculates the periodic reimbursement payments.

In 1996, the General Assembly adopted legislation that authorized funding of jail project reimbursements through bonds issued by the Virginia Public Building Authority (VPBA). As of June 30, 1998, all future jail reimbursements were approved for funding through the VPBA as opposed to the Treasury Board. All reimbursements whether up front or over time, are subject to appropriation by the General Assembly. Current year principal and interest requirements totaled $2,635,689.

The following schedule details the annual funding requirements necessary to repay these obligations.

REGIONAL JAILS FINANCING
Financial Obligations to Maturity

Calendar Year Obligations	*Capital Costs*	*Financing Costs*	*Total*
2012	$ 1,869,189	$ 766,526	$ 2,635,715
2013	1,911,009	725,511	2,636,520
2014	837,165	(646,926)	190,239
Total	$ 4,617,363	$ 845,111	$ 5,462,474

Industrial Development Authority Obligations

In fiscal year 2002, the Newport News Industrial Development Authority (IDA) issued Section 9(d) revenue bonds to pay a portion of the cost of construction and equipping of the Virginia Advanced Shipbuilding and Carrier Integration Center for use by the Newport News Shipbuilding and Dry Dock Company. The Commonwealth's obligation is set out in a payment agreement between Newport News IDA and the Treasury Board, in which the Treasury Board agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 2.75 percent to 5.03 percent and the issue date was July 27, 2000. Current year principal and interest requirements totaled $5,291,625, which retired the outstanding principal in full.

Component Units

Higher Education Institution Bonds

Higher Education Institution Bonds are comprised of both 9(c) general obligation bonds and 9(d) revenue bonds. Section 9(d) bonds are from several sources as shown on the following schedule (dollars in thousands).

College and university bonds backed by pledge of general revenue or revenue from specific revenue-producing capital projects	$ 1,232,954
College and university debt backed exclusively by pledged revenues of an institution	217,760
Total Higher Education Institution 9(d) debt	$ 1,450,714

The interest rates for these bonds range from 0.04 percent to 6.2 percent and the issuance dates range from November 17, 1981, to October 27, 2010. The VCBA Series 2006B and 2006C bonds, the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University) Series 2005 and 2008 bonds, and the UVA

Series 2003A bonds are variable rate bonds and the rates are reset weekly by the remarketing agent.

The following schedules detail the annual funding requirements necessary to amortize Higher Education Institution 9(c) and 9(d) bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35 percent interest subsidy to reimburse interest payments of $426,241,481 for Build America Bonds (BABs) issued. The BABs are applicable to General Obligation Series 2010A Bonds, Series 2009F and 2010B 21st Century Virginia College Building Authority Education Facilities Bonds, and the University of Virginia's Series 2009 and 2010 General Revenue Bonds.

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

Maturity	*Principal*	*Interest*	*Total*
2012	$ 39,973,929	$ 33,943,320	$ 73,917,249
2013	44,247,822	32,035,278	76,283,100
2014	38,925,000	29,941,662	68,866,662
2015	41,550,000	28,029,462	69,579,462
2016	41,217,907	25,978,312	67,196,219
2017-2021	189,510,000	103,979,172	293,489,172
2022-2026	183,860,000	63,302,475	247,162,475
2027-2031	115,625,000	25,423,767	141,048,767
2032-2036	40,895,000	6,608,315	47,503,315
2037-2041	7,750,000	857,747	8,607,747
Less:			
Deferral on			
Debt Defeasance	(11,812,200)	-	(11,812,200)
Add:			
Unamortized Premium	33,537,234	-	33,537,234
Total	$ 765,279,692	$ 350,099,510	$ 1,115,379,202

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

Maturity	*Principal*	*Interest*	*Total*
2012	$ 22,793,496	$ 55,922,214	$ 78,715,710
2013	23,677,379	55,161,647	78,839,026
2014	23,421,381	54,358,515	77,779,896
2015	24,480,503	53,499,906	77,980,409
2016	24,664,750	52,581,988	77,246,738
2017-2021	97,332,079	252,239,438	349,571,517
2022-2026	108,115,888	238,285,969	346,401,857
2027-2031	114,600,000	226,702,417	341,302,417
2032-2036	251,965,000	215,111,256	467,076,256
2037-2041	748,165,000	134,399,772	882,564,772
Less:			
Deferral on			
Debt Defeasance	(7,399,886)	-	(7,399,886)
Add:			
Unamortized Premium	18,898,416	-	18,898,416
Total	$ 1,450,714,006	$ 1,338,263,122	$ 2,788,977,128

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

Maturity	*Principal*	*Interest*	*Total*
2012	$ 116,005,000	$ 85,366,939	$ 201,371,939
2013	105,260,000	76,343,279	181,603,279
2014	109,940,000	71,537,703	181,477,703
2015	119,455,000	66,555,119	186,010,119
2016	116,055,000	61,626,033	177,681,033
2017-2021	513,050,000	239,221,256	752,271,256
2022-2026	467,515,000	134,174,612	601,689,612
2027-2031	287,820,000	35,370,901	323,190,901
Less:			
Deferral on			
Debt Defeasance	(15,994,400)	-	(15,994,400)
Add:			
Unamortized Premium	90,480,228	-	90,480,228
Total	$ 1,909,585,828	$ 770,195,842	$ 2,679,781,670

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

FOUNDATIONS' BONDS (1)
Debt Service Requirements to Maturity

Maturity	*Principal*
2012	$ 24,849,267
2013	19,145,288
2014	31,683,029
2015	21,059,747
2016	24,639,774
Thereafter	745,301,426
Total	$ 866,678,531

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

Innovation and Entrepreneurship Investment Authority

The Innovation and Entrepreneurship Investment Authority (IEIA) has issued Taxable Lease Revenue Bonds, Series 1989, and Series 1997 Refunding. The Series 1989 bonds were issued to cover a portion of the costs related to the construction of a software development center and office building. Series 1997 bonds were issued to advance refund $11.2 million of the outstanding 1989 bonds.

The 1989 bonds had an average interest rate of 10.3 percent and the 1997 bonds have an average interest rate of 7.4 percent. The bonds were issued on March 1, 1989, and May 1, 1997, respectively. The following schedule details the annual funding requirements necessary to amortize IEIA bonds.

9(d) INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2012	$ 1,090,000	$ 260,568	$ 1,350,568
2013	1,155,000	178,600	1,333,600
2014	1,220,000	91,744	1,311,744
Total	$ 3,465,000	$ 530,912	$ 3,995,912

Virginia Port Authority

The Virginia Port Authority (VPA) has issued Section 9(d) revenue bonds and notes pursuant to powers provided to its board of commissioners by the *Code of Virginia*. The interest rates for these bonds range from 3.375 percent to 5.5 percent and the issuance dates range from July 23, 2002, to May 6, 2010. Series 2006A bonds were issued to advance refund $22.9 million of outstanding Series 1996 bonds. Series 2010 bonds were issued to currently refund in full the outstanding principal amount of the Authority's Series 2009 Bond Anticipation Note. The following schedule details the annual funding requirements necessary to amortize VPA bonds.

9(d) VIRGINIA PORT AUTHORITY DEBT
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2012	$ 12,330,000	$ 23,396,464	$ 35,726,464
2013	12,935,000	22,287,427	35,222,427
2014	13,575,000	21,647,812	35,222,812
2015	14,250,000	20,977,707	35,227,707
2016	14,995,000	20,225,657	35,220,657
2017-2021	80,415,000	89,130,362	169,545,362
2022-2026	100,995,000	67,105,278	168,100,278
2027-2031	97,955,000	41,056,226	139,011,226
2032-2036	77,585,000	20,638,138	98,223,138
2037-2041	34,990,000	3,938,500	38,928,500
Less: Deferral on Debt Defeasance	(807,507)	-	(807,507)
Add: Unamortized Premium	11,351,043	-	11,351,043
Total	$ 470,568,536	$ 330,403,571	$ 800,972,107

Virginia Housing Development Authority

The Virginia Housing Development Authority (VHDA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.184 percent to 8.18 percent and the origination dates range from January 6, 2001, to June 14, 2011. The following schedule details the annual funding requirements necessary to amortize these bonds.

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

Maturity	Principal	Interest	Total
2012	$ 288,402,901	$ 303,387,947	$ 591,790,848
2013	279,490,000	292,668,198	572,158,198
2014	272,905,000	281,510,511	554,415,511
2015	269,910,000	270,100,156	540,010,156
2016	269,485,000	258,326,977	527,811,977
2017-2021	1,315,120,000	1,105,039,220	2,420,159,220
2022-2026	1,048,040,000	805,325,914	1,853,365,914
2027-2031	1,062,977,038	532,929,728	1,595,906,766
2032-2036	834,726,165	286,479,250	1,121,205,415
2037-2041	578,038,398	85,477,606	663,516,004
2042-2046	189,515,000	7,138,955	196,653,955
Add: Unamortized Premium	29,590,566	-	29,590,566
Total	$ 6,438,200,068	$ 4,228,384,462	$ 10,666,584,530

Virginia Resources Authority

The Virginia Resources Authority (VRA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 1.25 percent to 8.70 percent and the origination dates range from December 1, 1985, to June 11, 2011. The following schedule details the annual funding requirements necessary to amortize these bonds.

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

Maturity	Principal	Interest	Total
2012	$ 98,413,450	$ 122,738,482	$ 221,151,932
2013	107,546,100	118,755,037	226,301,137
2014	116,933,450	114,222,059	231,155,509
2015	124,740,000	109,309,157	234,049,157
2016	128,260,000	103,905,289	232,165,289
2017-2021	670,715,000	425,888,875	1,096,603,875
2022-2026	612,315,000	274,727,609	887,042,609
2027-2031	524,025,000	132,860,834	656,885,834
2032-2036	216,225,000	43,192,074	259,417,074
2037-2041	69,105,000	7,413,584	76,518,584
2042-2046	140,000	3,150	143,150
Less: Unaccreted Capital Appreciation Bonds	(41,500,573)	-	(41,500,573)
Add: Unamortized Premium	117,485,263	-	117,485,263
Total	$ 2,744,402,690	$ 1,453,016,150	$ 4,197,418,840

Virginia Public School Authority

The Virginia Public School Authority (VPSA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.05 percent to 5.95 percent, and the origination dates range from November 20, 1997, to June 28, 2011. The following schedule details the annual funding requirements necessary to amortize these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive an interest subsidy to reimburse interest payments of $110,146,163 for Qualified School Construction Bonds (QSCBs) issued. The QSCBs are applicable to Series 2010-1 and 2011-1 Revenue Bonds.

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

Maturity	Principal	Interest	Total
2012	$ 220,095,000	$ 144,182,971	$ 364,277,971
2013	212,115,000	134,098,126	346,213,126
2014	209,130,000	124,156,238	333,286,238
2015	205,500,000	114,162,119	319,662,119
2016	205,444,060	104,106,307	309,550,367
2017-2021	915,793,003	379,977,841	1,295,770,844
2022-2026	665,570,000	190,678,254	856,248,254
2027-2031	494,465,000	47,084,114	541,549,114
2032-2036	48,330,000	5,919,050	54,249,050
2037-2041	2,100,000	88,394	2,188,394
Less:			
Deferral on Debt Defeasance	(84,428,200)	-	(84,428,200)
Add:			
Unamortized Premium	121,334,364	-	121,334,364
Total	$ 3,215,448,227	$ 1,244,453,414	$ 4,459,901,641

Hampton Roads Sanitation District Commission

The Hampton Roads Sanitation District Commission issued bonds under a Master Trust Indenture and a Trust Agreement dated December 1, 1993, and March 1, 2003. The interest cost for these bonds range from 2.38 percent to 5.86 percent. The following schedule details the annual funding requirements necessary to amortize these bonds.

HAMPTON ROADS SANITATION DISTRICT COMMISSION
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2012	$ 18,229,000	$ 27,317,000	$ 45,546,000
2013	20,411,000	26,230,000	46,641,000
2014	21,706,000	24,857,000	46,563,000
2015	22,434,000	24,014,000	46,448,000
2016	21,907,000	23,136,000	45,043,000
2017-2021	88,911,000	104,706,000	193,617,000
2022-2026	101,749,000	83,509,000	185,258,000
2027-2031	108,498,000	57,911,000	166,409,000
2032-2036	96,836,000	31,134,000	127,970,000
2037-2041	60,315,000	5,925,000	66,240,000
Total	$ 560,996,000	$ 408,739,000	$ 969,735,000

Virginia Biotechnology Research Partnership Authority

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

VIRGINIA BIOTECH RESEARCH PARTNERSHIP AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2012	$ 3,005,000	$ 1,712,375	$ 4,717,375
2013	2,105,000	1,602,325	3,707,325
2014	3,560,000	1,510,950	5,070,950
2015	3,700,000	1,378,418	5,078,418
2016	3,525,000	1,231,950	4,756,950
2017-2021	20,085,000	3,689,325	23,774,325
2022-2026	4,640,000	116,000	4,756,000
Less:			
Unamortized Discount	(629,925)	-	(629,925)
Deferral on Debt Defeasance	(2,689,606)	-	(2,689,606)
Add:			
Unamortized Premium	3,779,270	-	3,779,270
Total	$ 41,079,739	$ 11,241,343	$ 52,321,082

Total principal outstanding at June 30, 2011, on all component unit bonds amounted to $18.5 billion.

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

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

(Dollars in Thousands)

	Balance July 1, 2010	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30, 2011
Primary Government				
Governmental Activities:				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - 9(b) and 9(c):				
Public Facilities Bonds	$ 949,064	$ -	$ (75,575)	$ 873,489
Parking Facilities Bonds	18,855	-	(1,533)	17,322
Transportation Facilities Bonds	33,670	-	(7,985)	25,685
Add: Unamortized Premium	66,727	-	(6,369)	60,358
Less: Deferral on Debt Defeasance	(18,930)	2,450	-	(16,480)
Total General Obligation Bonds	1,049,386	2,450	(91,462)	960,374
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Transportation Facilities Bonds	1,758,374	600,000	(200,810)	2,157,564
Virginia Public Building Authority Bonds	2,186,365	333,600	(199,080)	2,320,885
Regional Jails Financing Payable	6,445	-	(1,828)	4,617
Industrial Development Authority Obligations	5,150	-	(5,150)	-
Economic Development Authority Obligations	86,465	-	(3,690)	82,775
Add: Unamortized Premium	186,396	71,104	(26,175)	231,325
Accretion on Capital Appreciation Bonds	17,129	-	2,736	19,865
Less: Unamortized Discount	(158)	-	43	(115)
Deferral on Debt Defeasance	(24,793)	5,530	(5,445)	(24,708)
Installment Purchase Obligations	73,950	42,219	(15,155)	101,014
Notes Payable - Virginia Public Broadcasting Board	2,990	-	(2,990)	-
Notes Payable - Transportation	8,000	-	-	8,000
Notes Payable - Aviation	1,623	-	(287)	1,336
Notes Payable - Tax Refund	81,278	-	(20,319)	60,959
Compensated Absences	320,912	1,631	(11,020)	311,523
Capital Lease Obligations	97,012	1,757	(11,550)	87,219
Pension Liability	1,147,163	259,445	(894)	1,405,714
OPEB Liability	214,943	95,916	(9,088)	301,771
Pollution Remediation Liability	4,019	2,122	(1,369)	4,772
Other	26,041	2,131	(3,864)	24,308
Total Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	6,199,304	1,415,455	(515,935)	7,098,824
Total Governmental Activities	7,248,690	1,417,905	(607,397)	8,059,198
Business-type Activities:				
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Installment Purchase Obligations	187	-	(187)	-
Capital Lease Obligations	1,407	-	(489)	918
Obligations:				
Compensated Absences	9,130	2,199	(2,285)	9,044
Pension Liability	26,379	7,675	-	34,054
OPEB Liability	5,779	3,320	-	9,099
Lottery Prizes Payable	250,754	5,138	(39,484)	216,408
Tuition Benefits Payable	2,095,958	245,539	(126,236)	2,215,261
Total Business-type Activities	2,389,594	263,871	(168,681)	2,484,784
Total Primary Government	$ 9,638,284	$ 1,681,776	$ (776,078)	$ 10,543,982

Foundations (4)	Balance June 30, 2011	Due Within One Year
$ -	$ 873,489	$ 78,721
-	17,322	740
-	25,685	2,080
-	60,358	-
-	(16,480)	-
-	960,374	81,541
-	2,157,564	160,125
-	2,320,885	169,340
-	4,617	1,869
-	-	-
-	82,775	3,875
-	231,325	-
-	19,865	-
-	(115)	-
-	(24,708)	-
-	101,014	7,952
-	-	-
-	8,000	-
-	1,336	286
-	60,959	20,319
-	311,523	159,950
-	87,219	11,006
-	1,405,714	-
-	301,771	-
-	4,772	749
-	24,308	3,900
-	7,098,824	539,371
-	8,059,198	620,912
-	-	-
-	918	469
-	9,044	5,098
-	34,054	-
-	9,099	-
-	216,408	41,416
-	2,215,261	177,955
-	2,484,784	224,938
$ -	$ 10,543,982	$ 845,850

Continued on next page

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

(Dollars in Thousands)

	Balance July 1, 2010	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30, 2011
Component Units				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - Higher Education 9(c) (3)	$ 631,275	$ 175,478	$ (41,473)	$ 765,280
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Bonds (3)	16,650,660	1,645,386	(1,461,585)	16,834,461
Installment Purchase Obligations	141,026	10,098	(32,847)	118,277
Capital Lease Obligations	104,489	22,804	(7,774)	119,519
Notes Payable	2,034,214	727,400	(357,987)	2,403,627
Compensated Absences	238,916	221,649	(212,416)	248,149
Pension Liability	506,555	142,454	(4,528)	644,481
OPEB Liability	218,745	123,323	(2)	342,066
Trust and Annuity Obligations	1,535	841	-	2,376
Other	338,411	1,022,500	(1,025,604)	335,307
Total Component Units	$ 20,865,826	$ 4,091,933	$ (3,144,216)	$ 21,813,543

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

(2) Payments on bonded debt that pertain to the Commonwealth's governmental activities are made through the debt service funds. Payments for installment purchases, compensated absences, capital leases, pension, and other obligations that pertain to the Commonwealth's governmental activities are made through the general and special revenue funds. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the total for governmental activities. Enterprise funds, or business-type activities, are self-supporting funds. Accordingly, long-term liabilities are paid from each respective fund.

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

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

Foundations (4)	Balance June 30, 2011	Due Within One Year
$ -	$ 765,280	$ 40,821
866,679	17,701,140	824,123
-	118,277	17,655
128	119,647	5,991
214,456	2,618,083	711,460
11,045	259,194	177,577
76,652	721,133	-
28	342,094	-
77,118	79,494	2,741
109,671	444,978	84,748
$ 1,355,777	$ 23,169,320	$ 1,865,116

Bond Defeasance

Primary Government

The Virginia Public Building Authority issued $50,780,000 of Series 2010B-3 Public Facilitiles Revenue refunding bonds in November 2010. The bonds refunded were $11,620,000 of Series 2002A and $36,375,000 of Series 2004B Public Facilities Revenue Bonds. The net proceeds from the sale of the refunding bonds of $54,873,913 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service on the defeased bonds. The reacquisition price exceeded the net carrying amount of the old debt by $5,445,440. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. Total debt service payments over the next 13 years will be reduced by $1,874,717 resulting in an economic gain of $1,760,478 discounted at the rate of 2.18 percent.

Component Units

In November 2010, the Virginia College Building Authority (nonmajor) issued $101,040,000 of Series 2010B Pooled Bond Program refunding bonds. The bonds refunded were $10,615,000 of series 2000A, $29,295,000 of series 2001A, $41,615,000 of series 2002A, and $24,635,000 of series 2003A Pooled Bond Program bonds. The net proceeds from the sale of the refunding bonds of $114,870,771 were deposited in irrevocable trusts with escrow agents to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $8,712,000. Total debt service payments over the next 17 years will be reduced by $11,435,824 resulting in a present value savings of $9,247,407 discounted at the rate of 3.02 percent.

In October 2010, the Virginia Public School Authority (major) issued $85,510,000 of Series 2010C refunding bonds ("Refunding Bonds"). The bonds refunded were $53,880,000 of series 2004A and $29,485,000 of series 2004B bonds. The net proceeds from the sale of the Refunding Bonds were placed with an escrow agent to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $13,517,000. Total debt service payments over the next 14 years will be reduced by $3,455,433 resulting in a present value savings of $3,419,233 discounted at the rate of 2.38 percent.

GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of June 30, 2011, there were $240.0 million in bonds from the primary government that have been refunded and defeased in-substance from the governmental activities column by placing existing assets and the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments. In addition, there were $1.1 billion in bonds outstanding considered defeased from the component units.

Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986 calculate and rebate arbitrage earnings to the federal government. The U.S. Treasury has issued regulations on calculating the rebate amount and complying with the provisions of the Tax Reform Act of 1986. Governmental issuers must comply with the rebate regulations in order for their bonds to maintain tax-exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, to be rebated to the federal government. Income earned on excess earnings is also subject to rebate. Rebate liability, if any, must be paid every five years over the life of the bonds. Governmental issuers may elect to pay a penalty in lieu of rebate. Some bonds may be exempt from the rebate requirements if they qualify for certain regulatory exceptions. If the issuer meets one of the exceptions, the issuer retains any arbitrage earnings. Rebate and penalty payments are calculated and paid as required by law on bond issues that do not qualify for an exception.

Although rebatable arbitrage need only be calculated for tax purposes every fifth year that debt is outstanding, and consistent with modified accrual basis of accounting, is not recognized as a liability in governmental funds until amounts actually become due and payable, a liability is recognized in accrual basis government-wide statements as soon as the underlying event has occurred. Accordingly, as of June 30, 2011, the Commonwealth has recognized a government-wide liability of $1,418,442 and the Virginia Resources Authority (nonmajor component unit) has recognized a liability of $3,586,703.

Amounts remitted to the federal government for rebate liability are generally paid from earnings derived from the issue. However, if all proceeds (including earnings) have been expended and depending on the type of issue, it may be necessary to use project revenues or general or nongeneral fund appropriations to satisfy any rebate liability. During fiscal year 2011, a rebate payment in the amount of $745,223 was made on the Commonwealth's Series 2005A General Obligation Bonds. The amount of $127,962 was paid by the Virginia College Building Authority on its Pooled Bond Program, Series 2005A. No rebate payments were owed during the year on bonds of the Virginia Public Building Authority, Commonwealth Transportation Board, or the Virginia College Building Authority 21st Century Program.

Rebate liability on bonds of the Virginia Public School Authority (major component unit) is payable from earnings on related bond funds and from local issuers whose local school bonds were purchased by the VPSA. During the year, $1,515,969 was paid to the federal government for rebate on various VPSA school financing bonds.

Capital Leases

The Commonwealth leases buildings and equipment under various agreements that are accounted for as capital leases. The lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

Gross minimum lease payments, together with the present value of the net minimum lease payments as of June 30, 2011, are shown in the following table (dollars in thousands).

	Governmental Activities	Business-Type Activities	Component Units (1)
2012	$ 16,770	$ 575	$ 9,631
2013	15,256	588	10,110
2014	15,673	-	9,519
2015	15,367	-	9,035
2016	15,201	-	8,676
2017-2021	32,358	-	31,750
2022-2026	6,872	-	27,756
2027-2031	139	-	28,940
2032-2036	-	-	13,117
2037-2041	-	-	12,366
Total Gross Minimum Lease Payments	117,636	1,163	160,900
Less: Amount Representing Executory Costs	8,201	-	-
Net Minimum Lease Payments	109,435	1,163	160,900
Less: Amount Representing Interest	22,216	245	41,381
Present Value of Net Minimum Lease Payments	$ 87,219	$ 918	$ 119,519

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

	Foundations (2)
2012	$ 57
2013	38
2014	34
2015	12
2016	2
Net Minimum Lease Payments	143
Less: Amount Representing Interest	15
Present Value of Net Minimum Lease Payments	$ 128

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

At June 30, 2011, assets purchased under capital leases were included in depreciable capital assets as follows (dollars in thousands). The amounts are net of accumulated depreciation where applicable. For a portion of these assets, ownership will pass to the Commonwealth at the end of the lease term.

	Buildings	Equipment	Total
Governmental Activities:			
Gross Capital Assets	$ 172,821	$ 2,534	$ 175,355
Less: Accumulated Depreciation	61,528	372	61,900
Total Governmental Activities	$ 111,293	$ 2,162	$ 113,455
Business-Type Activities:			
Gross Capital Assets	$ 2,347	$ -	$ 2,347
Less: Accumulated Depreciation	1,330	-	1,330
Total Business-Type Activities	$ 1,017	$ -	$ 1,017
Component Units:			
Gross Capital Assets	$ 180,177	$ 20,520	$ 200,697
Less: Accumulated Depreciation	29,319	16,801	46,120
Subtotal (excluding Foundations)	150,858	3,719	154,577
Foundations:			
Gross Capital Assets	85	74	159
Less: Accumulated Depreciation	4	23	27
Subtotal Foundations	81	51	132
Total Component Units	$ 150,939	$ 3,770	$ 154,709

Notes Payable

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

Primary Government		
Transportation Note	$	8,000
Aviation Note		1,336
Installment Notes		101,014
Tax Refund Note		60,959
Total Primary Government		171,309
Component Units		
Virginia Public School Authority		164,790
Virginia Housing Development Authority		534,171
University of Virginia		49,833
Virginia Polytechnic Institute and State University		187,327
Virginia Commonwealth University		228,298
Nonmajor Component Units		1,239,208
Installment Notes		118,277
Subtotal (excluding Foundations)		2,521,904
Foundations:		
Notes Payable		214,456
Subtotal - Foundations		214,456
Total Component Units		2,736,360
Total Notes Payable	$	2,907,669

The Transportation (primary government) Note represents an interest free note payable to Chesterfield County, Virginia, of $8,000,000 for the repayment of the Powhite Parkway Extension Toll Road from surplus net revenues of the project prior to the retirement of all the bonds issued.

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

The Tax Refund (primary government) Note of $60,958,654 is owed to a taxpayer and will be paid in four annual installments. Variable interest not to exceed 4.0 percent will be included in the annual payments.

The Virginia Public School Authority (major component unit) notes of $164,790,000 are for the School Equipment Financing Notes Educational Technology program. The note proceeds were used to make grants to school divisions for the purchase of educational technology equipment. The notes will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund (major special revenue fund).

The Virginia Housing Development Authority (major component unit) has notes payable of $534,170,752 representing a credit agreement with the Federal Home Loan Bank of Atlanta. The proceeds along with the bond proceeds are used to make mortgage loans.

The Virginia Resources Authority (nonmajor component unit) notes of $5,663,892 are Equipment and Term Financing loans.

The Virginia Biotechnology Research Partnership Authority (nonmajor component unit) has notes payable in the amount of $8,307,707 used for refunding the 1998 bonds issued for BioTech One, making tenant improvements to BioTech Six and purchasing two pieces of land.

An additional amount of $1,690,694,000 is comprised primarily of higher education (component unit) promissory notes with the Virginia College Building Authority (VCBA) (nonmajor component unit) to finance the construction of various higher education facilities. The VCBA principal amount net of unamortized accruals is as follows: University of Virginia (major component unit) $49,405,477; Virginia Polytechnic Institute and State University (major component unit) $187,326,581; Virginia Commonwealth University (major component unit) $228,297,913; and nonmajor component units $1,222,625,130. Interest rates range from 2.00 percent to 5.75 percent and shall be paid semi-annually. The final principal payment is due in 2041.

The higher education institutions (component units) also have notes payable. The University of Virginia (major component unit) has notes payable of $427,804 for a GPS system and software. Virginia State University (nonmajor component unit) has a note payable of $1,625,605, which is the result of a loan agreement with the U.S. Department of Housing and Urban Development to repair seven dormitories. The loan is to be repaid over 30 years at 3.0 percent interest per annum, and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. The Radford University Property Acquisition Corporation (blended component unit of Radford University (nonmajor component unit)) has a notes payable of $985,902 to purchase land and a building. The original note was refinanced and the new terms include an interest rate of 5.53 percent, payable in monthly installments with a final payment in 2022.

Various foundations (component units) have notes outstanding as of year-end. The purpose of a majority of these notes is for property acquisition, working capital, and construction. Future principal payments as of June 30, 2011, are shown in the following table (dollars in thousands).

Foundations' Notes Payable (Component Units) (1)
June 30, 2011

Maturity	Principal
2012	$ 41,568
2013	17,310
2014	19,413
2015	13,335
2016	3,425
Thereafter	119,405
Total	$ 214,456

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

Installment purchase obligations have been entered into by agencies and institutions of the Commonwealth. These agreements, other than those in the component units and certain institutions of higher education, contain nonappropriation clauses indicating that continuation of the installment purchase obligations is subject to funding by the General Assembly. Installment purchase obligations represent $219,291,235 of the total outstanding debt of the Commonwealth. Presented in the following tables are repayment schedules for installment purchase obligations.

Installment Purchase Obligations - Governmental Funds
June 30, 2011

Maturity	Principal	Interest	Total
2012	$ 7,951,462	$ 3,516,426	$ 11,467,888
2013	7,528,896	3,747,070	11,275,966
2014	7,807,982	3,454,241	11,262,223
2015	8,104,878	3,149,669	11,254,547
2016	9,044,922	3,066,229	12,111,151
2017-2021	37,992,700	9,235,755	47,228,455
2022-2026	22,583,422	2,354,508	24,937,930
Total	$ 101,014,262	$ 28,523,898	$ 129,538,160

Installment Purchase Obligations - Component Units
June 30, 2011

Maturity	Principal	Interest	Total
2012	$ 17,654,563	$ 3,883,639	$ 21,538,202
2013	16,933,535	3,492,878	20,426,413
2014	15,535,815	2,958,232	18,494,047
2015	13,560,446	2,447,108	16,007,554
2016	10,612,577	2,010,295	12,622,872
2017-2021	34,129,523	4,333,741	38,463,264
2022-2026	7,101,907	775,901	7,877,808
2027-2031	882,120	94,672	976,792
2032-2036	915,450	61,343	976,793
2037-2041	951,037	26,754	977,791
Total	$ 118,276,973	$ 20,084,563	$ 138,361,536

The various foundations (component units) had no installment purchase obligations as of June 30, 2011.

Lottery Prizes Payable

Lottery prizes are paid in 20, 25, 26, or 30 installments. The first installment is paid on the day the prize is claimed. The subsequent annual payments are funded with U.S. Treasury STRIPS purchased by the Virginia Lottery. For Life prizes payable represent estimated prizes payable monthly, quarterly or annually for the life of the winner based on life expectancy tables from the Virginia Bureau of Insurance, and funded with a pool of U.S. Treasury STRIPS.

Lottery prizes payable represent the future annual prize payments valued at cost plus accrued interest (present value of securities held to maturity) of the investment securities funding the payments.

Lottery prizes payable for the fiscal year ended June 30, 2011, are shown in the following table:

	Jackpot	Win For Life	Total
Due within one year	$ 37,288,699	$ 4,127,457	$ 41,416,156
Due in subsequent years	121,672,217	53,320,064	174,992,281
Total (present value)	158,960,916	57,447,521	216,408,437
Add:			
Interest to Maturity	50,646,084	40,021,479	90,667,563
Lottery Prizes Payable at Maturity	$ 209,607,000	$ 97,469,000	$ 307,076,000

Tuition Benefits Payable

The Virginia College Savings Plan administers the Virginia Prepaid Education Program (VPEP). VPEP offers contracts which, for actuarially determined amounts, provide for guaranteed full future tuition payments at state higher education institutions. The contract provisions also allow the benefits to be used for private or out-of-state institutions at a prorated amount based upon the amounts charged by the state's higher education institutions.

At June 30, 2011, tuition benefits payable of $2.2 billion have been recorded for the VPEP program on the balance sheet for the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the VPEP program. In addition, a receivable in the amount of $257.4 million has been recorded to reflect the actuarially determined present value of future payments anticipated from contract holders.

26. OTHER REVENUE

The following table (dollars in thousands) summarizes Other Revenue for the fiscal year ended June 30, 2011.

	Assessments and Receipts for Support of Special Services	Fines, Forfeitures, Court Fees, Penalties, and Escheats	Receipts from Cities Counties, and Towns	Private Gifts, Grants, and Contracts	Sales of Property
Primary Government:					
General	$ 2,700	$ 225,168	$ 16,340	$ 4,593	$ 28,001
Major Special Revenue Funds:					
Commonwealth Transportation	17,992	12,243	49,138	21,907	1,671
Federal Trust	-	55	-	1	348
Literary	-	64,012	-	-	-
Nonmajor Governmental Funds	101,526	53,197	63,764	8,917	6,284
Nonmajor Enterprise Funds	-	13,198	-	-	-
Internal Service Funds	-	-	-	-	-
Private Purpose Trust Funds	-	1	-	-	-
Pension and Other Employee Benefit Trust	-	-	-	-	-
Total Primary Government	$ 122,218	$ 367,874	$ 129,242	$ 35,418	$ 36,304

	Tobacco Master Settlement	Taxes	E-Z Pass	Other (1)	Total Other Revenue
Primary Government:					
General	$ 48,185	$ -	$ -	$ 218,327	$ 543,314
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	11,657	-	114,608
Federal Trust	-	-	-	108,215	108,619
Literary	-	-	-	76,996	141,008
Nonmajor Governmental Funds	-	-	-	97,702	331,390
Nonmajor Enterprise Funds	-	3,268	-	1,062	17,528
Internal Service Funds	-	-	-	22	22
Private Purpose Trust Funds	-	-	-	-	1
Pension and Other Employee Benefit Trust	-	-	-	1,678	1,678
Total Primary Government	$ 48,185	$ 3,268	$ 11,657	$ 504,002	$ 1,258,168

Note (1): $75,000 (dollars in thousands) of the total amount recorded for the Literary fund is related to unclaimed property.

27. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2011.

(Dollars in Thousands)

	Insurance Claims	Lottery Prize Expense	Total Prizes and Claims
Proprietary Funds:			
Major Enterprise Funds:			
State Lottery	$ -	$ 870,172	$ 870,172
Unemployment Compensation	661,739	-	661,739
Nonmajor Enterprise Funds	220,776	-	220,776
Total Enterprise Funds	$ 882,515	$ 870,172	$ 1,752,687
Internal Service Funds	$ 1,027,285	$ -	$ 1,027,285

28. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2011.

(Dollars in Thousands)

	Grants and Distributions To Localities	Expendable Equipment/ Improvements	Other (1)	Total Other Expenses
Proprietary Funds:				
Major Enterprise Funds:				
Virginia College Savings Plan	$ -	$ 571	$ 2,079	$ 2,650
Nonmajor Enterprise Funds	111	1,788	517	2,416
Total Enterprise Funds	$ 111	$ 2,359	$ 2,596	$ 5,066
Internal Service Funds	$ 1,613	$ 5,359	$ 6,049	$ 13,021
Pension and Other Employee Benefit Trust	$ -	$ -	$ 8,129	$ 8,129

Note (1): $5,581 (dollars in thousands) can be attributed to expenses related to closing cases in the Risk Management internal service fund. $2,000 (dollars in thousands) can be attributed to the SOAR scholarship program for Virginia College Savings Plan Fund. This is the first year for the program.

29. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2011.

(Dollars in Thousands)

	Loss on Sale of Capital Assets	Expenses for Securities Lending Transactions	Other	Total Other Non-Operating Revenue/ (Expenses)
Proprietary Funds:				
Major Enterprise Funds:				
State Lottery	$ -	$ (350)	$ 253	$ (97)
Nonmajor Enterprise Funds	-	(1)	8,976	8,975
Total Enterprise Funds	$ -	$ (351)	$ 9,229	$ 8,878
Internal Service Funds	$ (139)	$ -	$ (2,793)	$ (2,932)

30. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2011 (dollars in thousands).

	Transfers In (Reported In):				
Transfers Out (Reported In):	**General**	**Commonwealth Transportation**	**Federal Trust**	**Literary**	**Nonmajor Governmental Funds**
Primary Government					
General	$ -	$ 82,499	$ 1,124	$ -	$ 387,928
Major Special Revenue Funds:					
Commonwealth Transportation	28,148	-	1,136	-	259,199
Federal Trust	744	11,209	-	-	7,098
Nonmajor Governmental Funds	88,503	-	1,048	-	2,547
Major Enterprise Funds:					
State Lottery	445,185	-	-	10,853	-
Virginia College Savings Plan	692	-	-	-	-
Unemployment Compensation	-	-	11,292	-	-
Nonmajor Enterprise Funds	135,332	-	-	12	14,783
Internal Service Funds	9,030	-	-	-	-
Total Primary Government	$ 707,634	$ 93,708	$ 14,600	$ 10,865	$ 671,555

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

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

- Various nongeneral funds transferred approximately $55.1 million to the General Fund as required by Chapter 890, 2011 Acts of Assembly.
- The Department of Motor Vehicles transferred certain fees of approximately $7.4 million to the General Fund as required by Chapter 890, 2011 Acts of Assembly.

Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
$ 994	$ 500	$ 473,045
-	363	288,846
45	-	19,096
2,473	-	94,571
-	-	456,038
-	-	692
-	-	11,292
-	-	150,127
-	-	9,030
$ 3,512	$ 863	$ 1,502,737

31. ON-BEHALF PAYMENTS

Higher education institutions (component units) received various on-behalf payments from foundations primarily for salary supplements and stipends during fiscal year 2011. Since the foundations are included as part of the higher education entity, the on-behalf payments were considered intrafund and were eliminated from the financial statements.

32. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions. The net appreciation available for expenditure is $1.0 billion. Of this amount, $1.1 million is reported as unrestricted net assets and the remainder is reported as restricted net assets. The *Code of Virginia* authorizes acceptance of donations. The governing boards of these entities and the donor agreements determine whether net appreciation can be spent and the accepted spending rate. These policies are entity specific and vary with each institution.

33. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2011.

	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor Enterprise Funds
Cash Flows Resulting from:				
Payments for Prizes, Claims, and Loss Control:				
Lottery Prizes	$ (920,795)	$ -	$ -	$ -
Claims and Loss Control	-	-	(682,373)	(220,151)
Total	$ (920,795)	$ -	$ (682,373)	$ (220,151)
Other Operating Revenue:				
Other Operating Revenue	$ -	$ -	$ -	$ 5,107
Total	$ -	$ -	$ -	$ 5,107
Other Operating Expense:				
Other Operating Expenses (1)	$ -	$ (2,008)	$ -	$ (283)
Total	$ -	$ (2,008)	$ -	$ (283)
Other Noncapital Financing Receipt Activities:				
Advances/Contributions from the Commonwealth	$ -	$ -	$ -	$ 29,468
Receipts from Taxes	-	-	-	174,262
Other Noncapital Financing Receipt Activities (2)	253	-	193,626	76
Total	$ 253	$ -	$ 193,626	$ 203,806
Other Noncapital Financing Disbursement Activities:				
Repayments of Advances/Contributions from the Commonwealth	$ (9,000)	$ -	$ -	$ (32,722)
Other Noncapital Financing Disbursement Activities	-	-	(358,284)	(360)
Total	$ (9,000)	$ -	$ (358,284)	$ (33,082)
Other Capital and Related Financing Receipt Activities:				
Other Capital and Related Financing Receipt Activities	$ -	$ -	$ -	$ -
Total	$ -	$ -	$ -	$ -
Other Capital and Related Financing Disbursement Activities:				
Other Capital and Related Financing Disbursement Activities	$ -	$ -	$ -	$ (100)
Total	$ -	$ -	$ -	$ (100)

Note (1): $2,000 (dollars in thousands) can be attributed to disbursements related to Virginia College Savings Plan for a new scholarship started in fiscal year 2011 called the SOAR scholarship. Also, $5,581 (dollars in thousands) can be attributed to disbursements related to closing cases in the Risk Management internal service fund.

Note (2): $193,626 (dollars in thousands) can be attributed to Federal repayable advances under Title XII of the Social Security Act.

	Total Enterprise Funds	Internal Service Funds
	$ (920,795)	$ -
	(902,524)	(982,143)
	$ (1,823,319)	$ (982,143)
	$ 5,107	$ -
	$ 5,107	$ -
	$ (2,291)	$ (9,300)
	$ (2,291)	$ (9,300)
	$ 29,468	$ 7,000
	174,262	-
	193,955	142
	$ 397,685	$ 7,142
	$ (41,722)	$ (1,493)
	(358,644)	-
	$ (400,366)	$ (1,493)
	$ -	$ 13
	$ -	$ 13
	$ (100)	$ -
	$ (100)	$ -

34. TOBACCO SETTLEMENT AND SECURITIZATION

On November 23, 1998, 46 states' Attorneys General and the major tobacco companies signed a proposed settlement that reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. At the time of the settlement, it was estimated that the Commonwealth could receive approximately $4.1 billion over the duration of the settlement. The settlement was approved in a Consent Decree in December 1998. On March 29, 1999, the General Assembly enacted a law approving the establishment of the Virginia Tobacco Indemnification and Community Revitalization Commission (Commission), in compliance with the Consent Decree, to help communities in Virginia hurt by the decline of tobacco.

The Commission was established for the purposes of determining the appropriate recipients of monies in the Tobacco Indemnification and Community Revitalization Fund. The monies are to be used to provide payments to tobacco farmers as compensation for the tobacco equipment and barns and lost tobacco production opportunities associated with a decline in quota. The monies are also to be used to revitalize tobacco dependent communities.

The General Assembly also created the Virginia Foundation for Healthy Youth (Foundation). The purpose of the Foundation is to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund. The Foundation will also be responsible for distributing monies for the purposes provided in the legislation. Disbursements can be made to assist in financing efforts to restrict the use of tobacco products by minors, through educational and awareness programs describing the health effects of tobacco use on minors, and laws restricting the distribution of tobacco products to minors. The Commission and the Foundation are included in the Comprehensive Annual Financial Report as component units.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies are accounted for in these funds and the General Fund. Fifty percent of the Settlement monies will be deposited into the Tobacco Indemnification and Community Revitalization Fund. Ten percent of the Settlement monies will be deposited into the Virginia Tobacco Settlement Fund. The remaining 40 percent will be reported in the General Fund.

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

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

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

35. INFORMATION TECHNOLOGY INFRASTRUCTURE PARTNERSHIP – NORTHROP GRUMMAN

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

On March 31, 2010, contract revisions to the CIA were completed between the Commonwealth and Northrop Grumman. As a result of the contract changes, the Commonwealth renewed the contract for an additional three years, the parties established the products and services covered in the contractual cap including the baseline quantities to be billed and the prices at which those quantities will be billed, a shortened formula for contract year ten cost of living adjustment, and increased resolution and disentanglement fees. These contract changes are intended to provide improved performance to the VITA customer agencies, provide greater accountability and operational efficiencies for the services provided, and resolve outstanding financial issues. Expenses associated with the CIA during the fiscal year 2011 totaled $261.4 million, including payments to Northrop Grumman of $205.0 million. The Commonwealth expects to spend an additional $2.0 billion over the next eight fiscal years.

Additional contract revisions to the CIA were completed between the Commonwealth and Northrop Grumman during fiscal year 2011.

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

36. CONTINGENCIES

A. Grants and Contracts

The Commonwealth has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the Commonwealth.

Institutions of higher education (component units) and other state agencies are required to comply with various federal regulations issued by the Office of Management and Budget, if such agencies are recipients of federal grants, contracts, or other sponsored agreements. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. It is believed that the ultimate disallowance pertaining to these regulations, if any, will be immaterial to the overall financial condition of the Commonwealth.

The U.S. Department of Health and Human Services (DHHS) Office of the Inspector General conducted a review and indicated that the Commonwealth's Statewide Indirect Cost Allocation Plan rates have allowed over-recoveries in the internal service funds. The U.S. DHHS has received the 2012 cost allocation plan, which is based on fiscal year 2010 data. The Commonwealth believes this liability has the potential to total $623,532 as of June 30, 2011.

Virginia's combined overpayment and underpayment SNAP error rate for federal fiscal year 2010 was 5.87 percent. The national average combined error rate was 3.81 percent. Under the Food and Nutrition Act of 2008 (the Act), a 2-year liability system for excessive payment error rates is in place. Under this system, a liability amount shall be established when, for the second or subsequent consecutive fiscal year, the USDA determines that there is a 95 percent statistical probability that a State's payment error rate exceeds 105 percent of the national performance measure. Food, Nutrition, and Consumer Services (FNCS) has determined that there is a 95 percent statistical probability that Virginia's payment error rate of 5.87 percent exceeds 105 percent of the national performance measure for federal fiscal year 2010. Therefore, federal fiscal year 2010 was the first year that Virginia's excessive payment error rate places the State in a position of potential future liability. No liability amount is being established for the federal fiscal year. However, if there is also a 95 percent statistical probability that Virginia's payment error rate exceeds 105 percent of the national performance measure for federal fiscal year 2011 and exceeds 6 percent, a liability amount will be established for Virginia. According to the Act, in the event that Virginia's federal fiscal year 2011 payment error rate results in a liability amount, Virginia will be able to appeal that federal fiscal year 2011 determination and its associated liability amount.

The Virginia Tourism Authority had unclaimed awards totaling $862,547 payable to awardees upon submission of proper claims for reimbursement for the Marketing Leverage Program. Also, the Authority received a donation of land from King George County to be used as the Gateway Welcome Center on highway U.S. 301 at the Virginia Maryland border. The deed requires the land to revert to the U.S. government if needed for national defense. The book value of the land is $825,450. Also, the Authority had unclaimed awards totaling $52,398 payable to awardees' upon submission of proper claims for reimbursement for the Sesquicentennial Marketing Program.

B. Litigation

The Commonwealth is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations, some involving substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Commonwealth in respect to the various proceedings; however, it is believed that any ultimate liability resulting from these suits or investigations will not have a material, adverse effect on the financial condition of the Commonwealth.

C. Subject to Appropriation

Both the primary government and the discretely presented component units enter into agreements and issue debt secured solely by future appropriations from the General Fund of the Commonwealth. The primary government has leases and other agreements of such debt of $2.6 billion. The discretely presented component units have such debt of $1.9 billion.

D. Bailment Inventory

The Department of Alcoholic Beverage Control (ABC) houses and controls bailment inventory in the warehouse and is therefore responsible for the exercise of reasonable care to preserve the inventory until it is purchased by ABC or returned to the supplier. ABC uses the bailment system for payment of merchandise for resale. ABC initiates payments to the vendors based on shipments from the ABC warehouse to the retail stores, rather than receipt of invoice from the vendor. At June 30, 2011, the bailment inventory was valued at $34.0 million.

E. Loan Guarantees

The Virginia Small Business Financing Authority (VSBFA) (nonmajor component unit) has a loan guaranty program which provides guarantees up to the lesser of $50,000 or 75.0 percent of a bank loan for lines of credit and short-term working capital loans for small businesses. In addition, the Department of Minority Business Enterprise (DMBE) fund provides loan guarantees up to 90 percent of a bank loan for lines of credit and short-term working capital loans for minority businesses. The VSBFA administers this program for DMBE. As of June 30, 2011, the loan guaranty program has guarantees outstanding of $1.5 million.

The Assistive Technology Loan Fund Authority (nonmajor component unit) has an alternative financing program which provides guarantees of loans issued by its financial partner, SunTrust Bank. As of June 30, 2011, there was approximately $552,929 of loans issued in which it was the guarantor.

37. SUBSEQUENT EVENTS

Primary Government

Other

Title XII of the Social Security Act provides for interest bearing repayable advances to States for the purpose of payment of unemployment compensation claims in the event the state Unemployment Trust Fund reserves are reduced to zero. These advances are repayable from future collections of employer contributions to the Unemployment Trust Fund. Subsequent to June 30, 2011, repayments totaling $45.0 million were made from employer contributions received for the second calendar quarter. Requests to the Secretary of Labor for additional loans for the months of July 2011 through February 2012 have been approved in the amount of $290.0 million. A total of $105.8 million in new advances have been issued.

Investments

The continued volatility of the financial markets have affected the Commonwealth's investment portfolios. As of November 10, 2011, it is estimated that the value of the portfolio taken as a whole declined approximately $3.0 billion or 4.7 percent. Approximately $2.5 billion of the valuation decline results directly from market conditions and the remaining $500.0 million is due to significant disbursements by the Commonwealth. The Commonwealth mitigates the risk of market exposure by monitoring the various asset classes and making adjustments within approved investment policies. The Commonwealth does not expect this decline to be permanent.

Credit Watch

In connection with Moody's July 13, 2011 action placing its Aaa government bond rating of the United States on review for downgrade, Moody's announced it would assess the ratings of Aaa-rated states to gauge their sensitivity to sovereign risk. On July 19, 2011, Moody's announced it had placed on review for possible downgrade five states rated Aaa by Moody's including the Commonwealth. If the United States government's rating were to be downgraded by Moody's to Aa1 or lower, Moody's stated the Commonwealth's ratings likely would be downgraded as well. Following the increase in the statutory debt limit on August 2, 2011, Moody's confirmed the Aaa government bond rating of the United States but changed the outlook to negative. On August 4, 2011, Moody's confirmed the Aaa rating of the Commonwealth and revised the outlook to negative due to the Commonwealth's reliance on federal employment and procurement and the uncertainty associated with the federal budget.

Debt

In October 2011, the Virginia Public Building Authority (VPBA) issued its Public Facilities Revenue Bonds and Revenue Bonds $280.0 million Series 2011A and $18.5 million Series 2011B (Federally Taxable). The 2011 Bonds will provide funding for authorized VPBA projects and reimbursement of the Commonwealth's share of regional and local jail costs.

In November 2011, the Commonwealth issued $168.9 million in General Obligation Bonds, Series 2011A. The Series 2011A Bonds were issued to finance revenue-producing capital projects at various institutions of higher education pursuant to Article X, Section 9(c) of the Virginia Constitution.

Component Units

Other

Subsequent to year-end, the Fort Monroe Authority had damage from Hurricane Irene at an estimated cost of $4.0 million. The property is insured by Virginia Division of Risk Management and Fort Monroe anticipates the storm damage cost will be paid under that coverage.

Investments

The volatility of the financial markets have adversely affected the significant component units' portfolios as well. As of November 10, 2011, it is estimated that the value of the component unit portfolio has declined approximately $37.1 million or 2.8 percent. The $284.7 million valuation decline due to market conditions is offset by operational inflows of approximately $247.6 million. The component units have taken steps to mitigate the risk of loss by monitoring exposure and making adjustments within approved investment policies. Additionally, the Virginia Housing Development Authority (VHDA) has $27.5 million (1.7 percent of VHDA's investment portfolio) that is currently rated in the speculative grade of investments by Moody's Investor Services and are considered impaired. VHDA intends to retain the impaired or stressed holdings until maturity or they can obtain a reasonable market price for them. There is no significant financial risk to the Commonwealth.

Debt

Subsequent to June 30, 2011, the Virginia Resources Authority as part of the Virginia Pooled Financing Program issued bonds in the amount of $33.2 million. The interest rates range from 2 percent to 5.0 percent with a final due date of August 1, 2027.

Subsequent to June 30, 2011, the Virginia Biotechnology Research Partnership Authority (VBRPA) sold BioTech One and the BioTechnology Center buildings and land to the Virginia Commonwealth University (VCU) (major component unit). The VBRPA will net $4.5 million from the sale and VCU will assume the existing Bank of America note. VBRPA will lease back the BioTechnology Center for $1 per year.

The VBRPA will purchase Biotech Three from Virginia Commonwealth University Real Estate Foundation at an agreed price of $1.8 million. The Biotech Park will assign the purchase contract for Biotech Three to Biotech Eight LLC to construct a new $26.0 million facility to accommodate further expansion.

In July 2011, the Virginia Port Authority (VPA) issued $57.4 million of Virginia Port Authority Commonwealth Port Fund Revenue Bonds, Series 2011 (Non-AMT). Serial bonds issued in the principal amount of $57.4 million are payable in annual installments beginning July 1, 2028, in amounts ranging from $2.6 million to $9.3 million with interest of 5.0 percent payable semiannually, the first interest installment due January 1, 2012 and the final installment due July 1, 2036, with the first optional redemption date being July 1, 2020. These bonds are payable primarily from the Commonwealth Port Fund. With the issuance of this bond series, proceeds of $13.9 million were used for the repayment of the Treasury Loan, at closing, that had been issued to continue projects for which this bond issuance was intended to fund.

In July 2011, the Virginia Housing Development Authority (VHDA) borrowed $20.0 million from the FHL Bank Atlanta. Additionally, VHDA repaid $20.0 million from Bank of America, N.A., Revolving Credit Agreement.

In August 2011, the Virginia Public School Authority (VPSA) issued its $46.4 million Special Obligation School Financing Bonds Prince William County Series 2011 as part of its stand-alone bond program. The proceeds will be used to purchase general obligation bonds issued by Prince William County to pay the costs of various capital school improvement projects for the County.

In August 2011, Standard & Poor's (S&P) notified VHDA that its Commonwealth Mortgage Bond resolution was placed on CreditWatch Negative. S&P will be reviewing the AAA rating because a portion of the mortgage loans securing the resolution are federal insured or guaranteed by the Federal Housing Administration (FHA).

In August 2011, the Virginia College Building Authority (VCBA) issued its Educational Facilities Revenue Bonds (21st Century College and Equipment Programs) $272.5 million Series 2011A. The proceeds of the bonds will be used to finance certain capital projects and acquire equipment at public institutions of higher education.

In August 2011, the Hampton Roads Sanitation District (HRSD) was authorized to award up to $80.0 million in fixed rate senior revenue bonds and $25.0 million in subordinate revenue variable rate demand bonds. Both have a maturity date no more than 32 years from the date of issuance. HRSD anticipates issuing approximately $50.0 million in fixed rate senior revenue bonds and $25.0 million in subordinate revenue variable rate demand bonds in October 2011.

In October 2011, the University of Virginia issued $4.7 million of Taxable Commercial paper and $73.9 million par amount of Tax-exempt General Revenue Pledge Bonds, Series 2011 to advance refund $82.2 million of Taxable General Revenue Pledge Bonds, Series 2003B. The advance refunding reduced the aggregate debt service of the University by $12.4 million representing a net present value savings of $8.6 million and an accounting loss of $8.0 million. The new 2011 series bonds have a true interest cost of 3.3 percent with a net interest cost of 3.6 percent.

In October 2011, VPA entered into a Memorandum of Agreement with the Virginia Department of Transportation (VDOT) obligating a portion of VPA's Transportation Trust Fund Allocation (TTF) to fund a portion of the US Route 460 Corridor Improvements Project (the Project) in the event a Comprehensive Agreement is signed under the Public Private Transportation Act of 1995 process for this Project. On an annual basis, VPA will provide 0.5 percent of the TTF to repay a portion of the project construction costs incurred by VDOT. This annual obligation will begin no earlier than July 1, 2013, and will continue for the life of the Comprehensive Agreement. VPA will have no other further obligation to provide annual funding if it pays, in total, $250.0 million dollars by June 30, 2022.

In October 2011, VPSA issued its $85.7 million School Financing Series 2011 B bonds to purchase certain general obligation local school bonds to finance capital projects for public schools.

In November 2011, VCBA issued its $163.3 million Educational Facilities Revenue and Refunding bonds, Series 2011A under the Public Higher Education Financing Program. VCBA will use the proceeds of the Series A Bonds to acquire Institutional Notes from participating public institutions of higher education. Each participating institution will use the proceeds of its Institutional Note to finance capital projects approved by the General Assembly.

In November 2011, VPSA sold two different series of bonds. First, VPSA sold its $86.1 million Special Obligation School Financing Bonds, Montgomery County Series 2011 as part of its stand-alone bond program. These proceeds will be used to purchase general obligation bonds issued by Montgomery County to pay the costs of various capital school improvement projects for the County. Second, VPSA sold its $131.9 million School Tax Credit Bonds, a portion of which will be issued as direct payment "qualified school construction bonds" and the remainder as "qualified zone academy bonds" Series 2011-2. VPSA will irrevocably elect to receive interest subsidy payments from the United States Treasury rather than to provide a tax credit to the owners of the 2011-2 bonds. VPSA will transfer to the 2011-2 local issuers the interest subsidy payments that VPSA receives.