A REPORT TO THE CITIZENS OF THE COMMONWEALTH

Virginia Financial Perspective

For the Fiscal Year Ended June 30, 2008

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December 15, 2008

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EXECUTIVE SUMMARY – PURPOSE OF THIS REPORT

The purpose of this report is to summarize and simplify the presentation of information contained in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Virginia. The Commonwealth's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and are independently audited by the Auditor of Public Accounts. Much of the information in the audited financial statements is necessarily technical and complex. As a result, the full financial statements may not be particularly useful to the citizens of the Commonwealth who wish to better understand state government finances.

Virginia began issuing simplified financial reports in 1991. These reports, commonly referred to as *popular reports*, are intended to better inform the public about their government's financial condition, without excessive detail or the use of technical accounting terms.

This report summarizes and explains the information contained in the financial statements for fiscal year 2008, along with other information on the Commonwealth's finances, in easily understood terms. This report represents the ongoing commitment of Commonwealth officials to keep Virginia's citizens informed about state finances, and to be accountable in all respects for the receipt and expenditure of public funds.

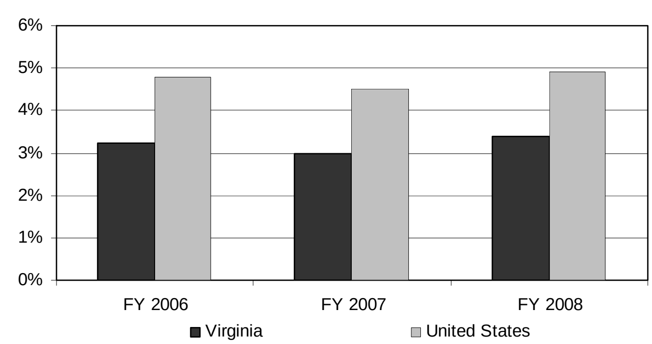
INDEX

Virginia's Economy

Each year the CAFR includes a section reviewing the Commonwealth's economy. For fiscal year (FY) 2008, economists at the University of Virginia's Weldon Cooper Center for Public Service (Center) prepared this economic highlight section. In FY 2008, the Commonwealth's economy managed some expansion, but at a slower pace than in the last few years. Virginia had an enviably low unemployment rate and this was true for the last five years, however the Commonwealth's average unemployment rate was higher in FY 2008 than in the previous years because the rate began to rise during the second half of the year. Personal income grew by 4.4 percent which was below the national rate for the second consecutive year. Prior to then, the Commonwealth's rate exceeded the national rate. The housing slump, which began in FY 2006, deepened in FY 2008. Permits for new residential units dropped by 27.9 percent after declining by the same percentage in the previous year.

Employment and income are the two broad economic measures that give the best picture of major developments. Unemployment increased by 0.4 percent in FY 2008. Persons without work constituted 3.4 percent of the labor force (**Figure 1**). Virginia's unemployment rate was 1.5 percentage points lower than the national average.

Figure 1
Unemployment Rate



Sources: U. S. Bureau of Labor Statistics and Virginia Employment Commission

Figure 2 shows changes in employment by industry based on the North American Industry Classification System (NAICS). Major industries with strong relative gains were education and health services and state government. Important industries with large relative declines were construction, information services, financial activities, and manufacturing.

Figure 2 also shows FY 2008 industry growth rates for the nation. Virginia's overall growth rate was slightly below the national rate. Most industries performed similarly in Virginia as they did nationally. A major exception was the Commonwealth's natural resources and mining industry, which declined while the national industry grew by 5.0 percent. This anomaly is explained by production problems of a major Virginia coal firm and the differing industry composition in Virginia where underground coal mining is the major component, whereas for the nation, surface coal mining, oil, and gas are important subsectors.

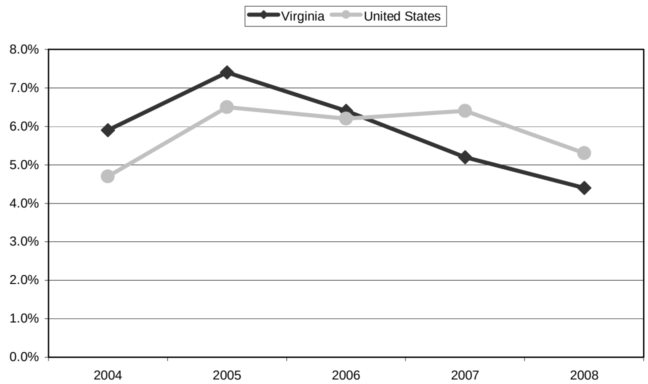
Figure 2
Nonfarm Payroll Employment

	Virginia Employment (000)			Change, FY 2007 – FY 2008	
NAICS Industry	**2006**	**2007**	**2008**	**Virginia, Percent**	**U.S., Percent**
Natural resources and mining	11.1	11.3	10.8	(4.4)	5.0
Construction	248.9	244.6	238.1	(2.7)	(3.3)
Manufacturing	292.7	283.1	275.5	(2.7)	(2.1)
Wholesale trade	118.5	120.6	121.4	0.7	1.5
Retail trade	422.3	425.4	425.8	0.1	0.1
Transportation and utilities	120.5	119.5	120.4	0.8	0.6
Information	92.0	91.2	90.1	(1.2)	(0.5)
Financial activities	194.0	195.1	192.9	(1.1)	(1.0)
Professional and business services	618.6	637.2	647.9	1.7	1.3
Education and health services	399.6	411.2	422.2	2.7	3.0
Leisure and hospitality	334.4	342.3	347.6	1.5	2.5
Other services	181.1	183.5	186.1	1.4	0.8
Federal civilian government	152.7	156.4	156.3	(0.1)	(0.1)
State government	151.3	153.8	157.8	2.6	0.9
Local government	364.6	370.1	376.1	1.6	1.3
Total Nonfarm Employment	3,702.3	3,745.3	3,769.0		

Source: U. S. Bureau of Labor Statistics
Note: Details may not add due to rounding.

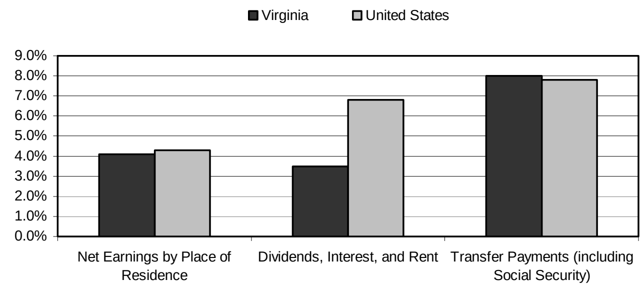
Figure 3 shows the percentage change in personal income for the last five fiscal years. Developments in personal income have a strong bearing on Commonwealth government revenues since collections from the individual income tax and the retail sales tax are closely tied to income. In FY 2008, Virginia personal income in current dollars grew by 4.4 percent. This was below the national rate of 5.4 percent and below the Commonwealth's rate in the four preceding years.

Figure 3
Percentage Change in Personal Income



Source: Bureau of Economic Analysis

Figure 4
Personal Income Growth Rates



There are three major components of personal income (**Figure 4**). The first and largest is net earnings by place of residence, which is the sum of wages and salaries and proprietors' income. In FY 2008, Virginia's net earnings rose by 4.1 percent versus 4.3 percent nationally. Dividends, interest, and rent, the second component, increased by 3.5 percent while the national rate was 6.8 percent. The third component, transfer payments such as Social Security income, grew by 8.0 percent compared to 7.8 percent for the nation.

Virginia's economy weakened in fiscal year 2008 as it reflected the general slowdown in the national economy. This condition stemmed from the bursting of the housing bubble that began in 2006 and the resulting credit problems that affected many sectors.

FINANCIAL STATEMENT INFORMATION

This section contains financial statement information for the Commonwealth of Virginia for the fiscal year ending June 30, 2008.

Virginia state government reports on its finances on the basis of a *fiscal year* which starts on July 1 and ends the following June 30. All information presented in this report is for the fiscal year that began on July 1, 2007, and ended on June 30, 2008. This is referred to as fiscal year 2008, or FY 2008.

Virginia's financial information is prepared by the Department of Accounts, an executive branch agency, under the direction of the Governor and the Secretary of Finance. The information is then audited by the Auditor of Public Accounts, who is an official of the legislative branch of government. In this way, the audit process is independent. The financial information for FY 2008 was audited and received an unqualified auditor's opinion.

Virginia accounts for its financial operations in government-wide financial statements and fund financial statements. The government-wide financial statements provide readers with a broad overview of the Commonwealth's finances in a manner similar to a private sector business. The statements provide both short-term and long-term information, and are prepared on a full accrual basis of accounting, which means that all revenue and expenditures are reflected even if the cash was not received or paid as of June 30, 2008. The fund statements are divided into three categories, governmental, proprietary, and fiduciary. The governmental funds are reported on a modified accrual basis of accounting which focuses on assets that can readily be converted to cash. The proprietary funds account for activities that operate like private sector business and use the full accrual basis of accounting. The fiduciary funds account for resources held for the benefit of parties outside the government. These also use the full accrual basis of accounting. These fiduciary funds are not included in the government-wide financial statements because they cannot be used to finance the Commonwealth's operations.

Virginia accounts for its revenues and expenditures within various funds. The funds are groups of related accounts that are segregated for specific activities or objectives. The largest fund supporting the operation of state government is the General Fund, which accounts for the majority of receipts from income and sales taxes. Another important fund is the Commonwealth Transportation Fund, which derives its revenues from gasoline taxes, vehicle registration fees, and a portion of sales taxes. The largest fund overall is the Pension Trust Fund, which includes the assets of the state employees' pension system.

Virginia accounts for its revenues and expenditures under two different methods of accounting. The Virginia Constitution and laws passed by the General Assembly require that all accounting be on a *cash basis*. This means that revenue is recognized when cash is received and expenditures are recognized when cash is paid out. Cash basis accounting is simple and easily verified. It is, therefore, the best way to demonstrate that state agencies are complying with laws that govern spending.

The other method of accounting used in Virginia involves the application of *accounting principles generally accepted in the United States of America*, or *GAAP*. GAAP is defined by national standard setting bodies, and is the method of accounting required when Virginia sells bonds. Only financial information prepared on a GAAP basis can be audited in accordance with accepted practice and receive an unqualified opinion from the Auditor of Public Accounts.

Information is presented in this report on the GAAP basis of accounting, and also, for the General Fund, on the budgetary (cash) basis. Labels have been used to note which basis of accounting is being shown.

This Popular Report contains information from only selected funds and accounts and does not include information of the state's component units. Component units are legally separate entities that are accountable to the state. Some examples of component units are the public higher education institutions.

The full financial statements of the Commonwealth of Virginia, together with other economic and demographic information, are published in Virginia's Comprehensive Annual Financial Report, or CAFR. If you would like to view the CAFR, it is available for download at www.doa.virginia.gov.

Commonwealth Statement of Net Assets and Statement of Activities - GAAP Basis

A *Statement of Net Assets* summarizes all of the assets and liabilities with the difference between the two reported as net assets. As of the end of FY 2008, Virginia had *assets* (i.e., cash, investments, property and amounts owed to the state) on a GAAP basis of $32.6 billion. These assets were partially offset by liabilities (i.e., amounts owed by the state to others) of $14.3 billion. This left state government with net assets (the amount left after liabilities are subtracted from assets) of $18.3 billion. **Figure 5** is a condensed Statement of Net Assets for the Commonwealth as of June 30, 2008.

The Statement of Activities (**Figure 6**) summarizes information showing how the state's net assets changed, on a GAAP basis, during the fiscal year. Total net assets increased by $540.3 million which was primarily due to an increase in capital assets. Virginia recognized $9.6 billion in program revenues and $18.3 billion in general revenues, which was used to pay for $30.2 billion of expenses. Program revenues are receipts that can be identified with specific expenses and are used to pay those expenses. General revenues consist primarily of tax revenue, as well as any other revenue that does not meet the definition of program revenue. The increase in revenues was attributed to an increase in overall tax revenue. The increase in expenses was attributable to increases in education, capital outlay, individual and family services, and administration of justice expenses.

The FY 2007 net asset balance has been restated by $22.7 million due primarily to unrecorded assets.

Although the total equity of Virginia is substantial and confirms the overall financial health of the Commonwealth, it is equally important to look at the financial condition of some of the individual *funds*. Governmental activities represent activities associated with the taxes and fees charged by most state agencies. Business-type activities are those like the State Lottery that operate like a business.

Figure 5
Statement of Net Assets (GAAP Basis)
As of June 30, 2008

(Dollars in Millions)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**FY 2008 Total**	**FY 2007 Total (Informational Only)**
Assets	$ 28,919	$ 3,671	$ 32,590	$ 31,975
Liabilities	11,485	2,770	14,255	14,166
Net Assets	$ 17,434	$ 901	$ 18,335	$ 17,809

Figure 6
Statement of Activities (GAAP Basis)
For the Fiscal Year Ended June 30, 2008

(Dollars in Millions)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**FY 2008 Total**	**FY 2007 Total (Informational Only)**
Program Revenues:				
Charges for Services	$ 2,404	$ 2,706	$ 5,110	$ 5,101
Operating Grants and Contributions	6,067	39	6,106	5,906
Capital Grants and Contributions	1,153	-	1,153	850
	9,624	2,745	12,369	11,857
Expenses	27,781	2,390	30,171	29,381
Net (Expenses) Revenues	(18,157)	355	(17,802)	(17,524)
General Revenues	18,304	25	18,329	18,159
Transfers and Other Items	593	(593)	-	20
Change in Net Assets	740	(213)	527	655
Net Assets - July 1, as restated	16,694	1,114	17,808	17,131
Net Assets - June 30	$ 17,434	$ 901	$ 18,335	$ 17,786

Governmental Activities Revenues

The following is a graphical representation of the Statement of Activities (**Figure 7**) revenues for governmental activities.

Governmental Activities Expenses

The following is a graphical representation of the Statement of Activities (**Figure 8**) expenses for governmental activities.

Figure 7
Revenues by Source – Governmental Activities FY 2008

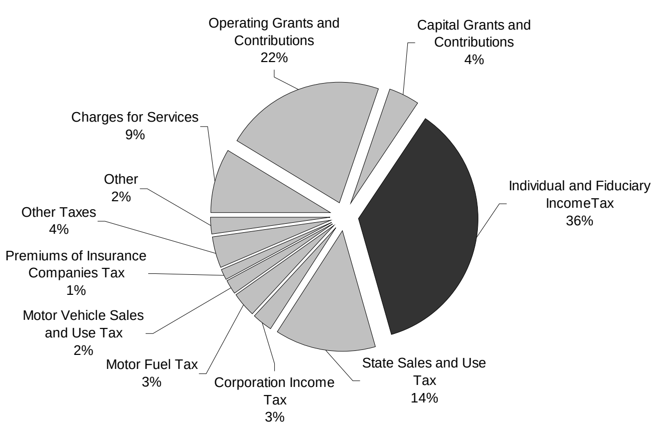
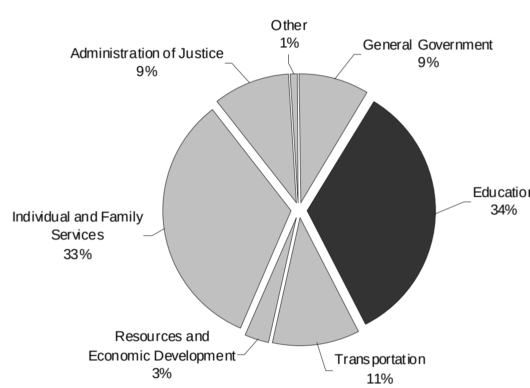


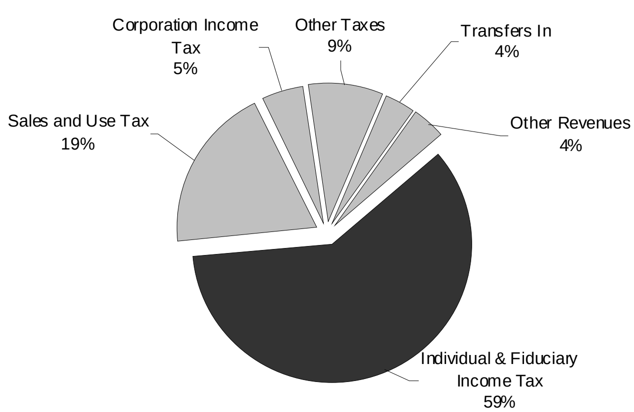
Figure 8
Expenses by Type – Governmental Activities FY 2008



General Fund – Cash Basis

During FY 2008 the General Fund received $17.0 billion in resources. **Figure 9** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 59 percent of the total resources of the General Fund, while sales and use taxes made up 19 percent. These revenues plus other revenues totaled $16.3 billion, or 96 percent of General Fund resources. The remaining resources totaling $634.5 million came through transfers from other funds, including alcoholic beverage sales.

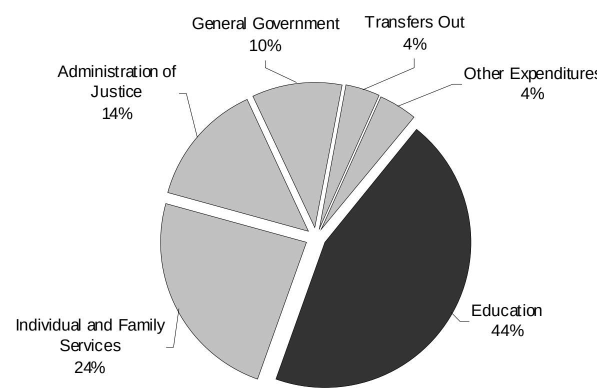
Figure 9
General Fund Resources
FY 2008, Cash Basis



Revenues (not including transfers) increased by $212.2 million from FY 2007. This increase is attributable to the net effect of changes in all sources of revenue.

General Fund disbursements, including transfers, for FY 2008 (**Figure 10**) totaled $17.7 billion. Expenditures totaled $17.0 billion and transfers to other funds were $700.9 million. Education accounted for 44 percent of General Fund spending, including direct state aid for primary and secondary schools and General Fund expenditures to support state colleges and universities. Support for social services, Medicaid, public health, and mental health consumed 24 percent of the General Fund. Public safety consumed 14 percent. Just 10 percent was used to support the administration of general governmental operations, which included $950.0 million, for payments to localities to offset state-mandated reductions in local personal property tax rates (i.e., car tax).

Figure 10
General Fund Disbursements
FY 2008, Cash Basis



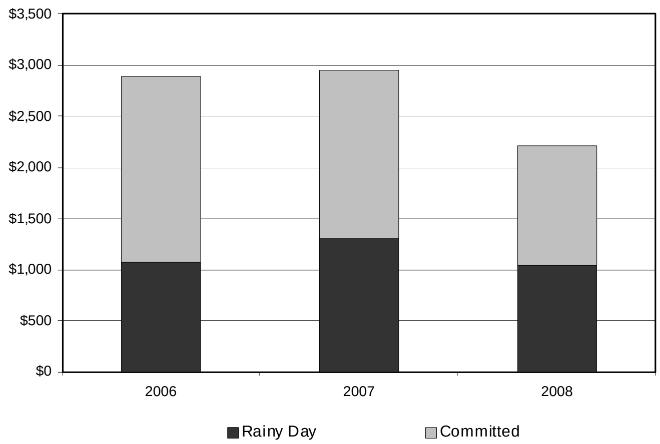
Expenditures (not including transfers) increased by $1.1 billion over the prior year. The increase is due to the net effect of changes in all uses of General Fund resources.

General Fund expenditures exceeded revenues and net transfers by $735.3 million on the cash basis. In other words, the General Fund had an operating loss for the year on the cash basis.

Figure 11 shows the General Fund balance - cash basis - at the end of each year since 2006. The rebound of Virginia's economy and an overall increase in tax revenue collections that resulted from tax reform legislation increased the balance to $2,890.0 million in FY 2006 and $2,955.1 million in FY 2007. The General Fund balance showed a decrease in FY 2008 to $2,219.8 million.

Figure 11
General Fund Balance - Cash Basis
Highlighting the Available Fund Balance

(Dollars in Millions)



These balances are made up of "committed" funds and the "rainy day" fund.

Balances are "committed" if there are plans in place for their use.

The "rainy day" fund, or Revenue Stabilization Fund, is required by an amendment to the State Constitution, which was approved by the voters on November 7, 1992. The rainy day fund is reported as a reserved portion of the General Fund. The General Assembly is required to appropriate additional reserves to this fund when revenue collections are strong compared to the average for the previous six years. This reserved portion of the General Fund balance can only be used if state revenues decline sharply from the previous year.

The total amount reserved in the Revenue Stabilization Fund for FY 2008 is $1,036.2 million. This amount is made up of $1,014.9 million of principal and interest on deposit which equals the maximum amount allowed for FY 2008 and $21.3 million reserved for deposit during FY 2009. Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the fund when specific criteria have been met. No such designation is required since the specified criteria were not met for fiscal year 2008.

General Fund - GAAP Basis

During FY 2008 the General Fund received $16.9 billion in resources. **Figure 12** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 59 percent of the resources, while sales and use taxes made up 19 percent. These revenues plus other revenues totaled $16.3 billion, or 96 percent. The remaining monies totaling $633.2 million came from other sources, such as transfers from other funds, including alcoholic beverage sales.

Revenues (not including transfers) increased by $219.8 million from FY 2007. This increase is attributable to increases to the net effect of changes in all line items.

General Fund disbursements, including transfers, for FY 2008 (**Figure 13**) totaled $17.7 billion. Expenditures totaled $17.0 billion and transfers to other funds were $700.9 million. Education accounted for 44 percent including direct state aid for primary and secondary schools and General Fund expenditures to support state colleges and universities. Support for social services, Medicaid, public health, and mental health consumed 24 percent of the General Fund. Public safety disbursed 14 percent, while only 9 percent was used to support the administration of general governmental operations.

Expenditures (not including transfers) increased by $762.6 million over the prior year. The increase is due to increases in education expenditures, capital outlay expenditures, individual and family services expenditures and administration of justice expenditures.

General Fund expenditures exceeded revenues and net transfers by $780.8 million on the GAAP basis of accounting. In other words, the General Fund had an operating loss for the year on the GAAP basis of accounting.

Figure 12
General Fund Resources
FY 2008, GAAP Basis

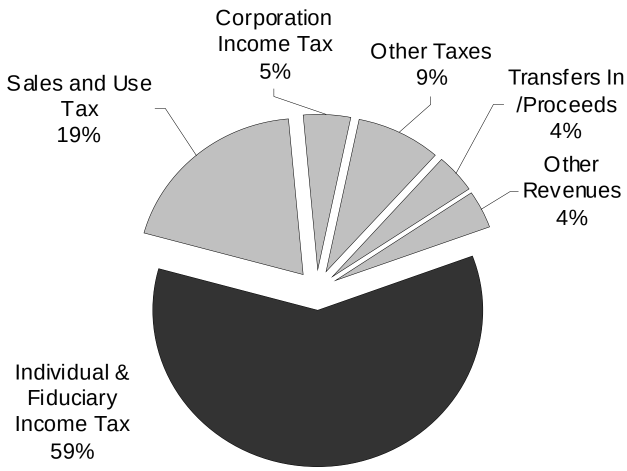
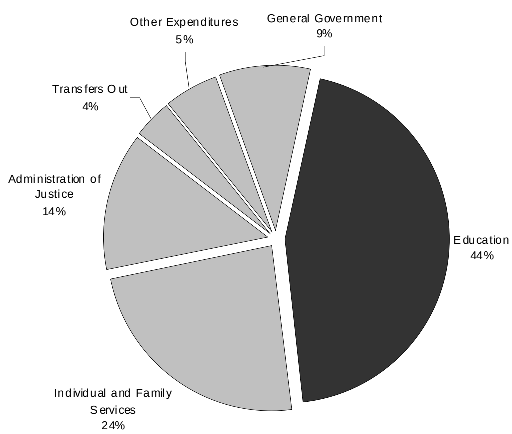


Figure 13
General Fund Disbursements
FY 2008, GAAP Basis



GAAP accounting requires that Virginia recognize certain assets and liabilities that are not recognized on the cash basis of accounting. Overall, the additional liabilities recognized under GAAP exceeded the additional assets, reducing fund balance to a greater degree than is recognized on a cash basis of accounting. Several future liabilities are particularly significant. One is for *estimated tax refunds due* of $194.5 million, which is an estimate of the state income taxes withheld during FY 2008 that will eventually be refunded. Another is for *tax refunds payable* on returns filed in FY 2008 and paid during the months of July and August following year end close of $420.0 million. The third item is an amount of estimated *Medicaid claims payable* of $213.5 million, which represents medical services rendered in prior years that will not be paid for until FY 2009. These amounts are summarized in **Figure 14** that compares the General Fund on a cash and GAAP basis of accounting.

Figure 14
Analysis of General Fund Balance
Cash Basis versus GAAP Basis
For Fiscal Years Ended June 30, 2008 and 2007

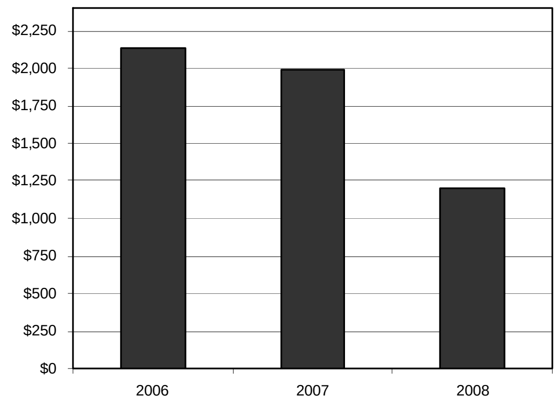
(Dollars in Millions)

	FY 2008	FY 2007
Fund Balance, Cash Basis	$ 2,219.8	$ 2,955.1
ADD:		
Sales Taxes Receivable	313.6	298.7
Other Taxes Receivable	251.8	279.0
Other Receivables	83.8	60.5
Inventory/Prepaid Items	88.3	82.8
Other Accrued Items	(43.9)	(10.4)
Total to be Added	693.6	710.6
LESS:		
Tax Refunds Payable	420.0	306.9
Estimated Tax Refunds Due	194.5	243.3
Medicaid Claims Payable	213.5	190.9
Sales Taxes Due to Localities	192.4	190.3
Other Accrued Items	690.1	750.6
Total to be Subtracted	1,710.5	1,682.0
Difference	(1,016.9)	(971.4)
Fund Balance, GAAP Basis	$ 1,202.9	$ 1,983.7

Fund balance decreased to $1,202.9 million, compared to a balance of $1,983.7 million in FY 2007 (**Figure 15**). The decrease in the General Fund GAAP basis balance from FY 2007 to FY 2008 is due to increases in net financing sources and uses which is due to both higher transfers in and lower transfers out.

Figure 15
General Fund Balance - GAAP Basis

(Dollars in Millions)



Commonwealth Transportation Fund - GAAP Basis

The Commonwealth Transportation Fund pays for the construction and maintenance of state highways. The fund also provides monies for other modes of transportation including rail, bus, aviation and seaports.

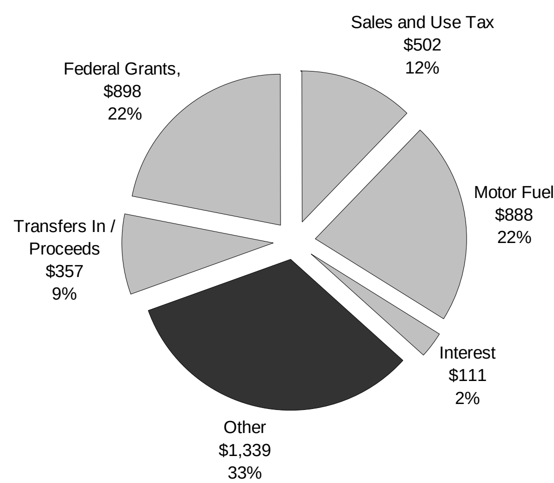
The size of this fund reflects the fact that Virginia is one of only a few states that includes essentially all roads within the state highway system. Virginia has approximately 70,066 miles of state roads.

The Commonwealth Transportation Fund (**Figure 16**) is classified as a *special revenue fund* because revenues of the fund come from various taxes and fees that are restricted for use in the support of transportation programs.

These revenue sources include the tax on motor fuel, vehicle registration and titling fees, and driver licensing fees. Also, since 1986, one half cent of the state's sales tax is deposited into this fund.

During FY 2008, the Commonwealth Transportation Fund had revenues and other receipts of $4.1 billion and expenditures and other uses of $4.2 billion on a GAAP basis. At the end of FY 2008, the fund had a balance of $1.8 billion measured on a GAAP basis.

Figure 16
Commonwealth Transportation Fund
Revenue Resources
FY 2008, GAAP Basis
(Dollars in Millions)



Highway construction projects often require several years to complete. State revenues contribute approximately 51 percent of the funding for these projects. The federal government provides 44 percent, and 5 percent comes from bond proceeds. Local governments also contribute to the cost of highway construction.

College Savings Plan Fund - GAAP Basis

Proprietary Fund

The Virginia College Savings Plan (VCSP) Fund administers the Virginia Prepaid Education Program that locks in future tuition costs for minors from birth through the ninth grade. The fund accounts for the actuarially determined contributions and payments for approved expenses, and is classified as a proprietary fund. VCSP had current assets of $245.7 million plus noncurrent assets such as investments and receivables of $1.6 billion. These assets were held to satisfy current liabilities of $136.3 million and long-term liabilities of $1.9 billion. Invested in capital assets, net of related debt is $193,000 and total unrestricted deficit net assets of $52.8 million as of June 30, 2008.

Private Purpose Fund

VCSP also administers two other plans, the Virginia Education Savings Trust and College America. These plans are voluntary, non-guaranteed, higher educational investment programs. They are classified as a private purpose fund because the monies solely benefit individuals.

Total assets in the VCSP private purpose fund totaled $25.9 billion as of June 30, 2008, and included $25.4 billion of mutual fund investments. The net assets held in trust as of June 30, 2008, were $25.9 billion.

For FY 2008, VCSP reported additions of $4.2 billion, which is primarily composed of contributions from plan participants in the amount of $6.2 billion. Deductions for FY 2008 totaled $2.3 billion, including $993.9 million in educational expense benefits paid and $1.3 billion in redeemed shares.

Pension Trust Fund - GAAP Basis

The Commonwealth maintains a number of funds that are managed for the benefit of various groups and institutions. The largest of these is the pension trust fund for state and certain local employees. This fund ended FY 2008 with a total equity of $55.1 billion. During FY 2008 the fund received $2.5 billion in contributions and lost $2.9 billion on investment holdings. The decrease in net assets after the payment of retirement benefits, refunds and operating costs was $3.2 billion (**Figure 17**).

On November 5, 1996, Virginia voters approved an amendment to the Constitution of Virginia which provided that funds of the Virginia Retirement System are trust funds held separate from other state funds. This amendment safeguards the trust funds from being used for any purpose other than paying benefits to members and beneficiaries. The amendment does not change the way the System is funded or organized.

Figure 17

Statement of Changes in Plan Net Assets
Pension Trust Fund - GAAP Basis
For the Fiscal Year Ended June 30, 2008

(Dollars in Thousands)

Additions:	
Contributions	$ 2,545,286
Investment Income:	
Interest, Dividends, and Other Investment Income	(2,395,178)
Less Investment Expenses	459,419
Net Investment Income	(2,854,597)
Other Revenue	21,360
Total Additions	(287,951)
Deductions:	
Retirement Benefits	2,536,624
Refunds to Former Members	102,939
Retiree Health Insurance Credits	103,762
Insurance Premiums and Claims	139,108
Administrative Expenses	29,213
Other Expenses	37,071
Total Deductions	2,948,717
Net Increase (Decrease)	(3,236,668)
Net Assets, July 1	58,344,013
Net Assets, June 30	$ 55,107,345

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

Virtually all pension systems experience some gap between the amount that has been contributed and the amount that will be required to honor all promised benefits to both current and future retirees. This gap arises when benefits are added to the plan, and can also be produced by differences between the assumptions that are made in financing the trust fund and actual experience.

Employer and employee contributions are required by the *Code of Virginia*. The State pays the 5 percent of employees' annual salaries that its employees are required to contribute to the retirement system.

Employer contributions made for FY 2008 totaled $317.6 million. This was less than the actuarially determined Annual Required Contribution of $454.1 million, but did meet statutory requirements. When compared to other plans similar to Virginia's, the funding statistics indicate that Virginia's plans are adequately funded and financially sound. The pension obligation is included in the calculations of future state contribution rates so that a portion of this obligation is paid off each year.

Alcoholic Beverage Control Fund - GAAP Basis

The ABC fund accounts for the receipts and disbursements from the sale of alcoholic beverages. In FY 2008, ABC profits of $113.4 million were distributed to the General Fund to use for current operations and for alcohol treatment and rehabilitation programs. Total ABC operating income for FY 2008 was $111.5 million on $538.7 million in total sales.

State Lottery Fund - GAAP Basis

The lottery fund (**Figure 18**) accounts for all receipts and disbursements from the sale of lottery tickets for various games.

During FY 2008, the Lottery had revenues of $1.4 billion and expenses, including lottery prize payments, of $933.9 million. Non-operating income for the year, including interest earnings, was $12.6 million. During FY 2008, $465.7 million was transferred out to be spent for public education as required by law.

Figure 18

Revenues, Expenses and Changes in Fund Net Assets
State Lottery - GAAP Basis
For the Fiscal Year Ended June 30, 2008

(Dollars in Thousands)

Operating Revenues:	
Charges for Sales and Services	$ 1,386,412
Total Operating Revenue	1,386,412
Operating Expenses:	
Personal Services	21,854
Contractual Services	33,218
Supplies and Materials	1,062
Depreciation	1,063
Lottery Prize Expense	875,204
Other Expenses	1,537
Total Operating Expenses	933,938
Operating Income	452,474
Nonoperating Revenues:	
Interest, Dividends, and Rents	14,083
Other	(1,469)
Total Nonoperating Revenues	12,614
Income Before Transfers and Changes	465,088
Operating Transfers Out	(465,738)
Change in Net Assets	(650)
Total Net Assets, July 1	(2,862)
Total Net Assets, June 30	$ (3,512)

Risk Management (Self-Insurance) Program - GAAP Basis

The Commonwealth is self-insured for workers' compensation, property damage, general (tort) liability, medical malpractice and automobile insurance coverage. At the end of FY 2008, the self-insurance program had cash and other assets of $152.9 million, while the estimated liability for claims payable was $375.5 million. The program had additional liabilities of $79 million, which resulted in a GAAP deficit balance of $301.6 million.

The self-insurance program remains solvent because additional cash is constantly being provided from premiums paid by state agencies.

Debt Administration

The total outstanding debt on the books of the Commonwealth as of the end of FY 2008 was $26.9 billion (**Figure 19**). Debt on the books of the Commonwealth can be classified into three categories:

1) general obligation bonds of Virginia taxpayers,
2) limited obligations, which may use tax revenue to pay principal and interest (Other Tax Supported); and
3) debt issued by state-created authorities and institutions of higher education, which is not an obligation of Virginia taxpayers and does not use tax revenues (Non-Tax Supported).

As illustrated in **Figure 19**, a total of $1.5 billion, or 5.5 percent of all debt, is a general obligation of Virginia taxpayers and supported by a pledge of all tax revenues and other monies of the Commonwealth. This kind of pledge is also referred to as "full faith and credit" debt. General obligation debt is issued as provided for in the State Constitution.

The next category of debt, limited obligations which may use tax revenue, does not carry the "full faith and credit" of the Commonwealth, but does use certain tax revenues, in whole or in part, to pay principal and interest. Examples of other tax supported debt include certain bonds issued by the Virginia Port Authority to improve Virginia ports, most highway construction bonds, bonds issued to construct state office buildings, hospitals and prisons, and capital leases and installment purchase contracts entered into by state agencies and institutions of higher education. A total of $6.4 billion of this type of tax supported debt was outstanding at the end of FY 2008. This is 23.7 percent of all debt on the books of the Commonwealth.

Non-tax Supported Debt makes up 70.8 percent of all debt in the Commonwealth. The majority of this debt is issued by various authorities that are created under state law to issue bonds to finance programs considered to provide a benefit to the public. Total debt in this category at the end of FY 2008 was $19.1 billion.

Figure 19

State Debt/Obligations

Tax Supported and Non-Tax Supported

As of June 30, 2008

(Dollars in Thousands)	Total	Percent of Total
Tax-Supported Debt/Obligations		
General Obligation Bonds		
Public Facilities Bonds	$ 916,483	3.3%
Parking Facilities Bonds	7,590	0.1%
Transportation Facilities Bonds	77,916	0.3%
Higher Education Bonds	487,296	1.8%
Total General Obligation Bonds	1,489,285	5.5%
Other Tax-Supported Debt/Obligations		
Transportation	948,507	3.5%
Virginia Port Authority	218,596	0.7%
Virginia Public Building Authority	1,719,455	6.4%
Innovative Technology Authority	6,270	0.1%
Virginia College Building Authority	899,572	3.4%
Long-term Capital Lease Payable	250,250	0.9%
Compensated Absences Obligations	575,271	2.1%
Pension Liability Obligations	1,237,460	4.6%
OPEB Liability Obligations	119,658	0.4%
Biotechnology Research Park	47,852	0.2%
Regional Jail Construction	9,980	0.1%
Installment Purchase	173,572	0.7%
Other Long-term Debt/Obligations	154,875	0.6%
Total Other	6,361,318	23.7%
Total Tax-Supported Debt/Obligations	7,850,603	29.2%
Non-Tax Supported Debt/Obligations		
Higher Education	1,147,172	4.3%
Virginia Housing Development Authority	6,878,987	25.5%
Virginia Public School Authority	3,030,087	11.2%
Virginia Resources Authority	1,782,941	6.6%
Other Long-term Debt/Obligations	6,257,047	23.2%
Total Non-Tax Supported Debt/Obligations	19,096,234	70.8%
Total Commonwealth Debt/Obligations	$ 26,946,837	100.0%

The largest of these authorities is the Virginia Housing Development Authority, which has $6.9 billion in debt outstanding secured by various mortgages. Other issuers include the Virginia Public School Authority and the Virginia Resources Authority. Colleges and teaching hospitals also issue bonds secured only by fees paid for services. These bonds do not use state taxes to pay principal and interest.

In each case, the debt of these authorities is secured only by the revenues of the issuing body. No tax revenues are used to support this debt and it is not considered a legal obligation of the Commonwealth. However, $1.1 billion of the total carries a "moral obligation" promise by the Commonwealth to consider funding any deficiencies in debt service reserves from tax revenues. To date, no such deficiencies have occurred.

Figure 20 summarizes the outstanding debt owed by the Commonwealth in all categories over three fiscal years. **Figure 21** shows the ratio of general obligation debt per person and **Figure 22** shows the percentage of governmental expenditures used to pay governmental debt.

Figure 20

Categories of Debt

(Dollars in Millions)

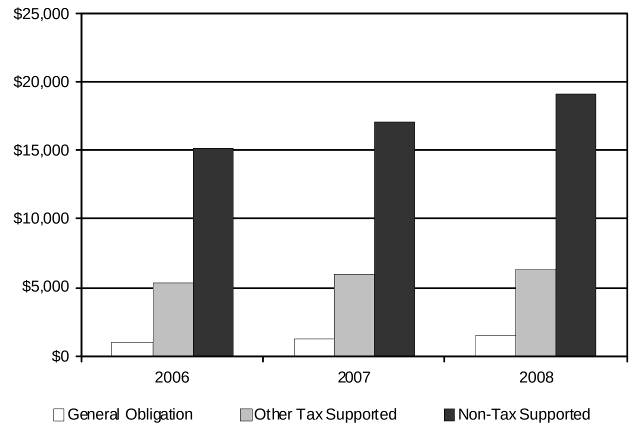


Figure 21

Ratio of General Obligation Debt Per Capita

(Amounts in Thousands, Except for Per Capita)

For the Fiscal Year Ended June 30,	Population (1)	General Obligation Debt (2)	General Long-term Debt Per Capita
2008	7,758	$ 1,489,285	$ 192
2007	7,694	1,312,171	171
2006	7,623	1,042,467	137
2005	7,512	953,995	127

(1) Population figure for 2008 is estimated.

(2) Includes 9(a), 9(b) and 9(c) debt, net of unamortized premiums, discounts and deferral on debt defeasance payable.

Figure 22

Percentage of Annual Debt Service Expenditures for Governmental Debt to Total Expenditures – All Governmental Fund Types

(Dollars in Thousands)

For the Fiscal Year Ended June 30,	Debt Service (1)	Total Expenditures (2)	Percentage
2008	$ 564,929	$ 29,035,710	1.95
2007	513,798	27,399,582	1.88
2006	458,943	25,297,715	1.81

(1) Includes principal and interest payments related to general bonded debt reflected in the governmental activities column of the Government-wide Statement of Net Assets. The principle outstanding at June 30, 2008, was $4.7 billion.

(2) Includes General, Special Revenue, Debt Service, Capital Projects, and Permanent Funds.

Source: Department of Accounts

OTHER INFORMATION

Prompt Payment

State government places a significant emphasis on ensuring that vendors doing business with state agencies are paid within the time specified in the purchase contract. Payment performance is monitored monthly and payments that are overdue more than seven days entitle vendors to collect interest. Agencies must achieve a 95 percent compliance rate with all payment provisions in order to be considered in compliance with the Virginia Prompt Payment Act.

Figure 23 shows that for FY 2008, the state made 98.9 percent of its payments on time, and that 97.7 percent of the dollars owed were paid in compliance with prompt payment requirements. The state paid out $55,506 in interest on late payments during FY 2008, a decrease of $11,987 from FY 2007, on total vendor payments of $6.2 billion.

Figure 23
Statewide Prompt Payment Statistics
For Fiscal Year 2008

Number of Late Payments		26,044
Total Number of Payments		2,385,194
Late Dollars (in Thousands)	$	142,602
Total Dollars (in Thousands)	$	6,150,510
Interest Paid	$	55,506
Percent of Payments in Compliance		98.9%
Percent of Dollars in Compliance		97.7%

E-Commerce and Payment Systems

Virginia actively pursues administrative efficiencies and cost savings by promoting use of automated payment systems by state agencies. To reduce the number of state issued checks, Virginia uses Financial Electronic Data Interchange (EDI), also known as electronic banking, and Payroll Direct Deposit. To consolidate payments for low dollar purchases the state uses the Small Purchase Charge Card.

<u>Electronic Data Interchange</u>
A total of 201,740 payments equaling $26.5 billion were made in FY 2008 using EDI. This helped to avoid the issuance of over 315,445 checks. Electronic payments were made to 46,824 grantees, vendors and localities.

<u>Direct Deposit</u>
Further efforts to reduce the amount of resources consumed are made by using electronic systems for payroll payments. These include the elimination of paychecks for Commonwealth employees who are paid through direct deposit to their bank accounts. As of June 30, 2008, 94.2 percent of salaried employees and 77.2 percent of wage employees took part in Direct Deposit.

<u>Payline</u>
Payline, the Commonwealth's electronic pay stub system, provides secure internet access for employee payroll information. Payline allows for the elimination of costly printing and distribution of earnings notices for employees on direct deposit. During FY 2008, the printing of 501,244 earnings notices was avoided through the Payline earnings notice print opt-out program.

Small Purchase Charge Card Program

Also in FY 2008, approximately $354.1 million in purchases were made using the small purchase charge card and gold charge card programs. This helped to avoid printing 656,650 checks. As of June 30, 2008, 227 agencies were using 14,947 cards (**Figure 24**). A comparison of charge activity for FY 2008 to activity for FY 2007 is shown in **Figure 25**.

Figure 24

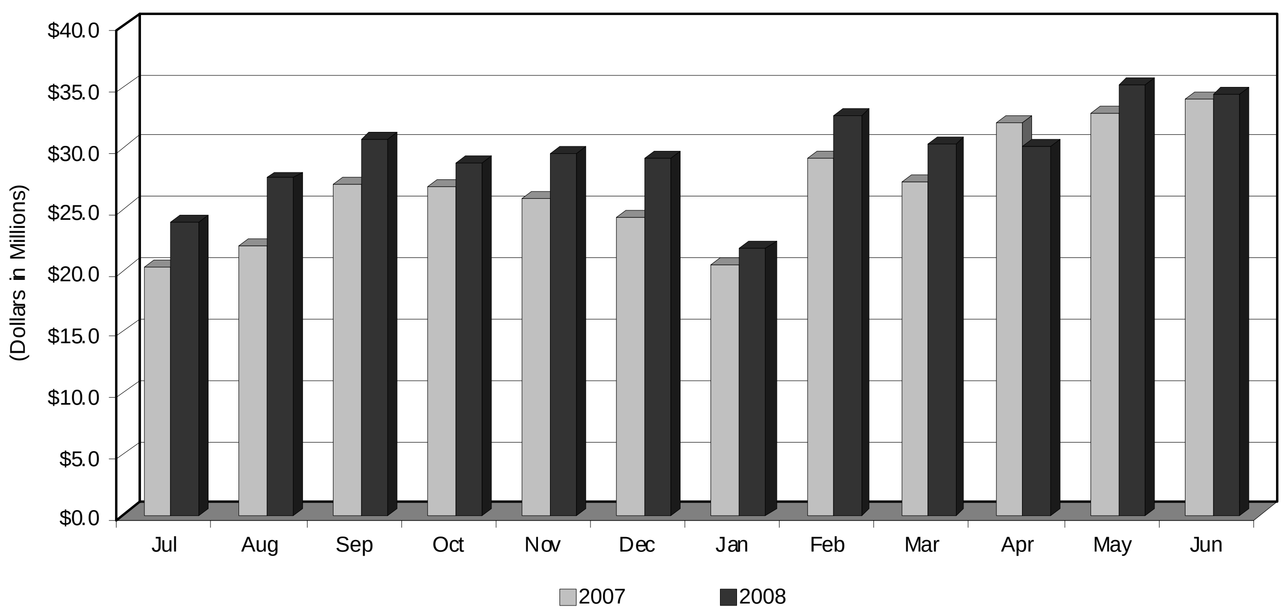
Small Purchase Charge Card Program

Charge Card Activity	Quarter Ended June 30, 2008	Fiscal Year 2008 to Date	Comparative Fiscal Year 2007 to Date
Amount of Charges	$ 99,774,874	$ 354,050,126	$ 321,790,956
Estimated Number of Checks Avoided	177,397	656,650	680,638
Total Number of Participating Agencies		227	222
Total Number of Cards Outstanding		14,947	14,956

Figure 25

Charge Amount Comparison

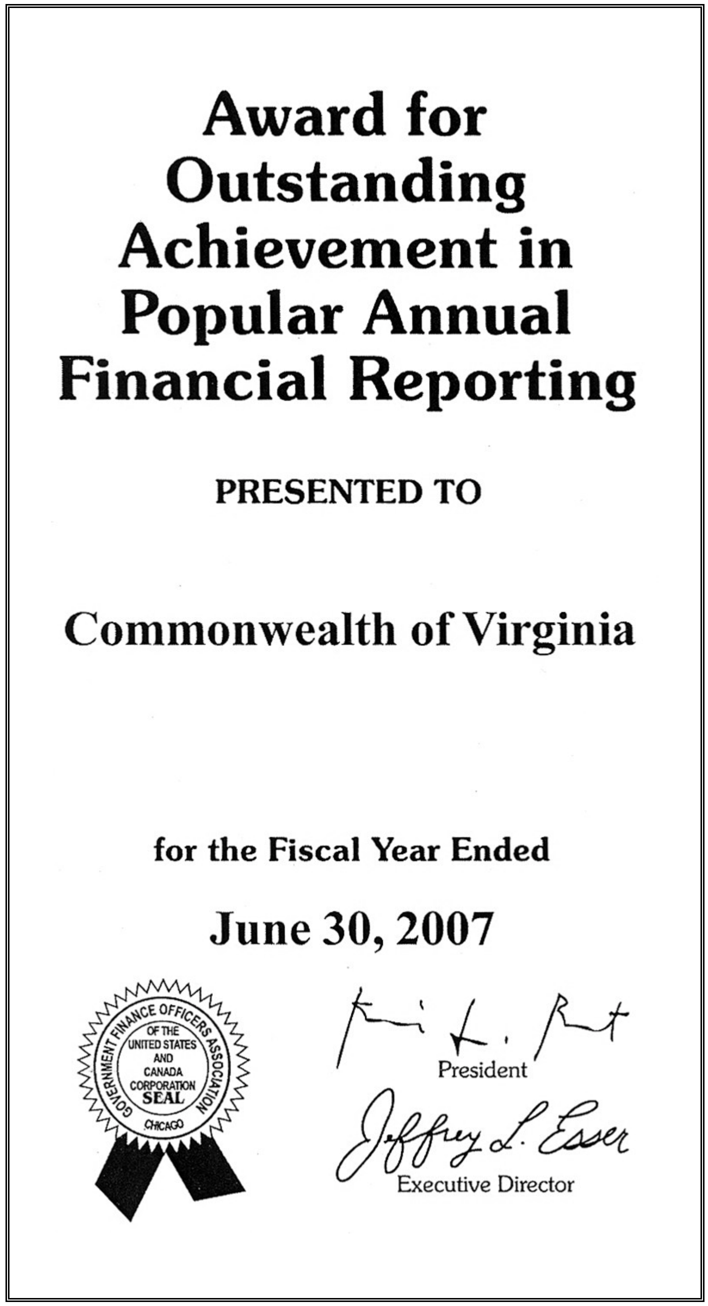
FY 2007 – FY 2008



Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) recognized the Commonwealth through its Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 2007. This is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, reader appeal, and understandability. The award is valid for a period of one year only. The Commonwealth has received this award for the last 13 consecutive years (fiscal years 1995-2007). It is expected that the current report continues to conform to the Popular Annual Financial Reporting requirements.



Award for Outstanding Achievement in Popular Annual Financial Reporting

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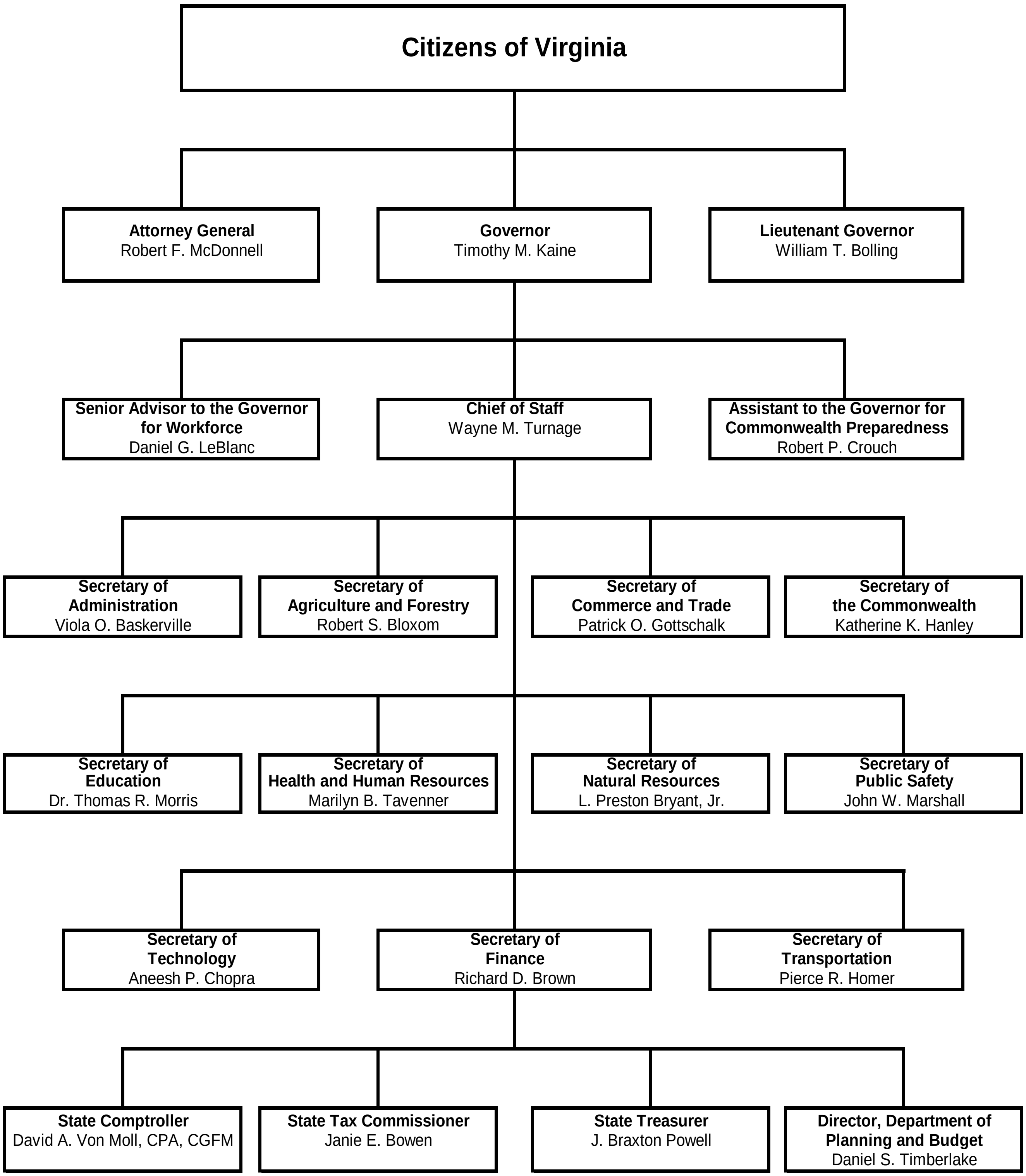

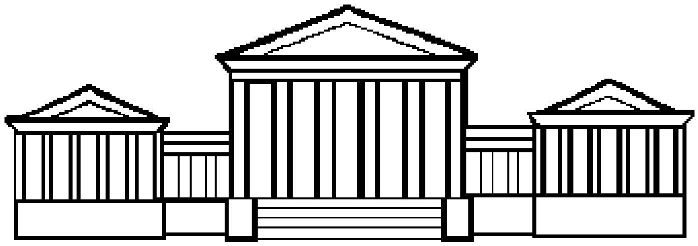

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This report was prepared by staff of the
Virginia Department of Accounts