

A REPORT TO THE CITIZENS OF THE COMMONWEALTH

Virginia Financial Perspective

For the Fiscal Year Ended June 30, 2009



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December 15, 2009

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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 2009, 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.

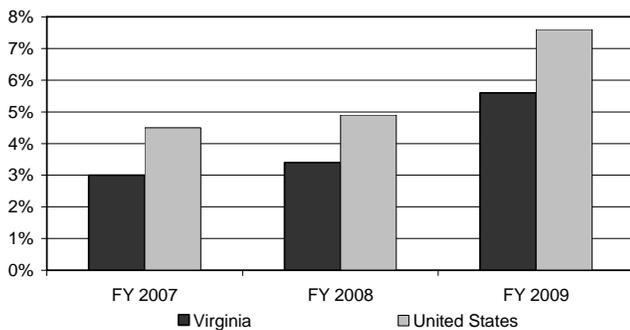
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Virginia's Economy

Each year the CAFR includes a section reviewing the Commonwealth's economy. For fiscal year (FY) 2009, economists at the University of Virginia's Weldon Cooper Center for Public Service (Center) prepared this economic highlight section. In FY 2009, the Commonwealth's economy suffered with the rest of the nation in the most severe economic downturn since the 1930s. One hallmark of a recession is higher rates of unemployment. Consequently, it is no surprise that Virginia's unemployment rate rose sharply in FY 2009, after a small rise in FY 2008. Even so, Virginia's unemployment rate was much lower than the national average. Personal income grew by only 1.1 percent which was slightly better than the national rate but substantially less than in the previous four years. The housing slump, which began in FY 2006, deepened severely in subsequent years. Permits for new residential units dropped by 31 percent from the previous year.

Employment and income are the two broad measures that give the best picture of economic developments. Unemployment increased by 2.3 percent in FY 2009. Persons without work constituted 5.6 percent of the labor force (**Figure 1**). Virginia's unemployment rate was 2 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). Of the 15 industries shown, only six (mining and logging, education and health services, other services such as repair and laundry, federal government, state government, and local government) reported gains. Major sectors such as construction, manufacturing, and retail trade sustained large losses. Developments at the national level were similar, but in total, the relative loss was worse.

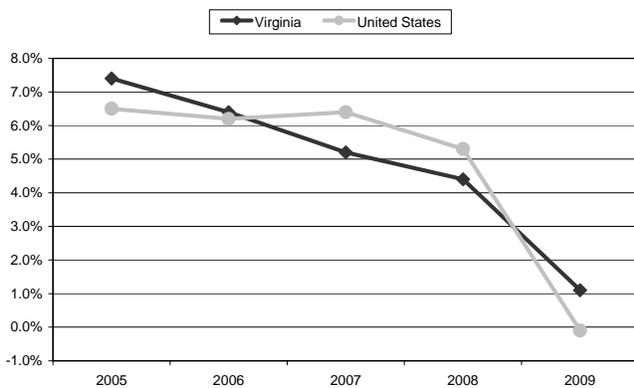
Figure 2
Nonfarm Payroll Employment

NAICS Industry	Virginia Employment (000)			Change, FY 2008 – FY 2009	
	2007	2008	2009	Virginia, Percent	U.S., Percent
Mining and logging	11.2	10.8	11.2	3.7	3.4
Construction	244.7	232.5	206.7	(11.1)	(9.6)
Manufacturing	282.8	271.5	254.0	(6.4)	(7.2)
Wholesale trade	120.6	120.4	115.7	(3.9)	(3.2)
Retail trade	425.4	426.2	414.9	(2.7)	(2.9)
Transportation and utilities	119.4	119.7	118.1	(1.3)	(3.3)
Information services	91.2	89.1	84.1	(5.6)	(3.0)
Financial activities	195.1	191.1	187.1	(2.1)	(3.3)
Professional and business services	637.6	653.1	648.6	(0.7)	(4.0)
Education and health services	411.9	430.1	441.3	2.6	2.6
Leisure and hospitality	342.4	348.5	344.5	(1.1)	(1.4)
Other services	183.6	187.2	187.5	0.2	(0.8)
Federal government	156.3	157.4	163.6	3.9	2.1
State government	153.2	153.4	156.0	1.7	1.0
Local government	370.1	377.0	379.7	0.7	0.6
Total nonfarm employment	3,745.5	3,768.0	3,712.7		

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 2009, Virginia personal income in current dollars grew by only 1.1 percent. This was slightly better the national rate of 0.1 percent negative growth for the nation, but substantially less than in the four previous years.

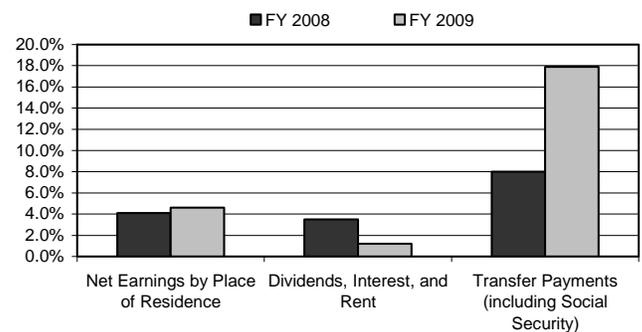
Figure 3
Percentage Change in Personal Income



Source: Bureau of Economic Analysis

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 fiscal year 2009, net earnings accounted for 71 percent of Virginia personal income and increased by 0.5 percent from the previous year. The second component, dividends, interest, and rent accounted for 17 percent of income. Reflecting poor financial markets, this component declined 2.3 percent from the previous fiscal year. The third is income transfers, which are mainly Social Security benefits, Medicaid and Medicare benefits, and unemployment insurance payments, accounted for 12 percent of personal income in fiscal year 2009 and grew by 9.9 percent.

Figure 4
Personal Income Growth Rates



Fiscal year 2009 was a difficult year for Virginia – a description that applied to the vast majority of states. Compared to national averages for major economic measures, the Commonwealth generally fared better than the nation, a result stemming from Virginia's proximity to the nation's capital, its importance as a defense contractor and location of military personnel, the positive role of the deepwater port at Hampton Roads, and the Commonwealth's strategic location on the eastern seaboard.

FINANCIAL STATEMENT INFORMATION

This section contains financial statement information for the Commonwealth of Virginia for the fiscal year ending June 30, 2009.

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, 2008, and ended on June 30, 2009. This is referred to as fiscal year 2009, or FY 2009.

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 2009 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, 2009. 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 and Other Employee Benefit Trust Funds, 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/Financial_Reporting/CAFR_CAFR_Main.cfm.

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 2009, Virginia had *assets* (i.e., cash, investments, property and amounts owed to the state) on a GAAP basis of \$31.0 billion. These assets were partially offset by liabilities (i.e., amounts owed by the state to others) of \$14.7 billion. This left state government with net assets (the amount left after liabilities are subtracted from assets) of \$16.3 billion. **Figure 5** is a condensed Statement of Net Assets for the Commonwealth as of June 30, 2009.

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 decreased by \$2.0 billion. The net assets of the governmental activities decreased \$1.3 billion or 7.6 percent, primarily due to decreases in current and other assets offset by increases to capital assets. Business-type activities had a decrease of \$685.9 million or 76.1 percent, primarily due to decreases for the Virginia College Savings Plan and the Unemployment

Compensation Fund. Virginia recognized \$10.9 billion in program revenues and \$16.7 billion in general revenues, which was used to pay for \$32.2 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 2008 net asset balance has been restated by \$35.8 million due primarily to unrecorded liabilities.

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, 2009

(Dollars in Millions)

	Primary Government			FY 2008 Total (Informational Only)
	Governmental Activities	Business-type Activities	FY 2009 Total	
Assets	\$ 28,048	\$ 2,946	\$ 30,994	\$ 32,599
Liabilities	11,973	2,730	14,703	14,299
Net Assets	<u>\$ 16,075</u>	<u>\$ 216</u>	<u>\$ 16,291</u>	<u>\$ 18,300</u>

Figure 6
Statement of Activities (GAAP Basis)
 For the Fiscal Year Ended June 30, 2009

(Dollars in Millions)

	Primary Government			FY 2008 Total (Informational Only)
	Governmental Activities	Business-type Activities	FY 2009 Total	
Program Revenues:				
Charges for Services	\$ 2,294	\$ 2,517	\$ 4,811	\$ 5,097
Operating Grants and Contributions	7,584	105	7,689	6,107
Capital Grants and Contributions	997	-	997	1,152
	10,875	2,622	13,497	12,356
Expenses	29,465	2,734	32,199	30,153
Net (Expenses) Revenues	(18,590)	(112)	(18,702)	(17,797)
General Revenues	16,676	18	16,694	18,288
Transfers and Other Items	591	(591)	-	-
Change in Net Assets	(1,323)	(685)	(2,008)	491
Net Assets - July 1, as restated	17,398	901	18,299	17,809
Net Assets - June 30	\$ 16,075	\$ 216	\$ 16,291	\$ 18,300

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 2009

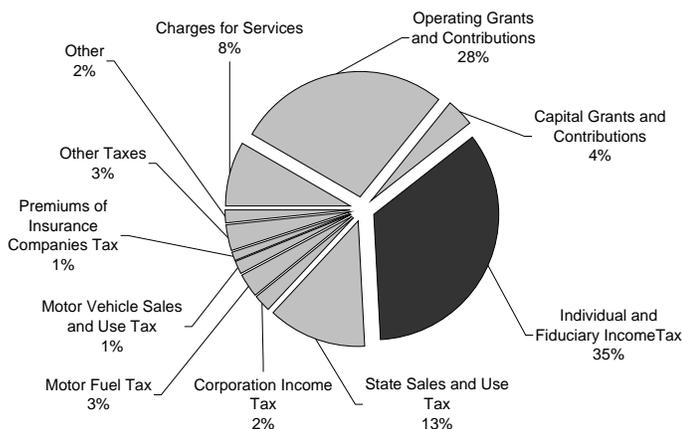


Figure 8
Expenses by Type – Governmental Activities
FY 2009

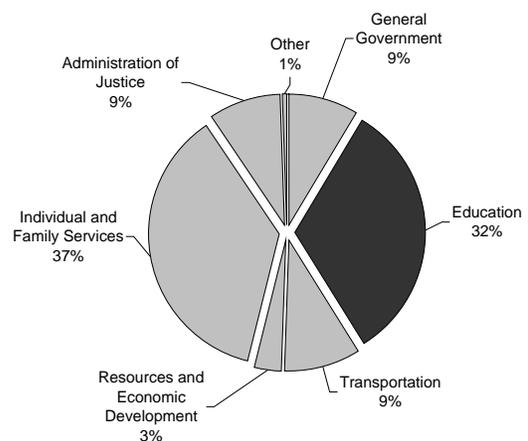


Figure 9
Primary Government
Total Revenues and Expenses
FY 2005 – FY 2009

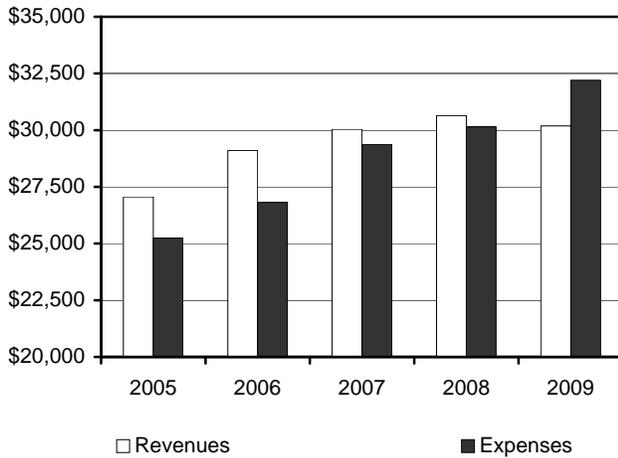
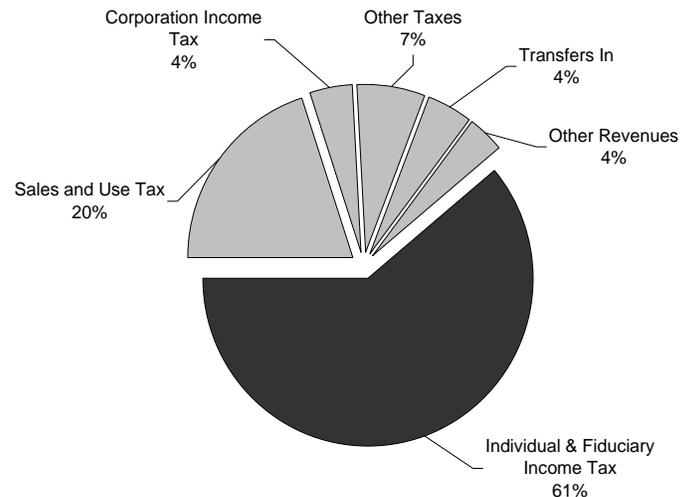


Figure 9 represents financial trend information for primary government (governmental and business-type activities) to help the reader understand how the Commonwealth’s financial performance has changed over time.

General Fund – Cash Basis

During FY 2009, the General Fund received \$15.5 billion in resources. **Figure 10** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 61 percent of the total resources of the General Fund, while sales and use taxes made up 20 percent. These revenues plus other revenues totaled \$14.9 billion, or 96 percent of General Fund resources. The remaining resources totaling \$664.1 million came through transfers from other funds, including alcoholic beverage sales.

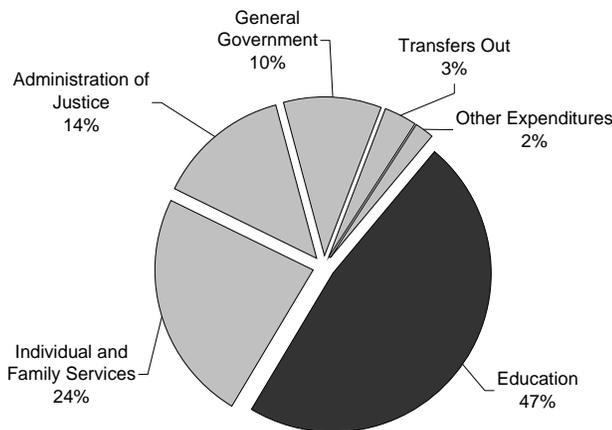
Figure 10
General Fund Resources
FY 2009, Cash Basis



Revenues (not including transfers) decreased by \$1.5 million from FY 2008. This increase is attributable to the net effect of changes in all sources of revenue.

General Fund disbursements, including transfers, for FY 2009 (Figure 11) totaled \$16.9 billion. Expenditures totaled \$16.4 billion and transfers to other funds were \$561.2 million. Education accounted for 47 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 11
General Fund Disbursements
FY 2009, Cash Basis



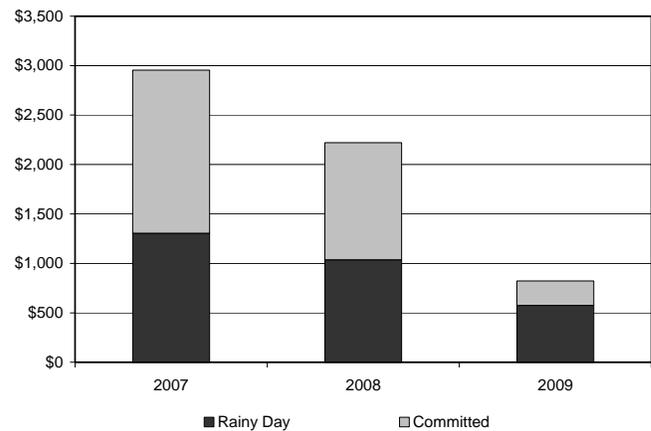
Expenditures (not including transfers) decreased by \$643.2 million over the prior year. The decrease is due to the net effect of changes in all uses of General Fund resources.

General Fund expenditures exceeded revenues and net transfers by \$1.5 billion on the cash basis. In other words, the General Fund had an operating loss for the year on the cash basis.

Figure 12 shows the General Fund balance – cash basis – at the end of each year since 2007. The General Fund Balance – Cash basis was \$2,955.1 million in FY 2007 and \$2,219.8 million in FY 2008. The General Fund balance showed a decrease in FY 2009 to \$823.5 million.

Figure 12
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 Revenue Stabilization Fund has principal and interest on deposit of \$575.0 million which is reserved as part of the General Fund balance. During fiscal year 2009, in accordance with the provisions of Article X, Section 8 of the *Constitution* and Section 2.2-1830 of the *Code of Virginia*, a withdrawal of \$490 million was

made from the 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. A deposit is not required based on fiscal year 2009 revenue collections when revenue increases from tax reform were included or excluded, including those derived from estimates. 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 2009.

General Fund - GAAP Basis

During FY 2009 the General Fund received \$15.5 billion in resources. **Figure 13** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 61 percent of the resources, while sales and use taxes made up 20 percent. These revenues plus other revenues totaled \$14.8 billion, or 96 percent. The remaining monies totaling \$676.5 million came from other sources, such as transfers from other funds, including alcoholic beverage sales.

Revenues (not including transfers) decreased by \$1.5 billion from FY 2008. This is attributable to decreases to the net effect of changes in all line items, except ABC and other revenues which increased.

General Fund disbursements, including transfers, for FY 2009 (**Figure 14**) totaled \$16.9 billion. Expenditures totaled \$16.4 billion and transfers to other funds were \$561.2 million. Education accounted for 47 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. Disbursements for public safety were 14 percent, while only 10 percent was used to support the administration of general governmental operations.

Expenditures (not including transfers) decreased by \$624.2 million over the prior year. The decrease is due to decreases in all expenditure classifications except education.

General Fund expenditures exceeded revenues and net transfers by \$1.5 billion 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 13
General Fund Resources
FY 2009, GAAP Basis

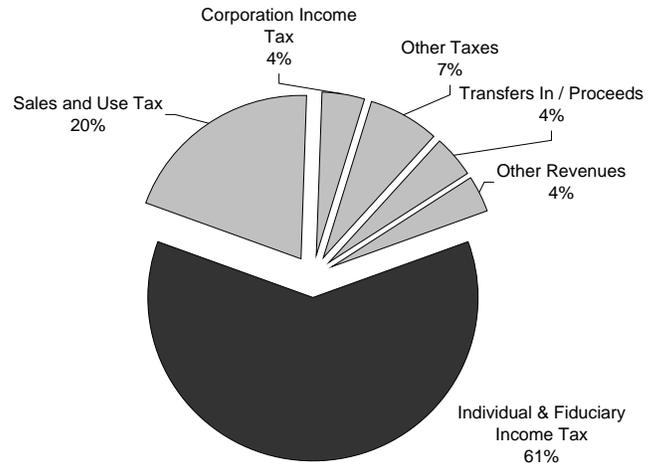
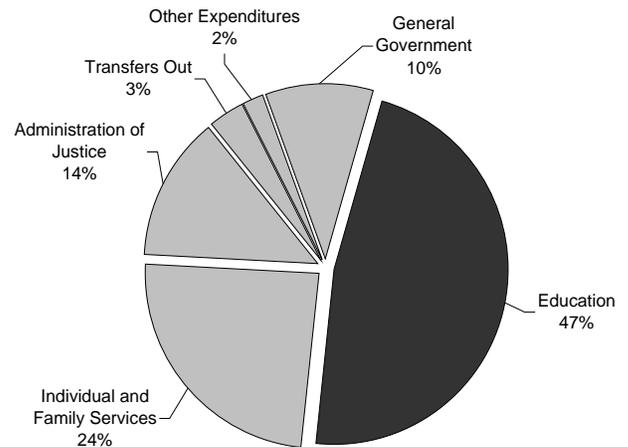


Figure 14
General Fund Disbursements
FY 2009, GAAP Basis



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 \$199.3 million, which is an estimate of the state income taxes withheld during FY 2009 that will eventually be refunded. Another is for *tax refunds payable* on returns filed in FY 2009 and paid during the months of July and August following year end close of \$488.4 million. The third item, *estimated Medicaid claims payable* of \$268.2 million, represents medical services rendered in prior years that will not be paid for until FY 2010. These amounts are summarized in **Figure 15** that compares the General Fund on a cash and GAAP basis of accounting.

Figure 15
**Analysis of General Fund Balance
Cash Basis versus GAAP Basis**

For Fiscal Years Ended June 30, 2009 and 2008

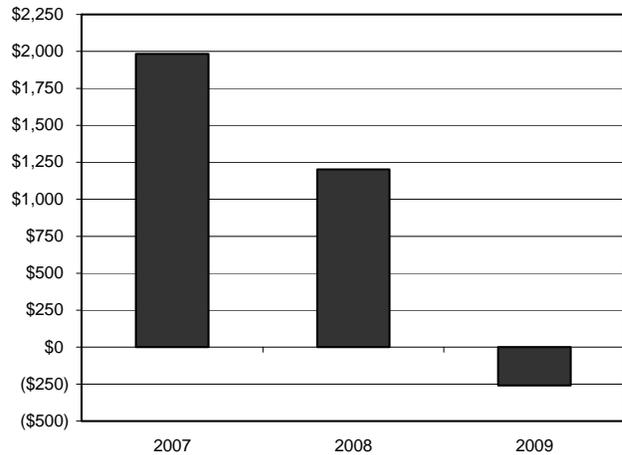
(Dollars in Millions)

	FY 2009	FY 2008
Fund Balance, Cash Basis	\$ 823.5	\$ 2,219.8
ADD:		
Sales Taxes Receivable	288.5	313.6
Other Taxes Receivable	298.3	251.8
Other Receivables	69.6	83.8
Inventory/Prepaid Items	93.5	88.3
Other Accrued Items	(59.9)	(43.9)
Total to be Added	690.0	693.6
LESS:		
Tax Refunds Payable	488.4	420.0
Estimated Tax Refunds Due	199.3	194.5
Medicaid Claims Payable	268.2	213.5
Sales Taxes Due to Localities	179.5	192.4
Other Accrued Items	636.6	690.1
Total to be Subtracted	1,772.0	1,710.5
Difference	(1,082.0)	(1,016.9)
Fund Balance, GAAP Basis	\$ (258.5)	\$ 1,202.9

Fund balance decreased to (\$258.5) million, compared to a balance of \$1,202.9 million in FY 2008 (**Figure 16**). The decrease in the General Fund GAAP basis balance from FY 2008 to FY 2009 is due to declining revenue collections.

Figure 16
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.

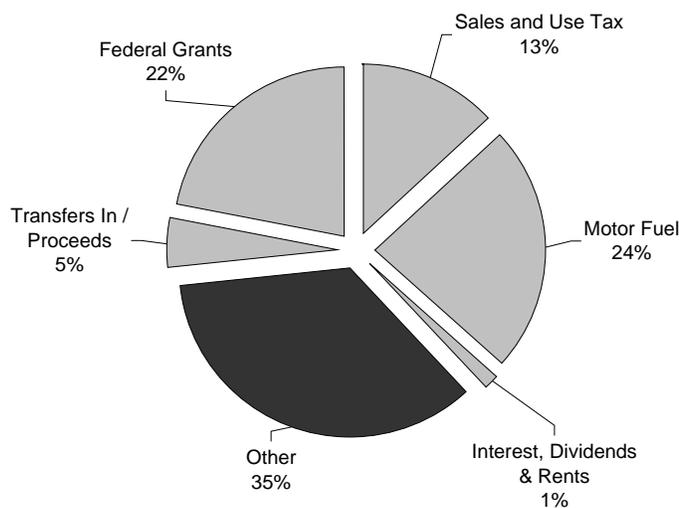
The size of this fund reflects the fact that Virginia is one of only a few states that includes essentially all roads within the state highway system. Virginia has approximately 70,105 miles of state roads.

The Commonwealth Transportation Fund (**Figure 17**) 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 2009, the Commonwealth Transportation Fund had revenues and other receipts of \$3.6 billion and expenditures and other uses of \$4.0 billion on a GAAP basis. At the end of FY 2009, the fund had a balance of \$1.4 billion measured on a GAAP basis.

Figure 17
Commonwealth Transportation Fund
Revenue Resources
FY 2009, GAAP Basis
(Dollars in Millions)



Highway construction projects often require several years to complete. State revenues contribute approximately 63 percent of the funding for these projects. The federal government provides 33 percent, and 4 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 \$278.5 million plus noncurrent assets such as investments and receivables of \$1.4 billion. These assets were held to satisfy current liabilities of \$161.1 million and long-term liabilities of \$1.8 billion. Invested in capital assets, net of related debt was \$1.1 million and total unrestricted deficit net assets were \$286.3 million as of June 30, 2009.

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 investments in the VCSP private purpose fund totaled \$22.1 billion as of June 30, 2009, and included \$21.7 billion of mutual fund investments. The net assets held in trust as of June 30, 2009, were \$22.2 billion.

For FY 2009, VCSP reported contributions from plan participants of \$5.2 billion, which were offset by a net investment loss of \$5.6 billion. Deductions for FY 2009 totaled \$3.3 billion, including \$1.3 billion in educational expense benefits paid and \$2.0 billion in redeemed shares.

Pension and Other Employee Benefit Trust Funds - GAAP Basis

The Commonwealth maintains a number of funds that are managed for the benefit of various groups and institutions. This fund ended FY 2009 with a total net assets held in trust for participants of \$42.6 billion. During FY 2009 the fund received \$2.5 billion in contributions and lost \$11.8 billion on investment holdings. The decrease in net assets after the payment of retirement benefits, refunds and operating costs was \$12.5 billion (**Figure 18**).

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 18
Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Trust Funds -
GAAP Basis
 For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

Additions:	
Contributions	\$ 2,459,579
Investment Income:	
Interest, Dividends, and Other	
Investment Income	(11,525,654)
Less Investment Expenses	297,619
Net Investment Income	<u>(11,823,273)</u>
Other Revenue	9,126
Total Additions	<u>(9,354,568)</u>
Deductions:	
Retirement Benefits	2,733,378
Refunds to Former Members	91,356
Retiree Health Insurance Credits	115,278
Insurance Premiums and Claims	159,912
Administrative Expenses	35,203
Other Expenses	29,001
Total Deductions	<u>3,164,128</u>
Net Increase (Decrease)	(12,518,696)
Net Assets, July 1	<u>55,107,345</u>
Net Assets, June 30	<u>\$ 42,588,649</u>

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 contributions made for FY 2009 totaled \$1.6 billion. This was less than the actuarially determined Annual Required Contribution of \$2.0 billion, 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 2009, ABC profits of \$121.8 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 2009 was \$119.2 million on \$558.9 million in total sales.

State Lottery Fund - GAAP Basis

The lottery fund (**Figure 19**) accounts for all receipts and disbursements from the sale of lottery tickets for various games.

During FY 2009, the Lottery had revenues of \$1.4 billion and expenses, including lottery prize payments, of \$919.1 million. Non-operating income for the year, including interest earnings, was \$5.1 million. During FY 2009, \$452.4 million was transferred out to be spent for public education as required by law.

Figure 19
**Revenues, Expenses and Changes in
Fund Net Assets**
State Lottery - GAAP Basis
For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

Operating Revenues:	
Charges for Sales and Services	\$ 1,365,605
Total Operating Revenue	<u>1,365,605</u>
Operating Expenses:	
Personal Services	21,062
Contractual Services	29,847
Supplies and Materials	546
Depreciation	1,874
Lottery Prize Expense	864,204
Other Expenses	1,612
Total Operating Expenses	<u>919,145</u>
Operating Income	<u>446,460</u>
Nonoperating Revenues:	
Interest, Dividends, and Rents	4,957
Other	192
Total Nonoperating Revenues	<u>5,149</u>
Income Before Transfers and Changes	451,609
Operating Transfers Out	<u>(452,438)</u>
Change in Net Assets	(829)
Total Net Assets, July 1	<u>(3,512)</u>
Total Net Assets, June 30	<u>\$ (4,341)</u>

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 2009, the self-insurance program had cash and other assets of \$176.5 million, while the estimated liability for claims payable was \$409.0 million. The program had additional liabilities of \$95.9 million, which resulted in a GAAP deficit balance of \$328.4 million.

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

Debt Administration

Virginia has held its AAA bond rating, the best rating possible, for 70 years, longer than any other state, which is a reflection of the confidence placed in the Commonwealth's fiscal health by bond raters and finance professionals. Virginia's bond rating allows it to borrow money at the most competitive rates available. Having a good credit rating means Virginia can save millions of taxpayer dollars in interest payments when it finances debt, such as borrowing for construction costs. With less interest to pay, Virginia's resources can be used where needed, and the state can maintain more favorable tax rates for citizens and industries.

As noted on page 4, Component Units are generally excluded from this document. However, the debt of Component Units is included in the Debt Administration section of this document in order to provide a complete presentation of the Commonwealth's total debt.

The total outstanding debt on the books of the Commonwealth as of the end of FY 2009 was \$29.5 billion (**Figure 20**). 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 20**, a total of \$1.7 billion, or 5.7 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 \$7.3 billion of this type of tax supported debt was outstanding at the end of FY 2009. This is 25.0 percent of all debt on the books of the Commonwealth.

Non-tax Supported Debt makes up 69.3 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 2009 was \$20.5 billion.

Figure 20
State Debt/Obligations
Tax Supported and Non-Tax Supported
As of June 30, 2009

<i>(Dollars in Thousands)</i>	Total	Percent of Total
Tax-Supported Debt/Obligations		
General Obligation Bonds		
Public Facilities Bonds	\$ 1,027,941	3.5%
Parking Facilities Bonds	6,526	0.1%
Transportation Facilities Bonds	43,053	0.2%
Higher Education Bonds	573,550	1.9%
Total General Obligation Bonds	<u>1,651,070</u>	<u>5.7%</u>
Other Tax-Supported Debt/Obligations		
Transportation	908,601	3.1%
Virginia Port Authority	200,886	0.7%
Virginia Public Building Authority	2,092,662	7.0%
Innovative Technology Authority	5,415	0.1%
Virginia College Building Authority	1,203,701	4.1%
Long-term Capital Lease Payable	216,600	0.7%
Compensated Absences Obligations	573,904	1.9%
Pension Liability Obligations	1,410,513	4.7%
OPEB Liability Obligations	239,340	0.8%
Virginia Biotechnology Research Partnership Authority	45,409	0.3%
Regional Jail Construction	8,231	0.1%
Installment Purchase	218,202	0.7%
Other Long-term Debt/Obligations	225,258	0.8%
Total Other	<u>7,348,722</u>	<u>25.0%</u>
Total Tax-Supported Debt/Obligations	<u>8,999,792</u>	<u>30.7%</u>
Non-Tax Supported Debt/Obligations		
Higher Education	1,356,659	4.6%
Virginia Housing Development Authority	6,754,384	22.8%
Virginia Public School Authority	3,258,258	11.1%
Virginia Resources Authority	2,466,426	8.3%
Other Long-term Debt/Obligations	6,617,802	22.5%
Total Non-Tax Supported Debt/Obligations	<u>20,453,529</u>	<u>69.3%</u>
Total Commonwealth Debt/Obligations	<u>\$ 29,453,321</u>	<u>100.0%</u>

The largest of these authorities is the Virginia Housing Development Authority, which has \$6.8 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, \$726.4 million 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 21 summarizes the outstanding debt owed by the Commonwealth in all categories over three fiscal years. **Figure 22** shows the ratio of general obligation debt per person and **Figure 23** shows the percentage of governmental expenditures used to pay governmental debt.

Figure 21
Categories of Debt
(Dollars in Millions)

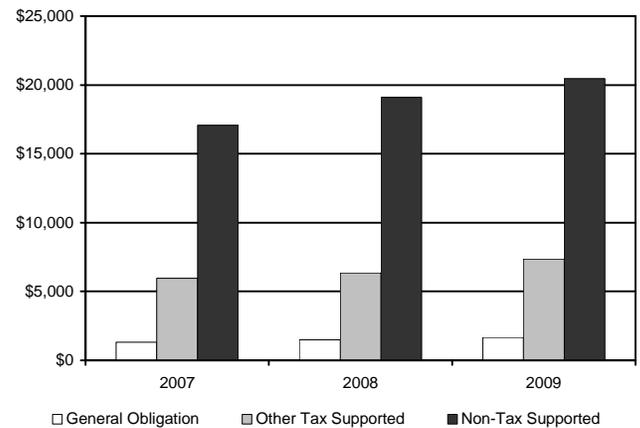


Figure 22
Ratio of General Obligation Debt Per Capita
(Amounts in Thousands, Except for Per Capita)

For the Fiscal Year Ended June 30,	Population (1)	General Obligation Debt (2)	General Long-term Debt Per Capita
2009	7,839	\$ 1,651,070	\$ 211
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 2009 is estimated.
- (2) Includes 9(a), 9(b) and 9(c) debt, net of unamortized premiums, discounts and deferral on debt defeasance payable.

Figure 23
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
2009	\$ 623,465	\$ 30,373,369	2.05
2008	564,929	29,035,710	1.95
2007	513,798	27,399,582	1.88

- (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, 2009, was \$5.0 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 statutes.

Figure 24 shows that for FY 2009, the state made 99.1 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 \$22,111 in interest on late payments during FY 2009, a decrease of \$33,395 from FY 2008, on total vendor payments of \$6.4 billion.

Figure 24
Statewide Prompt Payment Statistics
 For Fiscal Year 2009

Number of Late Payments	20,809
Total Number of Payments	2,284,311
Late Dollars (in Thousands)	\$ 146,582
Total Dollars (in Thousands)	\$ 6,395,925
Interest Paid	\$ 22,111
Percent of Payments in Compliance	99.1%
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.

Electronic Data Interchange

A total of 183,637 payments equaling \$27.0 billion were made in FY 2009 using EDI. This helped to avoid the issuance of over 292,963 checks. Electronic payments were made to 51,474 grantees, vendors and localities.

Direct Deposit

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, 2009, 98.9 percent of salaried employees and 94.0 percent of wage employees took part in Direct Deposit.

Payline

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 2009, the printing of 1,413,428 earnings notices was avoided through the Payline earnings notice print opt-out program.

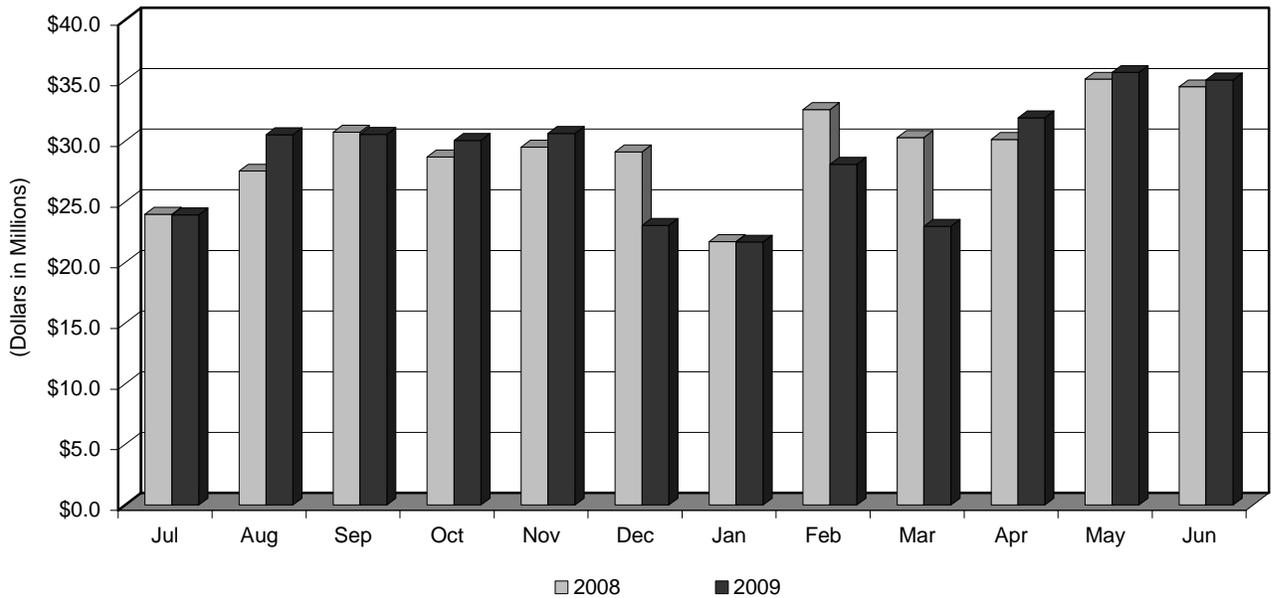
Small Purchase Charge Card Program

Also in FY 2009, approximately \$344.3 million in purchases were made using the small purchase charge card and gold charge card programs. This helped to avoid printing 647,910 checks. As of June 30, 2009, 227 agencies were using 17,436 cards (**Figure 25**). A comparison of charge activity for FY 2009 to activity for FY 2008 is shown in **Figure 26**.

Figure 25
Small Purchase Charge Card Program

Charge Card Activity	Quarter Ended June 30, 2009	Fiscal Year 2009 to Date	Comparative Fiscal Year 2008 to Date
Amount of Charges	\$ 102,654,192	\$ 344,286,582	\$ 354,050,126
Estimated Number of Checks Avoided	182,353	647,910	656,650
Total Number of Participating Agencies		227	227
Total Number of Cards Outstanding		17,436	14,947

Figure 26
Charge Amount Comparison
FY 2008 – FY 2009



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, 2008. 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 14 consecutive years (fiscal years 1995-2008). 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

PRESENTED TO

Commonwealth of Virginia

for the Fiscal Year Ended

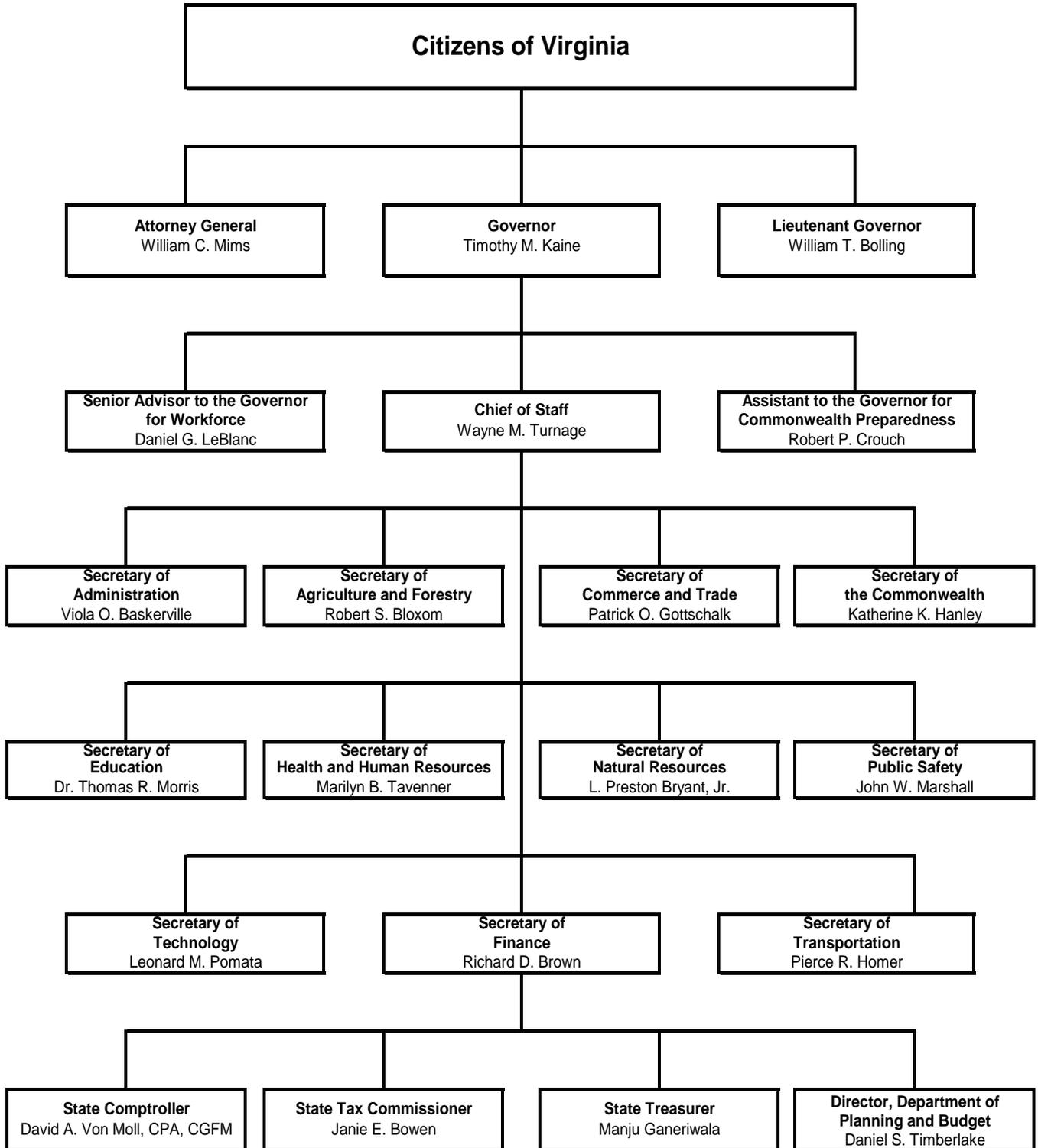
June 30, 2008




President


Executive Director

**Organization of Government
Selected Government Officials - Executive Branch**





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