A REPORT TO THE CITIZENS OF THE COMMONWEALTH

Virginia Financial Perspective

For the Fiscal Year Ended June 30, 2011

Robert F. McDonnell
Governor

Richard D. Brown
Secretary of Finance

David A. Von Moll
Comptroller

December 15, 2011

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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 2011, 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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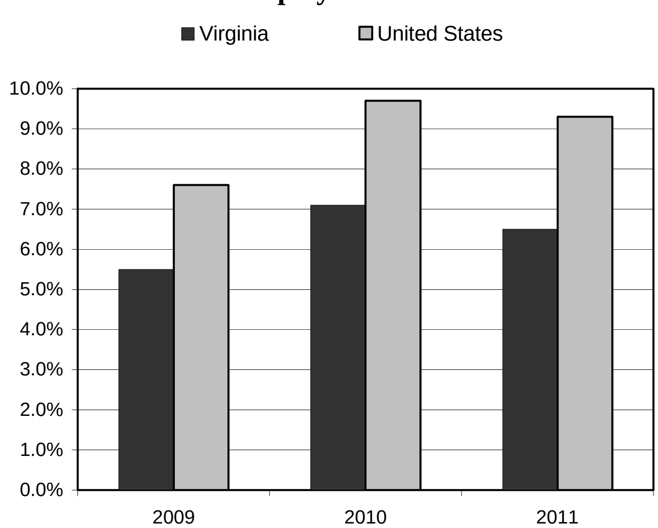
Virginia's Economy

Each year the CAFR includes a section reviewing the Commonwealth's economy. For fiscal year 2011, economists at Virginia Commonwealth University's Center for Urban Development (Center) prepared this economic highlight section. In fiscal year 2011, Virginia's economy began what appears to be a slow recovery path following the so-called "Great Recession" – the worst financial and economic downturn in the United States since the "Great Depression" of the 1930's. It is still too early to tell whether this downturn has been reversed for the state and the nation. After three fiscal years (2008, 2009, and 2010) during which unemployment grew dramatically, the unemployment rate finally decreased at both the state and national levels in fiscal year 2011. Although we are still far from the low unemployment rates of the period before the recent recession (3.0 percent in Virginia and 4.5 percent in the U.S., during 2007), the decline in unemployment rates is an important indicator that allows us to be optimistic for the future of Virginia's economy.

Employment and income are the two broad measures that give the best picture of economic developments. Unemployment decreased by 0.6 percent in fiscal year 2011. Persons without work constituted 6.5 percent of the labor force (**Figure 1**). Virginia's unemployment rate was 2.8 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 nonfarm employment by industry based on the North American Industry Classification System (NAICS). Fiscal year 2011 showed timid signs of economic recovery at both the state and national levels, following a three-year period (from 2008 to 2010) in which almost all industry groups experienced significant job losses. Notable exceptions to the upturn in fiscal year 2011 are construction, manufacturing, information services, financial activities, leisure and hospitality, and local government. Each of these sectors had a decline in employment between fiscal years 2010 and 2011. The largest decreases in nonfarm employment in Virginia, between fiscal years 2010 and 2011, were in information services (a loss of 4.4 percent, or 3,400 jobs) and local government (a loss of 1.9 percent, or 7,200 jobs).

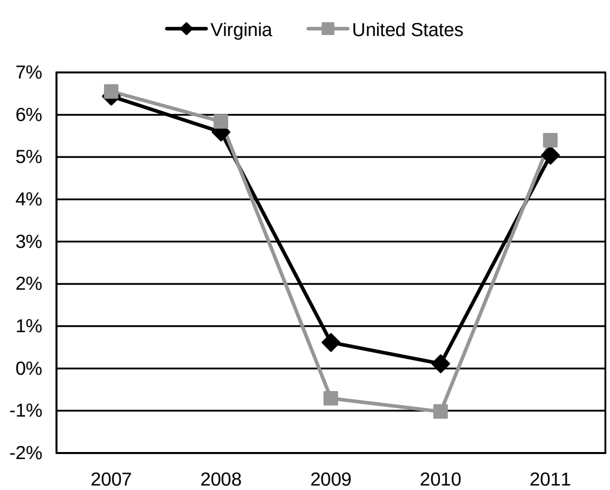
Figure 2
Nonfarm Payroll Employment

	Virginia Employment (000)			Change, FY 2010 - FY 2011 Virginia	U.S.
Industry	2009	2010	2011	Percent	Percent
Mining and logging	10.9	10.1	10.4	3.0	10.1
Construction	206.2	184.0	183.5	(0.3)	(2.6)
Manufacturing	252.5	233.1	230.9	(0.9)	0.8
Wholesale trade	116.6	109.9	111.0	1.0	0.3
Retail trade	409.3	396.9	402.3	1.4	0.4
Transportation and utilities	116.2	111.8	112.3	0.4	1.2
Information	84.5	77.9	74.5	(4.4)	(1.8)
Financial activities	184.5	177.9	177.4	(0.3)	(0.8)
Professional and business services	649.9	640.4	657.2	2.6	2.5
Education and health services	444.9	452.8	459.3	1.4	2.1
Leisure and hospitality	345.1	339.4	335.3	(1.2)	0.9
Other services	187.8	185.0	185.5	0.3	1.5
Federal government	163.2	171.0	173.3	1.3	(2.3)
State government	153.5	152.8	156.0	2.1	(0.4)
Local government	382.3	379.1	371.9	(1.9)	(1.7)
Total	3,707.4	3,622.1	3,640.8	0.5	0.5

Source: U. S. Bureau of Labor Statistics

Figure 3 shows the percentage change in personal income for the last five fiscal years. Personal income is an indicator of Virginia's economy because most of the state government revenues, income, and retail taxes in particular, are directly or indirectly related to personal income. In fiscal year 2011, Virginia personal income increased dramatically. Following three years of declining personal income, there was an increase of 5.0 percent in Virginia and 5.4 percent for the nation.

Figure 3
Percentage Change in Personal Income

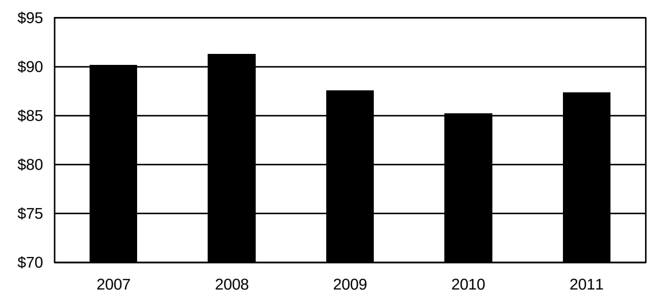


Source: U.S. Bureau of Economic Analysis, Regional Economic Information System

Each of the three major components of personal income – net earnings by place of residence; dividends, interest and rent; and transfer payments – experienced a significant increase during fiscal year 2011. The most important of these three components (net earnings by place of residence) grew only 4.3 percent in Virginia, however, as compared with 5.2 percent growth for the U.S.

Figure 4 shows taxable retail sales in Virginia for the last five years. These data are used as a proxy for retail sales, even though they do not include motor vehicle and motor fuel sales. (Unlike the Census Bureau's data on retail sales, however, taxable sales includes sales at restaurants and lodging places.) After two years of sharp decline, fiscal year 2011 registered a slight upturn with total taxable sales around $87 billion which was 2.5 percent greater than fiscal year 2010.

Figure 4
Taxable Retail Sales in Virginia
(Dollars in Billions)



Fiscal year 2011 can be considered as a year of economic growth, following the previous three years when the Great Recession severely impacted the state and national economies. It is still too early to know if the upturns are trends that will continue, but economic indicators are showing positive signs. While it is important to keep in mind that most of the data presented in this report for fiscal year 2011 are at levels lower than they were before the recession, fiscal year 2011 data allow us to be optimistic for Virginia. The Commonwealth has performed better than the nation in many areas of growth. Most of the success of this recovery, however, will depend on the next fiscal year, when the economic indicators need to confirm these signs of economic recovery.

FINANCIAL STATEMENT INFORMATION

This section contains financial statement information for the Commonwealth of Virginia for the fiscal year ending June 30, 2011.

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, 2010, and ended on June 30, 2011. This is referred to as fiscal year 2011, or FY 2011.

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 2011 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, 2011. 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. For fiscal year 2011, the Commonwealth implemented a new reporting standard that resulted in additional funds being included in the General Fund. 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 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 2011, Virginia had *assets* (i.e., cash, investments, property and amounts owed to the state) on a GAAP basis of $34.4 billion. These assets were partially offset by liabilities (i.e., amounts owed by the state to others) of $16.4 billion. This left state government with net assets (the amount left after liabilities are subtracted from assets) of $18.0 billion. **Figure 5** is a condensed Statement of Net Assets for the Commonwealth as of June 30, 2011.

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 $1.3 billion. The net assets of the governmental activities increased $1.1 billion, or 6.5 percent, primarily due to increases in capital assets offset by increases in liabilities. Business-type activities had an increase of $237.5 million, or 204.0 percent, primarily due to increases for the Virginia College Savings Plan and Unemployment Compensation Funds. Virginia recognized $17.2 billion in program revenues and $18.2 billion in general revenues, which was used to pay for $34.1 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 total revenues was attributed to an overall increase in individual and fiduciary income taxes. The increase in expenses was attributable to increases in general government, transportation, individual and family services, and interest and charges on long-term debt.

The FY 2010 net asset balance has been restated by $104.3 million due primarily for the correction of prior year errors.

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, 2011

(Dollars in Millions)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**FY 2011 Total**	**FY 2010 Total (Informational Only)**
Assets	$ 31,228	$ 3,186	$ 34,414	$ 32,476
Liabilities	13,333	3,065	16,398	15,797
Net Assets	$ 17,895	$ 121	$ 18,016	$ 16,679

Figure 6
Statement of Activities (GAAP Basis)
For the Fiscal Year Ended June 30, 2011

(Dollars in Millions)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**FY 2011 Total**	**FY 2010 Total (Informational Only)**
Program Revenues:				
Charges for Services	$ 2,353	$ 3,601	$ 5,954	$ 5,545
Operating Grants and Contributions	9,950	1	9,951	9,955
Capital Grants and Contributions	1,324	-	1,324	1,603
Total Program Revenues	13,627	3,602	17,229	17,103
Expenses	31,380	2,760	34,140	33,724
Net (Expenses) Revenues	(17,753)	842	(16,911)	(16,621)
General Revenues	18,237	10	18,247	16,976
Transfers and Other Items	615	(615)	-	-
Change in Net Assets	1,099	237	1,336	355
Net Assets - July 1, as restated	16,796	(116)	16,680	16,324
Net Assets - June 30	$ 17,895	$ 121	$ 18,016	$ 16,679

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 2011

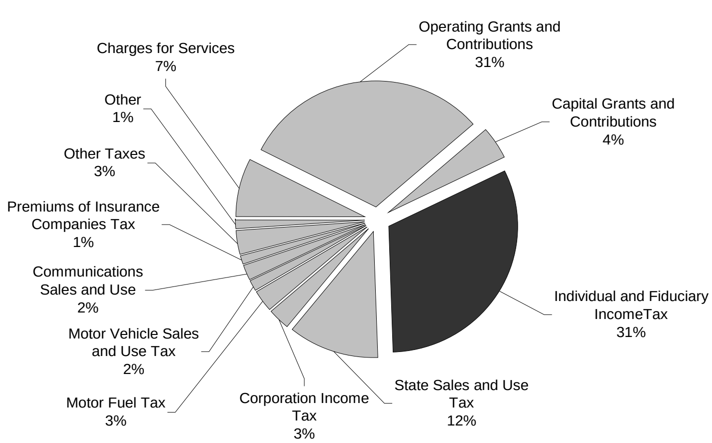


Figure 8
Expenses by Type – Governmental Activities FY 2011

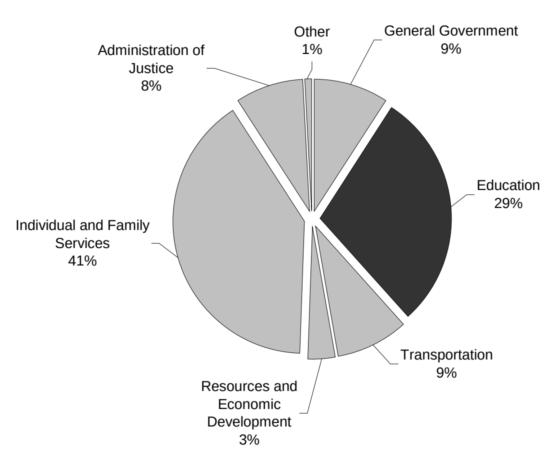
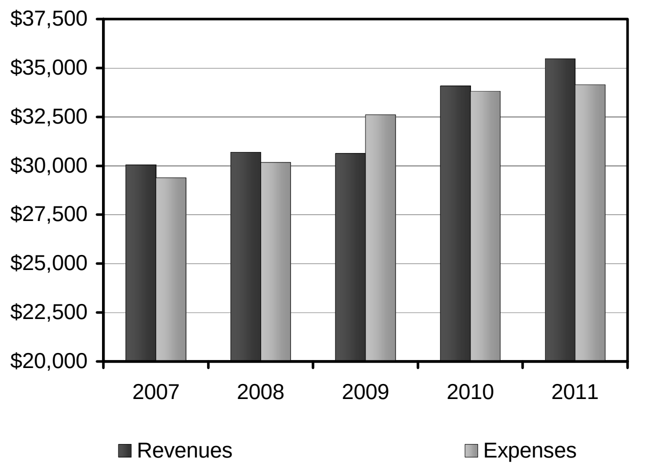


Figure 9 represents financial trend information for primary government (governmental and business-type activities) to help the reader understand how the Commonwealth's financial performance has changed over time.

Figure 9
Primary Government
Total Revenues and Expenses
FY 2007 – FY 2011

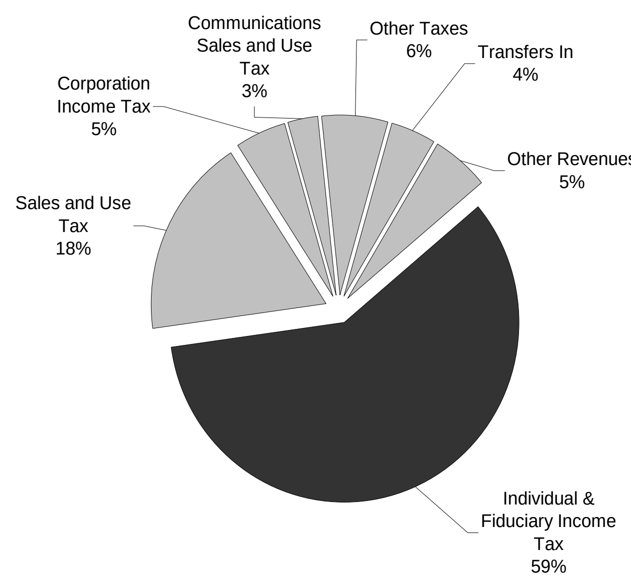
(Dollars in Thousands)



General Fund – Cash Basis

During FY 2011, the General Fund received $16.9 billion in resources. **Figure 10** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 59.0 percent of the total resources of the General Fund, while sales and use taxes made up 18.0 percent. These revenues plus other revenues totaled $16.2 billion, or 95.9 percent of General Fund resources. The remaining resources totaling $693.8 million came through transfers from other funds, including alcoholic beverage sales.

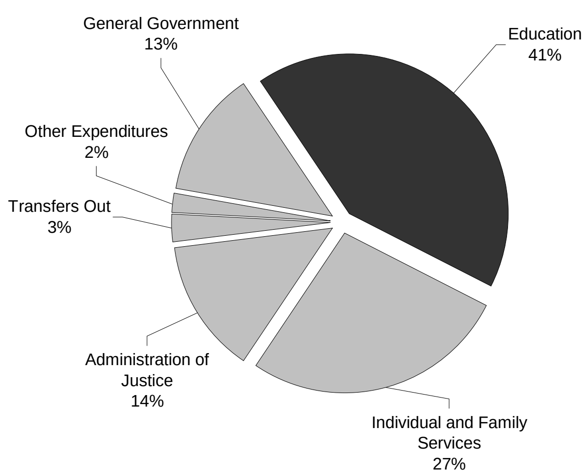
Figure 10
General Fund Resources
FY 2011, Cash Basis



Revenues (not including transfers) increased by $887.2 million from FY 2010. This increase is attributable to the net effect of changes in all sources of revenue.

General Fund disbursements, including transfers, for FY 2011 (**Figure 11**) totaled $16.6 billion. Expenditures totaled $16.1 billion and transfers to other funds were $488.0 million. Education accounted for 41.0 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 27.0 percent of the General Fund. Public safety consumed 14.0 percent. Just 13.0 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 2011, Cash Basis



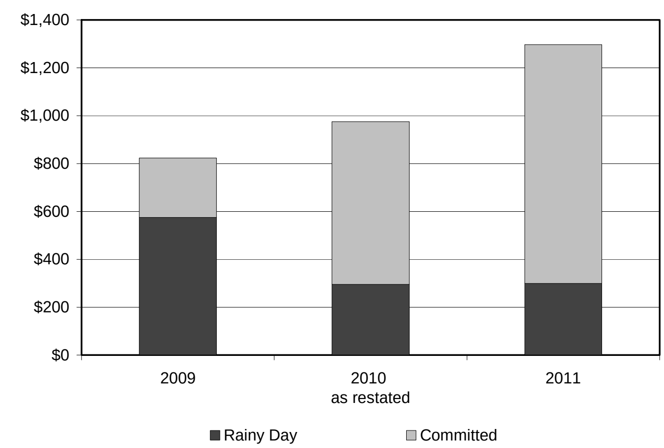
Expenditures (not including transfers) increased by $568.5 million over the prior year. The increase is due to the net effect of changes in all uses of General Fund resources.

General Fund revenues and net transfers exceeded expenditures by $322.7 million on the cash basis. In other words, the General Fund had an operating gain for the year on the cash basis.

Figure 12 shows the General Fund balance – cash basis – at the end of each year since 2009. The General Fund Balance – Cash basis was $823.5 million in FY 2009 and $974.8 million in FY 2010 (as restated). The General Fund balance showed an increase in FY 2011 to $1.3 billion.

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 restricted 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 restricted 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 $299.4 million which is restricted as part of the General Fund balance. During fiscal year 2011, in accordance with the provisions of Article X, Section 8 of the *Constitution* and Section 2.2-1830 of the *Code of Virginia*, 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. This required deposit is also restricted as part of the General Fund balance. 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.

General Fund - GAAP Basis

During FY 2011 the General Fund received $17.2 billion in resources. **Figure 13** 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 $16.4 billion, or 96 percent. The remaining monies totaling $726.9 million came from other sources, such as transfers from other funds, including alcoholic beverage sales.

Revenues (not including transfers) increased by $1.6 billion from FY 2010. This change is attributable to increases of $1.7 billion primarily attributable to individual and fiduciary income taxes and communication sales and use tax offset by decreases of $138.9 million primarily attributable to interest earnings.

General Fund disbursements, including transfers, for FY 2011 (**Figure 14**) totaled $16.7 billion. Expenditures totaled $16.2 billion and transfers to other funds were $473.0 million. Education accounted for 41 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 27 percent of the General Fund. Disbursements for public safety were 14 percent, while only 13 percent was used to support the administration of general governmental operations.

Expenditures (not including transfers) increased by $698.8 billion over the prior year. The increase is primarily attributable to individual and family services, administration of justice, and general government. General Fund revenues exceeded expenditures and net transfers by $516.0 million on the GAAP basis of accounting. In other words, the General Fund had an operating gain for the year on the GAAP basis of accounting.

Figure 13

General Fund Resources
FY 2011, GAAP Basis

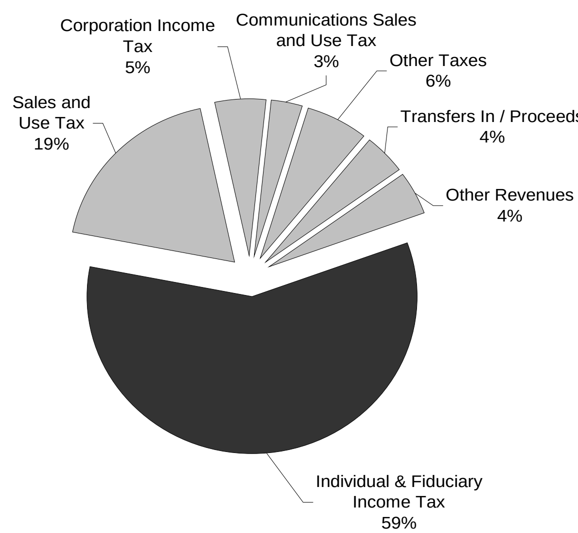
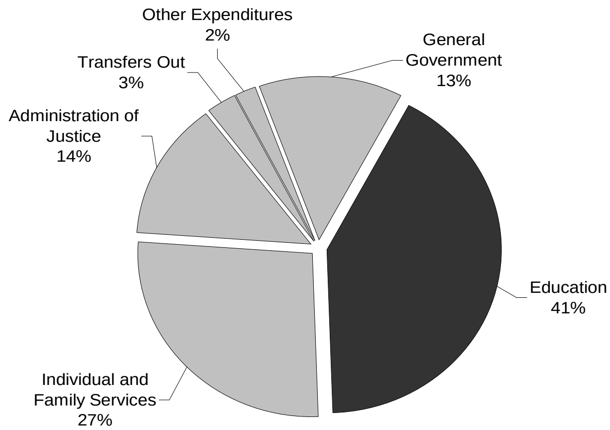


Figure 14
General Fund Disbursements
FY 2011, GAAP Basis



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 $463.4 million, which is an estimate of the state income taxes withheld during FY 2011 that will eventually be refunded. Another is for *tax refunds payable* on returns filed in FY 2011 and paid during the months of July and August following year end close of $423.4 million. The third item, estimated *Medicaid claims payable* of $228.9 million, represents medical services rendered in prior years that will not be paid for until FY 2012. 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, 2011 and 2010

(Dollars in Millions)

	FY 2011	FY 2010 as restated
Fund Balance, Cash Basis	$ 1,297.6	$ 974.8
ADD:		
Sales Taxes Receivable	184.1	151.8
Other Taxes Receivable	298.9	281.3
Other Receivables	73.8	57.3
Inventory/Prepaid Items	113.0	99.0
Other Accrued Items	52.5	32.1
Total to be Added	722.3	621.5
LESS:		
Tax Refunds Payable	423.4	417.4
Estimated Tax Refunds Due	463.4	566.9
Medicaid Claims Payable	229.0	237.8
Sales Taxes Due to Localities	261.6	263.9
Other Accrued Items	701.3	685.1
Total to be Subtracted	2,078.7	2,171.1
Difference	(1,356.4)	(1,549.6)
Fund Balance, GAAP Basis	$ (58.8)	$ (574.8)

Fund balance increased to negative $58.8 million, compared to a restated balance of negative $574.8 million in FY 2010 (**Figure 16**). The increase in the General Fund GAAP basis balance from FY 2010 to FY 2011 is primarily due to an improved cash position, discussed previously and the implementation of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which incorporated several funds previously reported as Special Revenue Funds into the General Fund. Accordingly, the General Fund beginning balance has been restated and increased by $99.5 million.

Figure 16
General Fund Balance - GAAP Basis

(Dollars in Millions)

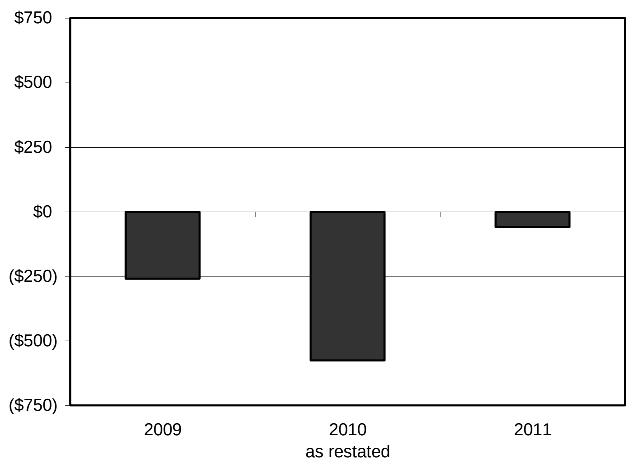
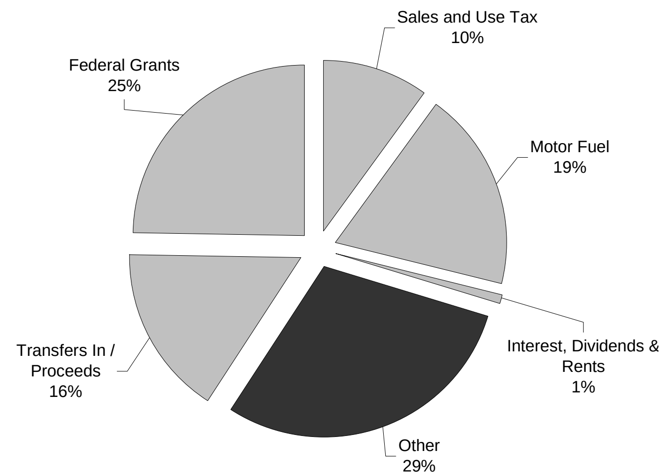


Figure 17
Commonwealth Transportation Fund
Revenue Resources
FY 2011, GAAP Basis



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 2011, the Commonwealth Transportation Fund had revenues and other receipts of $4.6 billion and expenditures and other uses of $4.2 billion on a GAAP basis. At the end of FY 2011, the fund had a balance of $2.4 billion measured on a GAAP basis.

Highway construction projects often require several years to complete. State revenues contribute approximately 54 percent of the funding for these projects. The federal government provides 45 percent, and 1 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 $159.4 million plus noncurrent assets such as investments and receivables of $2.1 billion. These assets were held to satisfy current liabilities of $179.4 million and long-term liabilities of $2.0 billion. Invested in capital assets, net of related debt was $2.7 million and total unrestricted net assets were $4.7 million as of June 30, 2011.

Private Purpose Fund

Total investments in the VCSP private purpose fund totaled $1.7 billion as of June 30, 2011, and included $837.5 million of mutual fund investments. The net assets held in trust as of June 30, 2011, were $1.8 billion.

For FY 2011, VCSP reported contributions from plan participants of $269.9 million. Deductions for FY 2011 totaled $105.3 million, including $93.9 million in educational expense benefits paid and $11.3 million in redeemed shares.

Pension and Other Employee Benefit Trust Funds - GAAP Basis

The Commonwealth maintains a number of pension and other employee benefit trust funds that are managed for the benefit of various groups and institutions. These funds ended FY 2011 with a total net assets held in trust for participants of $54.6 billion. During FY 2011, the funds received $1.7 billion in contributions and $9.0 billion in income on investment holdings. The increase in net assets after the payment of retirement benefits, refunds, other employee benefit plan benefits and operating costs was $6.9 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, 2011

(Dollars in Thousands)

Additions:	
Contributions	$ 1,654,483
Investment Income:	
Interest, Dividends, and Other Investment Income	9,288,847
Less Investment Expenses	321,428
Net Investment Income	8,967,419
Other Revenue	1,678
Total Additions	10,623,580
Deductions:	
Retirement Benefits	3,264,822
Refunds to Former Members	100,668
Retiree Health Insurance Credits	126,499
Insurance Premiums and Claims	155,033
Administrative Expenses	30,814
Other Expenses	36,316
Total Deductions	3,714,152
Net Increase	6,909,428
Net Assets, July 1	47,651,181
Net Assets, June 30	$ 54,560,609

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 or paying less than the rates computed by the actuary.

Employer contributions made for FY 2011 totaled $889.8 million. This was less than the actuarially determined Annual Required Contribution of $2.2 billion, but did meet statutory requirements. As part of adopting the 2010-2012 budget, the Commonwealth adopted modifications to the funding strategy for the Virginia Retirement System (VRS). Employer contributions attributable to the last five pay periods in FY 2011 were deferred until FY 2012. A new pension plan was adopted for employees hired on or after July 1, 2010. This new plan has different benefit provisions than the previous plan. 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 2011, ABC profits of $134.3 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 2011 was $117.7 million on $581.0 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 2011, the Lottery had revenues of $1.5 billion and expenses, including lottery prize payments, of $1.0 billion. Non-operating income for the year, including interest earnings, was $1.3 million. During FY 2011, $456.0 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, 2011

(Dollars in Thousands)	
Operating Revenues:	
Charges for Sales and Services	$ 1,482,688
Total Operating Revenue	1,482,688
Operating Expenses:	
Personal Services	21,947
Contractual Services	28,368
Supplies and Materials	600
Depreciation	2,788
Lottery Prize Expense	975,022
Other Expenses	1,402
Total Operating Expenses	1,030,127
Operating Income	452,561
Nonoperating Revenues:	
Interest, Dividends, and Rents	1,411
Other	(97)
Total Nonoperating Revenues	1,314
Income Before Transfers and Changes	453,875
Operating Transfers Out	(456,038)
Change in Net Assets	(2,163)
Total Net Assets, July 1	(5,713)
Total Net Assets, June 30	$ (7,876)

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 2011, the self-insurance program had cash and other assets of $152.3 million, while the estimated liability for claims payable was $488.2 million. The program had additional liabilities of $61.8 million, which resulted in a GAAP deficit balance of $397.7 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 over 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 2011 was $33.7 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 5.1 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 $10.4 billion of this type of tax supported debt was outstanding at the end of FY 2011. This is 31.0 percent of all debt on the books of the Commonwealth.

Non-tax Supported Debt makes up 63.9 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 2011 was $21.6 billion.

Figure 20
State Debt/Obligations
Tax Supported and Non-Tax Supported
As of June 30, 2011

(Dollars in Thousands)	Total	Percent of Total
Tax-Supported Debt/Obligations		
General Obligation Bonds		
Public Facilities Bonds	$ 914,574	2.7%
Parking Facilities Bonds	19,445	0.1%
Transportation Facilities Bonds	26,355	0.1%
Higher Education Bonds	765,280	2.3%
Total General Obligation Bonds	1,725,654	5.2%
Other Tax-Supported Debt/Obligations		
Transportation	2,008,601	6.0%
Virginia Port Authority	186,011	0.6%
Virginia Public Building Authority	2,418,513	7.2%
Innovation and Entrepreneurship Investment Authority	3,465	0.1%
Virginia College Building Authority	1,909,586	5.7%
Long-term Capital Lease Payable	206,738	0.6%
Compensated Absences Obligations	559,672	1.6%
Pension Liability Obligations	2,050,195	6.1%
OPEB Liability Obligations	643,837	1.9%
Virginia Biotechnology Research Partnership Authority	39,955	0.1%
Regional Jail Construction	4,617	0.1%
Installment Purchase	219,291	0.6%
Other Long-term Debt/Obligations	185,202	0.5%
Total Other	10,435,683	31.1%
Total Tax-Supported Debt/Obligations	12,161,337	36.3%
Non-Tax Supported Debt/Obligations		
Higher Education	1,450,714	4.3%
Virginia Housing Development Authority	6,438,200	19.1%
Virginia Public School Authority	3,215,448	9.5%
Virginia Resources Authority	2,744,403	8.1%
Other Long-term Debt/Obligations	7,703,200	22.7%
Total Non-Tax Supported Debt/Obligations	21,551,965	63.7%
Total Commonwealth Debt/Obligations	$ 33,713,302	100.0%

The largest of these authorities is the Virginia Housing Development Authority, which has $6.4 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, $684.0 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)

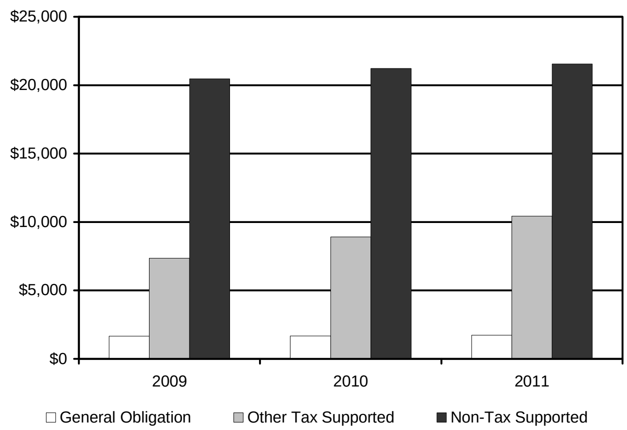


Figure 22
Ratio of General Obligation Debt Per Capita
(Amounts in Thousands, Except for Per Capita)

For the Fiscal Year Ended June 30,	Population (1)	General Obligation Debt (2)	General Long-term Debt Per Capita
2011	8,029	$ 1,725,654	$ 215
2010	7,886	1,680,661	213
2009	7,839	1,651,070	211
2008	7,758	1,489,285	192
2007	7,694	1,312,171	171

(1) Population figure for 2011 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
2011	$ 689,707	$ 32,082,387	2.15
2010	625,941	31,326,606	2.00
2009	623,465	30,373,369	2.05

(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, 2011, was $5.8 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 2011, the state made 99.0 percent of its payments on time, and that 97.9 percent of the dollars owed were paid in compliance with prompt payment requirements. The state paid out $33,745 in interest on late payments during FY 2011, a increase of $25,387 from FY 2010, on total vendor payments of $6.4 billion.

Figure 24
Statewide Prompt Payment Statistics
For Fiscal Year 2011

Number of Late Payments		24,069
Total Number of Payments		2,448,189
Late Dollars (in Thousands)	$	133,072
Total Dollars (in Thousands)	$	6,443,121
Interest Paid	$	33,745
Percent of Payments in Compliance		99.0%
Percent of Dollars in Compliance		97.9%

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 235,885 payments equaling $28.0 billion were made in FY 2011 using EDI. This helped to avoid the issuance of 346,134 checks. Electronic payments were made to 57,137 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, 2011, 99.6 percent of salaried employees and 96.6 percent of wage employees took part in Direct Deposit.

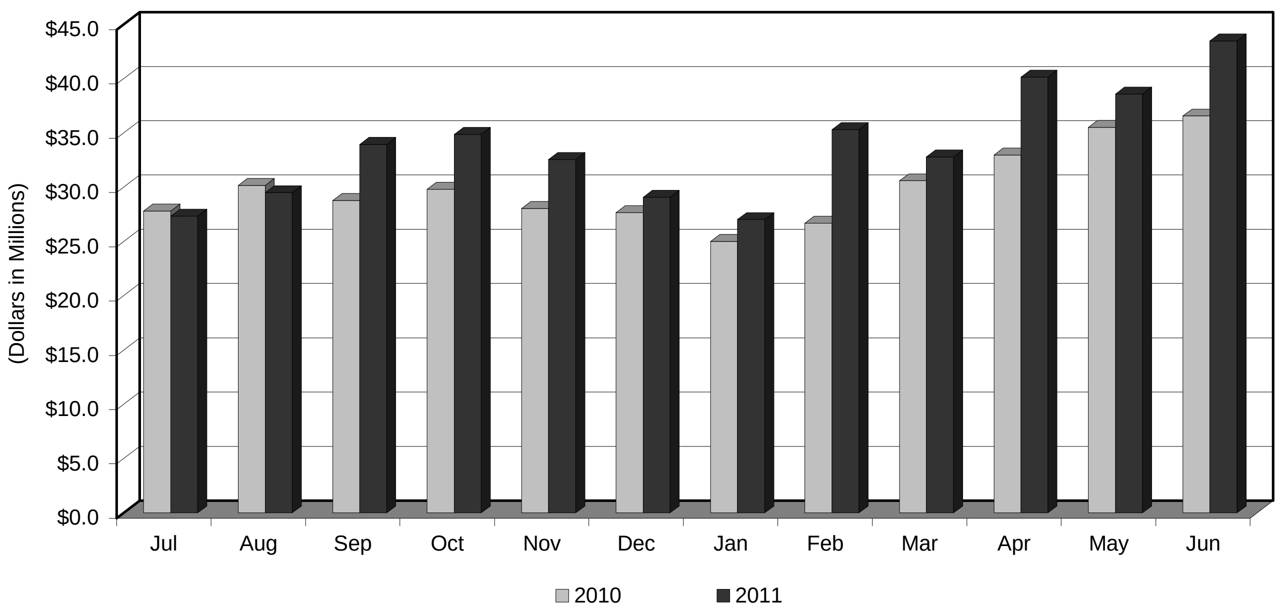
Payline
Payline, the Commonwealth's electronic pay stub system, provides secure internet access for employee payroll information. Payline allows for the elimination of costly printing and distribution of earnings notices for employees on direct deposit. During FY 2011, the printing of 1,912,412 earnings notices was avoided through the Payline earnings notice print opt-out program.

Small Purchase Charge Card Program
Also in FY 2011, approximately $404.7 million in purchases were made using the small purchase charge card and gold charge card programs. This helped to avoid printing 717,435 checks. As of June 30, 2011, 212 agencies were using 17,300 cards (**Figure 25**). A comparison of charge activity for FY 2011 to activity for FY 2010 is shown in **Figure 26**.

Figure 25
Small Purchase Charge Card Program

Charge Card Activity	Quarter Ended June 30, 2011	Fiscal Year 2011 to Date	Comparative Fiscal Year 2010 to Date
Amount of Charges	$ 122,208,022	$ 404,656,034	$ 359,576,141
Estimated Number of Checks Avoided	197,163	717,435	653,917
Total Number of Participating Agencies		212	225
Total Number of Cards Outstanding		17,300	17,157

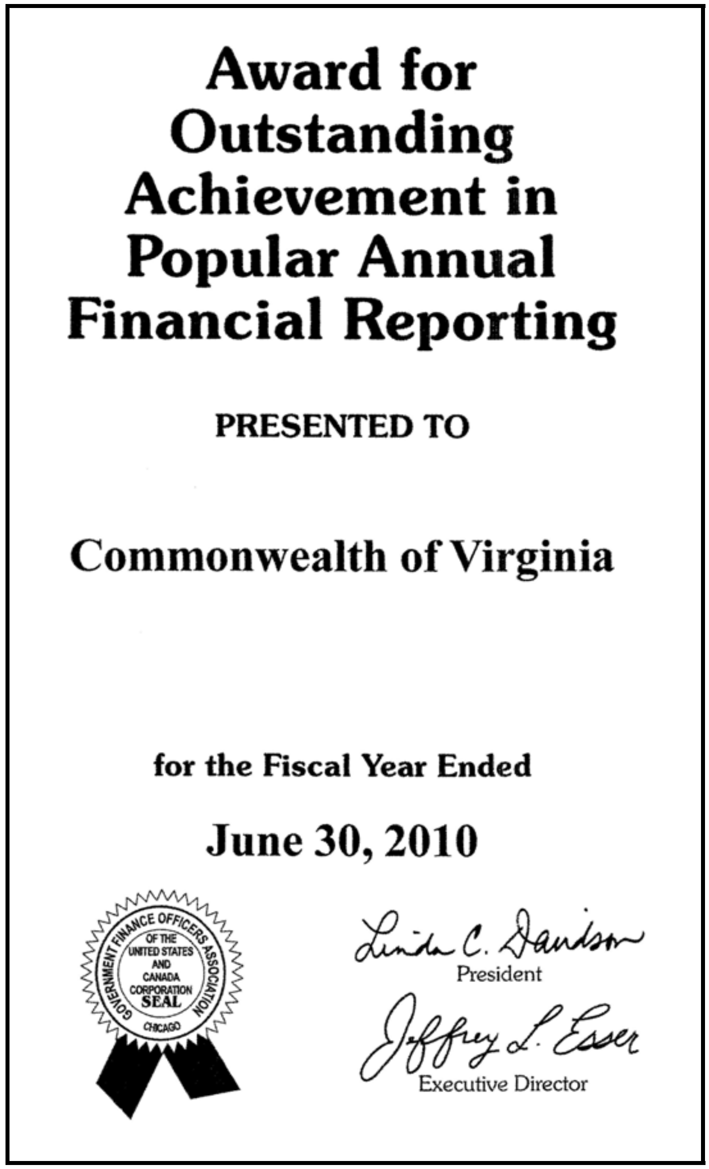
Figure 26
Charge Amount Comparison
FY 2010 – FY 2011



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, 2010. 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 16 consecutive years (fiscal years 1995-2010). 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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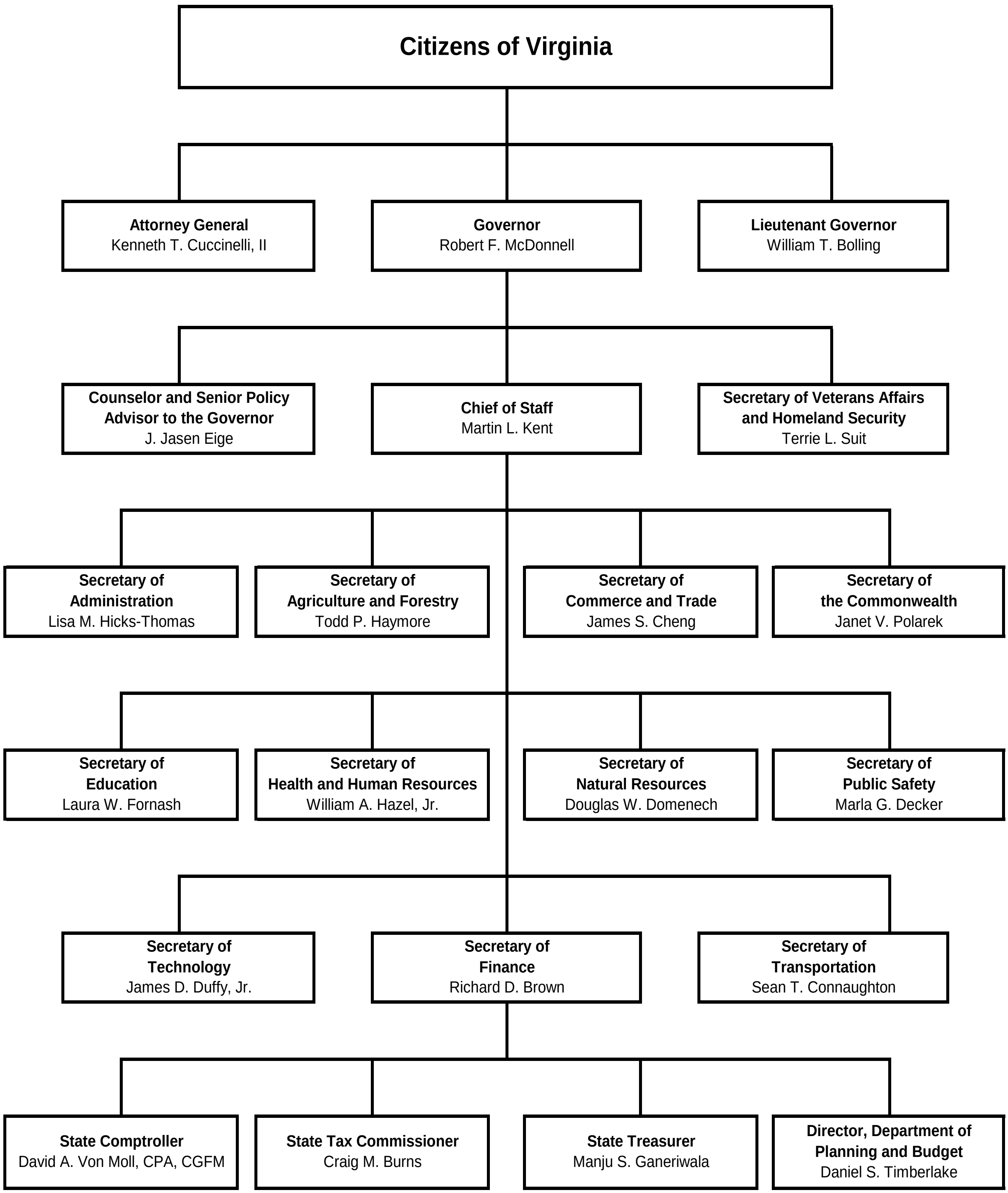

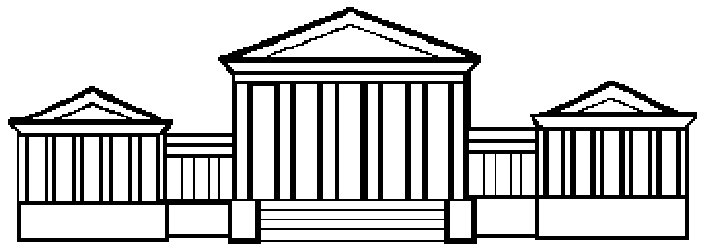

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Please visit **www.doa.virginia.gov/Financial_Reporting/CAFR/CAFR_Main.cfm**

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