A REPORT TO THE CITIZENS OF THE COMMONWEALTH

Virginia Financial Perspective

For the Fiscal Year Ended June 30, 2012

Robert F. McDonnell
Governor

Richard D. Brown
Secretary of Finance

David A. Von Moll
Comptroller

December 14, 2012

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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 2012, 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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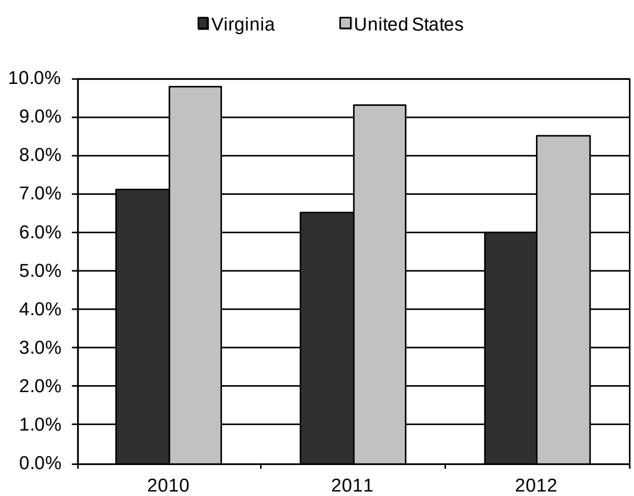
Virginia's Economy

Each year the CAFR includes a section reviewing the Commonwealth's economy. For fiscal year 2012, economists at Virginia Commonwealth University's Center for Urban Development prepared this economic highlight section. In fiscal year 2012, Virginia's economy continued its slow but consistent recovery from the so-called "Great Recession." It appears that the Commonwealth is on the path to recovery; however, we are still far from the economic performances noted in previous years.

Employment and income are the two broad measures that give the best picture of economic developments. After the three fiscal years during which unemployment grew significantly, and the slow turn-around during fiscal year 2011, the unemployment rate continued to decline during fiscal year 2012. Unemployment decreased by 0.5 percent in fiscal year 2012 reaching 6.0 percent in Virginia (**Figure 1**). Although this is still far from the low unemployment rates of the period before the recent recession, this decline allows us to be optimistic for the future of Virginia's economy. Virginia's unemployment rate was 2.5 percentage points lower than the national average.

Figure 1

Unemployment Rate



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

Figure 2 shows changes in nonfarm employment by industry based on the North American Industry Classification System (NAICS). Data from fiscal year 2011 had already shown timid signs of economic recovery from the three-year recession, during which almost all industry groups experienced considerable job losses. The upturn suggested in fiscal 2011 was more evident in fiscal year 2012, at both the state and national levels. Notable exceptions to the upturn in fiscal year 2012 are Construction, Manufacturing, Wholesale Trade, Information Services and State Government. During fiscal year 2012, these sectors, combined, lost more than 8,700 jobs.

Figure 2

Nonfarm Payroll Employment

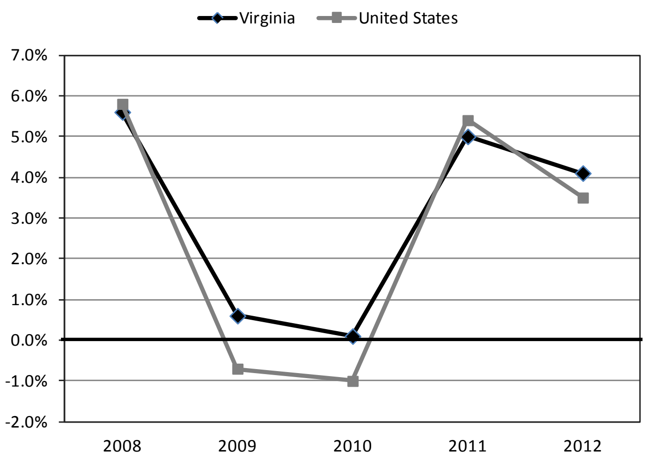
	Virginia Employment (000)			Change, FY 2012 - FY 2011 Virginia		U.S.
Industry	2010	2011	2012	Number	Percent	Percent
Mining and logging	10.1	10.4	10.9	0.5	4.8	10.5
Construction	184.0	183.5	178.8	(4.7)	(2.6)	0.3
Manufacturing	233.1	230.9	228.9	(2.0)	(0.9)	2.0
Wholesale trade	109.9	111.0	110.5	(0.5)	(0.5)	1.5
Retail trade	396.9	402.3	404.4	2.1	0.5	1.7
Transportation and utilities	111.8	112.3	118.0	5.7	5.1	2.4
Information services	77.9	74.5	73.2	(1.3)	(1.7)	(2.0)
Financial activities	177.9	177.4	185.6	8.2	4.6	1.2
Professional and business services	640.4	657.2	663.7	6.5	1.0	4.1
Educational and health services	452.8	459.3	474.4	15.1	3.3	1.7
Leisure and hospitality	339.4	335.3	350.1	14.8	4.4	2.8
Other services	185.0	185.5	187.1	1.6	0.9	(1.1)
Federal government	171.0	173.3	175.5	2.2	1.3	(1.3)
State government	152.8	156.0	155.8	(0.2)	(0.1)	(1.2)
Local government	379.1	371.9	381.5	9.6	2.6	(1.0)
Total	3,622.1	3,640.8	3,698.4	57.6	1.6	1.5

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 2012, Virginia personal income increased at a slightly lower rate of 4.1 percent than during the previous fiscal year. Although still lower than pre-recession levels, this indicator reinforces the idea of a slow economic recovery at both the state and national levels.

Figure 3

Percentage Change in Personal Income



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

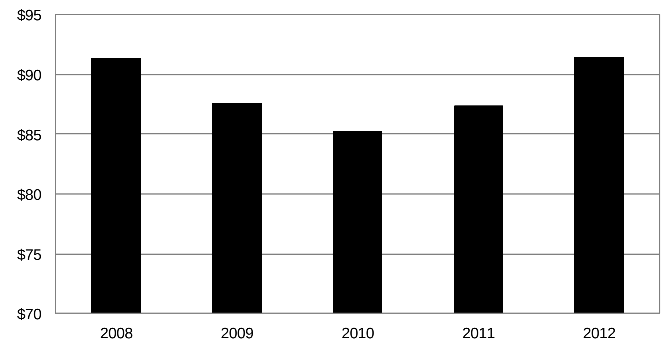
Each of the three major components of personal income – net earnings by place of residence; dividends, interest and rent; and transfer payments – experienced a significant increase during fiscal year 2012. The most important of these three components (net earnings by place of residence) grew 5.0 percent in Virginia and 5.3 percent nationwide.

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. Taxable sales data includes sales at restaurants and lodging places. Virginia had taxable sales around $91.0 billion, a substantial increase of 4.7 percent over fiscal 2011.

Figure 4

Taxable Retail Sales in Virginia

(Dollars in Billions)



Source: Virginia Department of Taxation

Fiscal year 2012, overall, can be considered as a year of economic growth, where some of the positive results observed during fiscal year 2011 have been confirmed and strengthened. While it is still not safe to assume that the effects of the economic recession are over, the continuing positive trend for the second year in a row is a very good sign. It is important to keep in mind that most of the data presented for fiscal year 2012 are at lower levels than they were before the recession. Even so, this information still allows us to be optimistic for Virginia and to look toward fiscal year 2013 as the year that confirms an economic recovery.

In August 2011, Moody's revised the Commonwealth's credit outlook to negative due to the Commonwealth's reliance on federal employment and procurement and uncertainties surrounding the federal budget. In response to this uncertainty, the Commonwealth created the Federal Action Contingency Trust Fund and deposited $30.0 million to assist in mitigating the potential effect on the economy of the Commonwealth. Additionally, the Governor instructed Cabinet Secretaries to prepare and submit plans for 4.0 percent reductions in General Fund spending for the fiscal year 2014.

FINANCIAL STATEMENT INFORMATION

This section contains financial statement information for the Commonwealth of Virginia for the fiscal year ending June 30, 2012.

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, 2011, and ended on June 30, 2012. This is referred to as fiscal year 2012, or FY 2012.

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 2012 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, 2012. 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 using 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 2012, Virginia had *assets* (i.e., cash, investments, property and amounts owed to the state) on a GAAP basis of $37.8 billion. These assets were partially offset by liabilities (i.e., amounts owed by the state to others) of $18.1 billion. This left state government with net assets (the amount left after liabilities are subtracted from assets) of $19.7 billion. **Figure 5** is a condensed Statement of Net Assets for the Commonwealth as of June 30, 2012.

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 $1.6 billion. The net assets of the governmental activities increased $1.4 billion, or 7.8 percent, primarily due to increases in current and other assets offset by increases in long-term liabilities. Business-type activities had an increase of $234.8 million, or 193.9 percent, primarily due to an increase for the Unemployment Compensation Fund. Virginia recognized $16.5 billion in program revenues and $19.5 billion in general revenues, which was used to pay for $34.4 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 2011 net asset balance has been restated by $33.8 million due primarily to 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, 2012

(Dollars in Millions)

	Primary Government			
	Governmental Activities	Business-type Activities	FY 2012 Total	FY 2011 Total as restated (Informational Only)
Assets	$ 34,623	$ 3,196	$ 37,819	$ 34,447
Liabilities	15,300	2,840	18,140	16,397
Net Assets	$ 19,323	$ 356	$ 19,679	$ 18,050

Figure 6
Statement of Activities (GAAP Basis)
For the Fiscal Year Ended June 30, 2012

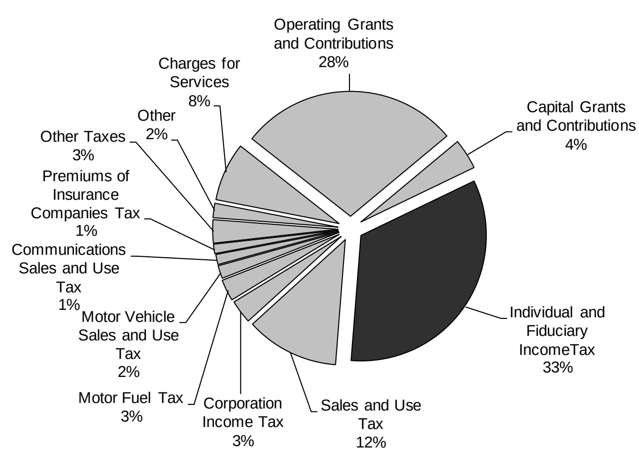
(Dollars in Millions)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**FY 2012 Total**	**FY 2011 Total as restated (Informational Only)**
Program Revenues:				
Charges for Services	$ 2,442	$ 3,653	$ 6,095	$ 5,954
Operating Grants and Contributions	9,178	-	9,178	9,951
Capital Grants and Contributions	1,267	-	1,267	1,324
Total Program Revenues	12,887	3,653	16,540	17,229
Expenses	31,654	2,760	34,414	34,030
Net (Expenses) Revenues	(18,767)	893	(17,874)	(16,801)
General Revenues	19,492	11	19,503	18,171
Transfers and Other Items	669	(669)	-	-
Change in Net Assets	1,394	235	1,629	1,370
Net Assets - July 1, as restated	17,929	121	18,050	16,680
Net Assets - June 30	$ 19,323	$ 356	$ 19,679	$ 18,050

Governmental Activities Revenues

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

Figure 7
Revenues by Source – Governmental Activities FY 2012



Governmental Activities Expenses

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

Figure 8
Expenses by Type – Governmental Activities FY 2012

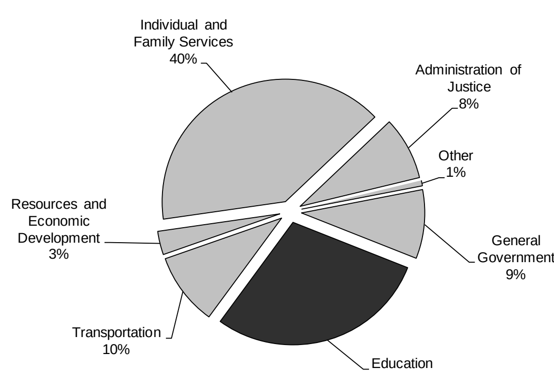
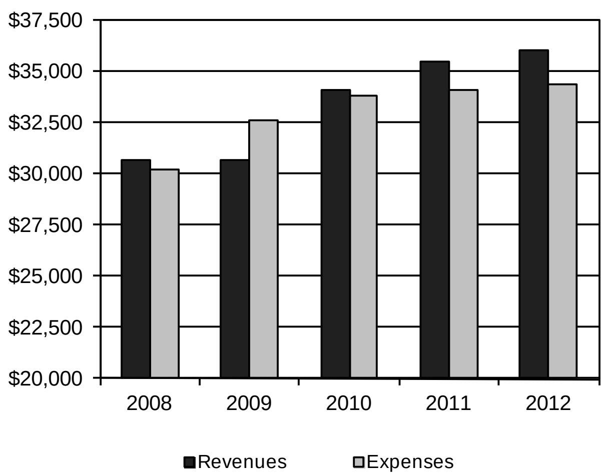


Figure 9 represents financial trend information for primary government (governmental and business-type activities) to help the reader understand how the Commonwealth's financial performance has changed over time.

Figure 9
Primary Government
Total Revenues and Expenses
FY 2008 – FY 2012

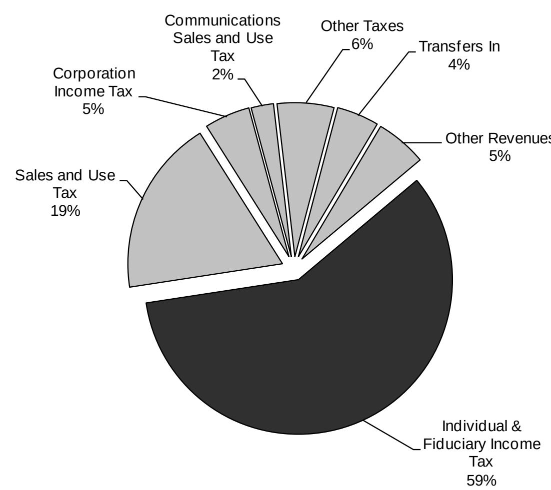
(Dollars in Thousands)



General Fund – Cash Basis

During FY 2012, the General Fund received $17.9 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 19.0 percent. These revenues plus other revenues totaled $17.1 billion, or 95.5 percent of General Fund resources. The remaining resources totaling $799.1 million came through transfers from other funds, including alcoholic beverage sales.

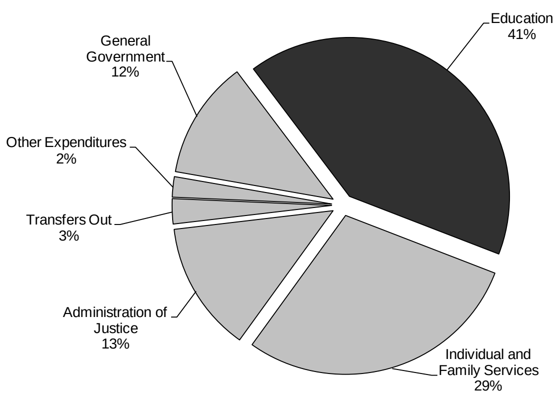
Figure 10
General Fund Resources
FY 2012, Cash Basis



Revenues (not including transfers) increased by $893.5 million from FY 2011. This increase is attributable to the net effect of changes in all sources of revenue.

General Fund disbursements, including transfers, for FY 2012 (**Figure 11**) totaled $17.5 billion. Expenditures totaled $16.9 billion and transfers to other funds were $621.2 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 29.0 percent of the General Fund. Public safety consumed 13.0 percent. Just 12.0 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 2012, Cash Basis



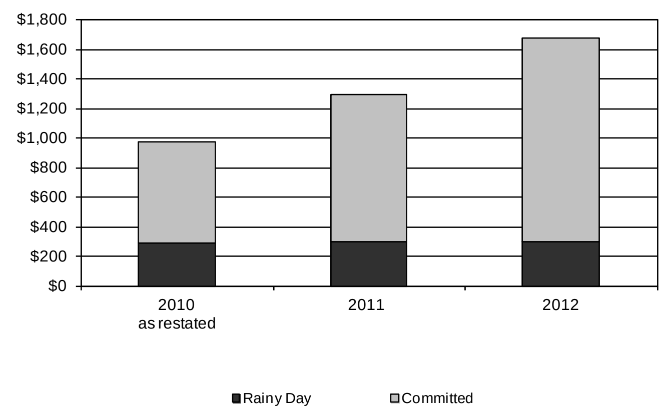
Expenditures (not including transfers) increased by $802.5 million over the prior year. The increase is due to the net effect of changes in all uses of General Fund resources.

General Fund revenues and net transfers exceeded expenditures by $385.9 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 2010. The General Fund Balance – Cash basis was $974.8 million in FY 2010 (as restated) and $1.3 billion in FY 2011. The General Fund balance showed an increase in FY 2012 to $1.7 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.

In accordance with Article X, Section 8 of the Constitution of Virginia, the amount estimated as required for deposit to the Revenue Stabilization Fund must be appropriated for that purpose by the General Assembly. During FY 2012, no withdrawal or deposit other than interest earnings were required for the Revenue Stabilization Fund. Under the provisions of Article X, Section 8 of the Constitution of Virginia, a deposit of $132.7 million is required during FY 2013 based on FY 2011 revenue collections. Additionally, a deposit of $244.6 million is required during FY 2014 based on FY 2012 revenue collections. Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the fund when specific criteria have been met. No such deposit is required since the specified criteria were not met for FY 2012. The Revenue Stabilization Fund has principal and interest on deposit of $303.6 million. This balance, along with the constitutionally required deposits of $132.7 million and $244.6 million discussed above (totaling $680.9 million), are restricted as a part of General Fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed 15 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. This is an increase of the previous limit of 10 percent.

General Fund - GAAP Basis

During FY 2012 the General Fund received $18.2 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 $17.3 billion, or 96 percent. The remaining monies totaling $817.9 million came from other sources, such as transfers from other funds, including alcoholic beverage sales.

Revenues (not including transfers) increased by $895.3 million from FY 2011. This change results from increases of $1.0 billion primarily attributable to individual and fiduciary income, sales and use, and corporation income taxes offset by decreases of $68.5 million primarily attributable to premiums of insurance companies and communication sales and use tax.

General Fund disbursements, including transfers, for FY 2012 (**Figure 14**) totaled $17.6 billion. Expenditures totaled $17.0 billion and transfers to other funds were $616.0 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 29 percent of the General Fund. Disbursements for public safety were 13 percent, while only 12 percent was used to support the administration of general governmental operations.

Expenditures (not including transfers) increased by $788.1 million over the prior year. The increase is primarily attributable to individual and family services, education, and resources and economic development. General Fund revenues exceeded expenditures and net transfers by $571.1 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 2012, GAAP Basis

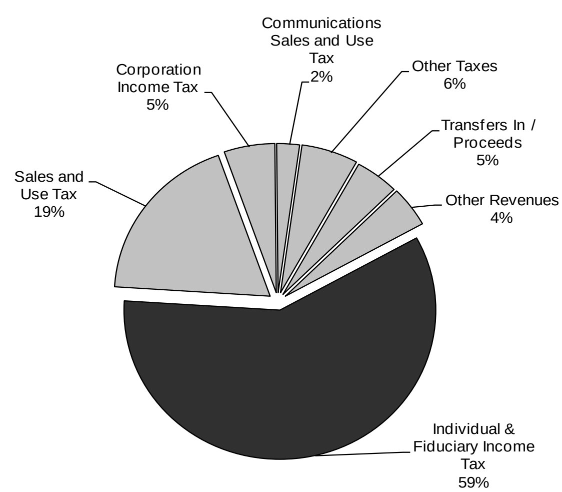
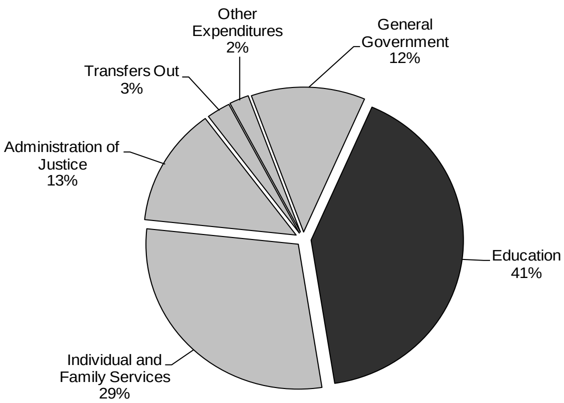


Figure 14

General Fund Disbursements
FY 2012, 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 $452.4 million, which is an estimate of the state income taxes withheld during FY 2012 that will eventually be refunded. Another is for *tax refunds payable* on returns filed in FY 2012 and paid during the months of July and August following year end close of $391.0 million. The third item, estimated *Medicaid claims payable* of $341.3 million, represents medical services rendered in prior years that will not be paid for until FY 2013. 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, 2012 and 2011

	FY 2012	FY 2011
Fund Balance, Cash Basis	$ 1,683.4	$ 1,297.6
ADD:		
Sales Taxes Receivable	222.1	184.1
Other Taxes Receivable	451.6	298.9
Other Receivables	113.9	73.8
Inventory/Prepaid Items	117.9	113.0
Other Accrued Items	77.0	52.5
Total to be Added	982.5	722.3
LESS:		
Tax Refunds Payable	391.0	423.4
Estimated Tax Refunds Due	452.4	463.4
Medicaid Claims Payable	341.3	229.0
Sales Taxes Due to Localities	274.7	261.6
Other Accrued Items	694.1	701.3
Total to be Subtracted	2,153.5	2,078.7
Difference	(1,171.0)	(1,356.4)
Fund Balance, GAAP Basis	$ 512.4	$ (58.8)

Fund balance increased to $512.4 million, compared to a balance of negative $58.8 million in FY 2011 (**Figure 16**). The increase in the General Fund GAAP basis balance from FY 2011 to FY 2012 is primarily due to increases in individual and fiduciary income taxes, sales and use tax and corporation income taxes offset by increases in individual and family services, education, and resources and economic development expenditures.

Figure 16
General Fund Balance - GAAP Basis

(Dollars in Millions)

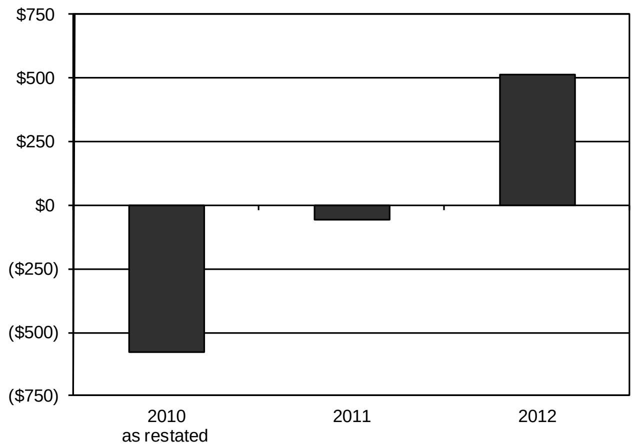
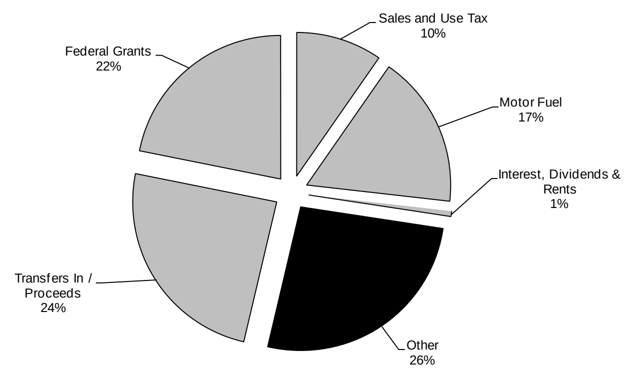


Figure 17
Commonwealth Transportation Fund Revenue Resources FY 2012, GAAP Basis



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 71,668 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 2012, the Commonwealth Transportation Fund had revenues and other receipts of $5.1 billion and expenditures and other uses of $4.8 billion on a GAAP basis. At the end of FY 2012, the fund had a balance of $2.7 billion measured on a GAAP basis.

Highway construction projects often require several years to complete. State revenues contribute approximately 69.0 percent of the funding for these projects. The federal government provides 30.0 percent, and 1.0 percent comes from bond proceeds. Local governments also contribute to the cost of highway construction.

College Savings Plan Fund - GAAP Basis

<u>Proprietary Fund</u>
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 $125.4 million plus noncurrent assets such as investments and receivables of $2.1 billion. These assets were held to satisfy current liabilities of $195.1 million and long-term liabilities of $2.0 billion. Invested in capital assets, net of related debt was $3.1 million and total unrestricted net assets were $67.5 million as of June 30, 2012.

Private Purpose Fund

Total investments in the VCSP private purpose fund totaled $1.9 billion as of June 30, 2012, and included $857.1 million of mutual fund investments. The net assets held in trust as of June 30, 2012, were $2.0 billion.

For FY 2012, VCSP reported contributions from plan participants of $278.7 million. Deductions for FY 2012 totaled $118.7 million, including $108.3 million in educational expense benefits paid and $10.2 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 2012 with a total net assets held in trust for participants of $53.3 billion. During FY 2012, the funds received $1.9 billion in contributions and $646.9 million in income on investment holdings. The decrease in net assets after the payment of retirement benefits, refunds, other employee benefit plan benefits and operating costs was $1.3 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, 2012

(Dollars in Thousands)

Additions:	
Contributions	$ 1,927,542
Investment Income:	
Interest, Dividends, and Other Investment Income	957,758
Less Investment Expenses	310,853
Net Investment Income	646,905
Other Revenue	4,568
Total Additions	2,579,015
Deductions:	
Retirement Benefits	3,402,360
Refunds to Former Members	88,945
Retiree Health Insurance Credits	131,102
Insurance Premiums and Claims	151,433
Administrative Expenses	30,496
Other Expenses	29,850
Total Deductions	3,834,186
Net Decrease	(1,255,171)
Net Assets, July 1	54,560,609
Net Assets, June 30	$ 53,305,438

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 2012 totaled $1.1 billion. This was less than the actuarially determined Annual Required Contribution of $2.3 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).

Alcoholic Beverage Control Fund - GAAP Basis

The ABC fund accounts for the receipts and disbursements from the sale of alcoholic beverages. In FY 2012, ABC profits of $143.8 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 2012 was $128.1 million on $615.5 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 2012, the Lottery had revenues of $1.6 billion and expenses, including lottery prize payments, of $1.1 billion. Non-operating income for the year, including interest earnings, was $1.6 million. During FY 2012, $499.3 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, 2012

(Dollars in Thousands)	
Operating Revenues:	
Charges for Sales and Services	$ 1,616,002
Total Operating Revenue	1,616,002
Operating Expenses:	
Personal Services	22,847
Contractual Services	25,489
Supplies and Materials	705
Depreciation	3,406
Lottery Prize Expense	1,066,204
Other Expenses	1,619
Total Operating Expenses	1,120,270
Operating Income	495,732
Nonoperating Revenues:	
Interest, Dividends, and Rents	1,646
Other	(41)
Total Nonoperating Revenues	1,605
Income Before Transfers and Changes	497,337
Operating Transfers Out	(499,251)
Change in Net Assets	(1,914)
Total Net Assets, July 1	(7,876)
Total Net Assets, June 30	$ (9,790)

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 2012, the self-insurance program had cash and other assets of $154.7 million, while the estimated liability for claims payable was $608.7 million. The program had additional liabilities of $57.6 million, which resulted in a GAAP deficit balance of $511.6 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 2012 was $36.1 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 $1.8 billion, or 5.0 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 $12.4 billion of this type of tax supported debt was outstanding at the end of FY 2012. This is 34.3 percent of all debt on the books of the Commonwealth.

Non-tax Supported Debt makes up 60.7 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 2012 was $21.9 billion.

Figure 20
State Debt/Obligations
Tax Supported and Non-Tax Supported
As of June 30, 2012

(Dollars in Thousands)	Total	Percent of Total
Tax-Supported Debt/Obligations		
General Obligation Bonds		
Public Facilities Bonds	$ 831,148	2.3%
Parking Facilities Bonds	18,383	0.1%
Transportation Facilities Bonds	24,210	0.1%
Higher Education Bonds	906,474	2.5%
Total General Obligation Bonds	1,780,215	5.0%
Other Tax-Supported Debt/Obligations		
Transportation	2,655,481	7.3%
Virginia Port Authority	237,321	0.6%
Virginia Public Building Authority	2,566,789	7.1%
Innovation and Entrepreneurship Investment Authority	2,375	0.1%
Virginia College Building Authority	2,470,589	6.8%
Long-term Capital Lease Payable	168,566	0.5%
Compensated Absences Obligations	569,021	1.5%
Pension Liability Obligations	2,446,240	6.8%
OPEB Liability Obligations	877,630	2.4%
Virginia Biotechnology Research Partnership Authority	37,162	0.1%
Regional Jail Construction	2,748	0.1%
Installment Purchase	215,120	0.5%
Other Long-term Debt/Obligations	164,254	0.5%
Total Other	12,413,296	34.3%
Total Tax-Supported Debt/Obligations	14,193,511	39.3%
Non-Tax Supported Debt/Obligations		
Higher Education	1,541,802	4.3%
Virginia Housing Development Authority	5,945,174	16.5%
Virginia Public School Authority	3,378,084	9.3%
Virginia Resources Authority	3,279,627	9.1%
Other Long-term Debt/Obligations	7,773,447	21.5%
Total Non-Tax Supported Debt/Obligations	21,918,134	60.7%
Total Commonwealth Debt/Obligations	$ 36,111,645	100.0%

The largest of these authorities is the Virginia Housing Development Authority, which has $5.9 billion in debt outstanding secured by various mortgages. Other issuers include the Virginia Public School Authority and the Virginia Resources Authority. Colleges and teaching hospitals also issue bonds secured only by fees paid for services. These bonds do not use state taxes to pay principal and interest.

In each case, the debt of these authorities is secured only by the revenues of the issuing body. No tax revenues are used to support this debt and it is not considered a legal obligation of the Commonwealth. However, $801.4 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)

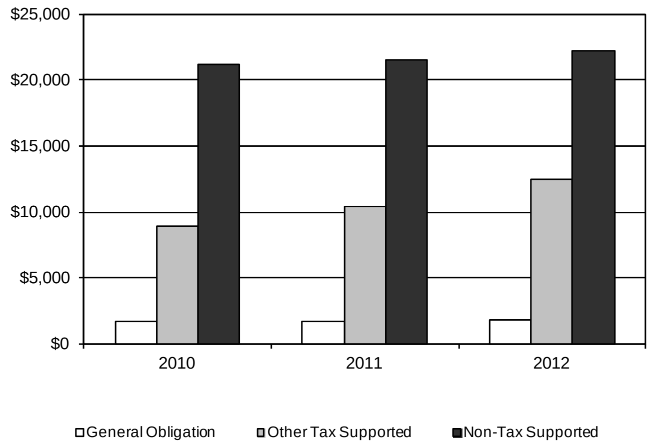


Figure 22
Ratio of General Obligation Debt Per Capita
(Amounts in Thousands, Except for Per Capita)

For the Fiscal Year Ended June 30,	Population (1)	General Obligation Debt (2)	General Long-term Debt Per Capita
2012	8,178	$ 1,780,215	$ 218
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

(1) Population figure for 2012 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 Noncapital Expenditures – All Governmental Fund Types
(Dollars in Thousands)

For the Fiscal Year Ended June 30,	Debt Service (1)	Total Noncapital Expenditures (2)	Percentage
2012	$ 684,672	$ 29,876,336	2.29
2011	689,707	29,903,716	2.30
2010	625,941	30,707,748	2.04

(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, 2012, was $6.7 billion.
(2) Includes General, Special Revenue, Debt Service, Capital Projects, and Permanent Funds.

Source: Department of Accounts

OTHER INFORMATION

Prompt Payment

State government places a significant emphasis on ensuring that vendors doing business with state agencies are paid within the time specified in the purchase contract. Payment performance is monitored monthly and payments that are overdue more than seven days entitle vendors to collect interest. Agencies must achieve a 95.0 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 2012, the state made 99.1 percent of its payments on time, and that 96.9 percent of the dollars owed were paid in compliance with prompt payment requirements. The state paid out $4,289 in interest on late payments during FY 2012, a decrease of $29,456 from FY 2011, on total vendor payments of $6.5 billion.

Figure 24
Statewide Prompt Payment Statistics
For Fiscal Year 2012

Number of Late Payments		20,442
Total Number of Payments		2,346,868
Late Dollars (in Thousands)	$	200,469
Total Dollars (in Thousands)	$	6,535,660
Interest Paid	$	4,289
Percent of Payments in Compliance		99.1%
Percent of Dollars in Compliance		96.9%

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 230,362 payments equaling $28.4 billion were made in FY 2012 using EDI. This helped to avoid the issuance of 341,990 checks. Electronic payments were made to 61,037 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, 2012, 99.7 percent of salaried employees and 97.1 percent of wage employees took part in Direct Deposit.

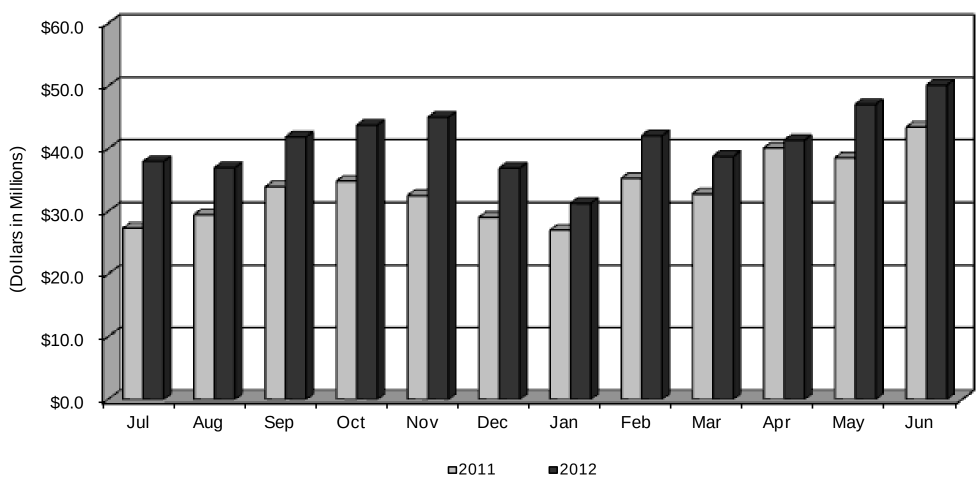
Payline
Payline, the Commonwealth’s electronic pay stub system, provides secure internet access for employee payroll information. Payline allows for the elimination of costly printing and distribution of earnings notices for employees on direct deposit. During FY 2012, the printing of 1,952,021 earnings notices was avoided through the Payline earnings notice print opt-out program.

Small Purchase Charge Card Program
Also in FY 2012, approximately $493.6 million in purchases were made using the small purchase charge card and gold charge card programs. This helped to avoid printing 755,105 checks. As of June 30, 2012, 209 agencies were using 17,877 cards (**Figure 25**). A comparison of charge activity for FY 2012 to activity for FY 2011 is shown in **Figure 26**.

Figure 25
Small Purchase Charge Card Program

Charge Card Activity		Quarter Ended June 30, 2012		Fiscal Year 2012 to Date		Comparative Fiscal Year 2011 to Date
Amount of Charges	$	138,642,436	$	493,595,712	$	404,656,034
Estimated Number of Checks Avoided		200,315		755,105		717,435
Total Number of Participating Agencies				209		212
Total Number of Cards Outstanding				17,877		17,300

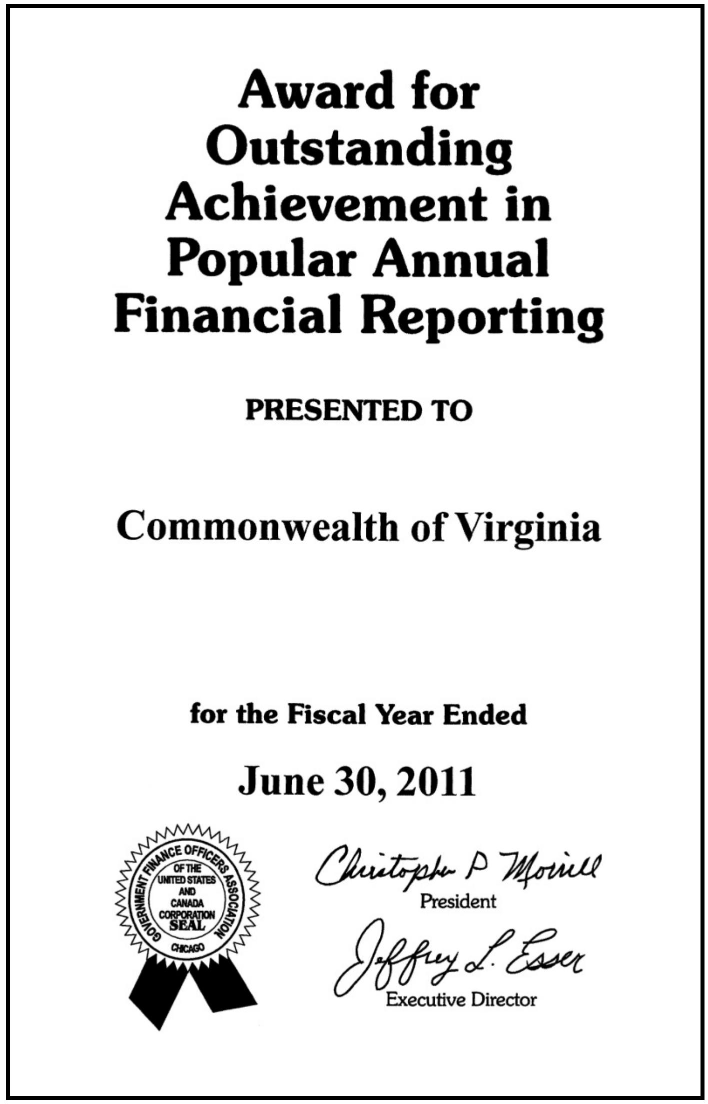
Figure 26
Charge Amount Comparison
FY 2011 – FY 2012



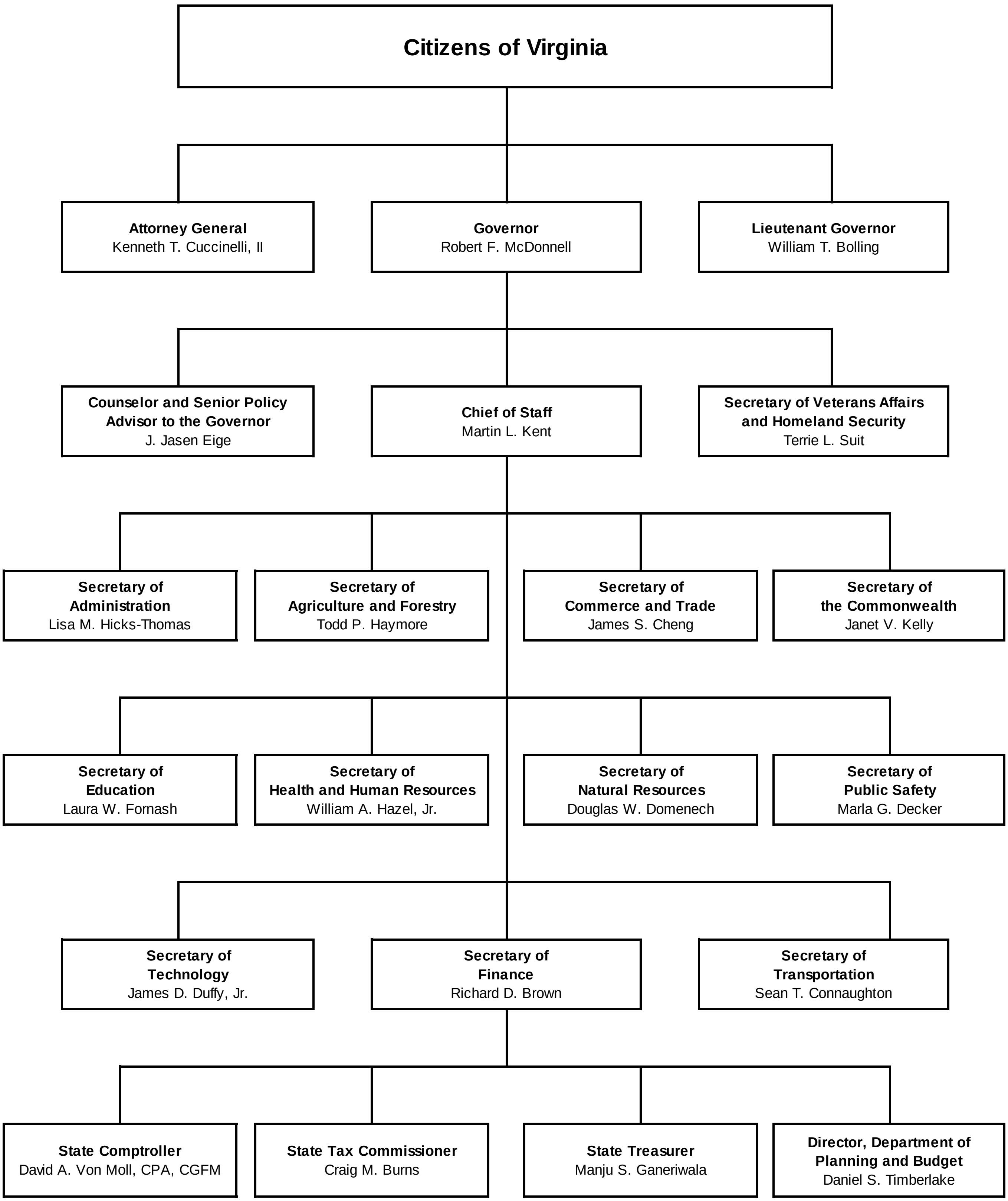
Certificate of Achievement

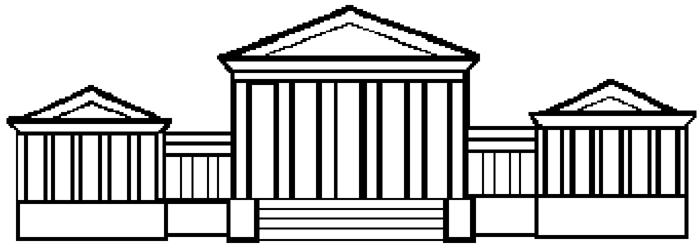
The Government Finance Officers Association of the United States and Canada (GFOA) recognized the Commonwealth through its Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 2011. This is a prestigious national award, recognizing conformance with 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 17 consecutive years (fiscal years 1995-2011). It is expected that the current report continues to conform to the Popular Annual Financial Reporting requirements.



Organization of Government
Selected Government Officials - Executive Branch





For more information on Virginia's government,
please visit **www.virginia.gov**

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