

Virginia Financial Perspective

For the Fiscal Year Ended June 30, 2016



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December 15, 2016

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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 2016, 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.

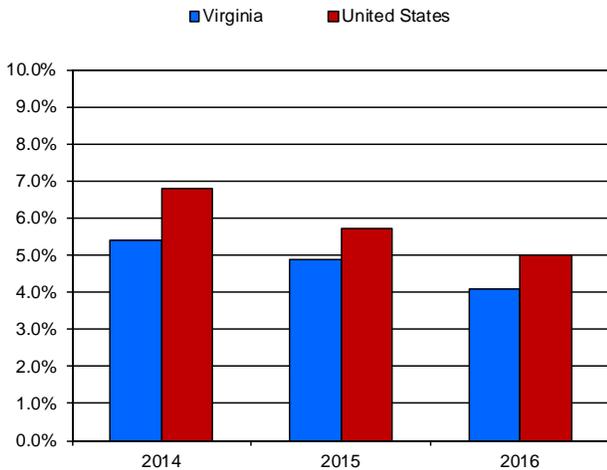
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Virginia’s Economy

Each year the CAFR includes a section reviewing the Commonwealth’s economy. For fiscal year 2016, economists at the Weldon Cooper Center for Public Service at the University of Virginia prepared this economic highlight section. In fiscal year 2016, Virginia’s economy saw continued improvement at a faster pace than the nation.

Employment and income are the two broad measures that give the best picture of economic developments. In fiscal year 2016, Virginia’s unemployment rate continued its post-recession decline, reaching 4.1 percent, significantly lower than the 5.0 percent observed nationally (**Figure 1**). These rates are slowly converging on pre-recessionary unemployment rates of 3.1 percent and 4.5 percent, respectively.

Figure 1
Unemployment Rate



Source: U. S. Bureau of Labor Statistics

Figure 2 shows changes in nonfarm employment by industry based on the North American Industry Classification System (NAICS). Data from fiscal year 2015 showed signs of economic recovery, and the performance during fiscal year 2016 confirms this trend, with Virginia experiencing greater job growth than at the national level. Notable exceptions to this trend in fiscal year 2016 are mining, manufacturing, information, and state and local government. During fiscal year 2016, these sectors combined lost approximately 3,500 jobs. All other sectors showed significant growth, adding nearly 91,100 jobs to the Virginia economy.

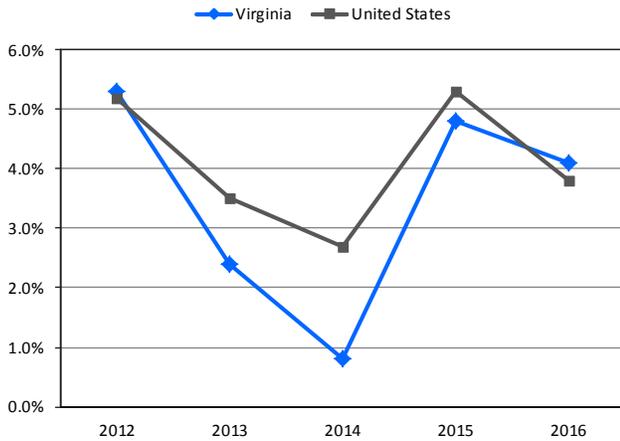
Figure 2
Nonfarm Payroll Employment

Industry	Virginia Employment (000)			Change, FY 2016 - FY 2015		
	2014	2015	2016	Virginia Number (000)	Virginia Percent	U.S. Percent
Mining and logging	9.8	9.3	8.6	(0.7)	(7.5)	(14.4)
Construction	177.1	180.7	185.4	4.7	2.6	4.1
Manufacturing	231.2	232.2	232.0	(0.2)	(0.1)	0.3
Wholesale trade	110.6	110.3	111.8	1.5	1.4	1.0
Retail trade	412.5	414.2	424.0	9.8	2.4	2.0
Transportation and utilities	118.0	122.9	130.3	7.4	6.0	2.2
Information	71.6	70.3	69.1	(1.2)	(1.7)	1.0
Financial activities	193.2	195.7	199.7	4.0	2.0	1.9
Professional and business services	676.8	686.3	710.5	24.2	3.5	3.1
Educational and health services	494.3	502.8	519.8	17.0	3.4	3.1
Leisure and hospitality	368.8	376.0	391.2	15.2	4.0	2.9
Other services	194.7	196.3	201.1	4.8	2.4	1.1
Federal government	175.2	175.3	177.8	2.5	1.4	0.8
State government	159.8	161.3	161.2	(0.1)	(0.1)	0.5
Local government	375.1	374.7	373.4	(1.3)	(0.3)	0.4
Total	3,768.7	3,808.3	3,895.9	87.6	2.3	1.9

Source: U. S. Bureau of Labor Statistics
Some prior year numbers have been revised to reflect the incorporation of newly available and revised source data.

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 2016, Virginia personal income increased at a rate of 4.1 percent compared to 4.8 percent during the previous fiscal year. Although Virginia’s personal income growth rate has lagged the nation for the past several years, in fiscal year 2016, it outpaced the nation’s growth rate of 3.8 percent.

Figure 3
Percentage Change in Personal Income

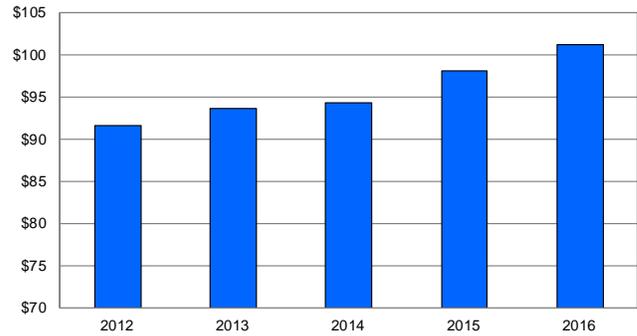


Source: U.S. Bureau of Economic Analysis, Regional Economic Information System

Each of the three major components of personal income (net earnings by place of residence; dividends, interest and rent; and transfer payments) again experienced an increase during fiscal year 2016. The most important of these three components (net earnings by place of residence) grew 4.5 percent in Virginia and 4.3 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 of approximately \$101.3 billion, an increase of 3.2 percent over fiscal 2015.

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



Source: Virginia Department of Taxation

Fiscal year 2016, overall, can be considered as a year of continued improvement. The pace of employment growth picked up and the unemployment rate eased. Personal income and taxable sales growth were also robust. The Virginia housing market also showed continued acceleration with home sales and building permit issuance showing increases.

According to most available economic indicators (employment growth, unemployment rate, personal income growth, and building permit growth), the state performed better than the nation as a whole. However, as labor markets continue to tighten, the pace of employment increase is likely to slow. On the other hand, consumer spending is likely to continue to be strengthened by employment growth and rising wages. Investment spending may also be strengthened by the slowly improving housing market and reduced business adjustments for energy price and exchange rate shifts. This combination of factors will support moderate economic growth in the next fiscal year.

FINANCIAL STATEMENT INFORMATION

This section contains financial statement information for the Commonwealth of Virginia for the fiscal year ending June 30, 2016.

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, 2015, and ended on June 30, 2016. This is referred to as fiscal year 2016, or FY 2016.

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 2016 was audited and received an unmodified 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, 2016. 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 unmodified 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 Position and Statement of Activities - GAAP Basis

A *Statement of Net Position* summarizes all of the assets and deferred outflows of resources, and all the liabilities and deferred inflows of resources, with the difference reported as net position. As of the end of FY 2016, Virginia had *assets and deferred outflows of resources* (i.e., cash, investments, property, receivables, and consumption of assets applicable to future reporting periods) on a GAAP basis of \$39.9 billion. These assets were partially offset by *liabilities and deferred inflows of resources* (i.e., amounts owed by the state to others and acquisition of assets applicable to future reporting periods) of \$19.8 billion. This left state government with a net position (the amount left after liabilities and deferred inflows of resources are subtracted from assets and deferred outflows of resources) of \$20.1 billion. **Figure 5** is a condensed Statement of Net Position for the Commonwealth as of June 30, 2016.

The Statement of Activities (**Figure 6**) summarizes information showing how the state's net position changed, on a GAAP basis, during the fiscal year. Total net position increased by \$775.8 million. The net position of the governmental activities increased \$569.0 million, or 2.9 percent, primarily due to increases in capital assets and deferred outflows of resources offset by increases in total liabilities and deferred inflows of resources. Business-type activities had an increase of \$206.8 million, or 15.0 percent, primarily due to an increase for the Unemployment Compensation Fund and Virginia College Savings

Plan. Virginia recognized \$17.3 billion in program revenues and \$22.7 billion in general revenues, which was used to pay for \$39.2 billion of expenses. Program revenues are receipts that can be identified with specific expenses and are used to pay those expenses. General revenues consist primarily of tax revenue, as well as any other revenue that does not meet the definition of program revenue. The increase in total revenues was primarily attributable to individual and fiduciary income taxes, sales and use taxes, motor fuel taxes, motor vehicle sales and use taxes, and premiums of insurance companies taxes, offset by decreases primarily attributable to corporate taxes, public service corporation taxes, and communications sales and use taxes. The increase in expenses was primarily attributable to increases in individual and family services, education, administration of justice, and transportation expenditures.

The FY 2016 net position balance has been restated by \$108.4 million due primarily to a change in investment liquidation management and 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 Virginia Lottery that operate like a business.

Figure 5
Statement of Net Position (GAAP Basis)
As of June 30, 2016

(Dollars in Millions)

	Primary Government			FY 2015 Total as restated (Informational Only)
	Governmental Activities	Business-type Activities	FY 2016 Total	
Assets and Deferred Outflows of Resources	\$ 39,907	\$ 4,277	\$ 44,184	\$ 43,738
Liabilities and Deferred Inflows of Resources	19,793	2,691	22,484	22,813
Net Position	\$ 20,114	\$ 1,586	\$ 21,700	\$ 20,925

Figure 6
Statement of Activities (GAAP Basis)
 For the Fiscal Year Ended June 30, 2016

(Dollars in Millions)

	Primary Government			FY 2015 Total as restated (Informational Only)
	Governmental Activities	Business-type Activities	FY 2016 Total	
Program Revenues:				
Charges for Services	\$ 2,568	\$ 4,069	\$ 6,637	\$ 6,497
Operating Grants and Contributions	9,148	1	9,149	9,065
Capital Grants and Contributions	1,467	-	1,467	1,618
Total Program Revenues	13,183	4,070	17,253	17,180
Expenses	36,130	3,086	39,216	37,661
Net (Expenses) Revenues	(22,947)	984	(21,963)	(20,481)
General Revenues	22,729	10	22,739	21,861
Transfers and Other Items	787	(787)	-	(100)
Change in Net Position	569	207	776	1,280
Net Position - July 1, as restated	19,545	1,379	20,924	19,645
Net Position - June 30	\$ 20,114	\$ 1,586	\$ 21,700	\$ 20,925

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 2016

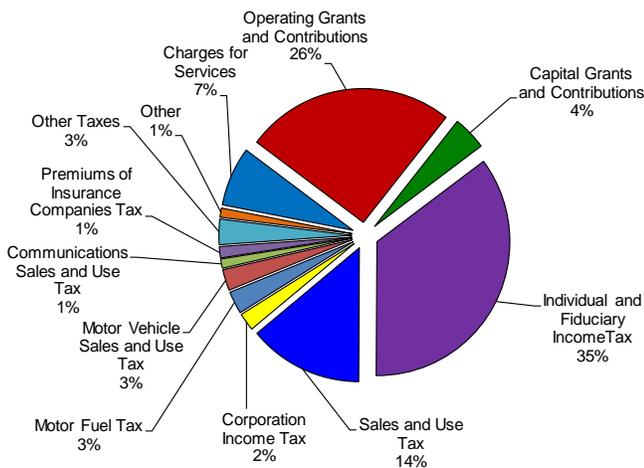


Figure 8
Expenses by Type – Governmental Activities
FY 2016

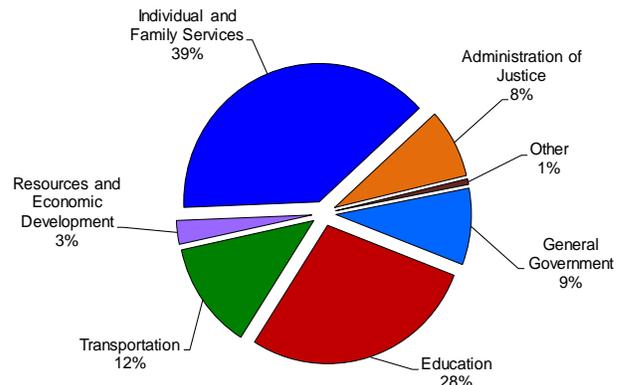
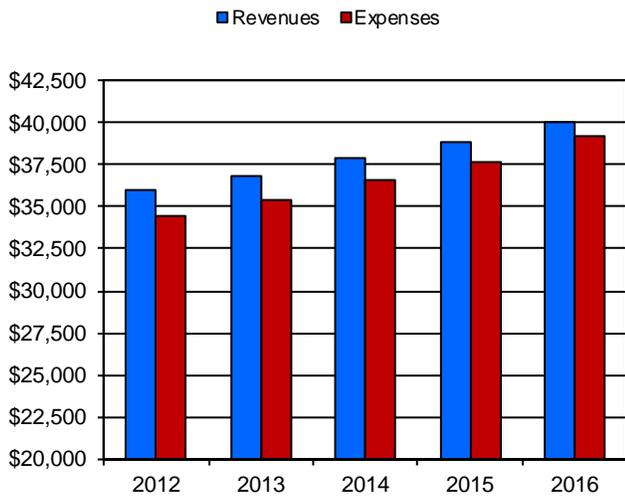


Figure 9 represents financial trend information for primary government (governmental and business-type activities) to help the reader understand how the Commonwealth’s financial performance has changed over time.

Figure 9
Primary Government
Total Revenues and Expenses
FY 2012 – FY 2016

(Dollars in Thousands)



General Fund - GAAP Basis

During FY 2016 the General Fund received \$20.3 billion in resources. **Figure 10** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 62 percent of the resources, while sales and use taxes made up 18 percent. These revenues plus other revenues totaled \$19.5 billion, or 96 percent. The remaining monies totaling \$838.3 million came from other sources, such as transfers from other funds, including alcoholic beverage sales.

Revenues (not including transfers) increased by \$692.8 million from FY 2015. This revenue change results from increases of \$716.5 million primarily attributable to individual and fiduciary income taxes, sales and use taxes, other revenue primarily relating to expenditure recoveries from prior years, interest, dividends, and rents, premiums of insurance companies taxes, and deeds, contracts, wills and suits taxes. These increases were offset by decreases of

\$23.7 million primarily attributable to communications sales tax and public service corporations.

General Fund disbursements, including transfers, for FY 2016 (**Figure 11**) totaled \$20.5 billion. Expenditures totaled \$20.0 billion and transfers to other funds were \$464.6 million. Education accounted for 40 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 31 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 \$1.0 billion over the prior year. This was primarily attributable to increases in individual and family services, general government, education, and administration of justice expenditures of \$505.6 million, \$239.7 million, \$159.2 million, and \$114.5 million, respectively. Net other financing sources and uses decreased by \$9.3 million, which is primarily due to lower transfers in from nongeneral funds and lower proceeds from the sale of capital assets offset by a decrease in transfers out to nongeneral funds.

Figure 10
General Fund Resources
FY 2016, GAAP Basis

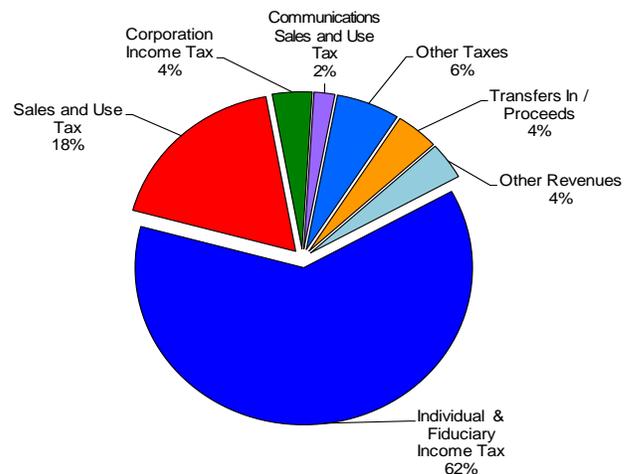
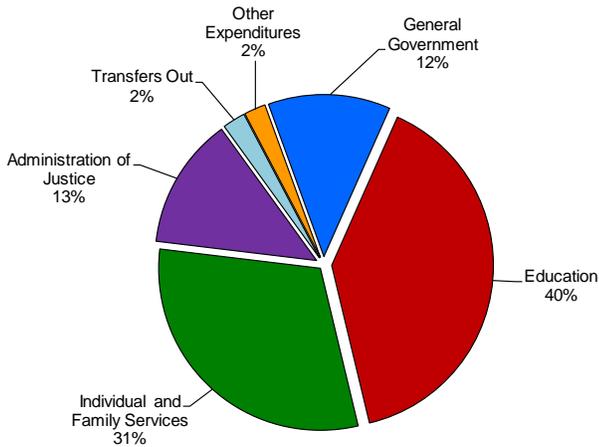


Figure 11
General Fund Disbursements
FY 2016, GAAP Basis



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 *tax refunds payable* on returns filed in FY 2016 and paid during the months of July and August following year end close of \$439.6 million. Another is estimated *Medicaid claims payable* of \$367.4 million, represents medical services rendered in prior years that will not be paid for until FY 2017. These amounts are summarized in **Figure 12** that compares the General Fund on a cash and GAAP basis of accounting.

Figure 12
Analysis of General Fund Balance
Cash Basis versus GAAP Basis
 For Fiscal Years Ended June 30, 2016 and 2015

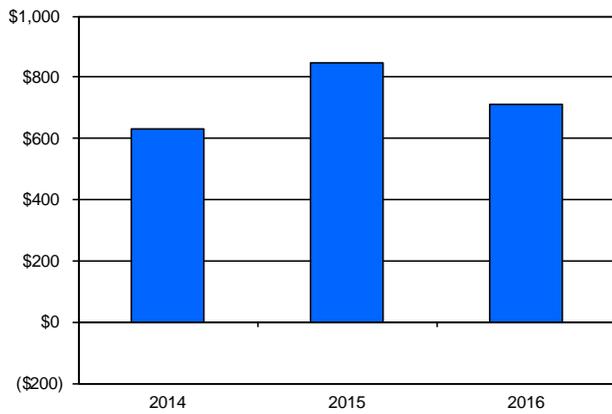
(Dollars in Millions)

	FY 2016	FY 2015
Fund Balance, Cash Basis	\$ 1,478.4	\$ 1,759.2
ADD:		
Sales Taxes Receivable	177.4	188.0
Other Taxes Receivable	478.4	459.0
Other Receivables	1,104.6	1,058.7
Inventory/Prepaid Items	114.3	120.0
Other Accrued Items	104.3	17.3
Deferred Outflows of Resources	-	-
Total to be Added	1,979.0	1,843.0
LESS:		
Tax Refunds Payable	439.6	452.9
Estimated Tax Refunds Due	-	73.2
Medicaid Claims Payable	367.4	327.2
Sales Taxes Due to Localities	303.8	308.5
Other Accrued Items	668.5	679.3
Deferred Inflows of Resources	967.8	912.7
Total to be Subtracted	2,747.1	2,753.8
Difference	(768.1)	(910.8)
Fund Balance, GAAP Basis	<u>\$ 710.3</u>	<u>\$ 848.4</u>

Fund balance decreased to \$710.3 million, compared to a balance of \$848.4 million in FY 2015 (**Figure 13**). The decrease in the General Fund GAAP basis balance from FY 2015 to FY 2016 is primarily due to increases in individual and fiduciary income taxes, sales and use taxes, premiums of insurance companies, deeds, contracts, wills and suits, and corporation income offset by increases in individual and family services, general government, education, and administration of justice expenditures.

Figure 13
General Fund Balance - GAAP Basis

(Dollars in Millions)



Revenues (not including transfers) increased by \$372.4 million from FY 2015. This increase is attributable to the net effect of changes in all sources of revenue.

General Fund disbursements, including transfers, for FY 2016 (**Figure 15**) totaled \$20.4 billion. Expenditures totaled \$19.9 billion and transfers to other funds were \$464.6 million. Education accounted for 40 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 31 percent of the General Fund. Public safety consumed 13 percent. Just 12 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).

General Fund – Cash Basis

During FY 2016, the General Fund received \$20.1 billion in resources. **Figure 14** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 62 percent of the total resources of the General Fund, while sales and use taxes made up 18 percent. These revenues plus other revenues totaled \$19.4 billion, or 96 percent of General Fund resources. The remaining resources totaling \$775.4 million came through transfers from other funds, including alcoholic beverage sales.

Figure 15
General Fund Disbursements
FY 2016, Cash Basis

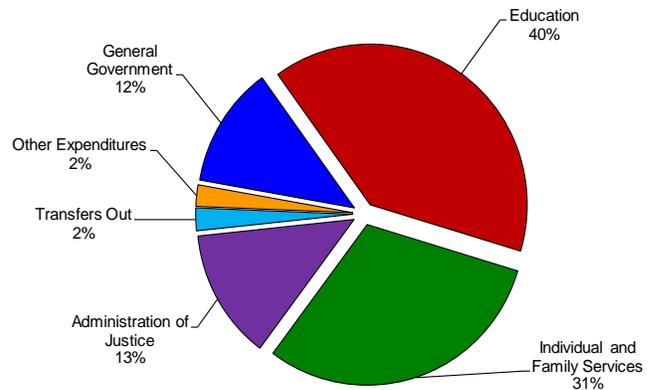
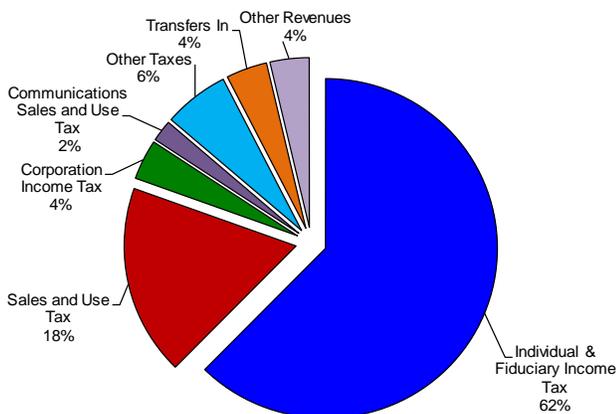


Figure 14
General Fund Resources
FY 2016, Cash Basis



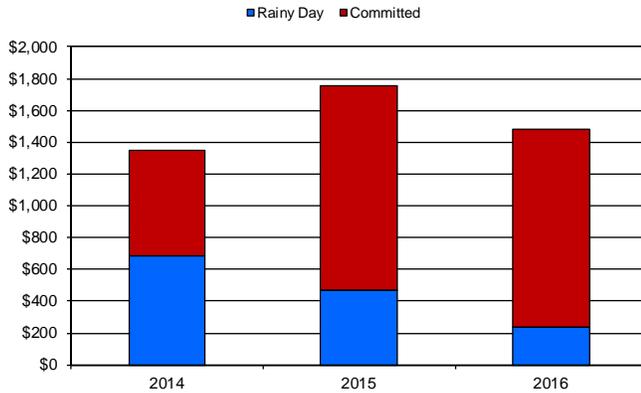
Expenditures (not including transfers) increased by \$974.9 million over the prior year. The increase is due to the net effect of changes in all uses of General Fund resources.

General Fund expenditures exceeded revenues and net transfers by \$280.7 million on the cash basis. In other words, the General Fund had an operating loss for the year on the cash basis.

Figure 16 shows the General Fund balance – cash basis – at the end of each year since 2014. The General Fund Balance – Cash basis was \$1.3 billion in FY 2014 and \$1.8 billion in FY 2015. The General Fund balance showed a decrease in FY 2016 to \$1.5 billion.

Figure 16
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 fiscal year 2016, in accordance with the provisions of Article X, Section 8 of the Constitution of Virginia and Section 2.2-1830 of the

Code of Virginia, a withdrawal of \$235.5 million was made from the fund.

Under the provisions of Article X, Section 8 of the Constitution of Virginia, a deposit of \$605.6 million is required during fiscal year 2017 based on fiscal year 2015 revenue collections. This required deposit is included as a restricted component of fund balance and includes the advance reservation of \$129.5 million provided in Chapter 665, 2015 Acts of Assembly. No deposit is required based on fiscal year 2016 revenue collections.

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the Fund when specific criteria have been met. No such deposit is required since the specified criteria were not met for fiscal year 2016.

The Revenue Stabilization Fund has principal and interest on deposit of \$235.5 million 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 15.0 percent of the Commonwealth’s average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. As of June 30, 2016, the Constitutional maximum is \$2.5 billion.

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 72,210 miles of state roads.

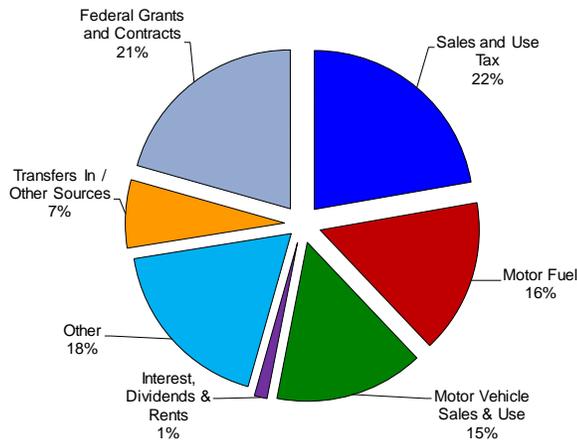
The Commonwealth Transportation Fund (**Figure 17**) is classified as a *special revenue fund* because revenues of the fund come from various taxes and fees that are restricted for use in the support of transportation programs.

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 revenue is deposited into this fund. Effective with fiscal year 2014, an additional portion of the state's sales tax revenue is deposited into this fund.

During FY 2016, the Commonwealth Transportation Fund had revenues and other sources of \$6.0 billion and expenditures and other uses of \$6.2 billion on a GAAP basis. At the end of FY 2016, the fund had a balance of \$1.9 billion measured on a GAAP basis.

Figure 17
**Commonwealth Transportation Fund
 Revenue Resources
 FY 2016, GAAP Basis**



Highway construction projects often require several years to complete. State revenues contribute approximately 71.6 percent of the funding for these projects. The federal government provides 26.0 percent, and 2.4 percent comes from bond proceeds. Local governments also contribute to the cost of highway construction.

Virginia College Savings Plan Fund - GAAP Basis

Proprietary Fund

The Virginia College Savings Plan (VCSP) Fund administers the Virginia529 prePAID program. The program offers contracts, at actuarially determined amounts, that provide for future tuition and mandatory fee payments at Virginia's higher education institutions and differing payouts at private or out-of-state institutions. 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 \$140.3 million plus noncurrent assets such as investments and receivables of \$2.5 billion. These assets were held to satisfy current liabilities of \$266.8 million and long-term liabilities of \$1.8 billion. Net investment in capital assets was \$3.3 million and total unrestricted net position was \$584.4 million as of June 30, 2016.

Private Purpose Fund

Total investments in the VCSP private purpose fund totaled \$3.2 billion as of June 30, 2016, and included \$662.3 million of mutual fund investments. The net position held in trust as of June 30, 2016, was \$3.3 billion.

For FY 2016, VCSP reported contributions from plan participants of \$433.8 million. Deductions for FY 2016 totaled \$228.0 million, including \$203.4 million in educational expense benefits paid and \$23.6 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 2016 with a total net position held in trust for participants of \$68.3 billion. During FY 2016, the funds received \$3.8 billion in contributions and \$1.2 billion in income on investment holdings. The increase in net position after the payment of retirement benefits, refunds, other employee benefit plan benefits and operating costs was \$66.6 million (**Figure 18**).

Additionally, the Commonwealth receives actuarial valuations that estimate the future liabilities of the individual funds. The Governmental Accounting Standards Board (GASB) standards require the Commonwealth to compare the pension plan net assets to the expected long-term retirement payments to member and beneficiaries to identify the amount owed (net pension liability).

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 Position
Pension and Other Employee Benefit Trust Funds -
GAAP Basis
 For the Fiscal Year Ended June 30, 2016

(Dollars in Thousands)

Additions:	
Contributions	\$ 3,779,496
Investment Income:	
Interest, Dividends, and Other	
Investment Income	1,576,024
Less Investment Expenses	405,954
Net Investment Income	1,170,070
Other Revenue	2,458
Total Additions	4,952,024
Deductions:	
Retirement Benefits	4,357,852
Refunds to Former Members	104,618
Retiree Health Insurance Credits	153,914
Insurance Premiums and Claims	182,575
Administrative Expenses	43,167
Long-term Disability Benefits	39,309
Other Expenses	4,031
Total Deductions	4,885,466
Net Increase	66,558
Net Position, July 1	68,197,614
Net Position, June 30	\$ 68,264,172

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, or www.varetire.org.

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 or to the extent that the employer’s long-term obligation to provide pension benefits is larger than the value of the assets available in the plan to pay these benefits.

Employer contributions made for FY 2016 totaled \$2.8 billion. This was less than the actuary’s recommended rates, but did meet statutory requirements.

Alcoholic Beverage Control Fund - GAAP Basis

The ABC fund accounts for the receipts and disbursements from the sale of alcoholic beverages. In FY 2016, ABC transferred \$174.0 million to the General Fund to use for current operations and for the care, treatment, study, and rehabilitation of alcoholics. Total ABC operating income for FY 2016 was \$163.5 million on \$752.1 million in total sales.

Virginia Lottery Fund - GAAP Basis

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

During FY 2016, the Virginia Lottery had operating revenues of \$2.0 billion and expenses, including lottery prize payments, of \$1.4 billion. Nonoperating revenue for the year, including interest earnings, was \$1.0 million. During FY 2016, \$594.1 million was transferred out to be spent for public education as required by law.

Figure 19
Revenues, Expenses and Changes in
Fund Net Position
Virginia Lottery - GAAP Basis
For the Fiscal Year Ended June 30, 2016

(Dollars in Thousands)

Operating Revenues:	
Charges for Sales and Services	\$ 2,006,898
Total Operating Revenue	<u>2,006,898</u>
Operating Expenses:	
Personal Services	29,563
Contractual Services	33,822
Supplies and Materials	481
Depreciation	2,929
Prizes and Claims	1,202,455
Cost of Sales and Services	143,181
Other Expenses	1,839
Total Operating Expenses	<u>1,414,270</u>
Operating Income	<u>592,628</u>
Nonoperating Revenues:	
Interest, Dividends, and Rents	736
Other	251
Total Nonoperating Revenues	<u>987</u>
Income Before Transfers and Changes	593,615
Transfers Out	<u>(594,085)</u>
Change in Net Position	(470)
Total Net Position, July 1	<u>(30,445)</u>
Total Net Position, June 30	<u>\$ (30,915)</u>

Risk Management (Self-Insurance) Program - GAAP Basis

The Commonwealth is self-insured for workers' compensation, property damage, general (tort) liability, medical malpractice, surety bond exposures, and automobile insurance coverage. At the end of FY 2016, the self-insurance program had cash, other assets and deferred outflows of resources of \$198.1 million, while the estimated liability for claims payable was \$835.3 million. The program had additional liabilities and deferred inflows of resources of \$55.4 million, which resulted in a GAAP deficit balance of \$692.6 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, since 1938, 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 2016 was \$42.8 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 \$1.5 billion, or 3.5 percent, of all debt, is a general obligation of Virginia taxpayers and supported by a pledge of all tax revenues and other monies of the Commonwealth. This kind of pledge is also referred to as "full faith and credit" debt. General obligation debt is issued as provided for in the State Constitution.

The next category of debt, limited obligations which may use tax revenue, does not carry the “full faith and credit” of the Commonwealth, but does use certain tax revenues, in whole or in part, to pay principal and interest. Examples of other tax supported debt include certain bonds issued by the Virginia Port Authority to improve Virginia ports, most highway construction bonds, bonds issued to construct state office buildings, hospitals and prisons, and capital leases and installment purchase contracts entered into by state agencies and institutions of higher education. A total of \$19.4 billion of this type of tax supported debt was

outstanding at the end of FY 2016. This is 45.3 percent of all debt on the books of the Commonwealth.

Non-tax Supported Debt makes up 51.2 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 2016 was \$21.9 billion.

Figure 20
State Debt/Obligations
Tax Supported and Non-Tax Supported
As of June 30, 2016

<i>(Dollars in Thousands)</i>	Total	Percent of Total
Tax-Supported Debt/Obligations		
General Obligation Bonds		
Public Facilities Bonds	\$ 571,915	1.3%
Parking Facilities Bonds	15,155	0.1%
Transportation Facilities Bonds	14,562	0.1%
Higher Education Bonds	877,118	2.0%
Total General Obligation Bonds	<u>1,478,750</u>	<u>3.5%</u>
Other Tax-Supported Debt/Obligations		
Transportation	2,722,238	6.4%
Virginia Port Authority	275,256	0.6%
Virginia Public Building Authority	2,441,413	5.7%
Virginia College Building Authority	4,049,060	9.4%
Long-term Capital Lease Payable	117,927	0.3%
Compensated Absences Obligations	610,079	1.4%
Pension Liability Obligations	7,196,277	16.8%
OPEB Liability Obligations	1,695,972	4.0%
Virginia Biotechnology Research Partnership Authority	26,743	0.1%
Installment Purchase	159,702	0.4%
Other Long-term Debt/Obligations	103,791	0.2%
Total Other	<u>19,398,458</u>	<u>45.3%</u>
Total Tax-Supported Debt/Obligations	<u>20,877,208</u>	<u>48.8%</u>
Non-Tax Supported Debt/Obligations		
Higher Education	2,081,823	4.9%
Virginia Housing Development Authority	4,320,935	10.1%
Virginia Public School Authority	3,655,914	8.4%
Virginia Resources Authority	3,611,530	8.5%
Other Long-term Debt/Obligations	8,264,121	19.3%
Total Non-Tax Supported Debt/Obligations	<u>21,934,323</u>	<u>51.2%</u>
Total Commonwealth Debt/Obligations	<u>\$ 42,811,531</u>	<u>100.0%</u>

The largest of these authorities is the Virginia Housing Development Authority, which has \$4.3 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, \$907.2 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)

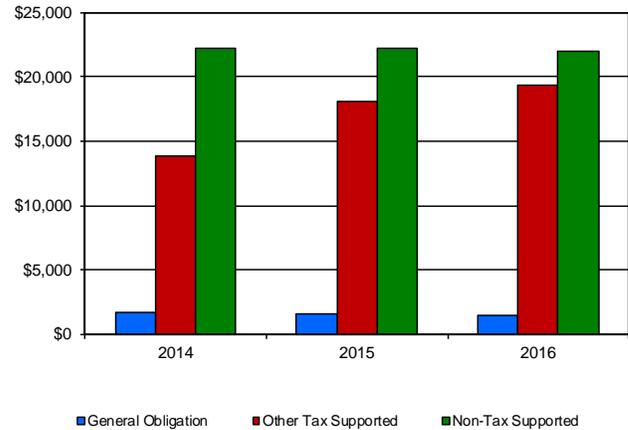


Figure 22
Ratio of General Obligation Debt Per Capita
(Amounts in Thousands, Except for Per Capita)

For the Fiscal Year Ended June 30,	Population (1)	General Obligation Debt (2)	General Long-term Debt Per Capita
2016	8,433	\$ 1,478,750	\$ 175
2015	8,392	1,612,228	192
2014	8,332	1,667,955	200
2013	8,235	1,669,850	203
2012	8,178	1,780,215	218

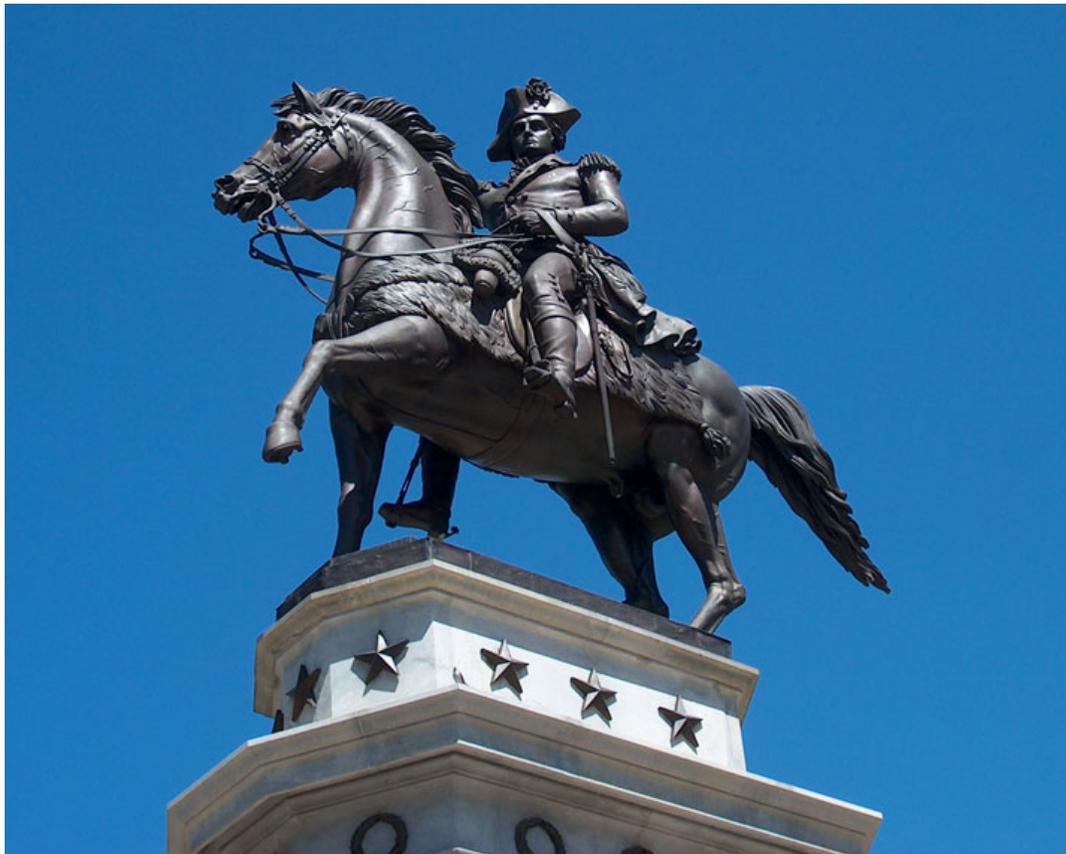
- (1) Population figure for 2016 is estimated.
- (2) Includes 9(a), 9(b) and 9(c) debt, net of unamortized premiums, discounts and deferral on debt defeasance payable, except for FY 2015 and FY 2016 which exclude deferrals of debt defeasance due to new reporting requirements.

Figure 23
**Percentage of Annual Debt Service Expenditures for
 Governmental Debt to Total Noncapital Expenditures –
 All Governmental Fund Types**
(Dollars in Thousands)

<u>For the Fiscal Year Ended June 30,</u>	<u>Debt Service (1)</u>	<u>Total Noncapital Expenditures (2)</u>	<u>Percentage</u>
2016	\$ 705,261	\$ 34,462,451	2.05
2015	716,592	32,271,316	2.22
2014	700,105	31,649,624	2.21

- (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, 2016, was \$6.5 billion.
- (2) Includes General, Special Revenue, Debt Service, Capital Projects, and Permanent Funds.

Source: Department of Accounts



George Washington Monument, Capitol Grounds

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 2016, the state made 98.8 percent of its payments on time, and that 97.4 percent of the dollars owed were paid in compliance with prompt payment requirements. The state paid out \$57,305 in interest on late payments during FY 2016, an increase of \$30,763 from FY 2015, on total vendor payments of \$7.6 billion.

Figure 24
Statewide Prompt Payment Statistics
For Fiscal Year 2016

Number of Late Payments	27,546
Total Number of Payments	2,274,572
Late Dollars (in Thousands)	\$ 196,507
Total Dollars (in Thousands)	\$ 7,611,531
Interest Paid	\$ 57,305
Percent of Payments in Compliance	98.8%
Percent of Dollars in Compliance	97.4%

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. The state uses the Small Purchase Charge Card to consolidate payments for low dollar purchases.

Electronic Data Interchange

A total of 311,577 payments equaling \$34.8 billion were made in FY 2016 using EDI. This helped to avoid the issuance of 599,565 checks. Electronic payments were made to 168,294 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, 2016, 99.5 percent of salaried employees and 98.6 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 2016, the printing of 2,033,914 earnings notices was avoided through the Payline earnings notice print opt-out program.

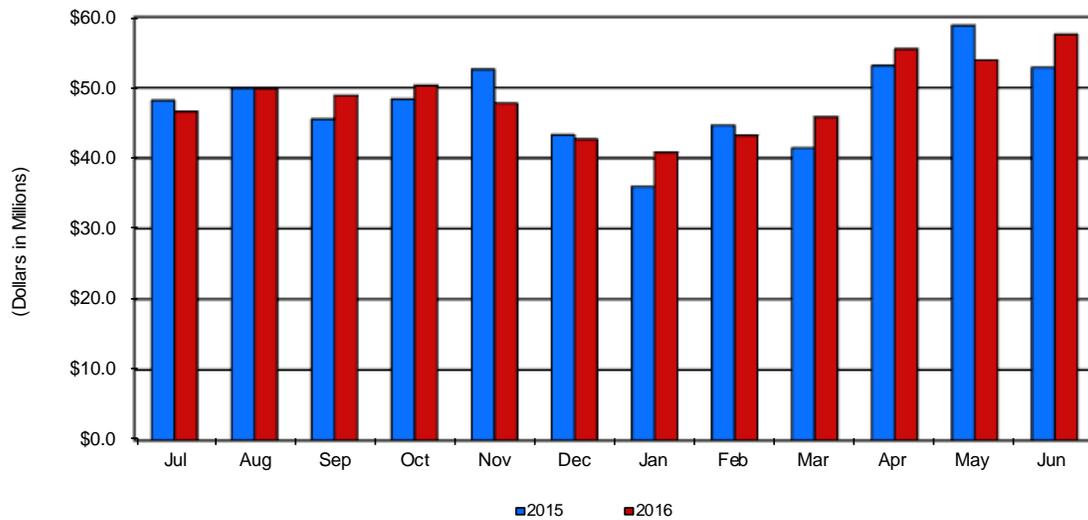
Small Purchase Charge Card Program

Also in FY 2016, approximately \$582.7 million in purchases were made using the small purchase charge card and gold charge card programs. This helped to avoid printing 803,828 checks. As of June 30, 2016, 194 agencies were using 14,762 cards (**Figure 25**). A comparison of charge activity for FY 2016 to activity for FY 2015 is shown in **Figure 26**.

Figure 25
Small Purchase Charge Card Program

Charge Card Activity	Quarter Ended June 30, 2016	Fiscal Year 2016 to Date	Comparative Fiscal Year 2015 to Date
Amount of Charges	\$ 166,830,646	\$ 582,742,400	\$ 574,511,394
Estimated Number of Checks Avoided	223,765	803,828	787,778
Total Number of Participating Agencies		194	195
Total Number of Cards Outstanding		14,762	14,734

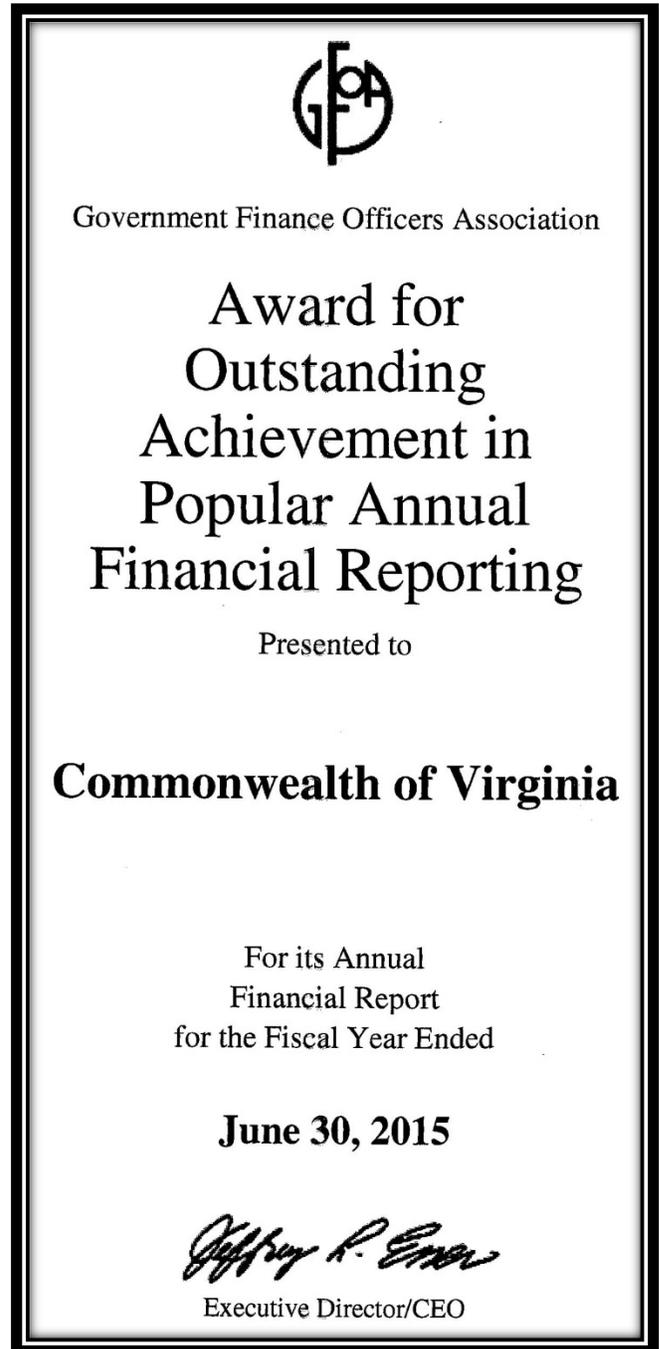
Figure 26
Charge Amount Comparison
FY 2015 – FY 2016



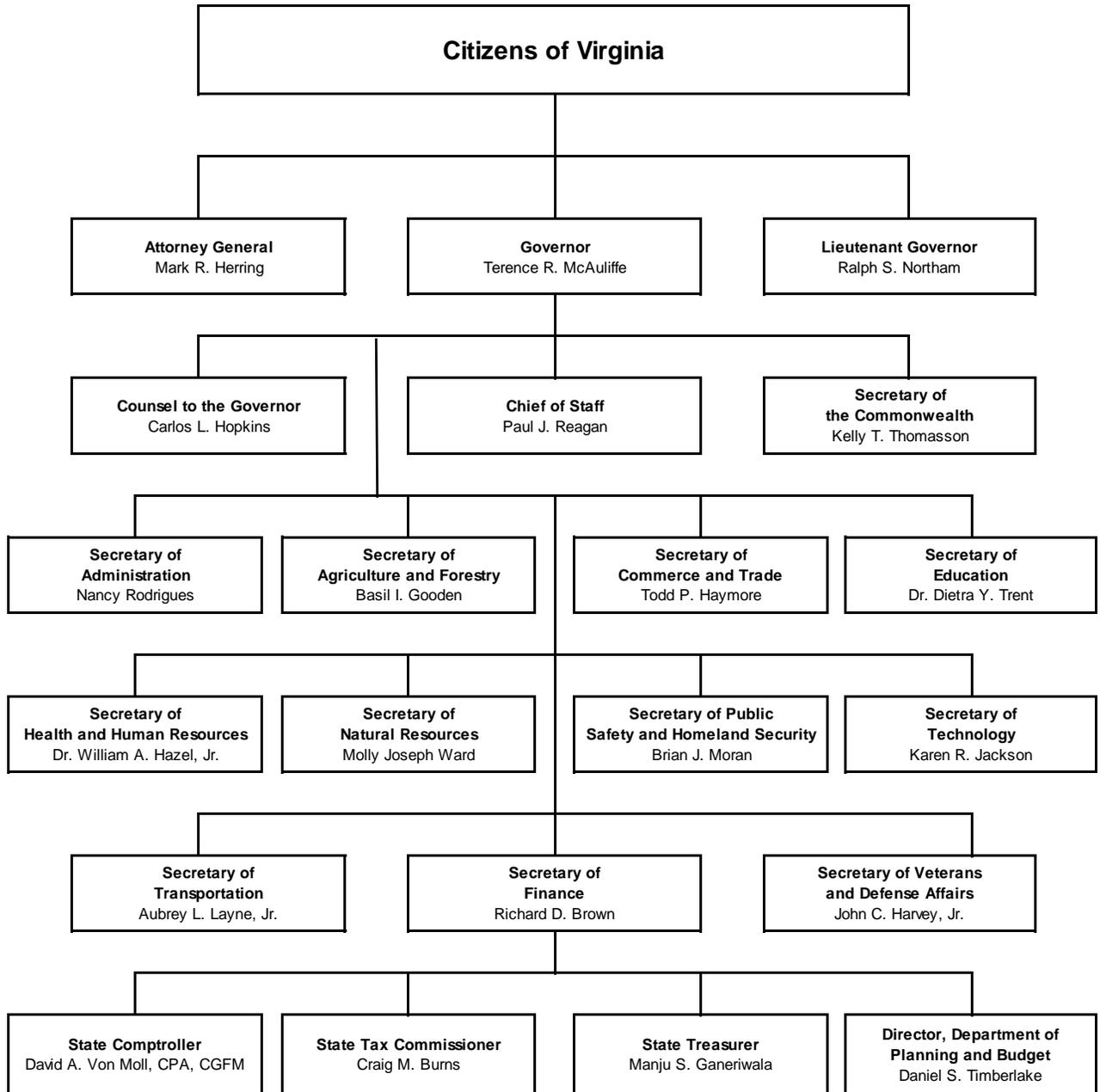
Award for Outstanding Achievement in Popular Annual Financial Reporting

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, 2015. 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 21 consecutive years (fiscal years 1995-2015). 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





George Washington Statue - Virginia Capitol Rotunda

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

To view an electronic copy of Virginia's Comprehensive Annual Report
Please visit www.doa.virginia.gov/Financial_Reporting/CAFR/CAFR_Main.cfm

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

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