A REPORT TO THE CITIZENS OF THE COMMONWEALTH

Virginia Financial Perspective

For the Fiscal Year Ended June 30, 2017

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December 15, 2017

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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, along with other information on the Commonwealth's finances, for fiscal year 2017 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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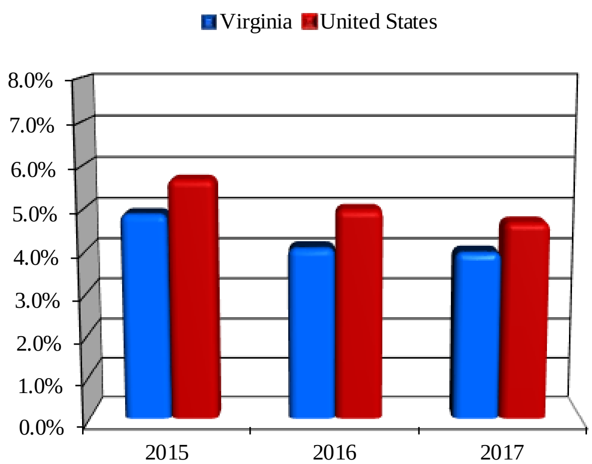
Virginia's Economy

Each year the CAFR includes a section reviewing the Commonwealth's economy. For fiscal year 2017, economists at the Weldon Cooper Center for Public Service at the University of Virginia prepared this economic highlight section. In fiscal year 2017, Virginia's economy continued grow, but at a more subdued pace than the previous year.

Employment and income are the two broad measures that give the best picture of economic developments. In fiscal year 2017, Virginia's unemployment rate continued its post-recession decline, reaching 4.0 percent, significantly lower than the 4.7 percent observed nationally (**Figure 1**). These rates are slowly converging on pre-recessionary unemployment rates of 3.0 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). During fiscal year 2017, Virginia experienced slower employment growth, when compared to the national growth level. Notable exceptions to this trend in fiscal year 2017 are mining, manufacturing, retail trade, information, and state government, all of which experienced negative growth. During fiscal year 2017, these sectors combined lost approximately 4,200 jobs. All other sectors showed growth, adding nearly 48,800 jobs to the Virginia economy.

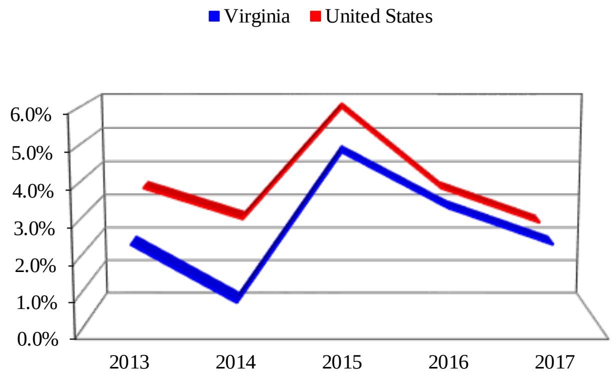
Figure 2
Nonfarm Payroll Employment

	Virginia Employment (000)			Change, FY 2017 - FY 2016 Virginia		U.S.
Industry	**2015**	**2016**	**2017**	**Number (000)**	**Percent**	**Percent**
Mining and logging	9.3	8.3	7.8	(0.5)	(6.0)	(7.5)
Construction	181.0	187.2	188.4	1.2	0.6	3.0
Manufacturing	232.3	233.5	232.7	(0.8)	(0.3)	0.1
Wholesale trade	110.4	111.0	111.5	0.5	0.5	0.6
Retail trade	412.2	419.1	418.6	(0.5)	(0.1)	0.9
Transportation and utilities	123.1	130.1	134.3	4.2	3.2	1.7
Information	70.3	68.9	66.6	(2.3)	(3.3)	(0.3)
Financial activities	195.7	199.3	202.8	3.5	1.8	2.1
Professional and business	689.4	711.8	724.8	13.0	1.8	2.9
Educational and health services	503.7	522.9	539.2	16.3	3.1	2.4
Leisure and hospitality	376.5	394.9	400.3	5.4	1.4	2.3
Other services	196.0	198.4	200.2	1.8	0.9	1.2
Federal government	175.3	177.4	178.7	1.3	0.7	1.3
State government	161.0	160.6	160.5	(0.1)	(0.1)	0.2
Local government	374.7	374.7	376.3	1.6	0.4	1.0
Total	3,810.9	3,898.1	3,942.7	44.6	1.1	1.6

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 2017, Virginia personal income increased at a rate of 2.4 percent compared to 3.4 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 2017, it nearly matched the nation's growth rate of 2.5 percent.

Figure 3
Percentage Change in Personal Income

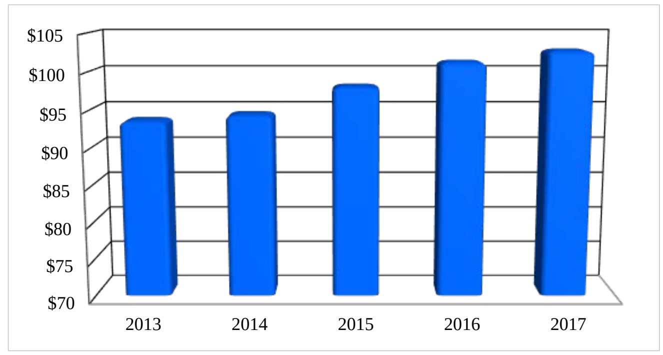


Source: U.S. Bureau of Economic Analysis, Regional Economic Information System

Each of the three major components of personal income (wages and salaries; dividends, interest and rent; and transfer receipts) again experienced an increase during fiscal year 2017. While personal income in Virginia increased overall, Virginia still trailed the nationwide personal income growth for 2017.

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 $102.8 billion, an increase of 1.5 percent over fiscal 2016.

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



Source: Virginia Department of Taxation

Overall, during fiscal year 2017, Virginia economic growth eased and returned to a pattern of relatively slow growth. Employment growth slowed while the unemployment rate improved slightly. Personal income and taxable sales growth also declined. The Virginia housing market continued to mend with home sales, home prices, and building permit issuance showing increases.

The nation has now experienced eight years of economic growth, which now ranks the period as the nation's third longest post-war expansion. However, the recovery has been characterized by relatively slow growth, low wage appreciation, weak productivity gains, muted inflation, shrinking labor force participation rates, and significant excess industrial capacity. For Virginia, federal budget deliberations and the future path of sequestration caps have particular salience because of the importance of federal hiring and procurement to the state economy. In the absence of major changes, the national and state economies seem likely to continue their patterns of slow to moderate growth.

FINANCIAL STATEMENT INFORMATION

This section contains financial statement information for the Commonwealth of Virginia for the fiscal year ending June 30, 2017.

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, 2016, and ended on June 30, 2017. This is referred to as fiscal year 2017, or FY 2017.

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 2017 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, 2017. 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 https://www.doa.virginia.gov/reports/CAFR/2017-CAFR.shtml.

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 2017, 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 $47.7 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 $24.6 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 $23.1 billion. **Figure 5** is a condensed Statement of Net Position for the Commonwealth as of June 30, 2017.

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 $1.5 billion. The net position of the governmental activities increased $1.1 billion, or 5.5 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 $352.2 million, or 22.2 percent, primarily due to an increase for the Unemployment Compensation Fund and Virginia College Savings Plan. Virginia recognized $18.1 billion in program revenues and $23.6 billion in general revenues, which was used to pay for $40.3 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, corporate taxes, and deeds, contracts, wills and suits taxes, offset by decreases primarily attributable to public service corporation taxes, communications sales and use taxes, and premiums of insurance companies taxes. The increase in expenses was primarily attributable to increases in individual and family services, education, resources and economic development, and transportation expenditures.

The July 1, 2016, net position balance has been reduced by $71.2 million due primarily to a change in accounting principle 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, 2017

(Dollars in Millions)

	Primary Government			
	Governmental Activities	Business-type Activities	FY 2017 Total	FY 2016 Total as restated (Informational Only)
Assets and Deferred Outflows of Resources	$ 43,051	$ 4,642	$ 47,693	$ 44,594
Liabilities and Deferred Inflows of Resources	21,902	2,704	24,606	22,965
Net Position	$ 21,149	$ 1,938	$ 23,087	$ 21,629

Figure 6
Statement of Activities (GAAP Basis)
For the Fiscal Year Ended June 30, 2017

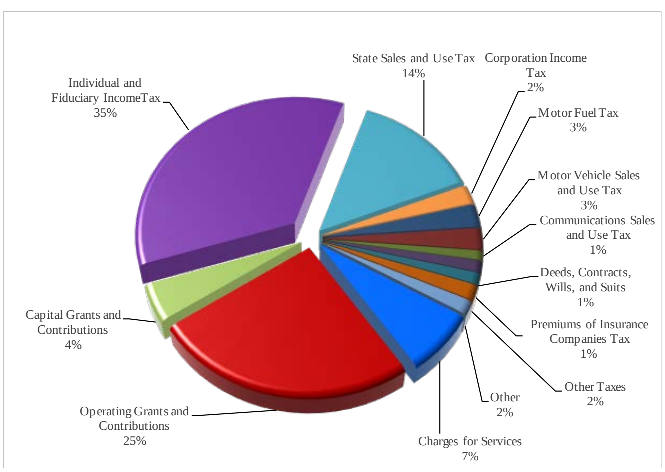
(Dollars in Millions)

	Primary Government			
	Governmental Activities	Business-type Activities	FY 2017 Total	FY 2016 Total as restated (Informational Only)
Program Revenues:				
Charges for Services	$ 2,652	$ 4,319	$ 6,971	$ 6,636
Operating Grants and Contributions	9,469	4	9,473	9,148
Capital Grants and Contributions	1,643	-	1,643	1,466
Total Program Revenues	13,764	4,323	18,087	17,250
Expenses	37,044	3,211	40,255	39,160
Net (Expenses) Revenues	(23,280)	1,112	(22,168)	(21,910)
General Revenues	23,616	10	23,626	22,614
Transfers and Other Items	770	(770)	-	-
Change in Net Position	1,106	352	1,458	704
Net Position - July 1, as restated	20,043	1,586	21,629	20,925
Net Position - June 30	$ 21,149	$ 1,938	$ 23,087	$ 21,629

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 2017



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 2017

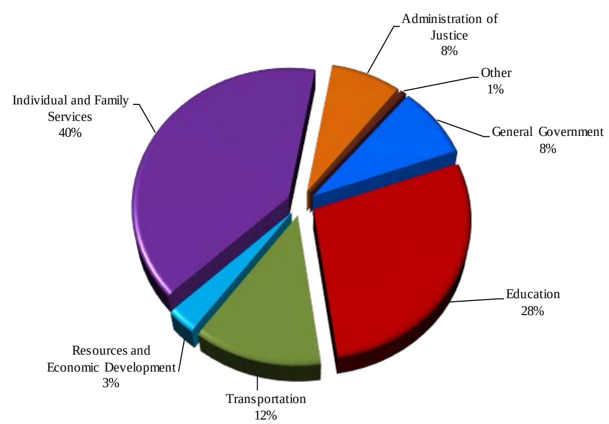
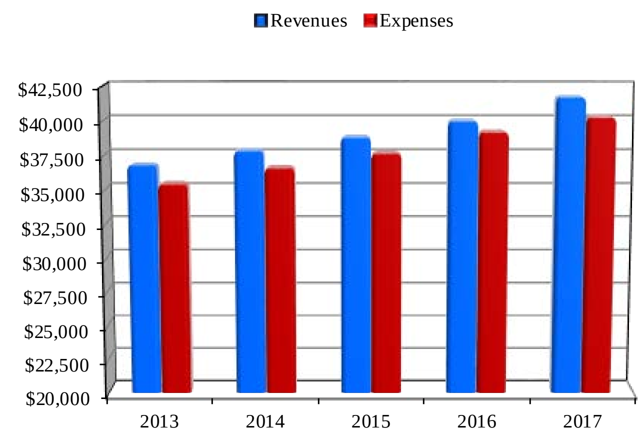


Figure 9 represents financial trend information for primary government (governmental and business-type activities) to help the reader understand how the Commonwealth's financial performance has changed over time.

Figure 9
Primary Government
Total Revenues and Expenses
FY 2013 – FY 2017

(Dollars in Thousands)



General Fund - GAAP Basis

During FY 2017 the General Fund received $20.8 billion in resources. **Figure 10** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 63 percent of the resources, while sales and use taxes made up 18 percent. These revenues plus other revenues totaled $20.0 billion, or 96 percent. The remaining monies totaling $863.7 million came from other sources, such as transfers from other funds, including alcoholic beverage sales.

Revenues (not including transfers) increased by $499.5 million from FY 2016. This revenue change results from increases of $581.3 million primarily attributable to individual and fiduciary income taxes, sales and use taxes, corporation income taxes, and deeds, contracts, wills and suits taxes, offset by decreases of $81.8 million primarily attributable to interest, dividends, and rents, sales of property and commodities, and communications sales tax.

General Fund disbursements, including transfers, for FY 2017 (**Figure 11**) totaled $21.1 billion. Expenditures totaled $20.7 billion and transfers to other funds were $441.7 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 $662.2 million over the prior year. This was primarily attributable to increases in education, individual and family services, and administration of justice expenditures of $356.0 million, $295.1 million, and $51.5 million, respectively. Net other financing sources and uses increased by $48.3 million, which is primarily due to higher transfers in from nongeneral funds, higher proceeds from installment purchases and a decrease in transfers out to nongeneral funds.

Figure 10
General Fund Resources
FY 2017, GAAP Basis

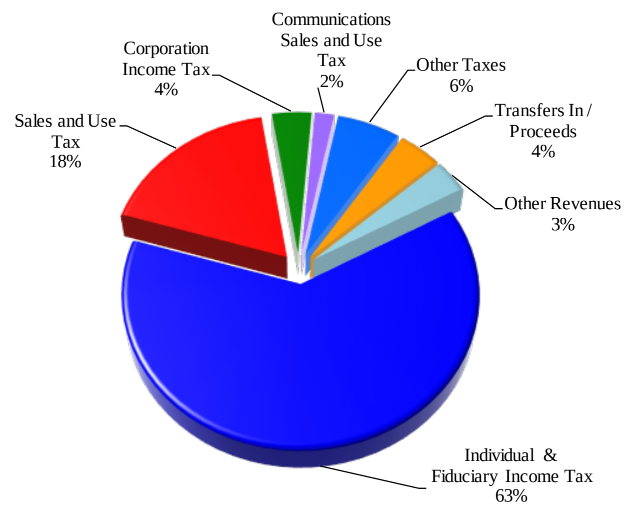
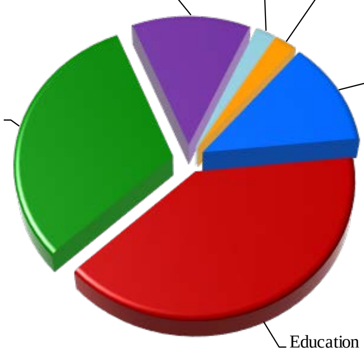


Figure 11
General Fund Disbursements
FY 2017, GAAP Basis



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 2017 and paid during the months of July and August following year end close of $419.6 million. Another is estimated *Medicaid claims payable* of $449.5 million, which represents medical services rendered in prior years that will not be paid for until FY 2018. 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, 2017 and 2016

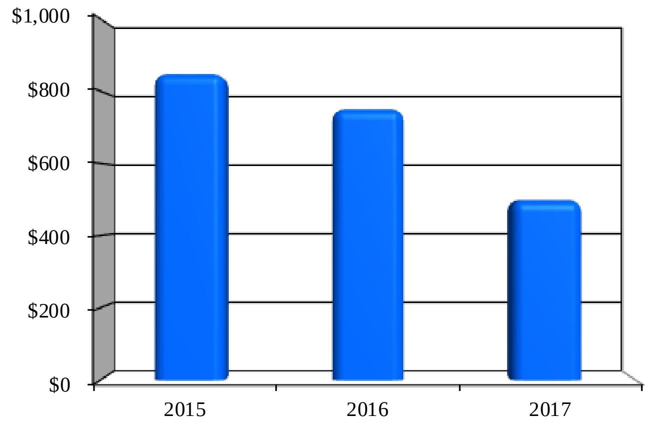
(Dollars in Millions)

	FY 2017	FY 2016
Fund Balance, Cash Basis	$ 1,339.9	$ 1,478.4
ADD:		
Sales Taxes Receivable	179.4	177.4
Other Taxes Receivable	459.8	478.4
Other Receivables	1,248.6	1,104.6
Inventory/Prepaid Items	127.3	114.3
Other Accrued Items	27.4	104.3
Deferred Outflows of Resources	-	-
Total to be Added	2,042.5	1,979.0
LESS:		
Tax Refunds Payable	419.6	439.6
Medicaid Claims Payable	449.5	367.4
Sales Taxes Due to Localities	312.0	303.8
Other Accrued Items	621.1	627.9
Deferred Inflows of Resources	1,081.8	967.8
Total to be Subtracted	2,884.0	2,706.5
Difference	(841.5)	(727.5)
Fund Balance, GAAP Basis	$ 498.4	$ 750.9

Fund balance decreased to $498.4 million, compared to a balance of $750.9 million in FY 2016 (**Figure 13**). The decrease in the General Fund GAAP basis balance from FY 2016 to FY 2017 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, education, resources and economic development, and administration of justice expenditures.

Figure 13
General Fund Balance - GAAP Basis

(Dollars in Millions)



Revenues (not including transfers) increased by $661.2 million from FY 2016. This increase is attributable to the net effect of changes in all sources of revenue.

General Fund disbursements, including transfers, for FY 2017 (**Figure 15**) totaled $21.1 billion. Expenditures totaled $20.6 billion and transfers to other funds were $441.7 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 2017, the General Fund received $20.9 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 $20.0 billion, or 96 percent of General Fund resources. The remaining resources totaling $904.3 million came through transfers from other funds, including alcoholic beverage sales.

Figure 15
General Fund Disbursements
FY 2017, Cash Basis

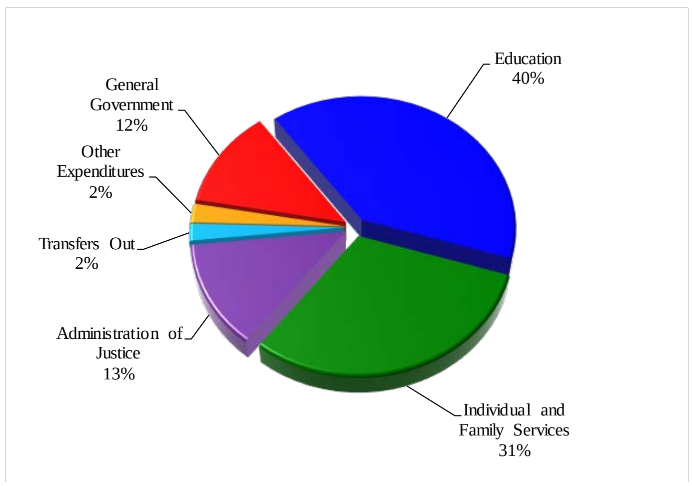
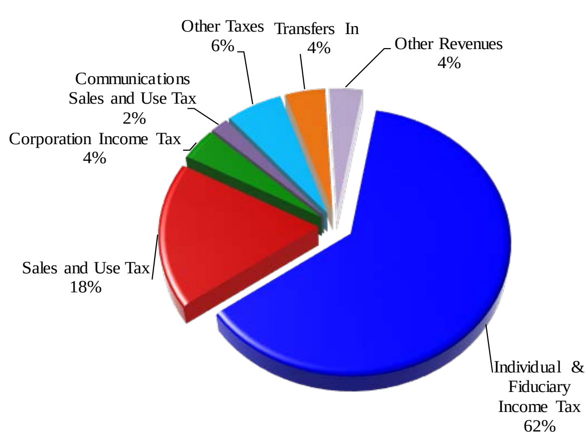


Figure 14
General Fund Resources
FY 2017, Cash Basis



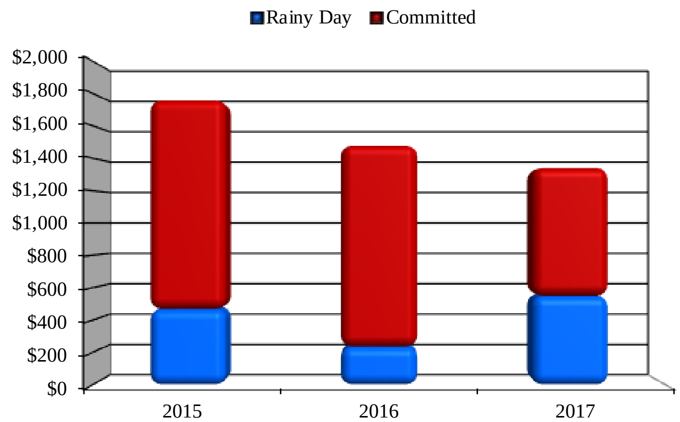
Expenditures (not including transfers) increased by $670.9 million over the prior year. The increase is due to the net effect of changes in all uses of General Fund resources.

General Fund expenditures exceeded revenues and net transfers by $138.6 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 2015. The General Fund Balance – Cash basis was $1.8 billion in FY 2015 and $1.5 billion in FY 2016. The General Fund balance showed a decrease in FY 2017 to $1.3 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. A deposit of $605.6 million was made during fiscal year 2017 as required by Section 2.2-1829 of the *Code of Virginia*, which includes the advance reservation of $129.5 million provided in Chapter 665, 2015 Acts of Assembly. Additionally, during fiscal year 2017, 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 $294.7 million was made from the fund. Further, Chapter 836, 2017 Acts of Assembly, authorizes an additional withdrawal estimated at $272.5 million from the fund during fiscal year 2018.

Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, no deposit is required during fiscal year 2018 based on fiscal year 2016 revenue collections. Also, no deposit is required based on fiscal year 2017 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 2017.

The Revenue Stabilization Fund has principal and interest on deposit of $548.8 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, 2017, the Constitutional maximum is $2.6 billion.

Commonwealth Transportation Fund - GAAP Basis

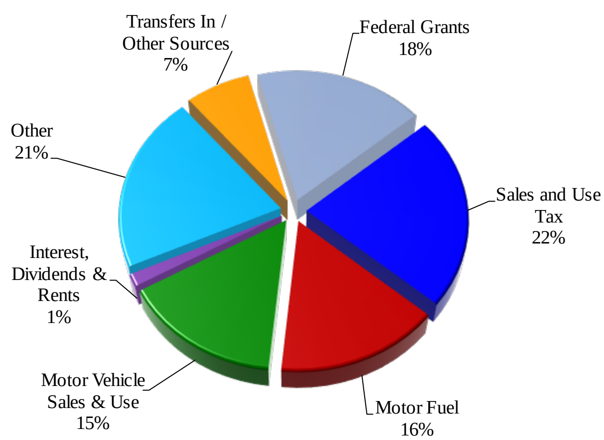
The Commonwealth Transportation Fund pays for the construction and maintenance of state highways. The fund also provides monies for other modes of transportation including rail, bus, aviation and seaports. The size of this fund reflects the fact that Virginia is one of only a few states that includes essentially all roads within the state highway system. Virginia has approximately 75,096 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 2017, the Commonwealth Transportation Fund had revenues and other sources of $6.1 billion and expenditures and other uses of $6.1 billion on a GAAP basis. At the end of FY 2017, the fund had a balance of $2.0 billion measured on a GAAP basis.

Figure 17
Commonwealth Transportation Fund
Revenue Resources
FY 2017, GAAP Basis



Highway construction projects often require several years to complete. State revenues contribute approximately 61.8 percent of the funding for these projects. The federal government provides 23.6 percent, and 14.6 percent comes from bond proceeds. Local governments also contribute to the cost of highway construction.

Virginia College Savings Plan Fund - GAAP Basis

<u>Proprietary Fund</u>
The Virginia College Savings Plan (VCSP) Fund administers the Prepaid529 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 $142.0 million plus noncurrent assets such as investments and receivables of $2.7 billion. These assets were held to satisfy current liabilities of $287.0 million and long-term liabilities of $1.8 billion. Net investment in capital assets was $3.3 million and total unrestricted net position was $781.2 million as of June 30, 2017.

<u>Private Purpose Fund</u>
Total investments in the VCSP private purpose fund totaled $3.9 billion as of June 30, 2017, and included $772.1 million of mutual fund investments. The net position held in trust as of June 30, 2017, was $3.9 billion.

For FY 2017, VCSP reported contributions from plan participants of $551.7 million. Deductions for FY 2017 totaled $264.3 million, including $238.7 million in educational expense benefits paid and $25.0 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 2017 with a total net position held in trust for participants of $75.1 billion. During FY 2017, the funds received $3.7 billion in contributions and $8.2 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 $6.8 billion (**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, 2017

(Dollars in Thousands)

Additions:		
Contributions	$	3,690,481
Investment Income:		
Interest, Dividends, and Other Investment Income		8,692,940
Less Investment Expenses		449,539
Net Investment Income		8,243,401
Other Revenue		3,684
Total Additions		11,937,566
Deductions:		
Retirement Benefits		4,519,691
Refunds to Former Members		119,767
Retiree Health Insurance Credits		158,965
Insurance Premiums and Claims		194,412
Administrative Expenses		50,231
Long-term Disability Benefits		38,868
Other Expenses		13,688
Total Deductions		5,095,622
Net Increase		6,841,944
Net Position, July 1		68,264,172
Net Position, June 30	$	75,106,116

A separately issued financial report that includes financial statements and required supplemental information is publicly available. Copies may be obtained from the Virginia Retirement System's website at 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 2017 totaled $2.6 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 2017, ABC transferred $180.3 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 2017 was $168.7 million on $787.4 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 2017, 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 $1.8 million. During FY 2017, $571.4 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, 2017

(Dollars in Thousands)	
Operating Revenues:	
Charges for Sales and Services	$ 1,989,872
Total Operating Revenue	1,989,872
Operating Expenses:	
Personal Services	30,541
Contractual Services	39,654
Supplies and Materials	547
Depreciation	2,610
Prizes and Claims	1,202,005
Cost of Sales and Services	143,267
Other Expenses	2,138
Total Operating Expenses	1,420,762
Operating Income	569,110
Nonoperating Revenues:	
Interest, Dividends, and Rents	934
Other	865
Total Nonoperating Revenues	1,799
Income Before Transfers and Changes	570,909
Transfers Out	(571,370)
Change in Net Position	(461)
Total Net Position, July 1	(30,915)
Total Net Position, June 30	$ (31,376)

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 2017, the self-insurance program had cash, other assets and deferred outflows of resources of $225.7 million, while the estimated liability for claims payable was $797.6 million. The program had additional liabilities and deferred inflows of resources of $72.2 million, which resulted in a GAAP deficit balance of $644.2 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 2017 was $45.2 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 $1.4 billion, or 3.2 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 $20.0 billion of this type of tax supported debt was outstanding at the end of FY 2017. This is 44.2 percent of all debt on the books of the Commonwealth.

Non-tax Supported Debt makes up 52.6 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 2017 was $23.8 billion.

Figure 20

State Debt/Obligations

Tax Supported and Non-Tax Supported

As of June 30, 2017

(Dollars in Thousands)	**Total**	**Percent of Total**
Tax-Supported Debt/Obligations		
General Obligation Bonds		
Public Facilities Bonds	$ 515,468	1.1%
Parking Facilities Bonds	11,101	0.1%
Transportation Facilities Bonds	11,642	0.1%
Higher Education Bonds	897,018	1.9%
Total General Obligation Bonds	1,435,229	3.2%
Other Tax-Supported Debt/Obligations		
Transportation	2,578,232	5.7%
Virginia Port Authority	253,208	0.6%
Virginia Public Building Authority	2,674,563	5.9%
Virginia College Building Authority	3,858,925	8.5%
Long-term Capital Lease Payable	117,913	0.3%
Compensated Absences Obligations	601,092	1.3%
Pension Liability Obligations	7,723,846	17.1%
OPEB Liability Obligations	1,914,363	4.2%
Virginia Biotechnology Research Partnership Authority	22,727	0.1%
Installment Purchase	139,680	0.3%
Other Long-term Debt/Obligations	81,012	0.2%
Total Other	19,965,561	44.2%
Total Tax-Supported Debt/Obligations	21,400,790	47.4%
Non-Tax Supported Debt/Obligations		
Higher Education	2,224,501	4.9%
Virginia Housing Development Authority	3,737,479	8.3%
Virginia Public School Authority	3,580,954	7.9%
Virginia Resources Authority	3,650,922	8.1%
Other Long-term Debt/Obligations	10,587,629	23.4%
Total Non-Tax Supported Debt/Obligations	23,781,485	52.6%
Total Commonwealth Debt/Obligations	$ 45,182,275	100.0%

The largest of these authorities is the Virginia Housing Development Authority, which has $3.7 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, $928.1 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)

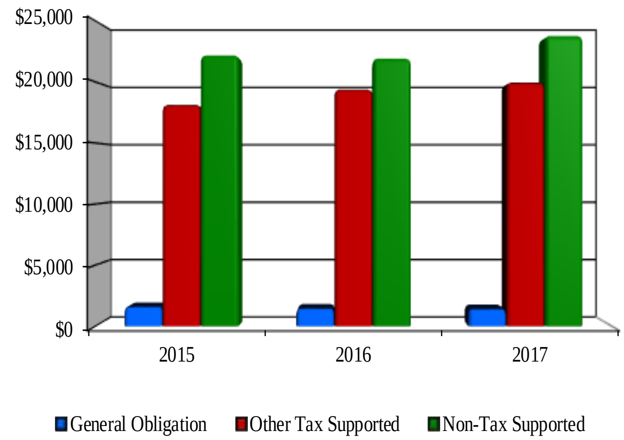


Figure 22
Ratio of General Obligation Debt Per Capita
(Amounts in Thousands, Except for Per Capita)

For the Fiscal Year Ended June 30,	Population (1)	General Obligation Debt (2)	General Long-term Debt Per Capita
2017	8,510	$ 1,435,229	$ 169
2016	8,412	1,478,750	176
2015	8,383	1,612,228	192
2014	8,326	1,667,955	200
2013	8,260	1,669,850	202

(1) Population figure for 2017 is estimated.
(2) Includes 9(a), 9(b) and 9(c) debt, net of unamortized premiums, discounts and deferral on debt defeasance. Beginning with FY 2014, deferrals of debt defeasance were excluded from debt balances 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)

For the Fiscal Year Ended June 30,	Debt Service (1)	Total Noncapital Expenditures (2)	Percentage
2017	$ 693,903	$ 34,450,389	2.01
2016	705,261	34,462,451	2.05
2015	716,592	32,271,316	2.22

(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, 2017, was $6.8 billion.

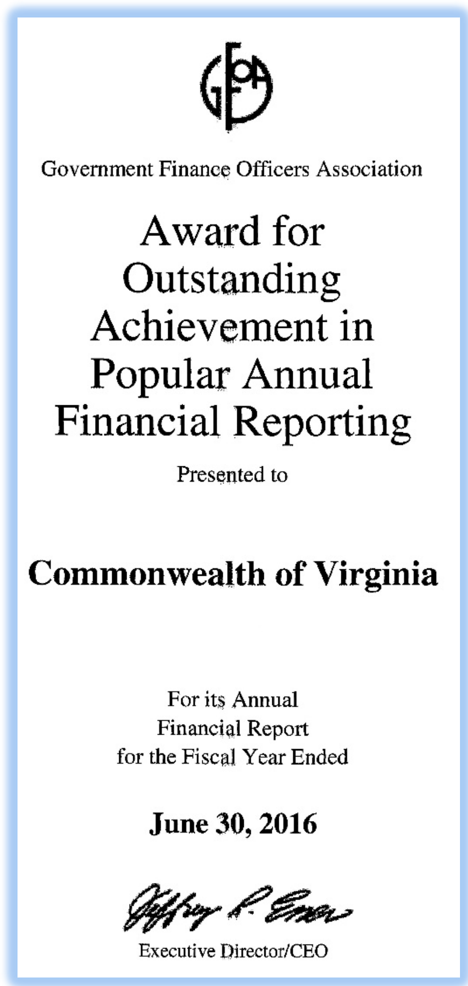
(2) Includes General, Special Revenue, Debt Service, Capital Projects, and Permanent Funds.

Source: Department of Accounts

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, 2016. 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 22 consecutive years (fiscal years 1995-2016). It is expected that the current report continues to conform to the Popular Annual Financial Reporting requirements.



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For its Annual Financial Report for the Fiscal Year Ended

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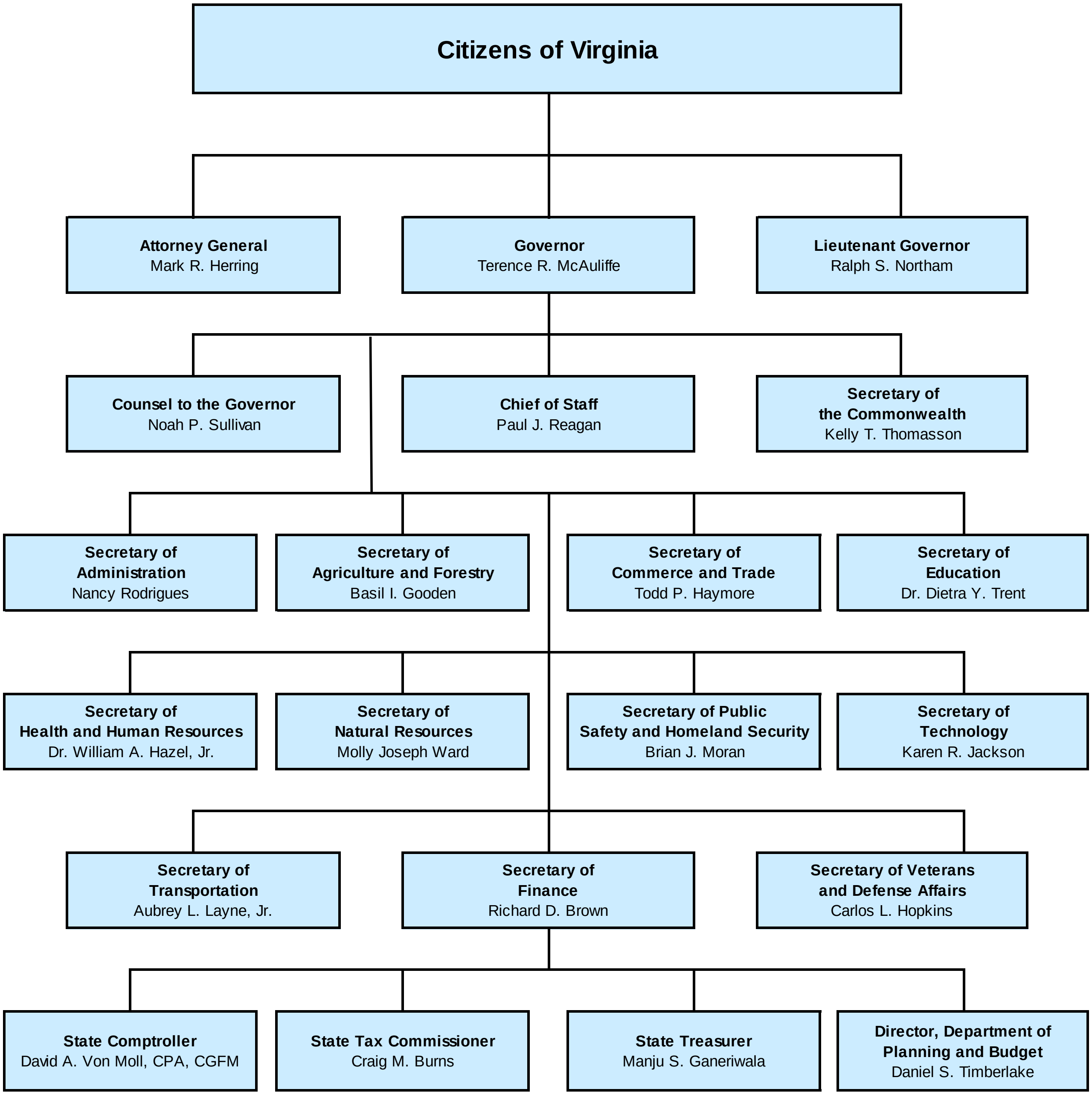

George Washington Monument, Capitol Grounds

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please visit www.virginia.gov

To view an electronic copy of Virginia's Comprehensive Annual Report
Please visit https://www.doa.virginia.gov/reports/CAFR/2017-CAFR.shtml.

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

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