

Virginia Financial Perspective

For the Fiscal Year Ended June 30, 2018



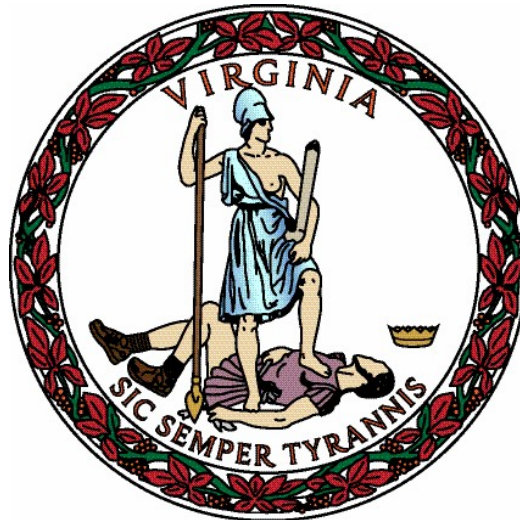
Ralph S. Northam
Governor

Aubrey L. Layne, Jr.
Secretary of Finance

David A. Von Moll
Comptroller

December 14, 2018

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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 2018 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.

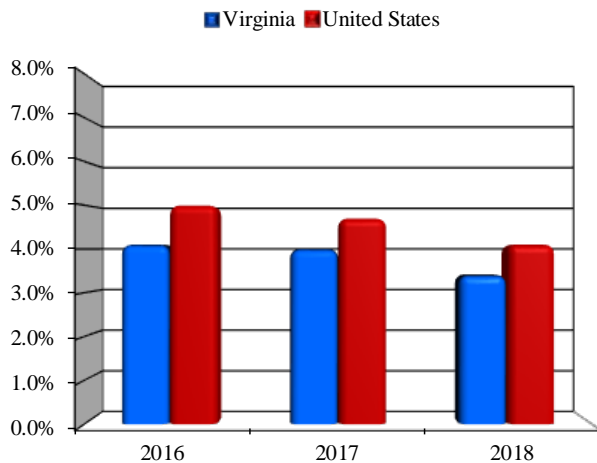
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Virginia’s Economy

Each year the CAFR includes a section reviewing the Commonwealth’s economy. For fiscal year 2018, economists at the Weldon Cooper Center for Public Service at the University of Virginia prepared this economic highlight section. In fiscal year 2018, Virginia’s economy continued to grow at a similar pace as the previous year.

Employment and income are the two broad measures that give the best picture of economic developments. In fiscal year 2018, Virginia’s unemployment rate continued its post-recession decline, reaching 3.4 percent, significantly lower than the 4.1 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 2018, Virginia experienced slower employment growth, when compared to the national growth level. Notable exceptions to this trend in fiscal year 2018 are retail trade, information, and federal and state governments, all of which experienced negative growth. During fiscal year 2018, these sectors combined lost approximately 4,100 jobs. All other sectors showed growth, adding approximately 41,000 jobs to the Virginia economy.

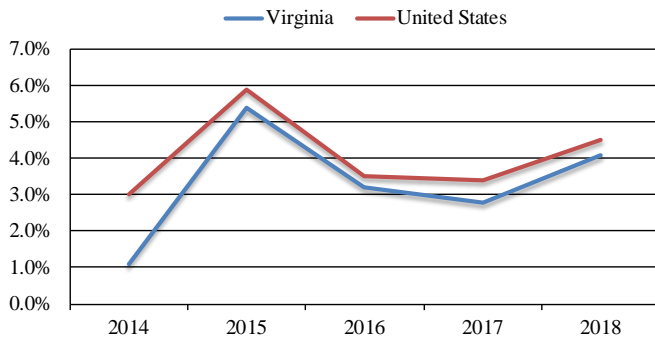
Figure 2
Nonfarm Payroll Employment

Industry	Virginia Employment (000)			Change, FY 2018 - FY 2017		
	2016	2017	2018	Virginia	U.S.	
				Number (000)	Percent	Percent
Mining and logging	8.3	7.9	8.2	0.3	3.8	7.9%
Construction	187.1	190.9	197.4	6.5	3.4	3.6%
Manufacturing	233.5	233.3	236.6	3.3	1.4	1.6%
Wholesale trade	111.0	111.1	111.6	0.5	0.5	1.1%
Retail trade	419.0	419.2	417.0	(2.2)	(0.5)	0.2%
Transportation and utilities	130.1	132.0	135.8	3.8	2.9	2.6%
Information	68.8	68.2	67.4	(0.8)	(1.2)	(1.2%)
Financial activities	199.3	203.2	206.7	3.5	1.7	1.7%
Professional and business	710.9	722.1	734.7	12.6	1.7	2.4%
Educational and health services	522.0	527.7	533.3	5.6	1.1	2.1%
Leisure and hospitality	394.8	402.3	403.4	1.1	0.3	2.1%
Other services	198.9	201.8	204.6	2.8	1.4	1.6%
Federal government	177.4	178.4	177.4	(1.0)	(0.6)	(0.3%)
State government	160.5	159.8	159.7	(0.1)	(0.1)	(0.3%)
Local government	374.7	378.1	379.1	1.0	0.3	0.4%
Total	3,896.3	3,936.0	3,972.9	36.9	0.9	1.5%

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 2018, Virginia personal income increased at a rate of 4.1 percent compared to 2.8 percent during the previous fiscal year.

Figure 3
Percentage Change in Personal Income

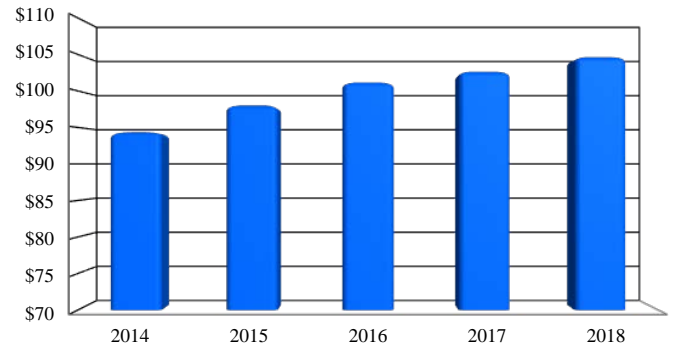


Source: U.S. Bureau of Economic Analysis, Regional Economic Information System

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 2018. While personal income in Virginia increased overall, Virginia still trailed the nationwide personal income growth for 2018.

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. During fiscal year 2018, Virginia had taxable sales of approximately \$104.8 billion, an increase of 1.9 percent over fiscal 2017.

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



Source: Virginia Department of Taxation

Overall, during fiscal year 2018, Virginia economic growth eased and returned to a pattern of relatively slow growth. Employment growth was similar to the prior year while the unemployment rate dropped to pre-recession levels. Personal income and taxable sales growth also improved. The Virginia housing market was mixed, with home prices showing a large increase, existing home sales slowing, and building permits for new homes declining.

While labor markets are tight and inflationary pressures are rising, continued employment gains, improving wage growth, and healthy household balance sheets should support rising consumer growth in the future. Increasing federal spending should bolster Virginia growth prospects, but state economic activity will likely be fueled by national economic conditions, which evidence suggests will support additional moderate state economic growth.

FINANCIAL STATEMENT INFORMATION

This section contains financial statement information for the Commonwealth of Virginia for the fiscal year ending June 30, 2018.

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, 2017, and ended on June 30, 2018. This is referred to as fiscal year 2018, or FY 2018.

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 2018 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, 2018. 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 discrete 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/2018-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 2018, 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 \$52.3 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 \$27.9 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 \$24.4 billion. **Figure 5** is a condensed Statement of Net Position for the Commonwealth as of June 30, 2018.

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 \$1.6 billion. The net position of the governmental activities increased \$1.4 billion, or 6.9 percent, primarily due to increases in assets and deferred outflows of resources offset by increases in total liabilities and deferred inflows of resources. Business-type activities had an increase of \$147.0 million, or 7.7 percent, primarily due to an increase for the Unemployment Compensation Fund. Virginia

recognized \$19.0 billion in program revenues and \$24.9 billion in general revenues, which was used to pay for \$42.3 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, corporate taxes, and premiums of insurance companies taxes, offset by decreases primarily attributable to motor vehicle sales and use taxes, communications sales and use taxes, and tobacco products taxes. The increase in expenses was primarily attributable to increases in individual and family services, education, general government, and transportation expenditures.

The July 1, 2017, net position balance has been reduced by \$273.4 million due primarily to the implementation of a new accounting standard 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, 2018

(Dollars in Millions)

	Primary Government			FY 2017 Total as restated (Informational Only)
	Governmental Activities	Business-type Activities	FY 2018 Total	
Assets and Deferred Outflows of Resources	\$ 47,312	\$ 4,963	\$ 52,275	\$ 48,466
Liabilities and Deferred Inflows of Resources	24,982	2,896	27,878	25,652
Net Position	<u>\$ 22,330</u>	<u>\$ 2,067</u>	<u>\$ 24,397</u>	<u>\$ 22,814</u>

Figure 6
Statement of Activities (GAAP Basis)
 For the Fiscal Year Ended June 30, 2018

(Dollars in Millions)

	Primary Government			FY 2017 Total as restated (Informational Only)
	Governmental Activities	Business-type Activities	FY 2018 Total	
Program Revenues:				
Charges for Services	\$ 2,747	\$ 4,393	\$ 7,140	\$ 6,971
Operating Grants and Contributions	9,871	1	9,872	9,473
Capital Grants and Contributions	1,953	-	1,953	1,730
Total Program Revenues	14,571	4,394	18,965	18,174
Expenses	38,890	3,431	42,321	40,616
Net (Expenses) Revenues	(24,319)	963	(23,356)	(22,442)
General Revenues	24,928	11	24,939	23,627
Transfers and Other Items	827	(827)	-	-
Change in Net Position	1,436	147	1,583	1,185
Net Position - July 1, as restated	20,894	1,920	22,814	21,629
Net Position - June 30	\$ 22,330	\$ 2,067	\$ 24,397	\$ 22,814

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 2018

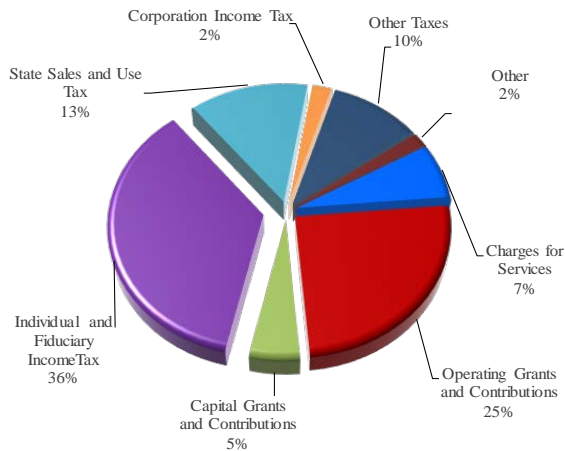


Figure 8
Expenses by Type – Governmental Activities
 FY 2018

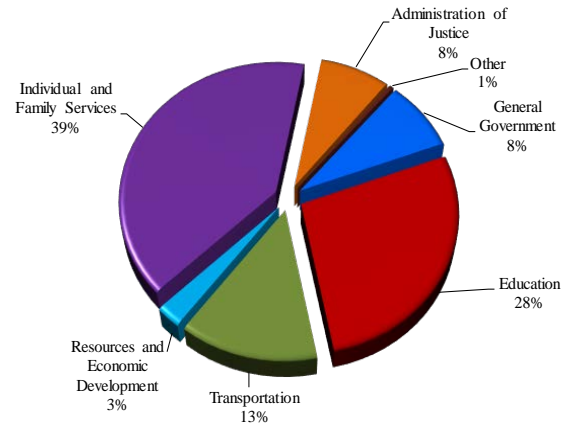
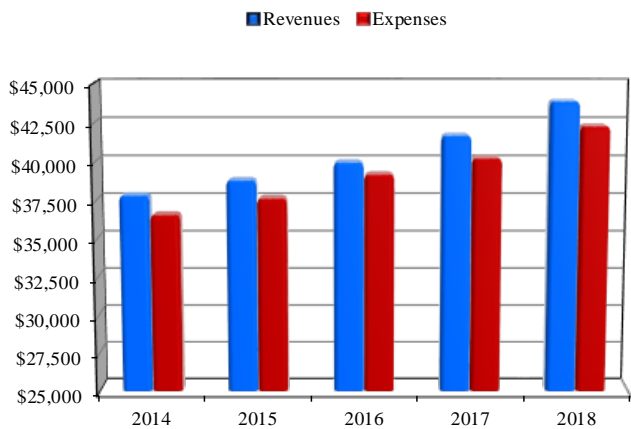


Figure 9 represents financial trend information for primary government (governmental and business-type activities) to help the reader understand how the Commonwealth’s financial performance has changed over time.

Figure 9
Primary Government
Total Revenues and Expenses
FY 2014 – FY 2018

(Dollars in Thousands)



General Fund - GAAP Basis

During FY 2018 the General Fund received \$22.3 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 17 percent. These revenues plus other revenues totaled \$21.4 billion, or 96 percent. The remaining monies totaling \$897.5 million came from other sources, such as transfers from other funds, including alcoholic beverage sales.

Revenues (not including transfers) increased by \$1.4 billion from FY 2017. This revenue change results from increases of \$1.4 billion primarily attributable to individual and fiduciary income taxes, sales and use taxes, corporation income taxes, sales of property and commodities, and interest, dividends, and rents, offset by decreases of \$52.8 million primarily attributable to fines, forfeitures, and penalties, communication sales and use taxes, tobacco product taxes, receipts from cities, counties, and towns, and estate taxes.

General Fund disbursements, including transfers, for FY 2018 (**Figure 11**) totaled \$21.9 billion. Expenditures totaled \$21.5 billion and transfers to other funds were \$444.7 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 32 percent of the General Fund. Disbursements for public safety were 13 percent, while only 11 percent was used to support the administration of general governmental operations.

Expenditures (not including transfers) increased by \$818.9 million over the prior year. This was primarily attributable to increases in education, individual and family services, and administration of justice expenditures of \$307.3 million, \$451.4 million, and \$146.6 million, respectively. Net other financing sources and uses increased by \$30.7 million, which is primarily due to higher transfers in from nongeneral funds and an increase of sales of capital assets.

Figure 10
General Fund Resources
FY 2018, GAAP Basis

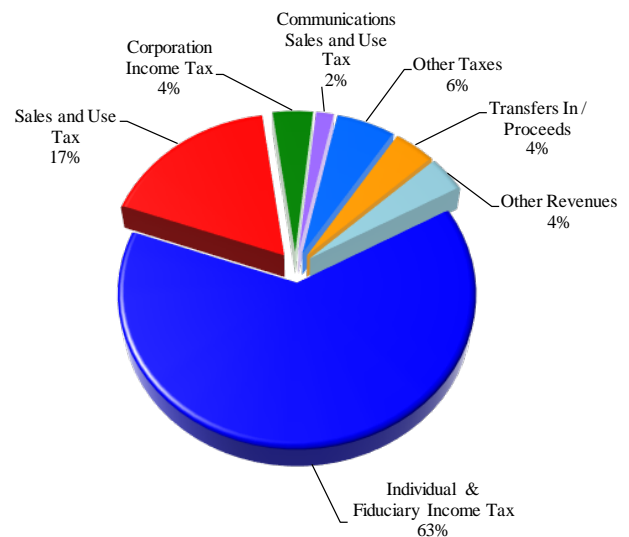
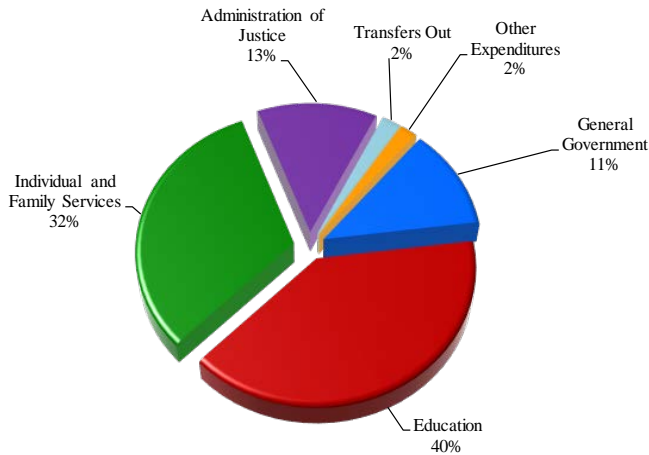


Figure 11
General Fund Disbursements
FY 2018, GAAP Basis



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 2018 and paid during the months of July and August following year-end close of \$422.0 million. Another is estimated *Medicaid claims payable* of \$549.4 million, which represents medical services rendered in prior years that will not be paid for until FY 2019. 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, 2018 and 2017

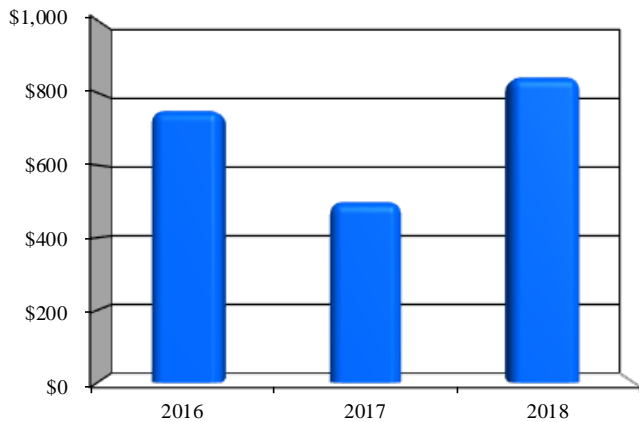
(Dollars in Millions)

	FY 2018	FY 2017
Fund Balance, Cash Basis	\$ 1,787.0	\$ 1,339.9
ADD:		
Sales Taxes Receivable	198.3	179.4
Other Taxes Receivable	504.4	459.8
Other Receivables	1,252.4	1,248.6
Inventory/Prepaid Items	105.3	127.3
Other Accrued Items	(9.6)	27.4
Deferred Outflows of Resources	-	-
Total to be Added	2,050.8	2,042.5
LESS:		
Tax Refunds Payable	422.0	419.6
Medicaid Claims Payable	549.4	449.5
Sales Taxes Due to Localities	308.7	312.0
Other Accrued Items	653.7	621.1
Deferred Inflows of Resources	1,060.5	1,081.8
Total to be Subtracted	2,994.3	2,884.0
Difference	(943.5)	(841.5)
Fund Balance, GAAP Basis	\$ 843.5	\$ 498.4

Fund balance increased to \$843.5 million, compared to a balance of \$498.4 million in FY 2017 (**Figure 13**). The increase in the General Fund GAAP basis balance from FY 2017 to FY 2018 is primarily due to increases in individual and fiduciary income taxes, sales and use taxes, corporation income taxes, sales of property and commodities, and interest, dividends, and rents offset by increases in individual and family services, education, and administration of justice expenditures.

Figure 13
General Fund Balance - GAAP Basis

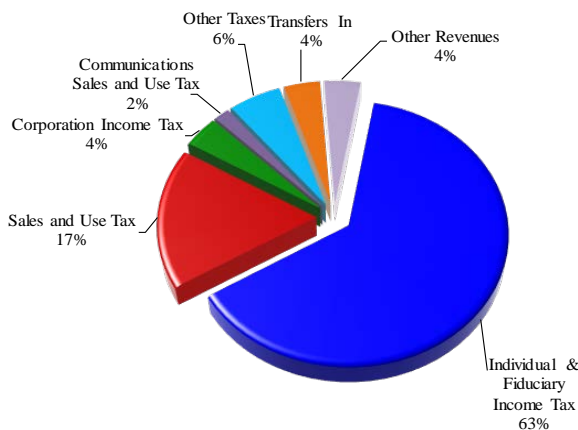
(Dollars in Millions)



General Fund – Cash Basis

During FY 2018, the General Fund received \$22.2 billion in resources. **Figure 14** illustrates the various revenue sources. Individual and fiduciary income taxes accounted for 63 percent of the total resources of the General Fund, while sales and use taxes made up 17 percent. These revenues plus other revenues totaled \$21.3 billion, or 96 percent of General Fund resources. The remaining resources totaling \$869.8 million came through transfers from other funds, including alcoholic beverage sales.

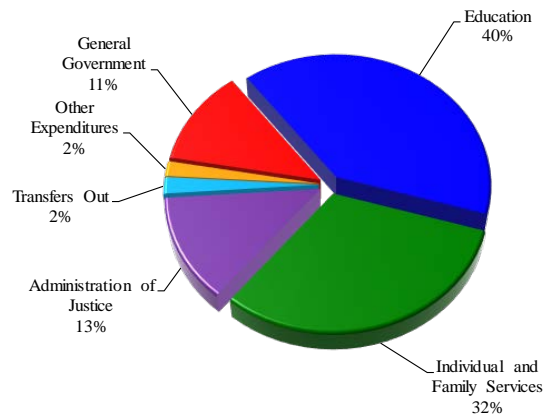
Figure 14
General Fund Resources
FY 2018, Cash Basis



Revenues (not including transfers) increased by \$1.3 billion from FY 2017. This increase is attributable to the net effect of changes in all sources of revenue.

General Fund disbursements, including transfers, for FY 2018 (**Figure 15**) totaled \$21.7 billion. Expenditures totaled \$21.3 billion and transfers to other funds were \$444.7 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 32 percent of the General Fund. Public safety consumed 13 percent. Just 11 percent was used to support the administration of general governmental operations, which included \$950.0 million for payments to localities to offset state-mandated reductions in local personal property tax rates (i.e., car tax).

Figure 15
General Fund Disbursements
FY 2018, Cash Basis



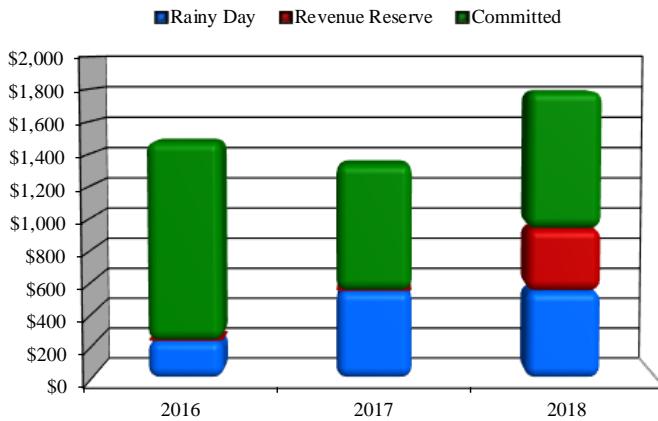
Expenditures (not including transfers) increased by \$680.3 million over the prior year. The increase is due to the net effect of changes in all uses of General Fund resources.

General Fund revenues and net transfers exceeded expenditures by \$447.1 million on the cash basis. In other words, the General Fund had an operating gain for the year on the cash basis.

Figure 16 shows the General Fund balance – cash basis – at the end of each fiscal year since 2016. The General Fund Balance – Cash basis was \$1.5 billion in FY 2016 and \$1.3 billion in FY 2017. The General Fund balance showed an increase in FY 2018 to \$1.8 billion.

Figure 16
General Fund Balance - Cash Basis
Highlighting the Available Fund Balance

(Dollars in Millions)



These balances are made up of “committed” funds, the “rainy day” fund, and the “revenue reserve” 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 2018, 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 \$272.5 million was made from the fund.

Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, a deposit of \$262.9 million is required during fiscal year 2020 based on fiscal year 2018 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 2018.

The Revenue Stabilization Fund has principal and interest on deposit of \$283.3 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, 2018, the Constitutional maximum is \$2.7 billion.

During FY 2018, Section 2.2-1831 of the *Code of Virginia* established the Revenue Reserve Fund. As of June 30, 2018, the fund has principal and interest on deposit of \$156.4 million committed as part of the General Fund balance.

This fund was established to mitigate certain anticipated revenue shortfalls when appropriations based on previous revenue forecasts exceed expected revenues in subsequent forecasts. Pursuant to Chapter 1, 2018 Acts of Assembly Special Session 1 Enactment Clause 7, the Department of Planning and Budget has identified a deposit of \$234.4 million to be made during fiscal year 2019. This amount represents the fiscal year 2018 revenue collections in excess of the official estimate reduced by the fiscal year 2020 mandatory deposit to the Revenue Stabilization Fund and statutory deposit to the Water Quality Fund for excess revenues. This amount is also reported as a part of committed fund balance in the General Fund.

Pursuant to Section 2.2-1831.3 of the *Code of Virginia*, the amount on deposit cannot exceed 1.0 percent of the total general fund revenues for the prior fiscal year. Additionally, the total amount in the Revenue Reserve Fund cannot exceed 2.0 percent of the total general fund revenues for the prior fiscal year. As of June 30, 2018, no maximum amount has been calculated.

Commonwealth Transportation Fund - GAAP Basis

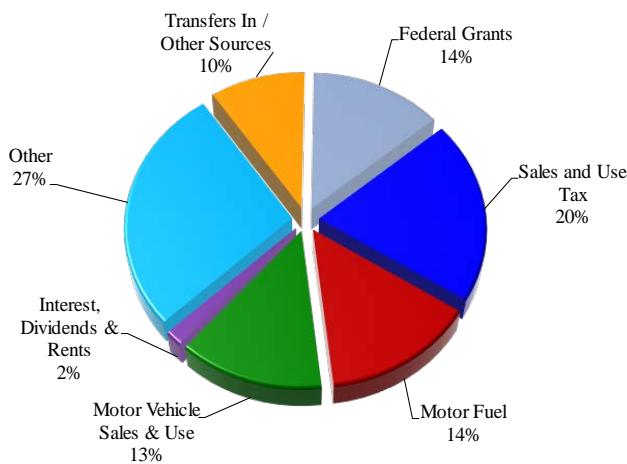
The Commonwealth Transportation Fund pays for the construction and maintenance of state highways. The fund also provides monies for other modes of transportation including rail, bus, aviation and seaports. The size of this fund reflects the fact that Virginia is one of only a few states that includes essentially all roads within the state highway system. Virginia has approximately 72,397 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 2018, the Commonwealth Transportation Fund had revenues and other sources of \$7.0 billion and expenditures and other uses of \$6.6 billion on a GAAP basis. At the end of FY 2018, the fund had a balance of \$2.3 billion measured on a GAAP basis.

Figure 17
**Commonwealth Transportation Fund
Revenue Resources
FY 2018, GAAP Basis**



Highway construction projects often require several years to complete. State revenues contribute approximately 47.7 percent of the funding for these projects. The federal government provides 31.3 percent, and 21.0 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 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 \$155.0 million plus noncurrent assets such as investments and receivables of \$2.8 billion. These assets were held to satisfy current liabilities of \$322.6 million and long-term liabilities of \$1.9 billion. Net investment in capital assets was \$763,015, Restricted for Net Other Postemployment Benefit – Virginia Sickness and Disability Program was \$329,000 and total unrestricted net position was \$783.5 million as of June 30, 2018.

Private Purpose Fund

Total investments in the VCSP private purpose fund totaled \$4.4 billion as of June 30, 2018, and included \$647.5 million of mutual fund investments. The net position held in trust as of June 30, 2018, was \$4.5 billion.

For FY 2018, VCSP reported contributions from plan participants of \$666.7 million. Deductions for FY 2018 totaled \$329.1 million, including \$295.5 million in educational expense benefits paid and \$32.3 million in redeemed shares.

Pension and Other Employee Benefit Trust Funds - GAAP Basis

The Commonwealth maintains a number of pension and other employee benefit trust funds that are managed for the benefit of various groups and institutions. These funds ended FY 2018 with a total net position held in trust for participants of \$79.2 billion. During FY 2018, the funds received \$3.9 billion in contributions and \$5.5 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 \$4.1 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 and other post-employment plan net assets to the expected long-term retirement and other post-employment payments to member and beneficiaries to identify the amount owed (net pension liability and net other post-employment benefit 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, 2018

(Dollars in Thousands)

Additions:	
Contributions	\$ 3,937,781
Investment Income:	
Interest, Dividends, and Other	
Investment Income	6,029,225
Less Investment Expenses	517,060
Net Investment Income	5,512,165
Other Revenue	3,626
Total Additions	9,453,572
 Deductions:	
Retirement Benefits	4,755,425
Refunds to Former Members	123,075
Retiree Health Insurance Credits	163,938
Insurance Premiums and Claims	212,683
Administrative Expenses	49,029
Long-term Disability Benefits	39,799
Other Expenses	10,868
Total Deductions	5,354,817
Net Increase	4,098,755
Net Position, July 1	75,106,116
Net Position, June 30	\$ 79,204,871

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 and other post-employment benefits is larger than the value of the assets available in the plan to pay these benefits.

Employer contributions made for FY 2018 totaled \$2.8 billion. This was less than the actuary’s recommended rates, but did meet statutory requirements.

In addition to funds held in trust for participants, the Commonwealth maintains a Pre-Medicare Retiree Healthcare plan established by Title 2.2 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. This fund is reported as part of the Commonwealth's Health Care Internal Service Fund and is not included in **Figure 18**.

Alcoholic Beverage Control Fund - GAAP Basis

The ABC fund accounts for the receipts and disbursements from the sale of alcoholic beverages. In FY 2018, ABC transferred \$188.3 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 2018 was \$180.2 million on \$824.0 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 2018, the Virginia Lottery had operating revenues of \$2.1 billion and expenses, including lottery prize payments, of \$1.5 billion. Nonoperating revenue and expenses for the year, including interest earnings, netted to \$949,815. During FY 2018, \$620.4 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, 2018

(Dollars in Thousands)

Operating Revenues:	
Charges for Sales and Services	\$ 2,139,820
Total Operating Revenue	<u>2,139,820</u>
Operating Expenses:	
Personal Services	30,529
Contractual Services	34,925
Supplies and Materials	463
Depreciation	3,397
Prizes and Claims	1,293,568
Cost of Sales and Services	155,264
Other Expenses	<u>2,398</u>
Total Operating Expenses	<u>1,520,544</u>
Operating Income	<u>619,276</u>
Nonoperating Revenues:	
Interest, Dividends, and Rents	1,219
Other	<u>(269)</u>
Total Nonoperating Revenues	<u>950</u>
Income Before Transfers and Changes	620,226
Transfers Out	<u>(620,353)</u>
Change in Net Position	(127)
Total Net Position, July 1	<u>(33,921)</u>
Total Net Position, June 30	<u>\$ (34,048)</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 2018, the self-insurance program had cash, other assets and deferred outflows of resources of \$244.5 million, while the estimated liability for claims payable was \$793.4 million. The program had additional liabilities and deferred inflows of resources of \$78.4 million, which resulted in a GAAP deficit balance of \$627.2 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, discrete 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 2018 was \$47.1

billion (**Figure 20**). Debt on the books of the Commonwealth can be classified into three categories:

- 1) general obligation bonds of Virginia taxpayers;
- 2) limited obligations, which may use tax revenue to pay principal and interest (Other Tax Supported); and
- 3) debt issued by state-created authorities and institutions of higher education, which is not an obligation of Virginia taxpayers and does not use tax revenues (Non-Tax Supported).

As illustrated in **Figure 20**, a total of \$1.3 billion, or 2.8 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 \$20.6 billion of this type of tax supported debt was outstanding at the end of FY 2018. This is 43.7 percent of all debt on the books of the Commonwealth.

Non-tax Supported Debt makes up 53.5 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 2018 was \$25.2 billion.

Figure 20
State Debt/Obligations
Tax Supported and Non-Tax Supported
 As of June 30, 2018

<i>(Dollars in Thousands)</i>	Total	Percent of Total
Tax-Supported Debt/Obligations		
General Obligation Bonds		
Public Facilities Bonds	\$ 457,764	0.9%
Parking Facilities Bonds	9,850	0.1%
Transportation Facilities Bonds	8,914	0.1%
Higher Education Bonds	836,874	1.7%
Total General Obligation Bonds	<u>1,313,402</u>	<u>2.8%</u>
Other Tax-Supported Debt/Obligations		
Transportation	2,875,112	6.1%
Virginia Port Authority	243,448	0.5%
Virginia Public Building Authority	2,663,808	5.7%
Virginia College Building Authority	4,305,134	9.1%
Long-term Capital Lease Payable	42,620	0.1%
Compensated Absences Obligations	631,282	1.3%
Pension Liability Obligations	6,732,980	14.3%
Net OPEB Liability	1,544,249	3.3%
Total OPEB Liability	1,273,461	2.7%
Virginia Biotechnology Research Partnership Authority	18,561	0.1%
Installment Purchase	166,705	0.4%
Other Long-term Debt/Obligations	68,694	0.1%
Total Other	<u>20,566,054</u>	<u>43.7%</u>
Total Tax-Supported Debt/Obligations	<u>21,879,456</u>	<u>46.5%</u>
Non-Tax Supported Debt/Obligations		
Higher Education	2,817,992	6.0%
Virginia Housing Development Authority	3,301,380	7.0%
Virginia Public School Authority	3,641,402	7.7%
Virginia Resources Authority	3,630,130	7.7%
Other Long-term Debt/Obligations	11,813,754	25.1%
Total Non-Tax Supported Debt/Obligations	<u>25,204,658</u>	<u>53.5%</u>
Total Commonwealth Debt/Obligations	<u>\$ 47,084,114</u>	<u>100.0%</u>

The largest of these authorities is the Virginia Housing Development Authority, which has \$3.3 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, \$927.8 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)

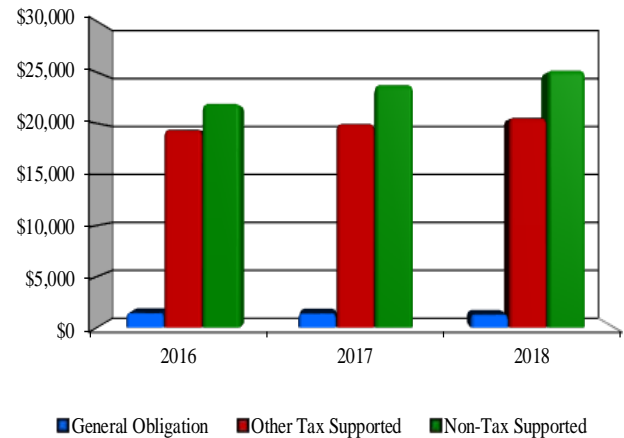


Figure 22
Ratio of General Obligation Debt Per Capita
(Amounts in Thousands, Except for Per Capita)

For the Fiscal Year Ended June 30,	Population (1)	General Obligation Debt (2)	General Long-term Debt Per Capita
2018	8,481	\$ 1,313,402	\$ 155
2017	8,470	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

(1) Population figure for 2018 is estimated.
(2) Includes 9(a), 9(b) and 9(c) debt, net of unamortized premiums and discounts.

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>
2018	\$ 727,994	\$ 37,328,234	1.95
2017	693,903	34,450,389	2.01
2016	705,261	34,462,451	2.05

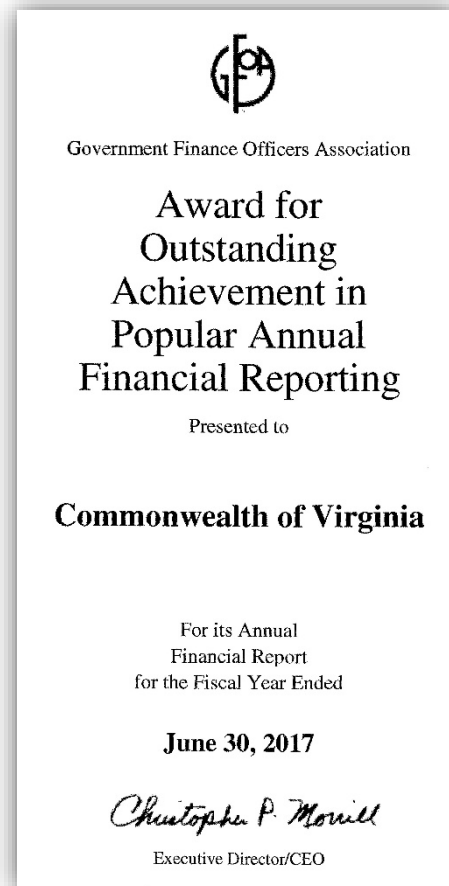
- (1) Includes principal and interest payments related to general bonded debt reflected in the governmental activities column of the Government-wide Statement of Net Assets. The principle outstanding at June 30, 2018, was \$7.8 billion.
 (2) Includes General, Special Revenue, Debt Service, Capital Projects, and Permanent Funds.

Source: Department of Accounts

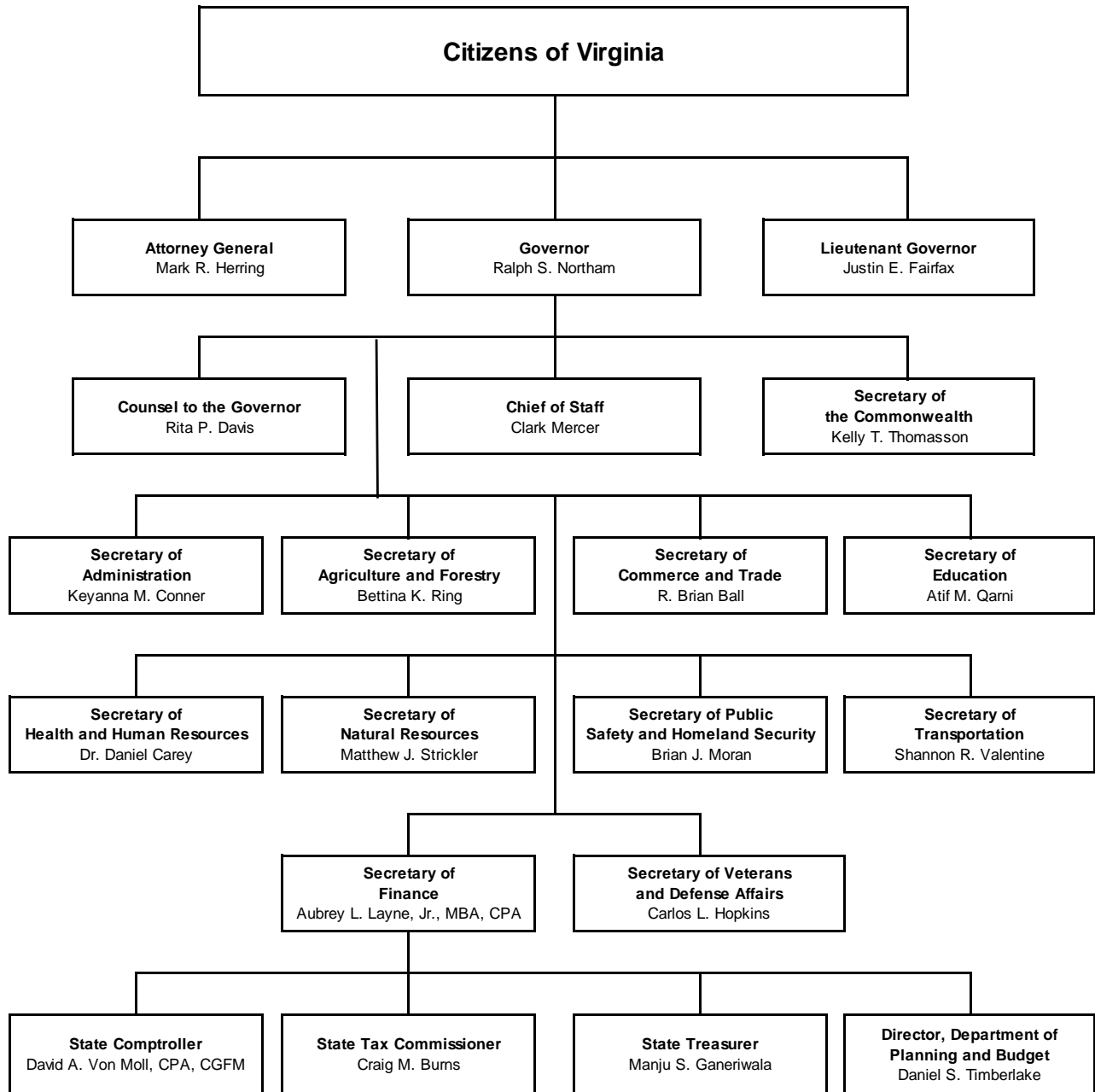
Award for Outstanding Achievement in Popular Annual Financial Reporting

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, 2017. 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 23 consecutive years (fiscal years 1995-2017). 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 Monument, Capitol Grounds

This sculptural complex is sited on the Virginia State Capitol Grounds, northwest of the capitol building. George Washington at the top is surrounded by other figures, both real and allegorical; the complex depicts Virginia's role in the Revolution and honors seven of her citizens along with allegorical figures depicting their individual characteristics or contributions: Thomas Jefferson with "Independence," George Mason with "Bill of Rights," Patrick Henry with "Revolution," John Marshall with "Justice," Andrew Lewis with "Colonial Times," and Thomas Nelson with "Finance."

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 <https://www.doa.virginia.gov/reports/CAFR/2018-CAFR.shtml>.

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

*Photographs obtained from
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