This Preliminary Official Statement and information contained herein are subject to completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 14, 2009

NEW ISSUE
BOOK-ENTRY ONLY

Ratings:
Fitch: ____
Moody's: ____
Standard & Poor's: ____
(See "RATINGS" herein)

In the opinion of Bond Counsel, under current law and subject to conditions described in the section "Tax Matters", interest on the Bonds sold and issued as tax-exempt bonds (1) will be excludable from gross income for federal income tax purposes, (2) will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, (3) interest on the Bonds is not taken into account in determining adjusted current earnings for the purposes of computing the federal alternative minimum tax imposed on corporations and (4) will be exempt from income taxation by the Commonwealth of Virginia. Interest on 2009A-2 Bonds sold and issued as Build America Bonds is included in the gross income of the owners thereof for Federal income tax purposes

Commonwealth Transportation Board
$72,285,000*
Commonwealth of Virginia
Transportation Revenue Bonds

$11,005,000*
Series 2009A-1
(Northern Virginia Transportation District Program)

$61,280,000*
Series2009A-2
(Northern Virginia Transportation District Program)

Dated: Date of Delivery **Due: May 15, as shown on the inside cover**

This Official Statement has been prepared by the Commonwealth Transportation Board of the Commonwealth of Virginia (the "Transportation Board") to provide information on its Transportation Revenue Bonds, Series 2009A-1 (Northern Virginia Transportation District Program) (the "2009A-1 Bonds") and its Transportation Revenue Bonds, Series 2009A-2 (Northern Virginia Transportation District Program (the "2009A-2 Bonds" and together with the 2009A-1 Bonds, the "Bonds"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Bonds, a prospective investor should read this Official Statement in its entirety.

Security	The Bonds are limited obligations of the Commonwealth of Virginia (the "Commonwealth") and the Transportation Board, secured by and payable from the revenues, receipts and funds appropriated for such purpose by the General Assembly or allocated by the Transportation Board for such purpose from revenues, receipts and funds appropriated to it by the General Assembly, and do not create or constitute a debt or a pledge of the full faith and credit of the Commonwealth or any of its political subdivisions.
Issued Pursuant to	The Bonds will be issued pursuant to a Master Agreement of Trust dated August 15, 1993 and an Eleventh Supplemental Agreement of Trust dated November 1, 2009.
Purpose	The Bond proceeds are being used (i) to finance a portion of the costs of the Northern Virginia Transportation District Program and (ii) to pay costs of issuing the Bonds.
Interest Rates/Yields	See inside cover.
Interest Payment Dates	May 15 and November 15, beginning May 15, 2010
Denomination	$5,000 or multiples thereof
Redemption	See inside cover and Redemption Provisions
Closing/Delivery Date	On or about November 4, 2009*
Registration	Book-entry only; The Depository Trust Company
Trustee/Paying Agent	U.S. Bank National Association, Richmond, Virginia
Financial Advisor	Public Resources Advisory Group, New York, New York
Bond Counsel	Troutman Sanders LLP, Richmond, Virginia

The 2009A-1 Bonds will be awarded pursuant to electronic competitive bidding to be held via BiDCOMP/*PARITY*® on October 21, 2009*, unless changed, as set forth in the Notice of Sale for the 2009A-1 Bonds contained in Appendix F to this Official Statement. The 2009A-2 Bonds will be awarded pursuant to electronic competitive bidding to be held via BiDCOMP/*PARITY*® as either federally taxable Build America Bonds (Direct Payment) or as tax-exempt bonds on October 21, 2009*, unless changed, as set forth in the Notice of Sale for the 2009A-2 Bonds contained in Appendix F to this Official Statement.

Dated: October __, 2009

* *Preliminary, subject to change.*

COMMONWEALTH TRANSPORTATION BOARD

$72,285,000*

Commonwealth of Virginia
Transportation Revenue Bonds

(Base CUSIP Number 927793)

$11,005,000*
Series 2009A-1
(Northern Virginia Transportation District Program)

Maturity May 15*	Principal Amount*	Interest Rate	Yield	CUSIP Suffix
2010	$3,000,000	%	%	
2011	1,875,000			
2012	1,950,000			
2013	2,050,000			
2014	2,130,000			

$61,280,000*
Series 2009A-2†
(Northern Virginia Transportation District Program)

Maturity May 15*	Principal Amount*	Interest Rate	Yield	CUSIP Suffix
2015	$ 2,235,000	%	%	
2016	2,285,000			
2017	2,345,000			
2018	2,415,000			
2019	2,485,000			
2020	2,555,000			
2021	2,640,000			
2022	2,730,000			
2023	2,820,000			
2024	2,915,000			
2025	3,015,000			
2026	3,130,000			
2027	3,245,000			
2028	3,370,000			
2029	3,505,000			
2030	3,630,000			
2031	3,770,000			
2032	3,915,000			
2033	4,060,000			
2034	4,215,000			

OPTIONAL REDEMPTION*

The Bonds maturing on or before May 15, 2019*, will not be subject to optional redemption. The Bonds maturing on and after May 15, 2020*, will be subject to redemption at any time prior to maturity at the option for the Transportation Board on and after May 15, 2019*, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, at a redemption price equal to the principal amount thereof to be redeemed plus interest accrued thereon to the date fixed for redemption. See "THE BONDS – Optional Redemption."

MANDATORY SINKING FUND REDEMPTION

Mandatory sinking fund redemption provisions will be included in the final Official Statement only if the successful bidder elects to combine, in accordance with the Notice of Sale, serial maturities into one or more term bonds. See "THE BONDS - Mandatory Sinking Fund Redemption."

EXTRAORDINARY OPTIONAL REDEMPTION

Extraordinary optional redemption will be applicable if the successful bidder elects to bid the 2009A-2 Bonds as Federally Taxable Build America Bonds. See "THE BONDS - Extraordinary Optional Redemption."

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* *Preliminary, subject to change.*

† *The 2009A-2 Bonds will be awarded pursuant to electronic competitive bidding as either Federally Taxable Build America Bonds (Direct Payment) or as tax-exempt bonds.*

COMMONWEALTH TRANSPORTATION BOARD

Pierce R. Homer, *Chairman and Secretary of Transportation*

David S. Ekern, P.E. *Vice Chairman*

Charles "Chip" Badger	Aubrey Layne Jr.
Jim D. Bowie	Dana M. Martin
Mary Lee Carter	Gerald P. McCarthy
John J. Davies III	Sharon E. Pandak
Dr. James A. Davis	Peter B. Schwartz
E. Dana Dickens III	Cord A. Sterling
James L. Keen	Kenneth S. White
J. Douglas Koelemay	

VIRGINIA DEPARTMENT OF TRANSPORTATION

David S. Ekern, P.E. *Commissioner*
Reta R. Busher, *Chief Financial Officer*

OFFICE OF THE ATTORNEY GENERAL

Bill Mims, *Attorney General*
Jo Anne P. Maxwell, *Senior Assistant Attorney General*

TRUSTEE AND PAYING AGENT

U.S. Bank National Association
Richmond, Virginia

BOND COUNSEL

Troutman Sanders LLP
Richmond, Virginia

FINANCIAL ADVISOR

Public Resources Advisory Group
New York, New York

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesperson or any other person has been authorized by the Transportation Board or the underwriters to give any information or make any representation with respect to the Transportation Board, the Commonwealth of Virginia or the Bonds, other than those contained in this Official Statement, in connection with the offering of the Bonds, and if given or made, such information or representation must not be relied upon as having been authorized by the Transportation Board or the underwriters. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that there has been no change in the affairs of the Transportation Board or the other matters described herein since the date of this Official Statement.

TABLE OF CONTENTS

INTRODUCTION 1
The Bonds 1
Approval of Terms and Structure 2
Purpose of the Bonds 2
Limited Obligations 2
Sources of Data 2

SOURCES AND USES OF FUNDS 2

THE BONDS 3
Description of the Bonds 3
Build America Bonds 3
Optional Redemption 3
Mandatory Sinking Fund Redemption 3
Extraordinary Optional Redemption for the 2009 A-2 Bonds Sold and Issued as Build America Bonds 4
Selection of Bonds for Redemption 4
Notice of Redemption 5
Book-Entry Only System 5

DEBT SERVICE REQUIREMENTS 8
Northern Virginia Transportation District Program Bonds 8

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS 9
Limited Obligations 9
The Bonds and Additional NVTD Bonds 9
Other Transportation Revenue Bonds 10
Information Pertaining to the Commonwealth 10

NORTHERN VIRGINIA TRANSPORTATION DISTRICT FUND 10
State Recordation Tax Collections and NVTD Fund Available for Debt Service 11

TRANSPORTATION TRUST FUND 11
General 11
Highway Maintenance and Operating Fund 12
Highway Allocation Formula 12
Sources of Revenues 12
Economic Conditions Affecting the Commonwealth 14

TRANSPORTATION REVENUE BONDS PAYABLE FROM TRANSPORTATION TRUST FUND 15
Northern Virginia Transportation District Program 15
U.S. Route 58 Corridor Development Program 16
Transportation Improvement Program Set-Aside Fund 16
Transportation Contract Revenue Bonds 16
Federal Highway Reimbursement Anticipation Notes 17
Transportation Capital Projects Revenue Bonds 17

COMMONWEALTH TRANSPORTATION BOARD AND VIRGINIA DEPARTMENT OF TRANSPORTATION **18**
Commonwealth Transportation Board 18
Virginia Department of Transportation 19
Financial Accountability and Program Delivery 19
Department Staff 20

NORTHERN VIRGINIA TRANSPORTATION DISTRICT PROGRAM **22**
General 22
NVTD Program Project Descriptions 22
Allocation of Bond Proceeds to NVTD Projects 25
Federal Clean Air Act Matters 26

SUMMARY OF THE NORTHERN VIRGINIA TRANSPORTATION DISTRICT PROGRAM TRUST AGREEMENT **26**

SUMMARY OF THE NORTHERN VIRGINIA TRANSPORTATION DISTRICT PROGRAM PAYMENT AGREEMENT **31**

CERTAIN LEGAL MATTERS **32**

TAX MATTERS **33**
Federal Tax Exemption 33
Federally Taxable Build America Bonds 34

LEGALITY FOR INVESTMENT **35**

LITIGATION **36**

CERTIFICATE CONCERNING OFFICIAL STATEMENT **36**

CONTINUING DISCLOSURE **36**

RATINGS **37**

SALE AT COMPETITIVE BIDDING **37**

FINANCIAL ADVISOR **37**

MISCELLANEOUS **37**

APPENDIX A: Financial Statements of the Commonwealth of Virginia for the Fiscal Year ended June 30, 2008 ..... A-1

APPENDIX B: Commonwealth of Virginia, Financial and Other Information B-1

APPENDIX C: Commonwealth of Virginia, Demographic and Economic Information C-1

APPENDIX D: Forms of Bond Counsel Opinions D-1

APPENDIX E: Continuing Disclosure Undertakings of the Commonwealth Transportation Board and the Commonwealth of Virginia E-1

APPENDIX F: Notices of Sale F-1

OFFICIAL STATEMENT
Commonwealth Transportation Board
$72,285,000*
Commonwealth of Virginia
Transportation Revenue Bonds
consisting of the combined offering of
$11,005,000* Series 2009A-1 (Northern Virginia Transportation District Program)
and
$61,280,000* Series 2009A-2 (Northern Virginia Transportation District Program)

INTRODUCTION

This Official Statement is provided by the Transportation Board, a board created pursuant to the laws of the Commonwealth, to furnish information with respect to the offering of $72,285,000* aggregate principal amount of the Commonwealth of Virginia Transportation Revenue Bonds, consisting of the combined offering of (i) $11,005,000* Series 2009A-1 (Northern Virginia Transportation District Program) (the "2009A-1 Bonds") and (ii) $61,280,000* Series 2009A-2 (Northern Virginia Transportation District Program) (the "2009A-2 Bonds" and collectively, with the 2009A-1 Bonds, the "Bonds"). The Bonds are expected to be offered for sale at competitive bidding on October 21, 2009*. The 2009A-2 Bonds are expected to be offered for sale at competitive bidding as either federally taxable Build America Bonds or as tax-exempt bonds. See the section "Sale at Competitive Bidding."

This Introduction contains certain information for summary purposes only. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. The information contained in this Official Statement is as of the date stated on the front cover.

The Bonds

The issuance of the Bonds is authorized by the provisions of the Revenue Bond Act, Sections 33.1-267 et seq. of the Code of Virginia of 1950, as amended (the "Revenue Bond Act"), and Chapter 391 of the Acts of the General Assembly of Virginia, 1993 General Session, as amended by Chapters 470 and 597 of the Acts of the General Assembly of Virginia, 1994 General Session, Chapters 740 and 761 of the Acts of the General Assembly of Virginia, 1998 General Session, Chapter 538 of the Acts of the General Assembly of Virginia, 1999 General Session, and Chapter 799 of the Acts of General Assembly, 2002 General Session (collectively, the "NVTD Bond Legislation") and a resolution adopted by the Transportation Board on July 16, 2009 (the "Bond Resolution"). The Bonds are being issued pursuant to a Master Agreement of Trust dated as of August 15, 1993, as previously supplemented and amended (the "NVTD Master Trust Agreement") and as further supplemented by an Eleventh Supplemental Agreement of Trust dated as of November 1, 2009 (the "Eleventh Supplemental Trust Agreement" and collectively, with the NVTD Master Trust Agreement, the "NVTD Trust Agreement"), each between the Transportation Board and U.S. Bank National Association (as successor in interest to First Union National Bank), as trustee for the Bonds (the "Trustee"). The Trustee is also the paying agent for the Bonds (the "Paying Agent").

The Bonds are the eleventh series of bonds issued by the Transportation Board under the Northern Virginia Transportation District Program (the "NVTD Program"). See the section "Northern Virginia Transportation District Program." The bonds currently outstanding under the NVTD Trust Agreement, the Bonds and any additional bonds issued in the future under the NVTD Trust Agreement are referred to collectively as the "NVTD Bonds."

The NVTD Bonds are secured by and payable from revenues, receipts and funds appropriated by the General Assembly for payment thereof, or allocated by the Transportation Board for such purpose from revenues, receipts and funds appropriated to it by the General Assembly, from (i) the Northern Virginia Transportation District Fund, (ii) to the extent required, funds appropriated and allocated, pursuant to the highway allocation formula as provided by law, to the Northern Virginia Highway Construction District or the city or county in which the project or projects to be financed by the NVTD Bonds are located, (iii) to the extent required, legally available revenues of the Transportation Trust Fund, and (iv) such other funds which may be appropriated by the General Assembly, and from moneys held in certain funds established under the NVTD Trust Agreement. See the sections "Sources of Payment and Security for the Bonds and "Northern Virginia Transportation District Fund."

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* *Preliminary, subject to change.*

Approval of Terms and Structure

Section 2.2-2416(7) of the Virginia Code requires the Treasury Board of the Commonwealth (the "Treasury Board") to approve the terms and the structure of all proposed bond issues by state agencies, boards or authorities where debt service payments are expected by the issuing agency, board or authority to be made, in whole or in part, from appropriations of the Commonwealth. On August 19, 2009, the Treasury Board adopted a resolution approving the terms and structure of the Bonds within certain parameters and delegated to the State Treasurer of the Commonwealth (the "State Treasurer") the power to approve the final terms and structure of the Bonds within such parameters. The State Treasurer must provide this approval before the Transportation Board may issue the Bonds.

Purpose of the Bonds

The Bonds are being issued for the purpose of providing funds (i) to finance a portion of the costs of the Northern Virginia Transportation District Program and (ii) to pay costs of issuing the Bonds. See the section "Northern Virginia Transportation District Program" for a description of the projects authorized to be funded with the proceeds of the Bonds.

Limited Obligations

The Bonds are limited obligations of the Commonwealth and the Transportation Board payable solely from the revenues, receipts and funds appropriated for such purpose by the General Assembly, or allocated by the Transportation Board for such purpose from the revenues, receipts and funds appropriated to it by the General Assembly, and do not create or constitute a debt or a pledge of the full faith and credit of the Commonwealth or of any of its political subdivisions.

The Bonds are not secured by any mortgage or lien on any transportation facilities of the Commonwealth or the Transportation Board. In the event of a failure to make any payment on the Bonds when due, the Trustee and the owners of the Bonds shall have no right to take possession of any transportation facilities or to exclude the Commonwealth or the Transportation Board from possession of them.

Sources of Data

All financial and other data included in this Official Statement have been provided by the Commonwealth, except that which is attributed to other sources.

SOURCES AND USES OF FUNDS

The estimated sources and uses for the Bonds are as follows:

Sources:	
Principal Amount of the Bonds	$
Net Original Issue Premium/Discount	
Total	$
Uses:	
Deposit to Construction Fund:	$
Underwriters' Discount	
Issuance and Financing Costs	
Total	$

THE BONDS

Description of the Bonds

The Bonds will be issued as fully registered bonds in book-entry form. The Bonds will be dated their date of delivery, will be issued in denominations of $5,000 or integral multiples of $5,000, and will bear interest from the dated date thereof, payable semiannually on each May 15 and November 15, beginning May 15, 2010 at the rates and will mature on the dates and in the amounts set forth on the inside front cover of this Official Statement. Principal of, premium, if any, and interest on the Bonds will be paid by the paying agent to The Depository Trust Company ("DTC") for distribution as described in the subsection "Book-Entry Only System" below.

Build America Bonds

The America Recovery and Reinvestment Act of 2009 (the "ARRA") authorizes the Transportation Board to issue federally taxable bonds known as "Build America Bonds" to finance capital expenditures for which it could issue federally tax-exempt bonds and to elect to receive a subsidy payment (a "Subsidy Payment") from the federal government equal to the amount of 35% of each interest payment on such taxable bonds. At the time of sale, the Transportation Board will determine whether to issue the 2009A-2 Bonds as federally taxable Build America Bonds or whether to issue the 2009A-2 Bonds as traditional tax-exempt bonds. The final Official Statement will describe the manner of issuance of the 2009A-2 Bonds. If the 2009A-2 Bonds are issued as Build America Bonds, the Subsidy Payment would be paid to the Transportation Board; no registered owner of the 2009A-2 Bonds would be entitled to a tax credit or Subsidy Payment, and interest paid to registered owners of 2009A2 Bonds will be subject to federal income tax but will be exempt from Commonwealth income tax. See **"TAX MATTERS - Federally Taxable Build America Bonds."** The Subsidy Payments have not been pledged to the payment of the 2009A-2 Bonds. The Subsidy Payments are not full faith and credit obligations of the United States.

Optional Redemption

The Bonds maturing on or before May 15, 2019* will not be subject to optional redemption. The Bonds maturing on and after May 15, 2020*, will be subject to redemption at any time prior to maturity at the option of the Transportation Board on and after May 15, 2019*, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, at a redemption price equal to the principal amount thereof to be redeemed plus interest accrued thereon to the date fixed for redemption.

Mandatory Sinking Fund Redemption

Mandatory Redemption provisions will be included in the final Official Statement only if the successful bidder elects to combine, in accordance with the Notice of Sale, serial maturities into term bonds.

[The Bonds maturing on May 15, ____, are required to be redeemed in part before maturity on May 15 in the years and in the amounts set forth below, upon payment of a redemption price equal to 100% of their principal amount, plus accrued interest to the date fixed for redemption.

_____ Term Bonds Maturing May 15, ____

Year	Amount

The Eleventh Supplemental Trust Agreement provides for a credit against payments required to be made on any mandatory redemption date in an amount equal to the principal amount of any Bonds subject to mandatory redemption on such date that have been redeemed (other than by mandatory redemption) before such mandatory redemption date, that have been defeased or that have been purchased and delivered to the Trustee for cancellation at least 70 days before such date, provided such Bonds have not previously been applied as a credit against any mandatory redemption payment.]

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* *Preliminary, subject to change.*

Extraordinary Optional Redemption for the 2009A-2 Bonds Sold and Issued as Build America Bonds.

Before May 15, 2019, 2009A-2 Bonds sold and issued as Build America Bonds will be subject to redemption in whole or in part at any time, in any order of maturities, at the option of the Transportation Board, on at least 30 days' notice, upon the occurrence of an Extraordinary Event, as defined below, at a redemption price equal to the greater of:

(1) 100% of the principal amount of such 2009A-2 Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such 2009A-2 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2009A-2 Bonds are to be redeemed, discounted to the date on which such 2009A-2 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (described below) , plus 100 basis points;

plus, in each case, accrued interest on such 2009A-2 Bonds to be redeemed to the redemption date.

An "Extraordinary Event" will have occurred if the Transportation Board determines that a material adverse change has occurred to Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the Recovery Act, pertaining to "Build America Bonds") or there is any guidance published by the Internal Revenue Service or the United States Department of the Treasury with respect to such Sections or any other determination by the Internal Revenue Service or the United States Department of the Treasury, which determination is not the result of any act or omission by the Transportation Board to satisfy the requirements to qualify to receive the 35% cash subsidy payment from the United States Department of the Treasury, pursuant to which the Transportation Board's 35% cash subsidy payment from the United States Department of the Treasury is reduced or eliminated.

"Treasury Rate" means, with respect to any redemption date for a particular 2009A-2 Bond, the yield to maturity as of such redemption date of United State Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Releases H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the 2009A-2 Bond to be redeemed; provided, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United State Treasury securities adjusted to a constant maturity of one year will be used.

Selection of Bonds for Redemption

If less than all of the Bonds are called for optional redemption, the maturities of the Bonds to be redeemed will be called in such order as the Transportation Board may determine. For the Bonds sold and issued as federally tax-exempt bonds, if less than all of the Bonds of any maturity are called for optional or mandatory redemption, the Bonds to be redeemed will be selected by DTC, as hereafter defined, or any successor securities depository pursuant to its rules and procedures or, if the book-entry system is discontinued, will be selected by the Trustee by lot in such manner as the Trustee in its discretion may determine. In either event, each portion of $5,000 principal amount shall be counted as one Bond for such purpose.

For 2009A-2 Bonds issued as federally taxable Build America Bonds, if less than all of any maturity of such 2009A-2 Bonds will be called for redemption, the particular 2009A-2 Bond to be redeemed will be selected on a pro-rata basis. With respect to such 2009A-2 Bonds sold, "pro rata" is determined, in connection with any mandatory sinking fund redemption or any optional redemption in part, by multiplying the principal amount of the 2009A-2 Bonds of such maturity to be redeemed on the applicable redemption date by a fraction, the numerator of which is equal to the principal amount of the 2009A-2 Bond of such maturity owned by the registered owner, and the denominator of which is equal to the total amount of the 2009A-2 Bonds of such maturity then outstanding immediately prior to such redemption date, and then rounding the product down to the next lower integral multiple of $5,000; provided that the portion of any 2009A-2 Bonds to be redeemed are required to be in authorized denominations and all 2009A-2 Bonds of a maturity to remain outstanding following any redemption are required to be in authorized denominations. If the 2009A-2 Bonds are in book–entry form at the time of such redemption, the Trustee will instruct DTC to instruct the DTC participants to select the specific 2009A-2 Bonds for redemption on a pro rata basis among Beneficial Owners, and neither the Transportation Board nor the Trustee shall not have any responsibility to ensure that DTC or the DTC participants properly select such 2009A-2 Bonds for redemption.

Notice of Redemption

Notice of redemption will be given by the Paying Agent by registered or certified mail not less than 30 nor more than 60 days before the redemption date to DTC, or, if DTC is no longer serving as securities depository for the Bonds, to the substitute securities depository, or if none, to the registered owners of the Bonds to be redeemed at their addresses shown on the registration books maintained by the Paying Agent. Such notice of redemption also will be given to certain securities depositories and certain national information services which disseminate such redemption notices. During the period that DTC or its nominee is the registered owner of the Bonds, the Paying Agent will not be responsible for mailing notices of redemption to the Beneficial Owners.

Book-Entry Only System

Beneficial ownership interests in the Bonds will be available only in book-entry form. Beneficial Owners (as herein after defined) will not receive physical bonds representing their interests in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, references in this Official Statement to the Owners of the Bonds shall mean DTC or its nominee and shall not mean the Beneficial Owners. The NVTD Trust Agreement contains provisions applicable to periods when DTC or its nominee is not the registered owner.

THE DESCRIPTION THAT FOLLOWS OF THE PROCEDURES AND RECORDKEEPING WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS, PAYMENTS OF REDEMPTION PROCEEDS, DISTRIBUTIONS, AND DIVIDEND PAYMENTS ON THE BONDS TO DTC ITS NOMINEE, DIRECT AND INDIRECT PARTICIPANTS (AS DEFINED BELOW) OR BENEFICIAL OWNERS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS AND OTHER BOND-RELATED TRANSACTIONS BY AND BETWEEN DTC, DIRECT AND INDIRECT PARTICIPANTS AND BENEFICIAL OWNERS IS BASED SOLELY ON INFORMATION FURNISHED BY DTC. NONE OF THE TRANSPORTATION BOARD, THE COMMONWEALTH OR THE TRUSTEE ASSUME ANY RESPONSIBILITY FOR THE ACCURACY OR ADEQUACY OF THE INFORMATION INCLUDED IN SUCH DESCRIPTION.

DTC, New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmations from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of

ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Transportation Board or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Transportation Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Transportation Board or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants. THE TRANSPORTATION BOARD AND THE COMMONWEALTH CAN GIVE NO ASSURANCES THAT DIRECT AND INDIRECT PARTICIPANTS WILL PROMPTLY TRANSFER PAYMENTS TO BENEFICIAL OWNERS.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Transportation Board or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Transportation Board may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The foregoing information concerning DTC and DTC's book-entry system has been obtained from sources that the Transportation Board believes to be reliable. None of the Transportation Board, the Commonwealth or the Trustee takes any responsibility for the accuracy thereof.

BECAUSE DTC IS TREATED AS THE OWNER OF THE BONDS FOR SUBSTANTIALLY ALL PURPOSES UNDER THE NVTD TRUST AGREEMENT, BENEFICIAL OWNERS MAY HAVE A RESTRICTED ABILITY TO INFLUENCE IN A TIMELY FASHION REMEDIAL ACTION OR THE GIVING OR WITHHOLDING OF REQUESTED CONSENTS OR OTHER DIRECTIONS. IN ADDITION, BECAUSE THE IDENTITY OF BENEFICIAL OWNERS IS UNKNOWN TO THE TRANSPORTATION BOARD, THE COMMONWEALTH OR DTC, IT MAY BE DIFFICULT TO TRANSMIT INFORMATION OF POTENTIAL INTEREST TO BENEFICIAL OWNERS IN AN EFFECTIVE AND TIMELY MANNER. BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS WITH THEIR BROKER OR DEALER REGARDING DISTRIBUTION OF INFORMATION REGARDING THE BONDS THAT MAY BE TRANSMITTED BY OR THROUGH DTC.

So long as Cede & Co., as nominee for DTC, is the sole bondholder, the Transportation Board and the Trustee shall treat Cede & Co. as the only bondholder for all purposes under the NVTD Trust Agreement, including receipt of all redemption proceeds, distributions, and dividend payments on the Bonds, receipt of notices, voting and requesting or directing the Transportation Board and the Trustee to take or not to take, or consenting to, certain actions under the NVTD Trust Agreement.

The Transportation Board and the Trustee have no responsibility or obligation to the Direct and Indirect Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Direct or Indirect Participant; (b) the payment by any Direct or Indirect Participant of any amount due to any Beneficial Owner in respect of the redemption proceeds, distributions, and dividend payments on the Bonds in the sending of any transaction statements; (c) the delivery or timeliness of delivery by DTC or any participant of any notice to any Beneficial Owner which is required or permitted under the terms of the NVTD Trust Agreement to be given to bondholders; (d) the selection of the Beneficial Owners to receive payments upon any partial redemption of the Bonds, or (e) other action taken by DTC or Cede & Co. as bondholder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.

The Transportation Board or the Trustee may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the Bonds without the consent of Beneficial Owners or bondholders.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood while the Bonds are in the book-entry only system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry only system, and (ii) except as described above, notices that are to be given to registered owners under the NVTD Trust Agreement will be given only to DTC.

DEBT SERVICE REQUIREMENTS

Northern Virginia Transportation District Program Bonds

The following table sets forth for the fiscal years ending each June 30 the amounts needed in each annual period for payment of principal of and interest on the NVTD Bonds.

		The Bonds			
Fiscal Year	**Outstanding Debt Service**[1]	**Principal**	**Interest**	**Fiscal Year Debt Service**	**Total Fiscal Year Debt Service**
2010	$28,978,219	$	$	$	$
2011	28,976,569				
2012	28,983,369				
2013	28,992,075				
2014	29,003,456				
2015	29,055,456				
2016	29,066,569				
2017	29,070,531				
2018	29,100,781				
2019	29,106,544				
2020	19,621,331				
2021	14,998,606				
2022	9,807,606				
2023	9,807,931				
2024	9,812,606				
2025	7,399,500				
2026	7,401,000				
2027	3,276,000				
2028					
2029					
2030					
2031					
2032					
2033					
2034					

1 Outstanding Debt Service reflects the amounts needed in each annual period for payment of principal of and interest on the NVTD Bonds outstanding as of the date of the issuance of the Bonds which are more fully described in the section “Introduction – Purpose of Bonds”.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

Limited Obligations

The Bonds are limited obligations of the Commonwealth and the Transportation Board secured by and payable from the revenues, receipts and funds appropriated for such purpose by the General Assembly, or allocated by the Transportation Board for such purpose from the revenues, receipts and funds appropriated to it by the General Assembly, and do not create or constitute a debt or a pledge of the full faith and credit of the Commonwealth or of any of its political subdivisions.

The Bonds are not secured by any mortgage or lien on any facilities, transportation or otherwise, of the Commonwealth or the Transportation Board. In the event of a failure to make any payment on the Bonds when due, neither the Trustee nor the owners of the Bonds shall have any right to take possession of any transportation facilities or to exclude the Commonwealth or the Transportation Board from possession of them.

The Bonds and Additional NVTD Bonds

General. Pursuant to the Revenue Bond Act, the NVTD Bond Legislation and the NVTD Trust Agreement, the Bonds and any other NVTD Bonds issued and outstanding will be equally and ratably payable from and secured by (i) the "Revenues," which is defined as the revenues, receipts and funds appropriated by the General Assembly for payment thereof, or allocated by the Transportation Board for such purpose from the revenues, receipts and funds appropriated to it by the General Assembly, from (a) the Northern Virginia Transportation District Fund, (b) to the extent required, funds appropriated and allocated, pursuant to the highway allocation formula as provided by law, to the Northern Virginia Highway Construction District or the city or county in which the project or projects to be financed are located, (c) to the extent required, legally available revenues in the Transportation Trust Fund and (d) such other funds which may be appropriated by the General Assembly, and (ii) moneys in certain funds established under the NVTD Trust Agreement. See the sections "Northern Virginia Transportation District Fund," "Transportation Trust Fund" and "Summary of the Northern Virginia Transportation District Trust Agreement."

NVTD Payment Agreement. In order to provide, among other things, for the procedures for requesting appropriations of funds sufficient to pay the debt service on the NVTD Bonds and for the payment of such debt service, the Transportation Board entered into a Second Supplemental Payment Agreement, dated as of November 1, 1996 with the Treasury Board and the Secretary of Finance, as amended by an amended payment agreement dated as of November 15, 1999 supplementing and amending the Payment Agreement dated as of August 15, 1993, previously supplemented and amended by a Supplemental Payment Agreement, dated as of January 15, 1995 (collectively, the "NVTD Payment Agreement"). The NVTD Payment Agreement requires the Transportation Board and the Treasury Board to use their best efforts to have (i) the Governor include a sufficient appropriation request in each biennial or any supplemental budget of the Commonwealth and (ii) the General Assembly appropriate the amount requested by the Governor. If no appropriation is made to the Northern Virginia Transportation District Fund, as described in the section "Northern Virginia Transportation District Fund," or if any such appropriation is insufficient in amount, the NVTD Payment Agreement requires the Transportation Board to apply to the payment of debt service on the NVTD Bonds funds appropriated by the General Assembly and allocated, pursuant to the highway allocation formula as provided by law, to the Northern Virginia Highway Construction District or the city or county in which the project or projects to be financed are located, although the General Assembly could amend the statutory authority requiring the Transportation Board to make this allocation. See the section "Summary of the Northern Virginia Transportation District Payment Agreement."

Additional NVTD Bonds. The Transportation Board may issue one or more series of additional bonds under the NVTD Trust Agreement on a parity with the NVTD Bonds upon satisfaction of various conditions set forth in the NVTD Trust Agreement. The NVTD Trust Agreement provides, among other things, that NVTD Bonds may be issued (i) to pay costs of all or any portion of the NVTD Program, (ii) to refund any NVTD Bonds issued under the NVTD Trust Agreement, and (iii) for a combination of such purposes.

All NVTD Bonds issued under the NVTD Trust Agreement to provide funds to pay additional costs of the NVTD Program must be authorized by the General Assembly. The NVTD Bond Legislation currently limits the amount of bonds to provide funds to pay costs of the NVTD Program to $500,200,000, plus an additional amount for issuance costs, capitalized interest, reserve funds and other financing expenses, and of this amount, $24,700,000 remains authorized but unissued after the issuance of the Bonds. Refunding bonds are not included in this limit. This limit could be changed by the General Assembly.

Other Transportation Revenue Bonds

In addition to the NVTD Bonds, the General Assembly has authorized and may authorize the issuance of other bonds by the Transportation Board to pay the costs of other transportation improvements in the Commonwealth. Such bonds could be payable from amounts which may be appropriated by the General Assembly from the Northern Virginia Transportation District Fund, other legally available funds in the Transportation Trust Fund, and other legally available funds of the Commonwealth. See the section "Transportation Revenue Bonds Payable From Transportation Trust Fund."

Information Pertaining to the Commonwealth

Appendices B and C contain, respectively, certain financial and demographic/economic information pertaining to the Commonwealth, and Appendix A contains the comprehensive financial statements of the Commonwealth for its fiscal year ending June 30, 2008. See the section "Transportation Trust Fund – Sources of Revenues – *Economic Conditions Affecting the Commonwealth*".

NORTHERN VIRGINIA TRANSPORTATION DISTRICT FUND

The Northern Virginia Transportation District Fund (the "NVTD Fund") was established by the General Assembly in 1993, § 58.1-815.1 of the Virginia Code, as a special non-reverting fund of the Transportation Trust Fund which is held by the Department of the Treasury. The legislation creating the NVTD Fund currently provides that annually on July 1, there is to be transferred to the NVTD Fund, subject to appropriation by the General Assembly, (1) a portion of the collections of the state recordation taxes that are attributable to the Cities of Alexandria, Fairfax, Falls Church, Manassas and Manassas Park and the Counties of Arlington, Fairfax, Loudoun, and Prince William (the "NVTD Jurisdictions"), (2) any public rights-of-way use fees appropriated by the General Assembly, (3) any state or local revenues which may be deposited to the NVTD Fund pursuant to a contract between an NVTD Jurisdiction and the Transportation Board, and (4) any other funds as may be appropriated by the General Assembly and designated for the NVTD Fund and all earnings on the NVTD Fund. The General Assembly added the public rights-of-way use fees and the contract revenues described in (2) and (3) above as a source of funds to the NVTD Fund by legislation adopted in 1998.

The NVTD Fund was funded initially in the fiscal year ending June 30, 1994. Beginning with that fiscal year it has been funded with a portion of the state recordation taxes attributable to the NVTD Jurisdictions. See the section "State Recordation Tax Collections" for the actual and projected recordation tax collection appropriated to the NVTD Fund.

Beginning with the fiscal year ending June 30, 1999, the General Assembly appropriated rights-of-way use fees from the Counties of Fairfax, Loudoun and Prince William to the NVTD Fund. In the fiscal year ending June 30, 2009, those rights-of-way use fees were approximately $6.7 million. The Transportation Board has entered into contracts with the Cities of Alexandria, Falls Church and Fairfax and the County of Arlington, subject to appropriation or allocation of funds, providing for an aggregate of $816,000 per fiscal year to be deposited to the NVTD Fund, beginning in the fiscal year ending June 30, 2000, so long as bonds financing Category III projects benefiting the respective jurisdictions are outstanding.

The NVTD Payment Agreement provides that the Transportation Board will request the Governor to include in the budget to be delivered to the General Assembly a provision that rights-of-way use fees from the Counties of Fairfax, Loudoun and Prince William as well as contract payments from the Cities of Alexandria, Falls Church and Fairfax and the County of Arlington continue to be appropriated to the NVTD Fund so long as bonds financing Category III projects are outstanding.

In addition to the state recordation taxes, rights-of-way use fees and contract revenues described in the foregoing paragraphs, the General Assembly has appropriated the following amounts to the NVTD Fund from the Transportation Trust Fund: $5 million for fiscal year ending June 30, 2009 and $7 million for fiscal year ending June 30, 2010**.** Amounts in the NVTD Fund may be used to pay the costs of the NVTD Program, including debt service on the NVTD Bonds.

State Recordation Tax Collections

Recordation taxes are imposed on every deed and deed of trust (mortgage) admitted to record in the Commonwealth subject to certain exceptions and exemptions. The taxes are collected by the clerks of the courts where the instruments are admitted to record. The current rate of tax on deeds is 25 cents on every $100 or fraction thereof of the consideration for or the actual value of the property conveyed, whichever is greater, payable by the transferee, and 50 cents on each $500 or fraction thereof of the consideration for or the actual value of the property exclusive of the value of any lien or encumbrance on the property, payable by the transferor. The current rate of tax on deeds of trust (mortgages) is 25 cents on every $100 or fraction thereof of the amount of the obligation secured up to $10 million. The tax rate steps down for increments over $10 million in obligations secured until it reaches 13 cents on every $100 or fraction thereof of the amount of the obligation in excess of $40 million.

The following table shows the amounts appropriated and available for the payment of debt service on the NVTD Bonds for fiscal year 2000 to fiscal year 2010.

NVTD Fund Available for Debt Service (in millions)

Fiscal Year Ending, June 30	Northern Virginia Transportation District Fund				
	Recordation Taxes	Transportation Trust Fund	Contract Revenue	Right of Way Fees	Total Funds Appropriated to NVTD Fund
2000	17.0	12.6	0.8	2.7	33.1
2001	17.0	19.9	0.8	5.7	43.4
2002	17.0	20.9	0.8	6.4	45.1
2003	17.0	17.7	0.8	5.9	41.4
2004	17.0	17.8	0.8	5.7	41.3
2005	18.5	22.7	0.8	5.5	47.5
2006	18.5	22.7	0.8	5.6	47.6
2007	18.5	17.7	0.8	4.2	41.2
2008	18.5	17.6	0.8	8.9	45.8
2009	20.0	5.0	0.8	6.7	32.5
2010	20.0	7.0	0.8	5.5	33.3

Sources: Department of Planning and Budget and Department of Transportation.

The Transportation Board makes no representation that the General Assembly will maintain or continue to make transfers to the NVTD Fund or that the General Assembly will not repeal or materially modify the legislation creating the NVTD Fund or imposing the state recordation taxes.

TRANSPORTATION TRUST FUND

General

The Transportation Trust Fund was established by the General Assembly in Chapters 11, 12, 13 and 15 of the Acts of the Assembly, 1986 Special Session (the "1986 Special Session Acts") as a special non-reverting fund administered and allocated by the Transportation Board for the purpose of increased funding for construction and other capital needs of state highways, airports, mass transit and ports. The Transportation Trust Fund is funded primarily from additional revenues generated by increases in the retail sales tax, motor fuel tax and motor vehicle related taxes and fees effected by the 1986 Special Session Acts and designated for deposit in the Transportation Trust Fund. The 1986 Special Session Acts allocated 85% of these additional revenues to highway purposes with the balance being divided among airports (2.4%), mass transit (8.4%) and ports (4.2%). Legislation passed by the General Assembly in 1998 revised the formula for distribution of funds to the mass transit fund, increasing the allocation from 8.4% to 14.5% for the fiscal year 1999 and to 14.7% for the fiscal year 2000 and thereafter and thereby changing the allocation to highway purposes from 85% to 78.9% in fiscal year 1999 and to 78.7% for fiscal year 2000 and thereafter. The investment of money in the Transportation Trust Fund is administered by the State

Treasurer under guidelines adopted by the Transportation Board. The Transportation Board has adopted the same guidelines as the Treasury Board for the investment of public funds.

The Transportation Board makes no representation that the General Assembly will maintain the Transportation Trust Fund or that the General Assembly will not repeal or materially modify the 1986 Special Session Acts. See the subsection below "Sources of Revenues – *Economic Conditions Affecting the Commonwealth*".

Highway Maintenance and Operating Fund

Prior to 1987, both construction and maintenance of the Commonwealth's highway system were funded through the Highway Maintenance and Construction Fund. Upon the enactment of the 1986 Special Session Acts, money for construction and maintenance was separated into two funds; the Transportation Trust Fund became the source of funds for new construction, while the Highway Maintenance and Operating Fund (the "HMO Fund") was created as successor to the Highway Maintenance and Construction Fund for maintenance.

The HMO Fund receives certain motor vehicle related taxes and fees (principally the motor fuel tax, vehicle sales and use tax, and motor vehicle registration fees) at the rates in effect before the 1986 Special Session Acts, while the increase in these taxes and fees is directed to the Transportation Trust Fund. Chapter 896 of the 2007 Acts of Assembly (House Bill 3202) brought the tax on diesel fuel to the same level as gasoline and increased the registration fee to $10. The additional revenue generated by these adjustments is dedicated to the HMO Fund. See the subsection below "Sources of Revenues." In the fiscal year ending June 30, 2009, the HMO Fund received $1,295.1 million in such taxes and fees.

Construction revenues available for allocation in fiscal year 2010 were reduced by a required transfer of $523.9 million to the HMO Fund to meet the needs of the fund. Such transfers may affect the ability of the Transportation Board to fund construction projects.

Highway Allocation Formula

The Transportation Board is required by Virginia Code to allocate each year all funds made available for highway purposes in accordance with the priorities established by §33.1-23.1. Highway funds are allocated first for maintenance of interstate, primary, secondary and certain local roads and highways, administrative and general expenses, and other payments. Funds are then allocated to provide the required interstate matching funds and for the paving of unpaved secondary roads. Of the remaining funds, 40% is allocated for the needs of the primary system and 30% each to the urban and secondary systems.

Primary system funds are apportioned among the nine highway construction districts based on a formula taking into account the following factors weighted as indicated: vehicle miles traveled on primary routes (70%), primary road lane mileage (25%) and need as determined by the Transportation Board (5%). Funds for urban systems are distributed based on population, and secondary system funds are distributed based on population (80%) and area (20%). The Transportation Board determines the projects on which primary system funds are spent. Secondary system funds are distributed to the counties for allocation while urban funds are distributed to cities for project designation. The General Assembly may, in the Appropriation Act, permit the Governor to make changes in the allocation formula set forth in Virginia Code §33.1-23.1 to increase amounts allocated to highway maintenance or highway construction or both.

Based on the current revenue outlook and following the priorities established by §33.1 – 23.1, no construction funding is available for distribution through the Highway Allocation Formula during the FY 2010 – 15 SYIP.

Sources of Revenues

The following table summarizes the actual revenues for the fiscal years ending June 30, 2004 through 2009, and the projected revenues for the fiscal year ending June 30, 2010, received or to be received in the Transportation Trust Fund.

Transportation Trust Fund
Historical Transportation Trust Fund Revenues (in millions)

Fiscal Year Ending June 30:	2004	2005	2006	2007	2008	2009	2010[6]
Retail Sales and Use Tax	$415.0	$449.8	$476.3	$517.3	$524.9	$499.4	$478.4
Motor Vehicle Sales and Use Tax[1]	215.3	219.3	238.5	238.5	218.0	172.6	160.0
Motor Fuel Taxes[2]	118.1	119.1	118.4	118.0	122.3	115.1	113.8
Motor Vehicle Registration Fees	20.5	20.6	21.1	21.2	21.3	21.6	20.9
Priority Transportation Fund[3]	20.0	20.0	20.0	20.0	20.0	152.3	149.1
Total Transportation Trust Fund Revenues[4]	788.9	$828.8	$874.3	$915.0	$906.5	$961.0	$922.2
Highway Construction Amount	$580.4	$612.1	$648.1	$691.2	$684.0	$619.3	$592.1
HMO Fund Transfer[5]	(56.9)	(244.6)	(186.2)	(286.3)	(260.6)	(364.8)	(494.3)
Total Highway Portion of Transportation Trust Fund	$523.5	$367.5	$461.9	$404.9	$423.4	$254.4	$97.8

1 Motor Vehicle Sales and Use Tax and Motor Vehicle Rental Tax.

2 Motor Fuel Tax, Special Fuel Tax, Aviation Special Fuel Tax and Road Tax.

3 Pursuant to HB3202, effective July 1, 2008 one-third insurance premium tax is to be deposited into the Priority Transportation Fund.

4 Does not reflect investment income on the Transportation Trust Fund, all of which is credited to the Transportation Trust Fund.

5 Transfer to HMO Fund.

6 Projected based on the Commonwealth Transportation Fund forecast released in August 2009.

Sources: Department of Accounts and Department of Motor Vehicles for fiscal years 2004 through 2009. Department of Motor Vehicles, Department of Taxation and Department of Transportation for revenue estimates for fiscal year 2010.

The following is a brief description of the taxes and fees that are designated for deposit into the Transportation Trust Fund.

Retail Sales and Use Tax. The retail sales tax is imposed on every transaction involving (1) the business of selling at retail or distributing tangible personal property in the Commonwealth; (2) the leasing or rental of tangible personal property as part of an established business; (3) the storing for use or consumption in the Commonwealth of any item or article of tangible personal property or leasing or renting such property within the Commonwealth; (4) the furnishing of transient accommodations; or (5) the selling of certain services. The tax on sales is based on the gross sales price of each item or article of tangible personal property. The seller collects the tax from the customer by separately stating the amount of the tax and adding it to the sales price or charge. The tax on accommodations, leases and rentals, which is based upon the lessor's gross proceeds from the leases and rentals, is collected by the lessor by separately stating the amount of tax and adding it to the charge made to the lessee. The tax on items or articles of tangible personal property stored in the Commonwealth for use or consumption in the Commonwealth is based on the cost price of each item or article. The tax on taxable services is based on the gross sales of services.

The use tax is imposed on the use or consumption of tangible personal property in the Commonwealth, or the storage of such property outside the Commonwealth for use or consumption in the Commonwealth. This tax applies to (1) tangible personal property purchased outside the Commonwealth that would have been subject to sales tax if purchased in the Commonwealth and (2) purchases, leases or rentals made in the Commonwealth if the sales tax was not paid at the time of purchase, lease or rental. In general, the tax is based on the cost price of each item or article of tangible personal property used or consumed in the Commonwealth or the cost price of each item or article of tangible personal property stored outside the Commonwealth for use or consumption in the Commonwealth. The Virginia Code provides various exclusions and exemptions to the retail sales and the use tax.

The state retail sales and use taxes were increased from 4.0% to 4.5% by the General Assembly in the 1986 Special Session Acts, and increased again in 2004 from 4.5% to 5.0%. The 1986 Special Session designated 0.5% of these tax revenues to the Transportation Trust Fund.

Motor Vehicle Sales and Use Tax. A tax based on the gross sales price or gross proceeds is levied upon the sale or use of motor vehicles in the Commonwealth, other than a sale to or use by a person for rental as an established business or part of an established business or incidental or germane to such business.

The tax applies to the sale price of motor vehicles, mobile homes and mobile offices sold in the Commonwealth, with the exceptions noted above, and to the sale price of motor vehicles, mobile homes and mobile offices not sold in the Commonwealth but used or stored for use in the Commonwealth. Under Commonwealth law, certain motor vehicles are exempt from the sales and use tax. In general, the minimum tax levied on the sale of any motor vehicle in the Commonwealth is $35.00.

The tax on the sale or use of a motor vehicle is paid by the purchaser or user of the new motor vehicle and collected by the Commissioner of the Department of Motor Vehicles at the time the owner applies to that Department for, and obtains, a certificate of title. No tax is levied or collected upon the sale or use of a motor vehicle for which no certificate is required by the Commonwealth.

As a result of the 1986 Special Session Acts, this tax increased from 2% to 3%. The General Assembly has dedicated the net additional revenues generated by the increase to the Transportation Trust Fund.

Motor Fuel Tax. A tax is levied on motor fuel sold and delivered or used in the Commonwealth, with an exception for highway use diesel fuel as noted in § 58.1-2226. Fuel for the exclusive use by the United States government is also exempt from this provision. The motor fuel tax is collected by and paid to the Commonwealth only once in respect to any motor fuel. All aviation motor fuel that is sold and delivered or used in the Commonwealth is taxed. Synthetic motor fuel produced in the Commonwealth from coal is subject to an incremental tax. Likewise, motor fuel refined in the Commonwealth exclusively from crude oil produced in the Commonwealth in a refinery meeting certain specifications is subject to an incremental tax.

Each dealer or limited dealer in motor fuel must file monthly a report with the Commissioner of the Department of Motor Vehicles showing, among other things, the quantity of motor fuel and aviation fuel used, sold, or delivered during the preceding month. The tax must be paid at the time the report is rendered to the Commissioner.

These motor fuel taxes increased 2.5 cents per gallon as a result of the 1986 Special Session Acts. The motor fuel tax on gasoline increased from 15 to 17.5 cents per gallon. The increase took effect on January 1, 1987. Since then, the General Assembly has appropriated the net additional revenues generated by the increase to the Transportation Trust Fund. Chapter 896 of the 2007 Acts of Assembly (House Bill 3202) increased the tax on diesel fuel to the same level as gasoline, from 16 cents to 17.5 cents per gallon. The additional revenue generated was dedicated to the HMO Fund.

Motor Vehicle Annual Registration Fees. The annual registration fee collected by the Commissioner of the Department of Motor Vehicles for all motor vehicles, trailers and semi-trailers was increased $3 per vehicle by the 1986 Special Session Acts, and the General Assembly appropriated the net additional revenues from this fee increase to the Transportation Trust Fund. Chapter 896 of the 2007 Acts of Assembly (House Bill 3202) increased the registration fee by $10 and dedicated this revenue to the HMO Fund.

Other Taxes. The General Assembly increased certain other taxes and dedicated the net additional revenues generated from the increase to the Transportation Trust Fund. These taxes include a motor vehicle rental tax, a special fuel tax, an aviation special fuel tax and a road tax.

Economic Conditions Affecting the Commonwealth

The availability of revenues in the Transportation Trust Fund is dependent on a number of economic factors. The bulk of such revenues consists of the motor fuel taxes and retail sales and use taxes described above in this Section, which may fluctuate based on, among other things, the condition of the Commonwealth and national economies, population growth, income and employment levels, levels of tourism, weather conditions, fuel prices, road conditions, and the availability of alternate modes of transportation. There can be no assurance that downturns in any of the numerous factors affecting these revenues will not significantly affect the availability of revenues in the Transportation Trust Fund to make timely payments on the Bonds if state recordation taxes and other elements of the NVTD Fund are not available therefore. See Appendix C, "Commonwealth of Virginia, Demographic and Economic Information" for certain information regarding some of these factors.

There is no assurance that any of these taxes or fees will remain in effect or that they will continue at their current levels. The General Assembly is under no obligation to continue the appropriation of the net additional revenues generated by the 1986 Special Session Acts to the Transportation Trust Fund.

Recent Financial Developments. Virginia's economy, like that of other states, has experienced the impact of reduced consumer confidence, job losses and housing market declines during the 2008-2010 biennium. The Governor and the General Assembly have implemented a series of strategies to address reduced general fund revenue projections of $5.6 billion since the beginning of the 2008-2010 biennium. Revenues have since continued to decline, prompting the Governor to convene, in August 2009, both the Governor's Advisory Board of Economists and the Governor's Advisory Council on Revenue Estimates to further consider the revenue forecast for fiscal year 2010. The August 2009 revised forecast reduced projected general fund revenues by an additional $1.2 billion for fiscal year 2010. When added to the fiscal year 2009 revenue forecast shortfall of $300 million and netted against the projected general fund balance of $150 million included in the 2009 Appropriation Act, the resulting revenue shortfall for the remainder of the 2008-2010 biennium is projected to be approximately $1.35 billion.

On September 8, 2009, the Governor announced planned budgetary actions to address the $1.35 billion revenue shortfall in fiscal year 2010. The Governor's plan proposes no tax increases. There are no proposed reductions to K-12 education funding pending approval by the Federal government of an application to further use Federal stimulus funding for such purpose. The plan includes a number of budget reduction strategies that are being implemented immediately, including reversion of agency fiscal year 2009 balances, closure of two correctional facilities and a juvenile detention facility, implementation of certain agency-submitted spending reduction plans, elimination of 929 positions and deferral of employer retirement contributions otherwise due in the last quarter of fiscal year 2010. The plan also calls for the withdrawal of $283 million from the Revenue Stabilization Fund. This proposed withdrawal is smaller than the amount permitted by law and will leave a balance in the Revenue Stabilization Fund of $300 million after interest is accrued for fiscal year 2010. Further information on the September 2009 fiscal year 2010 budget reduction plan can be found at http://dpb.virginia.gov/forms/20090908-1/Reductions2010.PDF

The Governor's Advisory Board of Economists and the Governor's Advisory Council on Revenue Estimates will be reconvened in the Fall of 2009 to review the interim revenue forecast for the upcoming 2010-2012 biennium.

For further discussion, see the subsections entitled **"THE 2008 APPROPRIATION ACT,"** and **"THE 2009 AMENDMENTS TO THE 2008 APPROPRIATION ACT"** in **Appendix B** attached hereto.

TRANSPORTATION REVENUE BONDS PAYABLE FROM TRANSPORTATION TRUST FUND

As noted above, the Transportation Trust Fund is a source of payment for the Bonds, and the General Assembly has enacted from time to time legislation providing for the issuance of revenue bonds for transportation facilities which are payable from various sources, including appropriations from the Transportation Trust Fund to the extent legally available therefor. Set forth below are descriptions of the financing programs for highway projects, the bonds for which the General Assembly has committed, subject to appropriation, to pay from the Transportation Trust Fund and other revenues. The descriptions include the credit structure of and the authorized, issued and unissued bonds under each such program. **The Transportation Board makes no representation that the General Assembly will maintain the Transportation Trust Fund or any other source currently available for the payment of the bonds described below or that the General Assembly will not repeal or materially modify the statutes governing any of the programs described below, including the amount of bonds authorized thereunder, or the Transportation Trust Fund.** See the sections "Transportation Trust Fund – General" and "Transportation Trust Fund – Sources of Revenues – Historical and Projected Transportation Trust Fund Revenues".

Northern Virginia Transportation District Program

The NVTD Bond Legislation authorizes the Transportation Board to issue Transportation Revenue Bonds, pursuant to the Revenue Bond Act, as amended, in the amount of $500,200,000, plus an additional amount for issuance costs, capitalized interest, reserve funds and other financing expenses for the NVTD Program. Refunding bonds are not included in this limit. It is expected that revenue for payment of the debt service on the NVTD Bonds will be provided from the NVTD Fund. The General Assembly also amended the Virginia Code to provide $40,000,000 in each fiscal year after 1993-94 to be distributed to localities from the state recordation taxes. This annual distribution of $40,000,000 of state recordation taxes to all cities and counties is based on their respective fractional share of the recordation tax collected attributable to each city and county. The legislation establishing the NVTD Fund provides that the quarterly payments of state recordation taxes attributable to the Cites of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park and the counties of Arlington, Fairfax, Loudoun and Prince William are to be transferred to the NVTD Fund for the NVTD Program. The NVTD Fund also includes any public

rights-of-way use fees appropriated by the General Assembly and any state or local revenues which may be deposited into the NVTD Fund pursuant to a contract between a jurisdiction participating in the NVTD Program and the Transportation Board.

The Transportation Board has issued $405,675,000, which includes amounts to cover issuance costs, reserve funds, and other financing expenses, of bonds to finance the costs of the NVTD Program plus an additional $295,165,000 to refund such bonds that had been previously issued. Of the total amount of bonds issued, $270,845,000 is currently outstanding. The Bonds are the eleventh series of NVTD Bonds to be issued by the Transportation Board under the NVTD Program. See the sections "Northern Virginia Transportation District Program" and "Northern Virginia Transportation District Fund."

U.S. Route 58 Corridor Development Program

The General Assembly enacted legislation in 1989, amended in 1999 (the “U.S. Route 58 Bond Legislation”) that authorized the Transportation Board to issue Transportation Revenue Bonds, pursuant to the Revenue Bond Act, in an amount not to exceed $704,300,000, plus an amount for issuance costs, reserve funds and other financing expenses, to finance a portion of the costs of the U.S. Route 58 Program. Refunding bonds are not included in this limit.

The Transportation Board has issued $720,110,000, which includes amounts to cover issuance costs, reserve funds, and other financing expenses, of bonds to finance the costs of U.S. Route 58 Program plus an additional $704,115,000 to refund such bonds that had been previously issued. The Transportation Board has issued all the bonds authorized, not including refunding bonds, under the U.S. Route 58 Bond Legislation. Of the total amount of bonds issued, $468,510,000 is currently outstanding.

Transportation Improvement Program Set-Aside Fund

In 1993, the General Assembly authorized the creation of the Transportation Improvement Program Set-Aside Fund (the "Set-Aside Fund") for transportation improvements endorsed by the requesting local jurisdiction or jurisdictions affected and to provide for the issuance of Transportation Program Revenue Bonds pursuant to the Revenue Bond Act to finance those improvements. The jurisdiction or jurisdictions requesting participation in the Set-Aside Fund and the issuance of bonds must agree that certain distributions of state recordation taxes attributable to them be deposited in the Set-Aside Fund by the State Treasurer and used to pay debt service on any Transportation Program Revenue Bonds issued by the Transportation Board to finance the cost of the program. Before any bonds may be issued, the project or projects to be financed must be approved by the General Assembly.

If amounts in the Set-Aside Fund are insufficient to pay debt service on Transportation Program Revenue Bonds, such bonds may be paid, subject to appropriation, from Transportation Trust Fund revenues.

In 1994, the General Assembly authorized the issuance of $32,500,000 Transportation Program Revenue Bonds, plus an additional amount for issuance costs, capitalized interest, reserve funds and other financing expenses, to finance the cost of the Oak Grove Connector project. In 1997, the Transportation Board issued bonds to finance the Oak Grove Connector, a portion of which was refunded by the Transportation Program Revenue Refunding Bonds in 2006. The Oak Grove Connector Bonds are the only bonds authorized to be paid from the Set-Aside Fund.

Transportation Contract Revenue Bonds

In 1988, the General Assembly enacted legislation which authorized the Transportation Board to issue Transportation Contract Revenue Bonds pursuant to the Revenue Bond Act in an amount not to exceed $160,700,000 to finance the costs of Phase I of the Route 28 project, plus an amount for issuance costs, reserve funds and other financing expenses. Due to a subsequent reduction in the estimated Phase I cost, the Transportation Board issued $138,483,372.25 of Transportation Contract Revenue Bonds, Series 1988 (the "Series 1988 Bonds"). The balance of the authorization was not required to complete Phase I of the Route 28 project. In 1990, the General Assembly amended the legislation to permit any proceeds of the Series 1988 Bonds remaining after the completion of Phase I and any of the unissued Transportation Contract Revenue Bonds authorized under the legislation to be applied to Phase II of the Route 28 project. No other bonds have been authorized for Phase II. In 1992, the Transportation Board refunded all of the outstanding Series 1988 Bonds by issuing $111,680,000 of Transportation Contract Revenue Refunding Bonds, Series 1992 (the "Series 1992 Bonds"). The Series 1992 Bonds are payable from funds appropriated by the General Assembly for such purpose from the following three sources: (1) special tax revenues collected from a tax levied on commercial and industrial property in the Route 28 Transportation

Improvement District, (2) money appropriated and allocated, pursuant to the highway allocation formula as provided by law, to the Northern Virginia Highway Construction District or to the Counties of Fairfax or Loudoun, and (3) other legally available money in the Transportation Trust Fund. In 1993, the General Assembly provided for the rezoning of commercial and industrial property within the Route 28 Transportation Improvement District to residential property provided the property owner makes a one-time payment equal to the projected tax revenues over the life of the Series 1992 Bonds as if the property had remained zoned for commercial or industrial use. In 2002, the Transportation Board issued bonds in the amount of $83,820,000 to refund the outstanding principal balance on the Series 1992 Bonds and issued Transportation Contract Revenue Bonds in the amount of $36,823,667.45 to finance a portion of the costs of Phase II improvements plus an amount for issuance costs. These bonds were issued under a new Master Indenture of Trust, dated as of October 1, 2002, (the "Route 28 Indenture") with security features similar to those for the Series 1988 Bonds and Series 1992 Bonds. In the Route 28 Indenture, the Transportation Board agreed not to issue further notes, bonds or other evidence of indebtedness under the provisions of the trust agreement pursuant to which the Series 1988 Bonds and Series 1992 Bonds were issued.

Federal Highway Reimbursement Anticipation Notes

Legislation enacted by the General Assembly in 2000 and amended in 2002, authorized the Transportation Board with the approval of the Governor to issue from time to time Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes (the "FRANs") in the maximum aggregate principal amount of $1.2 billion outstanding at any one time (exclusive of any FRANs that may be issued to pay financing expenses or to refund other FRANs). Under this act, as amended, the General Assembly has designated any project in the Transportation Board approved Six Year Improvement Program ("SYIP") for funding in whole or in part from the FRANs. The principal sources of repayment and security for the FRANs, subject to appropriation by the General Assembly, are federal highway reimbursements and any other federal highway assistance received from time to time by the Commonwealth under the Federal-Aid Highway Program created under Title 23 of the United States Code. The authorizing legislation also provides that FRANs debt service may be paid to the extent required, from legally available revenues of the Transportation Trust Fund and then from such other funds, if any, which may be designated by the General Assembly for such purpose. The Transportation Board has issued three series, totaling $1,148,320,000 of which $522,210,000 remains outstanding.

Transportation Capital Projects Revenue Bonds

In 2007, the General Assembly authorized the Transportation Board to issue Commonwealth of Virginia Transportation Capital Projects Revenue Bonds (the "Capital Projects Bonds") as revenue obligations of the Commonwealth at one or more times in an aggregate principal amount not to exceed $3 billion, excluding any refunding bonds. The act further provides that if the aggregate principal amount issued in any fiscal year is less than $300 million, then the amount by which the issuance is less than $300 million may be issued in any subsequent fiscal year in addition to the $300 million authorized in the subsequent fiscal year. In addition, in 2008, the General Assembly authorized the issuance of $180 million of Capital Projects Bonds to fund projects that were initially to be funded from general funds. The proceeds of the Capital Projects Bonds are to be used to pay the costs of transportation projects and, where appropriate, may be paid to any authority, locality, commission, or other entity for the purposes of paying for the costs of transportation projects. A minimum of 20% of the proceeds will be used for transit capital, a minimum of 4.3% of the proceeds will be used for rail capital, and the remaining amount of proceeds will be used for paying the costs of transportation projects. The net proceeds of the Capital Projects Bonds will be used to match federal highway funds, as revenue sharing matching funds and to fund statewide and regional projects throughout the Commonwealth. Funding for these transportation projects will include environmental and engineering studies, rights-of-way acquisition, improvements to all modes of transportation, acquisition, construction and related improvements and any financing costs related to the issuance of the Capital Projects Bonds. The Transportation Board has not issued any Capital Projects Bonds to date.

COMMONWEALTH TRANSPORTATION BOARD AND VIRGINIA DEPARTMENT OF TRANSPORTATION

Commonwealth Transportation Board

The Transportation Board was created pursuant to Chapter 1, Title 33.1 of the Virginia Code, and is responsible for general policies for the construction and use of Virginia's highway system and for the efficient and economic development of transportation. The powers and duties of the Transportation Board include, among other things, the allocation of funds in the Transportation Trust Fund.

The Transportation Board consists of seventeen members from various areas of the Commonwealth appointed by the Governor, subject to confirmation by the General Assembly. One member is chosen from each of the Commonwealth's nine highway construction districts, three members are selected as urban at-large members and two members are selected as rural at-large members. In addition to representing rural and urban transportation needs, the at-large members represent the interests of seaport, airport, railway and mass transit users. The Chairman of the Transportation Board is the Secretary of Transportation of the Commonwealth. The Vice Chairman is the Commonwealth Transportation Commissioner, who is also the chief executive officer of the Virginia Department of Transportation (the "Department"). The current membership of the Transportation Board, the expiration dates of their terms and the constituency represented by each member are as follows:

Member	Term Expires	Constituency
Pierce R. Homer	At the Pleasure of the Governor	Chairman, Transportation Board; Secretary of Transportation
David S. Ekern, P.E.	At the Pleasure of the Governor	Vice Chairman, Transportation Board; Commonwealth Transportation Commissioner
Charles "Chip" Badger	At the Pleasure of the Governor	Director, Department of Rail & Public Transportation
Jim D. Bowie	June 30, 2012	Bristol District
Mary Lee Carter	June 30, 2010	Fredericksburg District
John J. Davies III	June 30, 2010	Culpeper District
Dr. James A. Davis	June 30, 2012	Staunton District
E. Dana Dickens III	June 30, 2010	Urban At-Large
James L. Keen	June 30, 2012	Rural At-Large
J. Douglas Koelemay	June 30, 2012	Northern Virginia District
Aubrey Layne Jr.	June 30, 2013	Hampton Roads District
Dana M. Martin	June 30, 2013	Salem Roads District
Gerald P. McCarthy	June 30, 2011	Richmond District
Sharon E. Pandak	June 30, 2013	Urban At-Large
Peter B. Schwartz	June 30, 2010	Rural At-Large
Cord A. Sterling	June 30, 2010	Urban At-Large
Kenneth S. White	June 30, 2011	Lynchburg District

Pierce R. Homer, Chairman, Transportation Board and Secretary of Transportation

Governor Mark R. Warner appointed Pierce R. Homer as the Secretary of Transportation for Virginia in 2005**,** and was reappointed by Governor Timothy M. Kaine in January 2006. Previously, Mr. Homer served as Deputy Secretary of Transportation from 2002 to 2005. Prior to that appointment, Mr. Homer served as Deputy County Executive for Prince William County, Virginia, from 1987 to 2002.

Mr. Homer has led numerous efforts to attract private investment in Virginia's transportation infrastructure, to improve mobility and air quality in urban areas, and to create stronger partnerships in the delivery of rail, transit, and local government services. Mr. Homer has also worked in local governments and local government consulting in Texas and Virginia. Mr. Homer earned his B.A. from Haverford College in Haverford, Pennsylvania, and his Masters of Public Affairs from the University of Texas at Austin.

Virginia Department of Transportation

The Department has the responsibility for construction, maintenance and operation of the Commonwealth highway system under legislation enacted by the General Assembly and in accordance with policies and procedures adopted by the Transportation Board.

The Department's budget for the fiscal year ending June 30, 2010, is approximately $3.5 billion. As of October 1, 2009, the Department had 95 construction projects underway for an aggregate amount of approximately $1.14 billion, with an outstanding balance to be paid of approximately $447 million as these projects progress towards completion. Additionally, the Department had 156 maintenance projects underway for an aggregate amount of approximately $340 million, with an outstanding balance to be paid of approximately $195 million as these projects progress towards completion

The Commonwealth has the nation's third largest system of state-maintained highways totaling approximately 58,000 miles of interstate, primary and secondary roads. The system includes approximately 20,000 bridges and culverts. In addition, independent cities and towns maintain about 11,500 miles of local streets and receive funds from the Transportation Board for such purpose.

The Commonwealth is divided geographically into nine construction districts for highway purposes as follows:

Bristol District	Hampton Roads District	Richmond District
Culpeper District	Lynchburg District	Salem District
Fredericksburg District	Northern Virginia District	Staunton District

These districts are divided into 44 residencies, each typically consisting of one to four counties. The field organization is further subdivided into approximately 181 area maintenance headquarters. About 85% of the Department's nearly 7,800 employees (as of October 1, 2009) are assigned to the field organization. The remainder is assigned to the central office in Richmond or to units associated with the central office that serves an administrative function.

Financial Accountability and Program Delivery

Since 2002, the Department has undertaken several key initiatives to enhance its financial accountability and program delivery:

- Enhanced financial accountability by placing financial functions under a chief financial officer.
- A long-term strategic vision, with a business plan that provides performance goals and strategies, has been implemented.
- Regular business reports and an on-line performance reporting system for projects and programs known as the Dashboard (dashboard.virginiadot.org) hold the Department publicly accountable.
- Streamlining operations, organization and improving business practices to better deliver the Department’s mission in tight financial times.

The Department is currently implementing its Blueprint for the Future to address a $4.6 billion revenue shortfall over the next six years and to adjust its long-term business strategy to reflect less funding and fewer staff. The Blueprint addresses three main areas:

- Construction program reductions (cutting more than $3 billion in construction projects).
- Reorganization and staffing reductions (reducing by 1,000 full-time employees and 450 part-time employees, and closing some Department offices).
- Motorist services reductions (ferries, rest areas, Safety Service Patrols, mowing).

The current SYIP for fiscal years 2010-2015, adopted by the Transportation Board in June 2009, is based on revenue and cost estimates that the Department views as realistic and use of debt the Department believes to be prudent and responsible. Although funding continues to be a challenge as traditional transportation revenue sources struggle, the Transportation Board and the Department are making hard choices to retain a safe and efficient highway system. The program clearly reflects the transportation board’s commitment to citizens’ safety, by prioritizing critical safety and maintenance needs of the existing transportation system during times of lean funding and to thinking beyond individual projects to an overall system approach.

The Department has significantly improved its project performance since initial performance reporting began in 2001. At that time, 20% of construction contracts were completed on time and 51% of construction contracts were completed within budget while 38% of maintenance contracts were completed on time and 59% of maintenance contracts were completed within budget. The Department reached a major milestone in fiscal year 2007 with performance meeting or exceeding all on-time and on-budget project performance goals for that fiscal year and continues to deliver projects on time and on budget.

For fiscal year 2007, 90% of construction contracts were completed on time and within budget while 80% of maintenance contracts were completed on time and 91% were completed within budget. The Department also surpassed the statewide construction quality compliance goal of 91% with a 91.9% rating. It was the first time in the Department's history that all of those targets were met or exceeded.

For fiscal year 2008, 86% of construction contracts were completed on time and 93% within budget while 78% of maintenance contracts were completed on time and 85% were completed within budget. The Department surpassed the statewide construction quality compliance goal of 91% with a 91.6% rating.

For fiscal year 2009, 84% of construction contracts were completed on time and 87% within budget while 86% of maintenance contracts were completed on time and 96% were completed within budget. The Department surpassed the statewide construction quality compliance goal of 91% with a 92.5% rating.

The Department believes it is on a sound and sustainable footing and that a strong, professional team is in place to lead the Department into the future. By implementing its Blueprint for the Future, the Department will enact long-term organizational and structural changes which it believes will allow it to emerge from this economic downturn as a stronger, more focused entity.

Department Staff

David S. Ekern, P.E. was appointed by Governor Timothy Kaine as Commonwealth Transportation Commissioner in September 2006. Prior to his appointment he had been Director of the Idaho Transportation Department since July 2003. He served 33 years with the Minnesota Department of Transportation where he held various positions as Assistant Commissioner, Assistant Chief Engineer, and as a District Engineer. He also held other positions in Environmental Policy, Project Development, Planning and Operations. He was on assignment to the American Association of State Highway and Transportation Officials (ASSHTO) from 2001-2003. In that role, he focused on initiatives and policy development that are changing the face of our nation's transportation agencies. He is a member of numerous professional associations and societies and has earned the standing of Fellow in the American Society of Civil Engineers. Mr. Ekern earned his Bachelor's Degree in Civil Engineering from the University of Minnesota and Master's in Business Administration from the University of St. Thomas.

Gregory A. Whirley was named Chief Deputy Commissioner in September 2006. Previously he served as Acting Commonwealth Transportation Commissioner. Prior to his appointment he was the Inspector General of the Department, a position he had held since September 2000. As Inspector General, Mr. Whirley coordinated the Department's anti-trust and internal and external audit functions to safeguard tax-payer dollars and prevent waste, fraud and abuse. Mr. Whirley directed the Department's Fiscal Division from 1988 to 2000, overseeing external audits and serving as controller of the agency's financial operations. In addition to his Department experience, Mr. Whirley has 15 years of corporate and non-profit organization experience. He began his career with Arthur Andersen & Co., then moved into the financial services arena. He served as controller for the National Mental Health Association and the National Governor's Association before joining the Department. He is also a Certified Public Accountant Mr. Whirley is a graduate of Virginia State University with a degree in Accounting.

Wanda Wells was appointed Inspector General of the Department in June 2005. As Inspector General she is responsible for coordinating investigations and special management requests in all activities related to the Department, internally and externally. Ms. Wells was previously the Investigation Division Administrator, a position she had held since September 2001. Before serving as the Investigation Division Administrator, Ms. Wells served as an Assistant Division Administrator within the Department's Internal Audit Division. Ms. Wells is a Certified Public Accountant and has been a Department employee for 21 years. She is a James Madison University graduate.

Malcolm T. Kerley has served as the Chief Engineer for the Department since July 2004. As Chief Engineer, Mr. Kerley, a registered professional engineer, is accountable for engineering aspects of the Department, including overseeing the pre-construction design activities of six divisions within the Department. During his 33 years with the Department, he has worked in several areas of the Department's Structure and Bridge Program, mainly involved in the design and development of new structural plans. In 1992, he was promoted to the position of State Structure

and Bridge Engineer, where he oversaw the design, construction, inspection and maintenance of the Department's 20,000 structures. Mr. Kerley is actively involved in various committees within the transportation industry, including Chair of the American Association of State Highway and Transportation Officials ("AASHTO") Subcommittee on Bridges and Structures. His technical committee assignments include concrete design, aluminum, research and substructure and retaining walls. Mr. Kerley holds a Civil Engineering Degree from the Virginia Military Institute and a Master's Degree from the University of Virginia.

Constance S. Sorrell has served as the Chief of System Operations for the Department since January 2004. As Chief of System Operations, she is responsible for creating new focus, direction and measurement for improving travel throughout Virginia. From January to October 2004, Ms. Sorrell also served as the interim Hampton Roads District Administrator. Before taking on the responsibilities of her present position, Ms. Sorrell served as the Department's Chief of Policy and Organizational Development. She previously served as District Administrator for the Richmond District for nine years. Ms. Sorrell came to the Department in 1982, serving as Division Administrator, Assistant Division Administrator, and Senior Management Analyst in the Management Services Division. Her other positions included Section Manager in the Virginia Department of Planning & Budget and Research Analyst with the Virginia Division of Legislative Services. Ms. Sorrell is Vice Chair of AASHTO's Subcommittee on Operations and Maintenance. She is the former Chairperson of the Strategic Planning Committee of the Transportation Research Board. She serves on the Intelligent Transportation Society of America's Board of Directors, and is member of the American Association of University Women. Ms. Sorrell is a native of Richmond, Virginia and holds a Bachelor's Degree in Economics and Political Science from Radford University. She attended graduate school at the University of Amsterdam, Radford University and the University of Richmond.

Reta R. Busher became the Department's Chief Financial Officer effective in September 2007. In her position, she oversees the agency's $4 billion budget as well as several financial planning and administrative services functions, including public-private partnerships, innovative finance and revenue operations, financial planning and others. Ms. Busher brings 27 years of corporate and local government financial experience to her position. Prior to joining VDOT, she served as director of finance for Henrico County for five years. Ms. Busher joined Henrico County in 1993 as its director of management and budget and was named deputy director of finance in 1999. She was promoted to director of finance in 2002, while also serving as the county's treasurer and commissioner of revenue. During that time, the county began working with private partners to carry out transportation initiatives. Ms. Busher worked for Roanoke County government, first as a financial analyst, then the director of management and budget, for nine years before joining Henrico County. She worked for Peat, Marwick, Mitchell & Company in Roanoke as an assistant, staff and senior accountant between 1980 and 1984. Ms. Busher is an Eastern Shore native. She holds a business degree from the College of William and Mary.

Dr. Gary Allen was appointed Chief of Technology, Research and Innovation for the Department in June 2002. In this capacity, Dr. Allen is responsible for the Virginia Transportation Research Council ("VTRC"), a multi-modal research center sponsored jointly by the Department and the University of Virginia; the Department's Information Technology Applications, Systems Engineering and Software Development Division; Information Technology Operations and Infrastructure, and the Department's Knowledge Management Program. Dr. Allen joined the Department in 1972 and served as director of the VTRC since 1989 before becoming the Department's Chief of Technology, Research, and Innovation. He has also served on the faculty of the AASHTO Executive Institute for more than ten years, specializing in innovative finance. Dr. Allen has taught transportation policy and finance in the University of Virginia's Graduate School of Engineering & Applied Science and has held adjunct faculty positions with the Department of Economics and the Department of Urban and Regional Planning at the University. He also holds a Certificate in Transportation Finance and Investment from Carnegie Mellon University. Dr. Allen earned his degree in business and economics from Berea College in Kentucky and a Ph.D. in economics from the University of Virginia, where he specialized in public finance and policy analysis.

Jeffrey J. Caldwell was named Chief of Communications for the Department in June 2007. Mr. Caldwell began his state government career in 2000, serving as public affairs manager in VDOT's Richmond and Hampton Roads districts. He left VDOT in 2005 to become the director of public relations for the Virginia Department of Health. He rejoined VDOT as assistant director of public affairs in early 2006. Mr. Caldwell was previously a reporter and worked in corporate communications at Circuit City's headquarters in Richmond. While in college, he spent summers on road construction and maintenance crews in upstate New York. Mr. Caldwell has earned several professional accolades, including two Virginia Press Association awards for journalism and three VDOT Commissioner's Awards of Excellence. Mr. Caldwell holds a Bachelor of Arts degree in English from the University of Richmond.

Meredith A. Baker has served as Chief of Organizational Development for the Department since March 2004. Her responsibilities are to build programs that attract and retain a productive and diverse workforce and develop a work environment that promotes learning, leadership and positive employee-management relations. Prior to being named Chief of Organizational Development, Ms. Baker served as Director of Human Resources for Dominion Resources (formerly Virginia Power), in Richmond. In that position, she managed all human resources functions and directed corporate organizational development and labor-management programs. Before joining Virginia Power, she was supervisor of classification and compensation for the Virginia Community College System. Earlier in her career, Ms. Baker was a personnel specialist for Virginia Commonwealth University. She also worked with Wilbur Smith & Associates, engineering consultants, as a project planner. She is a certified compensation professional (CCP) from WorldatWork. She also holds the senior professional human resources certification from the Society of Human Resource Management. Ms. Baker earned her Bachelor's Degree in education from Longwood College and a Master's in educational administration and supervision from the University of Virginia.

Richard L. Walton was named Chief of Policy, Planning and the Environment for the Department in December 2005. As Chief of Policy, Planning and the Environment, Mr. Walton manages the Department's environmental program, long-range transportation planning and legislative and regulatory affairs. Previously he served as Senior Assistant Attorney General in Virginia's Office of the Attorney General, where he led the transportation team for nearly 20 years. Before serving as Senior Assistant Attorney General, Mr. Walton worked as an Assistant Attorney General representing the Department and as a Special Assistant Attorney General assigned to the Department's Fredericksburg District. He received the distinguished Service Award and the Meritorious Service Award for his work in the Attorney General's Office. He is a member of the Virginia State Bar and of the Transportation Research Board National Cooperative Highway Research Program ("NCHRP") Project 20-6 (Legal Problems Arising Out of Highway Programs) Committee. Mr. Walton earned his Bachelor's degree in government and foreign affairs from Hampden-Sydney College and his law degree from Vermont Law School.

NORTHERN VIRGINIA TRANSPORTATION DISTRICT PROGRAM

General

The NVTD Program includes projects located in the Northern Virginia Highway Construction District which are to be developed over a number of years depending upon the availability of funding. The projects are to be funded from several different sources, including federal, state and local money and the proceeds of NVTD Bonds issued pursuant to the NVTD Bond Legislation. The NVTD Bond Legislation provides that the projects described below shall be funded by priority categories (Categories I, II or III) as reflected in the immediately following subsection and in the table contained below in the subsection "Allocation of Bond Proceeds to NVTD Projects."

NVTD Program Project Descriptions

Fairfax County Parkway. The Fairfax County Parkway/Franconia Springfield Parkway (the "Parkway") is included in the NVTD Bond legislation in Categories I and III. The Parkway extends approximately 35 miles from Route 7 (Leesburg Pike) to Route 1 (Jefferson Davis Highway) with interchanges at Route 7, Baron Cameron Avenue, Sunset Hills Road, the Dulles Toll Road, Route 50, Interstate 66, Route 29, Braddock Road, Route 123, Hooes Road, Rolling Road/Franconia Springfield Parkway, Interstate 95 at Springfield (HOV access only), Frontier Drive, Interstate 95 at Newington (Non-HOV access only), and Telegraph Road. The Parkway is a four-lane divided facility with right-of-way for six lanes in most sections. The final extension of the Parkway from Rolling Road to Fullerton Road was further broken into four phases. Phase I and Phase II and a portion of Phase III are under contract with a design-build contractor and scheduled to be completed by the end of November 2010. The Phase III notice to proceed is scheduled for January 2010.

The project involves construction of two miles of a four-lane divided parkway, including a flyover between Chancellor Road and the Franconia-Springfield Pkwy, Engineering Proving Ground (EPG) access Interchange, Bridge over Accotink, extension of the Parkway from the existing interchanges at Rolling Road (State Route 638) to the north and Fullerton Road to the south. This project runs through the western and southern portions of the Fort Belvoir (EPG) for approximately 1.5 miles. The project when completed will connect the Parkway from the existing Parkway at Interstate 95 through Fort Belvoir (EPG) including connection to the EPG.

When completed, the Parkway will cost an estimated $600 million including preliminary engineering, right-of-way acquisition, and construction. A variety of funding sources have been used to date, including developer proffers, county bonds and state and federal funds. Additional interchanges are currently planned. Additional

federal aid in the amount of $13.0 million was provided for this project by the American Recovery and Reinvestment Act of 2009 (“ARRA”).

Route 234 Bypass. The Route 234 Manassas Bypass (the “Bypass”), included in Categories I, II and III, is a four-lane facility constructed on a six-lane right-of-way extending from Route 649 (Brentsville Road) in a northwesterly direction for approximately 10 miles to an interchange with Interstate 66. The project includes interchanges at Brentsville Road, Clover Hill Road, Route 28, Sudley Manor Drive, Balls Ford Road and Interstate 66. When warranted by traffic demand, the Bypass may be widened to 6 lanes and additional grade separations may be provided at Balls Ford Road, Sudley Manor Drive, Clover Hill Road, and Brentsville Road. Construction for all projects that comprise the Route 234 bypass corridor from Interstate 66 to Brentsviille Road is complete.

Metro Capital Improvements. The Northern Virginia Transportation District Commission, comprised of Arlington County, Fairfax County, Loudoun County, City of Alexandria, City of Fairfax, and City of Falls Church, (the "Localities"), among other things, coordinates financing for the Localities' portion of the Washington Metropolitan Area Transit Authority ("WMATA") capital improvements. The WMATA jurisdictions implemented a new capital program agreement beginning in fiscal year 2005 called the Metro Matters Capital Improvement Program that consist of four program elements: the Infrastructure Renewal Program (IRP); the rail car program; the bus program, and the system expansion program (planning). The approximate system wide cost of the Metro Matters program is $3.1 billion in year-of-expenditure dollars (without the security program). This program includes: the purchase of 120 rail cars, provides system capability for 8-car trains, the purchase of 185 new buses, and construction of a new maintenance/storage garage. This program is expected to be completed in 2010.

The WMATA capital improvements, included in both Categories I and III, were previously divided into two programs, the Rail Construction Program and the Capital Improvements Program. The Rail Construction Program is now complete. Projects in the Capital Improvement Program include the following projects:

Arlington - Ballston Metrorail Station. Pedestrian access and related improvements are proposed for the Ballston Metrorail Station located in Arlington County. These improvements will include new pedestrian access points to the station and new elevators located at the end of the station near the intersection of Fairfax Drive and North Stewart Street.

Fairfax-Metro Parking. Improvements to Metro parking including parking lot expansion.

Alexandria-King Street Metrorail Station. Pedestrian access and related improvements for the King Street Metrorail Station located in the City of Alexandria. These improvements included an extension of the King Street Station platform to the north with a new mezzanine located on the west side of Commonwealth Avenue. This project also included the construction of the sidewalk leading to the Duke Street Concourse. The Mezzanine, the Duke Street Concourse, and pedestrian improvements were completed in 2006.

Infrastructure and Rail Cars. Infrastructure improvements for the Metrorail system lines and stations in Virginia and rehabilitation and/or replacement of Metrorail cars and other equipment or facilities.

Route 7 Improvements. The Route 7 Improvements consist of improvements to Route 7 in Loudoun County and Fairfax County, included in both Categories I and III. The improvements for Route 7 widened the four-lane facility to a six-lane roadway from Leesburg to west of Route 28, a distance of approximately 5.4 miles; widened the facility from 4 to 6 lanes from the east of the Loudoun County line (Rolling Holly Drive) to the intersection of Reston Avenue, a distance of approximately 1.0 miles; and will widen from 4 to 6 lanes from the intersection of Reston Avenue east to the interchange at the Dulles Toll Road, a distance of approximately 6.8 miles. These improvements will improve access to western Loudoun County, will relieve congestion during peak hours, improve air quality for the region, create a safer traveling environment for the commuters and residents of this locality and facilitate economic development through improved access to the market area. Construction of the Loudoun section was completed in 1998. Construction of the portion from Rolling Holly Drive to Reston Avenue is anticipated to begin in 2012, with construction expected to be completed in 2013. The portion from Reston Avenue to the Dulles Toll Road is not scheduled for construction at this time due to insufficient funding.

Route 50/Courthouse Road. The Route 50/Courthouse Road project, included in Category III, is located in Arlington County and consists of interchange improvements to reduce congestion and improve traffic safety. Additional federal aid in the amount of $10.3 million was allocated to this project by the ARRA.

Route 28/Route 625 Interchange. The Route 28/625 project, included in Category III, is a grade separation interchange in Loudoun County. Route 625 goes over Route 28 and was widened from a two-lane to a four-lane

facility east of Route 28 and from a four-lane to a six-lane facility west on Route 28 to Broad Run. A portion of this interchange was included in the design build contract for the Route 28 Improvements project that was signed in 2002. Construction started in early 2003. The interchange, flyover bridge and Route 625 widening were completed in 2005 and the W&OD Trail Bridge and Church Road widening was completed in 2006.

Route 28 Parallel Roads in Loudoun. The Route 28 Parallel Roads in Loudoun project, included in Category III, provides additional funding to complete unbuilt sections of parallel roads to Route 28, including Atlantic and Pacific Boulevards and Davis Drive. Davis Drive south of Overmountain Square is complete, and was open to traffic in 2006. Two lanes of an ultimate four-lane roadway have been constructed on four lanes of right of way for the segment of Pacific Boulevard from Sterling Boulevard to Cedar Green Road. The Atlantic Boulevard project is underway as a design-build project and is estimated to cost $24 million. Design and right of way acquisition are underway.

Route 15 Safety Improvements. Route 15 Safety Improvements, included in Category III, improved shoulders, removed obstructions in clear zones, improved several intersection locations by adding turn lanes, provided rumble strips, and provided better sight distance at several locations. The project extends 12 miles and has been broken into three segments: (1) from the Town of Leesburg corporate limit to Whites Ferry Road, (2) from Whites Ferry Road to Lucketts Road and (3) from Lucketts Road to the Maryland State Line. Construction of the first segment was completed in 2003. Construction of spot improvements within the second segment, consisting of turn lanes at Limestone School Road, Montressor Road, New Valley Church Road, and a truck enforcement area near Spinks Ferry Road was completed in 2007. The funds for improvements from Lucketts Road to the Maryland State Line have been re-allocated to other safety-related efforts within the corridor.

Route 1/Route 123 Interchange. The Route 1/Route 123 project, included in Category III, is a grade separation interchange in Prince William County. Route 123 will go over Route 1 and the railroad parallel to Route 1 and connect to Belmont Bay Drive. Route 1 will be widened from a four-lane to a six-lane facility as defined in the Route 1 Corridor Study. Route 123 will be widened from a two-lane to a four-lane facility east of Route 1 and from a four-lane to a six-lane facility west of Route 1. The interchange will be a modified urban diamond design with a loop and ramp in the northwest quadrant. When completed, the project will cost an estimated $62 million. The project design and ROW phase is being administered by Prince William County.

Lee Highway Improvements. Lee Highway is Route 29 through the City of Fairfax and is included in Category III. The planned improvements will upgrade the current four-lane facility to six-lanes from Chain Bridge Road to the west corporate limits of the City of Fairfax (approximately 1-mile).

Route 123 Widening. The Route 123 widening, included in Category III, is proposed to be a six-lane facility beginning at the south approaches of the bridges over the Occoquan River in Prince William County up to Davis Drive in Fairfax County. From this point Route 123 will be constructed as a four-lane facility on six-lane right of way up to the intersection with Burke Lake Road in Fairfax County. When completed, the Route 123 widening will cost an estimated $113.0 million.

Route 123 Occoquan River Bridge. The Route 123 Occoquan River Bridge project, included in Category III, replaced the existing Bridge over the Occoquan River at the Fairfax/Prince William County Line with a six-lane bridge, and completed the widening of this corridor between Interstate 95 and the City of Fairfax at a cost of $33 million. This project was completed in 2007.

Dulles Corridor. Phase I of the Dulles Corridor Metrorail Project, formerly the Dulles Corridor Rapid Transit Project between the existing West Falls Church Station and the proposed Wiehle Avenue Station in Reston, included in Category III, is currently under construction. Completion is scheduled for 2013.

Telegraph Road Improvements. Telegraph Road, Route 611, in Fairfax County will be upgraded from two to four-lanes with a raised median and curb and gutter from Beulah Street to South Kings Highway (2.85 miles) under this project, which is included in Category III.

Route 1/Route 234. The improvement to Route 234 will begin at Green Tree Lane and extend across Route 1 approximately to Deweys Creek on a new alignment. This six-lane section will be limited access. A grade separation will be provided at the Route 1 intersection. The project includes improvements to Old Stage Road, Tripoli Boulevard, and the re-alignment extension of Interstate Drive. Route 1 will be widened from Possum Point Road to Wayside Dive. Bike lanes and sidewalks will be constructed along Route 1. This project is included in Category III.

Potomac-Rappahannock Transportation Commission Bus Replacement Program. The Potomac and Rappahannock Transportation Commission undertook the replacement of 13 transit coaches and 21 minibuses, included in Category III, in use on its Omniride and Omnilink bus transit programs. This project is complete.

Allocation of Bond Proceeds to NVTD Projects

In accordance with the NVTD Bond Legislation, the Transportation Board shall issue bonds for Category III projects only if (1) the governing bodies of at least five of the seven jurisdictions participating in the NVTD Program (composing a majority of the population of the participating jurisdictions) have adopted resolutions endorsing the sale of bonds to support the Category III projects and (2) at least two of the jurisdictions participating in the NVTD Program have entered into a contract with the Transportation Board pursuant to Virginia Code Section 58.1-815.1, which would make revenues available to pay debt service on bonds financing Category III projects. Governing bodies of the requisite jurisdictions have adopted such resolutions endorsing the sale of bonds to support Category III projects, and the Transportation Board has entered into such contracts making revenues available for debt service.

With respect to Category II projects, the NVTD Bond Legislation provides that once the bond authority for all Category I and Category III projects has been used, $5,000,000 of bond authorization may be used to finance the costs of the Category II projects. Once all bonds authorized have been issued, excess money in the NVTD Fund in any fiscal year not needed to pay debt service on the NVTD Bonds issued for Category I, Category II or Category III projects, may be used to pay the costs of Category IV projects. These Category IV projects are unspecified as of this date and will require concurrence by the local jurisdictions participating in the NVTD Program subject to guidelines and conditions established by the Transportation Board.

The projects, the total amount of NVTD Bonds authorized to be issued for each project; the amount of NVTD Bonds issued for each project and the amount allocated to each project from the proceeds of the NVTD Bonds are as follows:

Project	Total Bond Authorization*	Prior NVTD Bonds Issued*
Category I Projects		
Fairfax County Parkway	$87,000,000	$87,000,000
Route 234 Bypass	73,400,000	73,400,000
Metro Capital Improvements	85,600,000	85,600,000
Route 7 Improvements	15,000,000	15,000,000
Category II Projects		
Route 234 Bypass/Route 28	5,000,000	0
Category III Projects		
Route 50/Courthouse Road	10,000,000	0
Fairfax County Parkway (Route 1/Route 7)	65,000,000	0
Route 234 Bypass from Route 28 to Route 234	15,300,000	15,300,000
Route 28/Route 625 Interchange	7,900,000	7,900,000
Route 28 Parallel Roads in Loudoun	3,500,000	3,500,000
Metrorail Capital Improvements (Arlington)	6,200,000	6,200,000
Metrorail Capital Improvements (Fairfax, Metro Parking)	5,000,000	0
Metrorail Capital Improvements (King Street)	8,600,000	8,600,000
Metrorail Capital Improvements (Rail Cars)	29,300,000	29,300,000
Route 15 Safety Improvements	10,100,000	10,100,000
Route 1/Route 123 Interchange	8,200,000	8,200,000
Lee Highway Improvements	3,100,000	0
Route 123 Widening	27,000,000	27,000000
Route 123 Occoquan River Bridge	5,500,000	0
Dulles Corridor	6,000,000	6,000,000
Route 7 (Loudoun to Reston)	10,000,000	10,000,000
Route 7 (Reston to Dulles Toll Road)	3,000,000	3,000,000
Telegraph Road Improvements	5,000,000	0
Route 1/Route 234	4,000,000	0
Potomac-Rappahannock Trans. Comm. (Bus)	1,500,000	1,500,000
Total	$500,200,000	$403,100,000

*** These figures do not include costs of issuance and other financing expenses.**

Federal Clean Air Act Matters

The Federal Clean Air Act significantly impacts the Department's transportation planning process and the Construction Program. Section 174 and 176 (c) and (d) of the Clean Air Act requires States to demonstrate that their programs, plans and projects conform to and meet the National Ambient Air Quality Standards (NAAQS) for those areas designated as nonattainment or maintenance areas. In June 2004, the Environmental Protection Agency (EPA) designated the Fredericksburg, Hampton Roads, Richmond/Tri-Cities, and Northern Virginia regions as nonattainment for the 8-hour ozone standard, although the Fredericksburg region was redesignated into attainment and became a maintenance area due to clean ozone monitoring data. The Northern Virginia region was also designated by EPA as a nonattainment area for fine particulate matter (PM2.5) in April 2005. In both ozone and PM2.5 nonattainment and maintenance areas, regionally significant highway projects cannot advance to construction unless they are properly (i) programmed in the region's Constrained Long-Range Transportation Plan ("CLRP") and the Transportation Improvement Plan ("TIP") and (ii) analyzed for transportation conformity. A conformity analysis is required to demonstrate that the region's CLRP and TIP conform to the region's air quality improvement plan ("SIP") for each applicable NAAQS. Ongoing construction projects may not be halted or delayed.

The designated metropolitan planning organization ("MPO") for a region is responsible for demonstrating conformity for its CLRP and TIP. The Metropolitan Washington Transportation Planning Board ("TPB") is the designated MPO for the Metropolitan Washington region, including the Northern Virginia region. In nonattainment and maintenance areas outside of Northern Virginia, the Virginia Department of Transportation completes the conformity determination for the MPOs. The Federal Highway Administration (FHWA) and the Federal Transit Administration have found the TRB's conformity determination for the region's 2008 Constrained Long Range Plan and FY 2009-2014 TIP conform to the region's SIP for both the 8-hour ozone and PM2.5 standards. In addition, the Richmond, Fredericksburg, and Hampton Roads regions have all demonstrated that their respective CLRPs and TIPs conform with the 8-hour ozone standard in their respective regions.

Establishing conformity with the SIP is a principal objective in transportation planning in nonattainment and maintenance areas, and Virginia has met the conformity requirements every year since the conformity requirements became effective under the Clean Air Act in 1990.

SUMMARY OF THE NORTHERN VIRGINIA TRANSPORTATION DISTRICT PROGRAM TRUST AGREEMENT

The following, in addition to the information presented in the sections "The Bonds" and "Sources of Payment and Security for the Bonds," summarizes certain provisions of the NVTD Trust Agreement. This summary does not purport to be comprehensive or definitive and is qualified by reference to the NVTD Trust Agreement and any additional supplemental agreements in their entireties, copies of which may be obtained at the office of the Treasury Board or the office of the Transportation Board.

Definitions. In addition to the terms previously defined in this Official Statement, the following words used in this summary will have the following meanings unless a different meaning clearly appears from the context:

"Cost" or "Cost of the NVTD Program" means the cost of construction, the cost of all lands, properties, rights, easements, and franchises acquired which are deemed necessary for such construction, the cost of all machinery and equipment, financing charges, interest on the NVTD Bonds prior to and during construction and for one year after completion of construction, cost of traffic estimates and of engineering data, engineering and legal expenses, cost of plans, specifications and surveys, estimates of cost and of revenues, administrative expense, and such other expenses necessary or incident to the financing of all or any portion of the NVTD Program, the construction of all or any portion of the NVTD Program, the placing of all or any portion of the NVTD Program in operation, the condemnation of property necessary for such construction and operation and issuance costs, reserve funds and other financing expenses. Any obligation or expense incurred in connection with any of the foregoing items of Cost may be regarded as a part of such Cost and reimbursed, to the extent permitted by the Internal Revenue Cod of 1986, as amended, to the Transportation Board out of the proceeds of the NVTD Bonds issued to finance all or any portion of the NVTD Program, including, but not limited to, any such obligation or expense incurred prior to the issuance of the NVTD Bonds.

"Government Certificates" shall mean evidences of ownership of proportionate interest in future interest or principal payments of Government Obligations, including depository receipts thereof; provided, that investments in

such proportionate interest must be limited to circumstances wherein (a) a bank or trust company acts as custodian and holds the underlying Government Obligations, (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying Government Obligations, and (c) the underlying Government Obligations are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated.

"Government Obligations" shall mean bonds, notes and other obligations of the United States of America, and securities unconditionally guaranteed as to the payment of principal and interest by the United States of America, or any agency thereof.

"NVTD Bonds Outstanding" or "NVTD Bonds then Outstanding" means, at any date, the aggregate of all NVTD Bonds authorized, issued, authenticated and delivered under the NVTD Trust Agreement, except: (1) NVTD Bonds canceled or surrendered to the paying agent for cancellation; (2) NVTD Bonds deemed to have been paid as provided in the NVTD Trust Agreement; and (3) NVTD Bonds in lieu of or in substitution for which other bonds have been authenticated and delivered pursuant to the NVTD Trust Agreement unless proof satisfactory to the Paying Agent is presented that any such NVTD Bond is held by a bona fide holder.

In determining whether registered owners of NVTD Bonds of a requisite aggregate principal amount of the Outstanding NVTD Bonds have concurred in any request, demand, authorization, direction, notice, consent or waiver under the NVTD Trust Agreement, words referring to or connoting "principal of" or "principal amount of" Outstanding NVTD Bonds will be deemed also to be references to, to connote and to include the accreted value of NVTD Bonds of any series as of the immediately preceding compounding date of such bonds. NVTD Bonds which are owned by the Transportation Board will be disregarded and deemed not to be Outstanding for the purpose of any such determination.

Revenues. The NVTD Bonds are limited obligations of the Commonwealth and the Transportation Board. Principal of and premium, if any, and interest on the NVTD Bonds are payable solely from revenues, receipts and funds appropriated by the General Assembly for payment thereof, or allocated by the Transportation Board for such purpose from the revenues, receipts and funds appropriated to it by the General Assembly, from (1) the Northern Virginia Transportation District Fund, (2) to the extent required, funds appropriated and allocated, pursuant to the highway allocation formula as provided by law, to the Northern Virginia Highway Construction District or the city or county in which the project or projects to be financed are located, (3) to the extent required, legally available revenues in the Transportation Trust Fund, and (4) such other funds which may be appropriated by the General Assembly (the "Revenues"). The NVTD Bonds are further secured by the funds established under the NVTD Trust Agreement, in the manner and to the extent provided in the NVTD Trust Agreement. The NVTD Trust Agreement pledges the Revenues and money held in the funds under it for the benefit of the owners of the NVTD Bonds, subject only to the provisions of the NVTD Trust Agreement permitting the application of such amounts for the purposes and on the terms and conditions set forth in the NVTD Trust Agreement.

Provisions for the Bonds. The NVTD Trust Agreement provides for the issuance of the Bonds, the redemption of the Bonds and all other terms pertaining to the Bonds, as described in the section "The Bonds" in this Official Statement.

Funds and Accounts. The following Funds and Accounts are established under the NVTD Trust Agreement:

(1) Construction Fund, in which there is established a Cost of Issuance Account for each series of bonds issued under the NVTD Trust Agreement; and
(2) Bond Fund, in which there are established an Interest Account, a Principal Account and a Sinking Fund Account for each series of bonds issued under NVTD Trust Agreement.

Construction Fund. Money on deposit in the Construction Fund will be used to pay the Cost of the NVTD Program. The Trustee will make payments from the Construction Fund upon receipt of a requisition signed by a representative of the Transportation Board providing information with respect to the use of the amounts requisitioned. Excess money after completion of the NVTD Program will be applied, subject to the terms and limitations set forth in the NVTD Trust Agreement, to redeem or purchase NVTD Bonds, or to pay principal of or interest on NVTD Bonds. Money on deposit in each Costs of Issuance Account will be used to pay costs of issuance with respect to the bonds issued under the NVTD Trust Agreement.

Bond Fund. Money on deposit in the Bond Fund will be used to pay principal of and premium, if any, and interest on the bonds issued under the NVTD Trust Agreement.

Application of Revenues. The Trustee will deposit in the Bond Fund the following: (1) all amounts transferred from the Construction Fund after completion of the related portion of the NVTD Program to be financed with the NVTD Bonds; (2) all payments received by the Trustee under the Payment Agreement (excluding any payments of Trustee's fees and expenses and the Rebate Amount, as defined in the NVTD Trust Agreement); and (3) all other amounts authorized to be deposited in the Bond Fund under any supplemental trust agreement. The Trustee will use the money deposited in the Bond Fund to pay when due the principal of and premium, if any, and interest on the NVTD Bonds then outstanding and to redeem or purchase NVTD Bonds in accordance with the provisions of the NVTD Bonds and the NVTD Trust Agreement.

Permitted Investments. The NVTD Trust Agreement permits the Trustee, as directed by the Treasurer of the Commonwealth after consultation with an authorized representative of the Transportation Board, to invest money held under the NVTD Trust Agreement in the following investments, so long as such investments are authorized for investment of public funds by Chapter 45, Title 2.2 of the Virginia Code or any successor provision of law:

(1) Government Obligations;

(2) Government Certificates;

(3) bonds, notes and other evidences of indebtedness of the Commonwealth and securities unconditionally guaranteed as to the payment of principal and interest by the Commonwealth;

(4) bonds, notes and other evidences of indebtedness that are direct general obligations of any county, city, town, district, authority or other public body of the Commonwealth upon which there is no default, and revenue bonds issued by agencies or authorities of the Commonwealth or its political subdivisions upon which there is no default, that meet the requirements of Virginia Code Section 2.2-4500.3, or any successor provision of law, and that are rated within the two highest rating categories by a Rating Agency;

(5) bonds, notes and other evidences of indebtedness of any other state of the United States of America upon which there is no default and that meet the requirements of Virginia Code Section 2.2-4501.3, or any successor provision of law, and that are rated within the two highest rating categories by a Rating Agency;

(6) bonds, notes and other evidences of indebtedness of any city, county, town or district situated in any one of the states of the United States of America other than the Commonwealth upon which there is no default and that comply with the requirements of Virginia Code Section 2.2-4501.5, or any successor provision of law, and that are rated within the two highest rating categories by a Rating Agency;

(7) commercial paper with a maturity of 270 days or less, that complies with the requirements of Virginia Code Section 2.2-4502, or any successor provision of law, under guidelines approved by the Treasury Board;

(8) bankers acceptances that comply with requirements of Virginia Code Section 2.2-4504, or any successor provision of law;

(9) savings accounts or time deposits in any bank or savings institution within the Commonwealth; provided, that the bank or savings institution is approved for the deposit of funds of the Commonwealth or any political subdivision thereof in accordance with Virginia Code Section 2.2-4500.5., or any successor provision of law;

(10) certificates of deposit and bank deposit notes of domestic banks and domestic offices of foreign banks in accordance with Virginia Code Section 2.2-4509, or any successor provision of law;

(11) investments made pursuant to the Local Government Investment Pool Act, Chapter 46, Title 2.2 of the Virginia Code (known as "LGIP");

(12) investments made pursuant to the Government Non-Arbitrage Investment Act, Chapter 47, Title 2.2 of the Virginia Code (known as "SNAP"); or

(13) provided it or the provider thereof is rated in one of the two highest rating categories by a Rating Agency, any other investment permitted for the type of money to be invested if the Board is permitted by applicable law to make or enter into such investment.

The NVTD Trust Agreement contains certain other provisions and limitations with respect to investments, including provisions related to open-end and closed-end investment companies or trusts, repurchase agreements and limitations on the maturity of investments held in certain funds.

Redemption. For a description of the redemption provisions of the Bonds, see the subsections "Optional Redemption" and "Mandatory Sinking Fund Redemption" in the section "The Bonds."

Additional Bonds. For a description of the provisions relating to the issuance of Additional Bonds, see the subsection "Additional Debt" in the section "Sources of Payment and Security for the Bonds."

Use of Funds in Northern Virginia Transportation District Fund. The Transportation Board will not expend any money in the Northern Virginia Transportation District Fund for any purpose other than payment of principal of or premium, if any, or interest on NVTD Bonds for such period of time as the Transportation Board (1) fails to pay principal of or premium, if any, or interest on NVTD Bonds when due or (2) fails to allocate funds to the payment of principal of or premium, if any, or interest on any NVTD Bonds at least 90 days prior to the date it is payable, if the General Assembly has not previously appropriated funds for such purpose.

Covenants with Credit Banks, Insurers, etc. The Transportation Board may make such covenants and agreements as it may determine to be appropriate with any credit bank, insurer or other financial institution that will agree to insure or to provide credit or liquidity support that enhances the security or the value of NVTD Bonds of any one or more series and thereby reduce the principal or interest requirements for the NVTD Bonds, provided that such covenants or agreements do not affect adversely the owners of NVTD Bonds then Outstanding. Such covenants and agreements may be set forth in the applicable supplemental trust agreement and shall be binding on the Transportation Board and all the registered owners of NVTD Bonds the same as if such covenants were set forth in full in the NVTD Trust Agreement.

Events of Default and Remedies upon Default. The following are Events of Default under the NVTD Trust Agreement: (1) payment of interest on any NVTD Bond is not made when due and payable; (2) payment of the principal or premium, if any, on any NVTD Bond is not made when due and payable; (3) failure of the Transportation Board to observe or perform any other covenants, agreements or conditions under the NVTD Trust Agreement or the NVTD Bonds for a period of 60 days after written notice from the Trustee or the owners of not less than 25% in aggregate principal amount of NVTD Bonds then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 60 day period, failure of the Transportation Board to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence, (4) appointment by a court of competent jurisdiction of a receiver for all or any substantial part of the Revenues and the funds established under the NVTD Trust Agreement or approval by a court of competent jurisdiction of any petition for reorganization of the Transportation Board or rearrangement or readjustment of the obligations of the Transportation Board under applicable bankruptcy or insolvency law.

Upon the occurrence and continuation of any such Event of Default, the Trustee may, and if requested by the owners of not less than 25% in aggregate principal amount of NVTD Bonds then Outstanding will, by notice to the Transportation Board, declare the entire unpaid principal of and accrued interest on such NVTD Bonds then Outstanding due and payable. Upon any such declaration, the Transportation Board will pay to the owners of the NVTD Bonds the entire unpaid principal of and accrued interest on the NVTD Bonds, but only from the Revenues and other funds of the Transportation Board available and appropriated for such payment, and from the funds held by the Trustee under the NVTD Trust Agreement. If at any time after such a declaration and, before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such Event of Default or before the completion of the enforcement of any other remedy under the NVTD Trust Agreement, the principal of all NVTD Bonds that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have been remedied, then the

Trustee may, and if requested by the owners of not less than 25% in aggregate principal amount of NVTD Bonds then Outstanding shall, by written notice to the Transportation Board, rescind or annul such declaration and its consequences. No such rescission or annulment will extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Upon the occurrence and continuation of an Event of Default the Trustee may, and if requested by the holders of not less than 25% in aggregate principal amount of NVTD Bonds then Outstanding and if indemnified as provided in the NVTD Trust Agreement, shall proceed to protect its rights and the rights of the owners of the NVTD Bonds by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the NVTD Trust Agreement.

Upon the occurrence and continuation of an Event of Default, the Trustee (1) is entitled, upon the filing of a suit or other commencement of judicial proceedings, to have a receiver of the Revenues and the funds held under the NVTD Trust Agreement appointed, and (2) may, and if requested by the owners of not less than 25% in aggregate principal amount of NVTD Bonds then Outstanding and if indemnified as provided in the NVTD Trust Agreement, shall exercise such one or more of the rights and powers conferred by the applicable provisions of the NVTD Trust Agreement as the Trustee, upon being advised of its counsel, deems most expedient in the interests of the owners; provided, however, that nothing contained in the NVTD Trust Agreement will be construed to give the Trustee or any owner authority to compel a foreclosure or sale of the NVTD Program or any portion thereof.

Except to enforce certain rights set forth in the NVTD Trust Agreement, no owner of any NVTD Bond will have any right to institute any action, suit or proceeding at law or in equity for the enforcement of the NVTD Trust Agreement or any remedy thereunder, unless (1) a default has occurred and is continuing of which the Trustee has been notified as provided in the NVTD Trust Agreement, or of which the Trustee is deemed to have notice, (2) such default has become an Event of Default and the owners of not less than 25% in aggregate principal amount of NVTD Bonds then Outstanding have made written request to the Trustee and offered it reasonable opportunity either to proceed to exercise the powers granted to it or to institute such action, suit or proceeding in its own name, (3) such requesting owners have offered to the Trustee indemnity as provided in the NVTD Trust Agreement, (4) the Trustee has for 30 days thereafter failed or refused to exercise the powers granted to it, or to institute such action, suit or proceeding, (5) no direction inconsistent with such written request has been given to the Trustee during such 30 day period by the owners of a majority in aggregate principal amount of NVTD Bonds then Outstanding, and (6) notice of such action, suit or proceeding is given to the Trustee. The notification, request and offer of indemnity set forth above, at the option of the Trustee, will be conditions precedent to the execution of the powers and trusts of the NVTD Trust Agreement and to any action or cause of action for the enforcement of the NVTD Trust Agreement or for any other remedy under the NVTD Trust Agreement.

Defeasance of Bonds. If (a) all NVTD Bonds secured by the NVTD Trust Agreement have been paid in accordance with their terms or have been called for redemption, or if irrevocable instructions to call the NVTD Bonds or pay them at maturity have been given by the Transportation Board to the Trustee and (b) the Trustee holds in cash or noncallable Government Obligations or noncallable Government Certificates the principal of and the interest on which at maturity will be sufficient (1) to redeem in accordance with the NVTD Trust Agreement and any supplemental trust agreement, all NVTD Bonds that have been called for redemption on the date set for such redemption or for which irrevocable instructions for call for redemption have been given, on the date set for such redemption, (2) to pay at maturity all NVTD Bonds not irrevocably called for redemption, (3) to pay interest accruing on all NVTD Bonds prior to their redemption or payment at maturity, (4) to make all payments to the United States of America required by any supplemental trust agreement, and (5) to pay to the Trustee its reasonable fees and expenses, and all other fees and expenses for which the Transportation Board is responsible, then the Trustee will cancel and discharge the NVTD Trust Agreement and execute and deliver to the Transportation Board such instruments in writing as are necessary to cancel its lien and assign and deliver to the Transportation Board any property at the time subject to the NVTD Trust Agreement which may then be in its possession, except funds or securities in which such funds are invested which are held by the Trustee for the payment of principal of and premium if any, and interest on the NVTD Bonds and other fees and expenses described above.

NVTD Bonds for the payment or redemption of which cash, noncallable Government Obligations or noncallable Government Certificates the principal of and premium, if any, and interest on which will be sufficient therefor have been deposited with the Trustee (whether upon or prior to the date of their maturity or their redemption date) will be deemed to be paid and no longer Outstanding under the NVTD Trust Agreement; provided, however, that if such NVTD Bonds are to be redeemed prior to their maturity, notice of such redemption will have duly given or arrangement satisfactory to the Trustee will have been made for the giving of such notice.

Amendments and Supplemental NVTD Trust Agreements. The Transportation Board and the Trustee may, without the consent of or notice to any owners of NVTD Bonds, enter into supplemental trust agreements which are not inconsistent with the terms and provisions of the NVTD Trust Agreement for any one or more of the following purposes: (1) to cure any ambiguity, formal defect or omission in the NVTD Trust Agreement; (2) to grant to or confer upon the Trustee for the benefit of the owners of NVTD Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred on the owners of NVTD Bonds or the Trustee or either of them; (3) to add to the covenants and agreements of the Transportation Board in the NVTD Trust Agreement other covenants and agreements to be observed by the Transportation Board; (4) to modify, amend or supplement the NVTD Trust Agreement in such manner as required by or to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute or any state securities (Blue Sky) law, and to add to the NVTD Trust Agreement such other terms, conditions and provisions as may be required by the Trust Indenture At of 1938, as amended, or similar federal statute or state securities law; (5) to modify, amend or supplement the NVTD Trust Agreement to comply with the provisions of the Internal Revenue Code of 1986, as amended, relating to the rebate to the United States of America of earnings derived from the investment of proceeds of NVTD Bonds; (6) to modify, amend or supplement the NVTD Trust Agreement in such manner as may be required by the Rating Agencies to maintain their respective ratings on the NVTD Bonds; (7) to authorize the issuance of and to secure one or more series of NVTD Bonds as provided in and pursuant to the provisions of the NVTD Trust Agreement; (8) to modify, amend or supplement the NVTD Trust Agreement to implement any covenants or agreements contemplated by credit banks, insurers, or similar entities, provided such modification, amendment or supplement does not materially adversely affect the rights of the owners of any NVTD Bonds then Outstanding; and (9) to make any other change in the NVTD Trust Agreement which, in the opinion of the Trustee, will not prejudice in any material respect the rights of the owners of NVTD Bonds then Outstanding.

The owners of a majority in aggregate principal amount of NVTD Bonds then Outstanding have the right from time to time, notwithstanding anything in the NVTD Trust Agreement to the contrary, to consent to the execution by the Transportation Board and the Trustee of such other supplemental trust agreements deemed necessary or desirable by the Transportation Board for the purpose of modifying, altering, amending, adding to or rescinding, any particular, any of the terms or provisions contained in the NVTD Trust Agreement; provided, however, that nothing in the NVTD Trust Agreement will permit , or be construed as permitting, (1) an extension of the maturity of the principal of or the interest on any NVTD Bond, (2) a reduction in the principal amount of or premium, if any, on any NVTD Bond or the rate of interest on such NVTD Bond, (3) an extension of time or a reduction in amount of any payment required by any sinking fund that may be applicable to any NVTD Bond, (4) a privilege or priority of any NVTD Bond or NVTD Bonds over any NVTD Bond or NVTD Bonds, or (5) a reduction in the aggregate principal amount of NVTD Bonds required for consent to such supplemental trust agreement, without the consent of the owners of all the NVTD Bonds then Outstanding.

SUMMARY OF THE NORTHERN VIRGINIA TRANSPORTATION DISTRICT PROGRAM PAYMENT AGREEMENT

The following, in addition to the information presented in the section "Sources of Payment and Security for the Bonds", summarizes certain provisions of the NVTD Payment Agreement. This summary does not purport to be comprehensive or definitive and is qualified by reference to the NVTD Payment Agreement in its entirety, copies of which may be obtained at the office of the Treasury Board or the office of the Transportation Board.

The NVTD Payment Agreement requires the Transportation Board to submit annually by December 1 to the Governor and the Director of the Department of Planning and Budget of the Commonwealth the following:

(a) A request that the Governor include in the budget to be delivered to the next session of the General Assembly a provision that there be deposited or included in the Northern Virginia Transportation District Fund all amounts provided to be deposited or included therein in accordance with Virginia Code § 58.1-815.1, as such section may be amended from time to time, or any successor provision and to retain in such fund the unexpended amounts on deposit in such fund.

(b) A statement of the amount of principal and interest coming due on the NVTD Bonds and all other amounts required to be paid under the NVTD Trust Agreement during the next succeeding fiscal or biennial period, as applicable, and a request that the Governor include in the budget to be delivered to the next session of the General Assembly a provision that there be appropriated such amount for such purpose (1) from the Northern Virginia Transportation District Fund, (2) to the extent required, funds appropriated and allocated, pursuant to the highway allocation formula as provided by law, to the Northern Virginia

Highway Construction District or the city or county in which the project or projects to be financed are located, (3) to the extent required, legally available revenues of the Transportation Trust Fund, or (4) such funds which may be appropriated by the General Assembly for such purpose.

(c) A request that the Governor include in the budget to be delivered to the next session of the General Assembly a provision that the balance remaining in the Northern Virginia Transportation District Fund, after the appropriation, if any, described in paragraph (b) above is made, be appropriated for Costs of the NVTD Program.

The Transportation Board shall use its best efforts to have (1) the Governor include in each biennial or any supplemental budget presented to the General Assembly the amounts so requested and (2) the General Assembly deposit, appropriate and reappropriate, as applicable, such amounts.

The Treasury Board and the Secretary of Finance shall use their best efforts to have (i) the Governor include in each biennial or any supplemental budget presented to the General Assembly the amounts described in paragraph (b) above, and (ii) the General Assembly appropriate such amounts.

The Commonwealth's budgetary process, to which the NVTD Payment Agreement provisions relate, is described in the subsection "Budgetary Process" within the section "Financial Factors" in Appendix B - Commonwealth of Virginia, Financial and Other Factors.

If no appropriation is made for the amount of principal and interest coming due on the NVTD Bonds and all other amounts required to be paid under the NVTD Trust Agreement from the Northern Virginia Transportation District Fund, or if any such appropriation is insufficient in amount, the Transportation Board shall take all action necessary to (1) have such amounts set aside from funds appropriated and allocated, to the extent required, and pursuant to the highway allocation formula as provided by law, to the Northern Virginia Highway Construction District or to the city or county in which the project or projects to be financed are located, and (2) cause the amounts set aside to be paid by the Treasury Board to the Trustee. **Notwithstanding the provisions of the NVTD Payment Agreement, the General Assembly could amend the statute so that the Transportation Board would not be authorized or permitted to set aside funds so appropriated and allocated to pay debt service on the NVTD Bonds.**

The Transportation Board will provide to the Treasury Board, by May 1 and November 1 of each year, all requisitions and documents and take all actions necessary to have paid to the Treasury Board from funds appropriated from the sources described in paragraph (b) above or from funds set aside by the Transportation Board from funds appropriated and allocated, pursuant to the highway allocation formula as provided by law, to the Northern Virginia Highway Construction District or to the city or county in which the project or projects to be financed are located, all amounts due under the NVTD Payment Agreement for the payment of principal and interest payments due under the NVTD Trust Agreement, and to direct the Treasury Board to make such payments to the Trustee. The Transportation Board will take all action necessary to have such payments charged against the proper appropriation made by the General Assembly.

The Treasury Board will use its best efforts to obtain by May 1 and November 1 of each year the appropriate requisitions and documents needed from the Transportation Board to make all payments due under the NVTD Trust Agreement to the Trustee. The Treasury Board will make all principal and interest payments on the NVTD Bonds to the Trustee solely from amounts available to it for such purpose.

The Trustee is a third party beneficiary of the NVTD Payment Agreement and is entitled to enforce, on behalf of the owners of the NVTD Bonds, all of the obligations and rights of the parties thereto to the same extent as if the Trustee were one of the contracting parties.

CERTAIN LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Bonds will be subject to the approving opinion (the "Bond Opinion") of Troutman Sanders LLP, Richmond, Virginia, Bond Counsel, which will be furnished at the expense of the Transportation Board upon delivery of the Bonds substantially in the form set forth in Appendix E. The Bond Opinion will be limited to matters relating to authorization and validity of the Bonds and to the tax-exempt status of interest thereon as described in the section "Tax Matters." Bond Counsel has not been engaged to investigate the financial resources of the Transportation Board, the Commonwealth or the ability to provide for payment of the Bonds, and the Bond Opinion will make no statement as to such matters or as to the

accuracy or completeness of this Official Statement or any other information that may have been relied on by anyone in making the decision to purchase the Bonds.

Certain legal matters will be passed upon for the Commonwealth by the Office of the Attorney General of Virginia.

TAX MATTERS

Federal Tax Exemption

At the time of sale of the 2009A2 Bonds, the Transportation Board will determine whether to issue the 2009A-2 Bonds as tax-exempt bonds or as Build America Bonds authorized by ARRA. **If the 2009A-2 Bonds are issued as tax-exempt bonds, the information contained under this caption, "Federal Tax-Exemption" also shall be applicable to such 2009A-2 Bonds.**

The Code contains a number of requirements and restrictions that apply to the 2009A-1 Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of proceeds of the 2009A-1 Bonds and certain other matters. The proceedings of the Transportation Board and the documents relating to the 2009A-1 Bonds include provisions which, if complied with by the Transportation Board, meet the requirements of the Code. Failure to comply with certain of such provisions may cause interest on the 2009A-1 Bonds to become subject to federal income taxation retroactive to the date of issuance of the 2009A-1 Bonds.

Assuming compliance by the Transportation Board with the document provisions, in the opinion of Troutman Sanders LLP, Bond Counsel, under existing statutes, interest on the 2009A-1 Bonds is excludable from the gross income of the Owners for federal income tax purposes, is not an item of tax preference for purposes of computing the alternative minimum tax for individuals and corporations and interest, including accrued OID, on the 2009A-1 Bonds is not taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on corporations.. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the 2009A-1 Bonds.

In rendering its opinion, Bond Counsel will rely without independent investigation on certain representations of and compliance with covenants by the Transportation Board, including, without limitation, representations, covenants and certifications as to the use of the proceeds of the 2009A-1 Bonds, compliance with the arbitrage reporting and rebate requirements, and other material factual matters. The inaccuracy of such representations and certifications and the failure to comply with such covenants may cause interest on the 2009A-1 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2009A-1 Bonds.

In the opinion of Bond Counsel, under existing statutes, the 2009A-1 Bonds, their transfer and the income therefrom (including any profit made on the sale thereof) shall at all times be free and exempt from taxation by the Commonwealth and by any municipality, county or other political subdivision thereof.

Ownership of tax-exempt obligations such as the 2009A-1 Bonds may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S Corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the 2009A-1 Bonds should consult with their tax advisors as to the applicability and impact of any collateral income tax consequences.

From time to time, there are legislative proposals in the Congress of the United States and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the 2009A-1 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the 2009A-1 Bonds.

Federally Taxable Build America Bonds

At the time of sale of the 2009A2 Bonds, the Transportation Board will determine whether to issue the 2009A-2 Bonds as Build America Bonds authorized by ARRA or as tax-exempt bonds. If the 2009A-2 Bonds are issued as Build America Bonds (the "Taxable Bonds"), the information contained under this caption, "Federally Taxable Build America Bonds" shall be applicable to such series of bonds. **If the 2009A-2 Bonds are issued as tax-exempt bonds, then the information contained under this caption "Federally Taxable Build America Bonds" shall not be applicable to such series of bonds and should be disregarded.**

Opinion of Bond Counsel. The opinion of Bond Counsel with respect to the Taxable Bonds will state that, based on current law, interest on the Taxable Bonds is included in the gross income of the owners thereof for federal income tax purposes. In addition, the opinion of Bond Counsel will state that under existing statutes of the Commonwealth, interest on the Taxable Bonds is exempt from income taxation by the Commonwealth and any political subdivision thereof.

For the Taxable Bonds, the Transportation Board will elect to receive cash subsidy payments equal to 35% of the interest payable on the Taxable Bonds from the United States Treasury. As a result of such election, holders of the Taxable Bonds will not be eligible to receive the tax credit otherwise permitted under Section 54AA(a) of the Code. The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Taxable Bonds in order for the Transportation Board to continue to receive such subsidy payments. These requirements include, but are not limited to, requirements relating to use and expenditure of the available project proceeds of the Taxable Bonds, yield and other restrictions on investments of available project proceeds of the Taxable Bonds and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance may cause the Taxable Bonds to fail to qualify for the receipt of the interest subsidy payments. The Transportation Board has covenanted to comply with certain applicable requirements of the Code to assure the receipt of the interest subsidy payments in respect of the Taxable Bonds.

*Summary***.** The following is a summary of certain of the United States federal income tax consequences of the ownership of the Taxable Bonds as of the date hereof. Each prospective purchaser of the Taxable Bonds should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as Treasury regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the Taxable Bonds generally and does not purport to furnish information in the level of detail or with the prospective purchaser's specific tax circumstances that would be provided by a prospective purchaser's own tax advisor. For example, it generally is addressed only to original purchasers of the Taxable Bonds that are "U.S. holders" (as defined below), deals only with Taxable Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to owners that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, S corporations, persons that hold Taxable Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" (as defined in Section 985 of the Code) is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in an owner of Taxable Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a beneficial owner of a Taxable Bond. A "non-U.S. holder" is a holder (or beneficial owner) of a Taxable Bond that is not a U. S. person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to United States Federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

Tax Status of the Taxable Bonds. The Taxable Bonds will be treated, for federal income tax purposes, as a debt instrument. Accordingly, interest will be included in the income of the owner as it is paid (or, if the owner is an accrual method taxpayer, as it is accrued) as interest.

Owners of the Taxable Bonds that allocate a basis in the Taxable Bonds that is greater than the principal amount of the Taxable Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

If an owner purchases the Taxable Bonds for an amount that is less than the principal amount of the Taxable Bonds, and such difference is not considered to be de minimis, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a Taxable Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount Taxable Bond that does not exceed the accrued market discount for any taxable year, will be deferred.

Sale and Exchange of Taxable Bonds. Upon a sale or exchange of a Taxable Bond, an owner generally will recognize gain or loss on the Taxable Bond equal to the difference between the amount realized on the sale and its adjusted tax basis in such Taxable Bond. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the Taxable Bond not yet taken into income will be ordinary). The adjusted basis of the owner in a Taxable Bond will (in general) equal its original purchase price increased by any original issue discount or market discount includible in the gross income of the owner with respect to the Taxable Bonds and decreased by any principal payments received on the Taxable Bonds. In general, if any Taxable Bond is held for longer than one year, any gain or loss would be long term capital gain or loss, and capital losses are subject to certain limitations.

Defeasance. The Transportation Board may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Taxable Bonds to be deemed to be no longer outstanding (a "defeasance"). For federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Taxable Bonds subsequent to any such defeasance could also be affected.

Foreign Investors. Distributions of the Taxable Bonds to a non-U.S. holder that has no connection with the United States other than holding its Taxable Bond generally will be made free of withholding tax, as long as that the non-U.S. holder has complied with certain tax identification and certification requirements.

Circular 230. Under 31 C.F.R. part 10, the regulations governing practice before the Internal Revenue Service (Circular 230), the Transportation Board and its tax advisors are (or may be) required to state that (i) any advice contained herein, including any opinions of counsel referred to herein, is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer; (ii) any such advice is written to support the promotion of marketing of the Taxable Bond and the transactions described herein (or in such opinion or other advice); and (iii) each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Miscellaneous. Prospective purchasers of the Taxable Bonds should consult their own tax advisors as to the status of interest on the Taxable Bonds under the tax laws of any state other than Virginia.

LEGALITY FOR INVESTMENT

The NVTD Bond Legislation provide that the Bonds are securities in which all public officers and bodies of the Commonwealth and its political subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees and other fiduciaries in the Commonwealth may properly and legally invest funds under their control.

No representation is made as to the eligibility of the Bonds for investment or for any other purpose under the laws of any other state.

LITIGATION

There is no litigation now pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or in any way contest or affect the validity of the Bonds, any proceeding of the Transportation Board or the Treasury Board taken with respect to their issuance or sale, or any appropriation of funds to pay debt service on the Bonds.

See the section "Litigation of the Commonwealth" in Appendix B for a discussion of litigation pending against the Commonwealth.

CERTIFICATE CONCERNING OFFICIAL STATEMENT

Concurrently with the delivery of the Bonds, officials who signed the Bonds will certify that, to the best of their knowledge, the Official Statement did not as of its date, and does not as of the date of delivery of the Bonds, contain any untrue statement of a material fact or omit to state a material fact which should be included therein for the purpose for which the Official Statement is to be used, or which is necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading. Such certificate will also state, however, that such officials did not independently verify the information in the Official Statement from sources other than the Transportation Board and the Department of Transportation but that they have no reason to believe that such information contains any untrue statement of a material fact or omits to state a material fact which should be included therein for the purpose for which the Official Statement is to be used, or which is necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE

Rule 15c2-12 in General. Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), prohibits an underwriter from purchasing or selling municipal securities unless it has determined that the issuer of such securities and/or other persons deemed to be materially "obligated persons" (hereinafter referred to as "MOPs" and each, a "MOP") have committed to provide (i) on an annual basis, certain financial information, including when and if available audited financial information and operating data ("Annual Reports"), to the Municipal Securities Rulemaking Board (the "MSRB") via the MSRB's Electronic Municipal Market Access system ("EMMA") and the relevant state information repository (if any) and (ii) notice of various events described in Rule 15c2-12 if material ("Event Notices"), to the MSRB via EMMA and to any such state information repository. The events described in Rule 15c2-12 which, if material, may result in Event Notices are as follows: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity provider, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the security; (vii) modifications to rights of security holders; (viii) bond calls; (ix) defeasances; (x) release, substitution or sale of property securing repayment of the securities; and (xi) rating changes.

Transportation Board Continuing Disclosure. The Transportation Board will covenant in a Continuing Disclosure Agreement in substantially the form set forth in Appendix E, for the benefit of the holders of the Bonds to provide to the MSRB via EMMA and to any Virginia information repository that has been formed Annual Reports with respect to itself as issuer and the NVTD Program. Similarly, the Transportation Board will provide Event Notices to the MSRB via EMMA and to any Virginia information repository. As of the date of this Official Statement, the Transportation Board has complied with its other undertakings regarding Rule 15c2-12.

Commonwealth Continuing Disclosure. The Commonwealth, which the Transportation Board has determined to be a MOP for purposes of Rule 15c2-12, will covenant in a Continuing Disclosure Agreement, in substantially the form set forth in Appendix E, to be executed prior to the issuance of the Bonds for the benefit of the holders of the Bonds to provide to the MSRB via EMMA and to any Virginia information repository that has been formed Annual Reports with respect to the Commonwealth. Similarly, the State Treasurer will provide Event Notices to the MSRB via EMMA and to any Virginia information repository on rating changes with respect to the Commonwealth's general obligation bonds. The Commonwealth will represent that it is in compliance with its other undertakings regarding the Rule 15c2-12.

RATINGS

Fitch Ratings (“Fitch”), Moody's Investors Service, Inc. (“Moody’s”) and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”) assigned the Bonds ratings of ___, ___ and ___, respectively.

Such ratings reflect only the respective views of such organizations. Reference should be made to the individual rating agency for a fuller explanation of the significance of the rating assigned by such rating agency. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by any of the rating agencies if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of ratings may have an adverse effect on the market price of the Bonds.

SALE AT COMPETITIVE BIDDING

The Bonds will be offered for sale at competitive bidding on October 21, 2009, unless changed as described in the Notices of Sale contained in Appendix F to this Official Statement. This Preliminary Official Statement has been deemed final as of its date by the Transportation Board in accordance with the meaning and requirements of Rule 15c2-12. After the Bonds have been awarded, the Transportation Board will deem the Official Statement final as of its date, and the Official Statement as so completed will be a final official statement within the meaning of Rule 15c2-12 (the "Final Official Statement"). The Final Official Statement will include, among other matters, the identity of the winning bidder and the managers of the syndicate, if any, submitting the winning bid, the expected selling compensation to the underwriters of the Bonds and other information on the interest rates and offering prices or yields of the Bonds, as supplied by the winning bidder.

FINANCIAL ADVISOR

Public Resources Advisory Group ("PRAG"), New York, New York, is serving as financial advisor to the Transportation Board on the issuance of the Bonds. PRAG has assisted in the preparation of this Official Statement and in matters relating to the planning, structuring and issuance of the Bonds and has provided other advice. PRAG is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal or any other negotiable instruments.

MISCELLANEOUS

The references in this Official Statement to the NVTD Trust Agreement, the NVTD Payment Agreement, and other documents are brief outlines of certain of their provisions. These outlines do not purport to be complete and reference is made to such documents, copies of which will be furnished by the Transportation Board, upon request made to Reta R. Busher, Chief Financial Officer, Virginia Department of Transportation, Room 304, 1401 East Broad Street, Richmond, Virginia 23219 (telephone: 804-786-5128).

The execution and delivery of this Official Statement has been duly authorized by the Transportation Board.

COMMONWEALTH TRANSPORTATION BOARD

By: _____

Pierce R. Homer, Chairman

APPENDIX A

COMMONWEALTH OF VIRGINIA

FINANCIAL STATEMENTS OF THE COMMONWEALTH
FOR THE YEAR ENDED JUNE 30, 2008

Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

December 12, 2008

The Honorable Timothy M. Kaine
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Virginia, as of and for the year ended June 30, 2008, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth of Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain components units of the Commonwealth discussed in Note 1.B., which represent 32.23 percent, 19.58 percent, and 8.35 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for certain component units discussed in Note 1.B. is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Hampton Roads Sanitation District Commission, Virginia Museum of Fine Arts Foundation, Library of Virginia Foundation, and Danville Science Center, Inc. which were audited by other auditors upon whose reports we are relying, were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Virginia as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedule, funding progress for defined benefit pension plans, schedule of employer contributions for defined benefit pension plans, funding progress for other post-employment benefit plans, schedule of employer contributions for other post-employment benefit plans, and claims development information on pages 27 through 36 and 162 through 176 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Virginia's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, our report dated December 12, 2008, on our consideration of the Commonwealth's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters is issued under separate cover in the Commonwealth of Virginia Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

WALTER J. KUCHARSKI
AUDITOR OF PUBLIC ACCOUNTS

Management's Discussion and Analysis
(Unaudited)

The following is a discussion and analysis of the Commonwealth of Virginia's (the Commonwealth) financial performance, including an overview and analysis of the financial activities of the Commonwealth for the fiscal year ended June 30, 2008. Readers should consider this information in conjunction with the transmittal letter, which is located in the Introductory Section of this report, and the Commonwealth's financial statements, including the notes to the financial statements, which are located after this analysis.

Financial Highlights

Government-wide Highlights

The primary government's assets exceeded its liabilities at June 30, 2008, by $18.3 billion. Net assets of governmental activities increased by $739.7 million and net assets of business-type activities decreased by $213.1 million. Component units reported an increase in net assets of $675.6 million from June 30, 2007.

Fund Highlights

At the end of the fiscal year, the Commonwealth's governmental funds reported a combined ending fund balance of $4.8 billion, a decrease of $738.4 million in comparison with the prior year. Of this total fund balance, $3.3 billion represents unreserved fund balance and the remaining $1.5 billion represents amounts reserved for specific purposes, such as the Revenue Stabilization Fund. The enterprise funds reported net assets at June 30, 2008, of $902.2 million, a decrease of $211.0 million during the year.

While the Commonwealth's combined governmental fund increased during fiscal year 2008, the General Fund actual revenues marginally increased $6.6 million over final budgeted revenues. This small increase coupled with wider economic concerns have contributed to a projected budget shortfall for the fiscal year 2008-2010 biennial budget. See page 34 for additional information.

Long-term Debt

The Commonwealth's total debt rose during the fiscal year to $26.9 billion, an increase of $2.6 billion or 10.7 percent. During fiscal year 2008, the Commonwealth issued new debt in the amount of $503.3 million for the primary government and $3.4 billion for the component units. More detailed information regarding these activities begins on page 131.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Commonwealth's basic financial statements, which include three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. The report also contains additional required supplementary information and other information.

Government-wide Statements

The government-wide financial statements are designed to 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 about the Commonwealth's financial position which helps readers determine whether the Commonwealth's financial position has improved or deteriorated during the fiscal year. These statements include all non-fiduciary financial activity on the full accrual basis of accounting. This means that all revenue and expenditures are reflected in the financial statements even if the related cash has not been received or paid as of June 30.

The Statement of Net Assets (pages 38 and 39) presents information on all of the Commonwealth's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate whether the financial position of the Commonwealth is improving or deteriorating.

The Statement of Activities (pages 40 through 42) presents information showing how the Commonwealth's net assets changed during fiscal year 2008. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the Statement of Net Assets and Statement of Activities report three separate activities. These activities are described as follows:

Governmental Activities – account for functions of the Commonwealth that are primarily supported by taxes and intergovernmental revenues. The majority of the Commonwealth's basic services, such as education, individual and family services, transportation, resources and economic development, administration of justice, and general government, fall within this category.

Business-type Activities – account for functions that are intended to recover all or a significant portion of their costs through user fees and charges. The major business-type activities of the Commonwealth include the State Lottery, Virginia College Savings Plan, and Unemployment Compensation Fund.

Discretely Presented Component Units – account for functions of legally separate entities for which the Commonwealth is financially accountable. The Commonwealth has 27 non-higher education component units and 22 higher education institutions that are reported as discretely presented component units. Information regarding the individual financial statements of the component units is presented in the notes to the financial statements.

This report includes two schedules (pages 46 and 50) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities on the appropriate government-wide statements (full accrual accounting). The following indicates some of the reporting differences between the government-wide financial statements and the fund financial statements.

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Long-term liabilities, unless due and payable, are not included in the fund financial statements. These liabilities are only included in the government-wide statements.
- Internal service funds are reported as governmental activities in the government-wide statements, but are reported as proprietary funds in the fund financial statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in the governmental fund statements, but not deferred in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but are reported as expenditures in the fund financial statements.
- Bond proceeds provide current financial resources on the fund financial statements, but are recorded as long-term liabilities in the government-wide financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the Commonwealth's funds can be divided into three categories: governmental, proprietary, and fiduciary. Each of these categories uses different accounting approaches. Fund financial statements begin on page 44 and provide detailed information about the major individual funds.

- **Governmental funds** – Most of the basic services provided by the Commonwealth are reported in the governmental funds. These statements provide a detailed, short-term view of the functions reported as governmental activities in the government-wide financial statements. The government-wide financial statements are reported using the full accrual basis of accounting, but the governmental fund financial statements are reported using the modified accrual basis of accounting. This allows the reader to focus on assets that can be readily converted to cash and determine whether there are adequate resources to meet the Commonwealth's current needs.

  Because the focus of governmental funds is more limited than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison can help readers better understand the long-term impact of the Commonwealth's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

  The Commonwealth reports 14 individual governmental funds. Information is presented separately in the governmental fund statements for the General, Commonwealth Transportation, Federal Trust, and Literary funds, which are all considered major funds. Data from the other 10 governmental funds are aggregated into a single column on the fund statements. Individual fund data for these nonmajor governmental funds is provided in the combining financial statements immediately following the required supplementary information.

- **Proprietary funds** – The Commonwealth maintains two different types of proprietary funds, enterprise and internal service. These funds report activities that operate more like those of private sector business and use the full accrual basis of accounting. Enterprise funds report activities that charge fees for supplies or services to the general public like the State Lottery. Enterprise funds are reported as business-type activities on the government-wide financial statements. The enterprise funds use the full accrual basis of accounting and the only differences between amounts reported on the government-wide statements and the enterprise fund statements are due to internal service fund activity (see reconciliations on pages 52 and 54). Internal service funds report activities that charge fees for supplies and services to other Commonwealth agencies, like Fleet Management. Internal service funds are reported as governmental activities in the government-wide statements because these types of services predominantly benefit governments rather than business-type functions.

  The Commonwealth reports 22 individual proprietary funds. Information is presented separately in the proprietary fund statements for the State Lottery Department, Virginia College Savings Plan, and Unemployment Compensation Funds, all of which are considered major funds. Data from the other enterprise funds are aggregated into a single column on the fund statements. All internal service funds are aggregated into a single column on the fund statements. Individual fund data for all nonmajor proprietary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Fiduciary funds** – These funds are used to account for resources held for the benefit of parties outside the government and use the full accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because the resources of these funds are restricted and cannot be used to finance the Commonwealth's operations. The Commonwealth's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 62.

  The Commonwealth's fiduciary funds are the:

  - Private-purpose Trusts, which reports the activities for 6 separate funds and accounts for transactions of trust arrangements in which the principal and income benefit individuals, private organizations, or other governments;
  - Pension and Other Employee Benefit Trusts, which reports the activities of 12 separate pension and other employment retirement plans for employees;
  - Investment Trust, which accounts for the activities of the external investment pool; and,
  - Agency, which accounts for assets held on behalf of others in 21 separate funds.

  Individual fund data for all fiduciary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Component Units** – The government-wide financial statements report information for all component units aggregated in a single column. Information is provided separately in the component unit fund statements for the Virginia Housing Development Authority, Virginia Public School Authority, University of Virginia, Virginia Polytechnic Institute and State University, and Virginia Commonwealth University, all of which are considered major component units. Data from the other component units are aggregated into a single column on the fund statements. Individual fund data for all nonmajor component units is provided in the combining financial statements immediately following the required supplementary information.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the component unit fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at June 30. It also includes information concerning the Commonwealth's funding progress for pension and other post-employment benefits, as well as trend information for Commonwealth-managed risk pools.

Other Information

The combining statements referred to earlier in connection with nonmajor funds and component units can be found beginning on page 177 of this report. The individual fund information is aggregated into a single total on the combining financial statements, which carries forward to the fund financial statements.

Government-wide Financial Analysis

The primary government's assets exceeded its liabilities by $18.3 billion during the fiscal year. The net assets of the governmental activities increased $739.7 million or 4.4 percent, primarily due to increases in capital assets as discussed further on page 35 offset by decreases in the governmental funds and long-term debt. Business-type activities had a decrease of $213.1 million or 19.1 percent, primarily due to decreases for the Virginia College Savings Plan and the Unemployment Compensation Fund. The government-wide beginning balance was restated for the correction of prior year errors to arrive at a restated beginning balance of $17.8 billion.

Figure 9
Net Assets as of June 30, 2008 and 2007
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007 as restated	2008	2007	2008	2007 as restated
Current and other assets	$ 10,324,856	$ 11,064,189	$ 3,640,278	$ 3,707,277	$ 13,965,134	$ 14,771,466
Capital assets	18,594,489	17,170,682	30,673	32,444	18,625,162	17,203,126
Total assets	28,919,345	28,234,871	3,670,951	3,739,721	32,590,296	31,974,592
Long-term liabilities outstanding	5,961,754	5,751,429	2,257,431	2,071,852	8,219,185	7,823,281
Other liabilities	5,523,636	5,789,202	512,154	553,441	6,035,790	6,342,643
Total liabilities	11,485,390	11,540,631	2,769,585	2,625,293	14,254,975	14,165,924
Net assets:						
Invested in capital assets, net of related debt	15,240,757	13,856,949	26,592	29,834	15,267,349	13,886,783
Restricted	1,711,491	1,892,920	816,061	872,174	2,527,552	2,765,094
Unrestricted	481,707	944,371	58,713	212,420	540,420	1,156,791
Total net assets	$ 17,433,955	$ 16,694,240	$ 901,366	$ 1,114,428	$ 18,335,321	$ 17,808,668

The largest portion of the primary government's net assets (83.3 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, infrastructure, and construction in progress), less any related outstanding debt used to acquire those assets. These assets are recorded net of depreciation in the financial statements. The primary government uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the primary government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (**Figure 9**).

An additional portion of the primary government's net assets (13.8 percent) represents restricted net assets. These resources are subject to external restrictions or constitutional provisions specifying how they may be used. The remaining balance of $540.4 million is unrestricted net assets (**Figure 9**).

Approximately 57.6 percent of the primary government's total revenue came from taxes. While the primary government's expenses cover many services, the largest expenses are for education and individual and family services. General revenues normally fund governmental activities. For fiscal year 2008, governmental program and general revenue exceeded governmental activity expenses by $146.5 million. Program revenues exceeded expenses from business-type activities by $355.0 million. The following condensed financial information (**Figure 10**) was derived from the Government-wide Statement of Activities and provides detail regarding the change in net assets (see page 40).

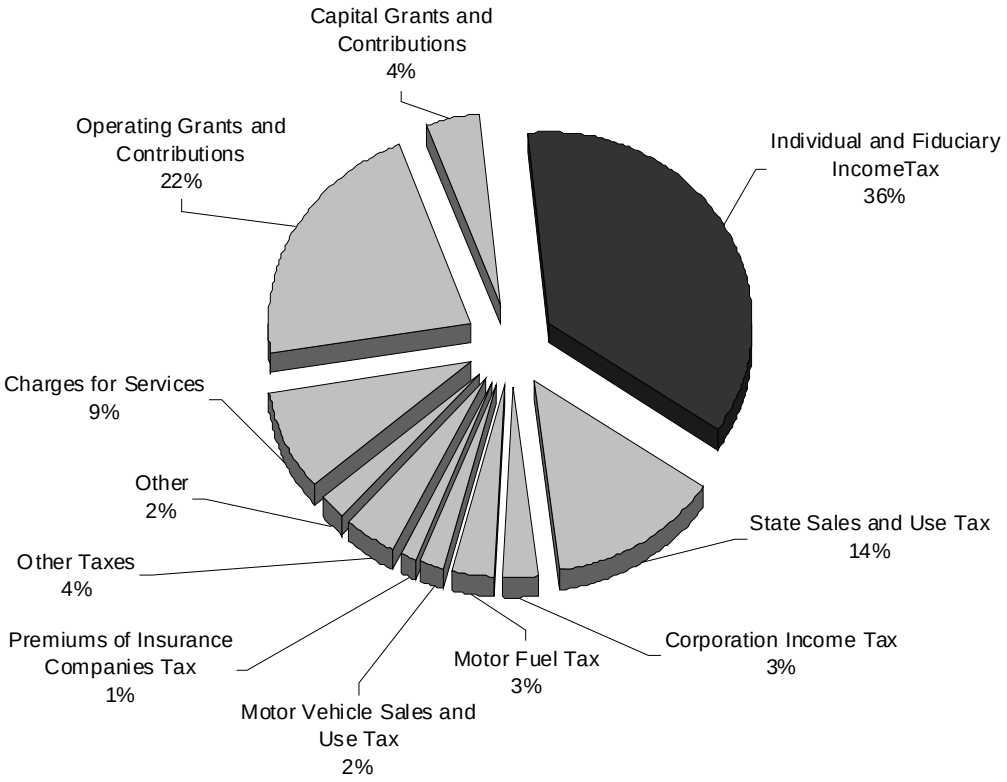
Figure 10
Changes in Net Assets for the Fiscal Years Ended June 30, 2008 and 2007
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007 as restated	2008	2007	2008	2007 as restated
Revenues:						
Program Revenues:						
Charges for Services	$ 2,404,098	$ 2,109,855	$ 2,706,165	$ 2,991,653	$ 5,110,263	$ 5,101,508
Operating Grants and Contributions	6,067,358	5,869,805	39,243	36,091	6,106,601	5,905,896
Capital Grants and Contributions	1,152,439	850,561	-	-	1,152,439	850,561
General Revenues:						
Taxes:						
Individual and Fiduciary Income	10,099,573	9,639,024	-	-	10,099,573	9,639,024
State Sales and Use	3,820,715	3,755,896	-	-	3,820,715	3,755,896
Corporation Income	772,323	905,852	-	-	772,323	905,852
Motor Fuel	923,894	929,723	-	-	923,894	929,723
Motor Vehicle Sales and Use	533,755	588,471	-	-	533,755	588,471
Deeds, Contracts, Wills, and Suits	456,984	583,782	-	-	456,984	583,782
Premiums of Insurance Companies	396,858	384,894	-	-	396,858	384,894
Alcoholic Beverage Sales Tax	105,655	100,160	-	-	105,655	100,160
Tobacco Products	182,850	187,726	-	-	182,850	187,726
Estate	135,781	140,379	-	-	135,781	140,379
Public Service Corporations	106,378	88,672	-	-	106,378	88,672
Beer and Beverage Excise	44,357	43,804	-	-	44,357	43,804
Wine and Spirits/ABC Liter	18,552	18,020	-	-	18,552	18,020
Bank Stock	13,724	12,624	-	-	13,724	12,624
Other Taxes	66,319	74,906	12,531	12,430	78,850	87,336
Unrestricted Grants and Contributions	53,709	50,138	-	-	53,709	50,138
Investment Earnings	348,446	477,212	11,743	10,779	360,189	487,991
Miscellaneous	224,072	153,506	910	391	224,982	153,897
Total Revenues	27,927,840	26,965,010	2,770,592	3,051,344	30,698,432	30,016,354
Expenses:						
General Government	2,476,981	2,639,348	-	-	2,476,981	2,639,348
Education	9,302,822	9,537,646	-	-	9,302,822	9,537,646
Transportation	3,053,918	2,255,662	-	-	3,053,918	2,255,662
Resources and Economic Development	873,015	838,557	-	-	873,015	838,557
Individual and Family Services	9,254,559	9,028,007	-	-	9,254,559	9,028,007
Administration of Justice	2,615,198	2,643,026	-	-	2,615,198	2,643,026
Interest and Charges on Long-term Debt	204,855	203,372	-	-	204,855	203,372
State Lottery	-	-	936,416	929,369	936,416	929,369
Virginia College Savings Plan	-	-	244,165	179,530	244,165	179,530
Unemployment Insurance	-	-	432,805	381,660	432,805	381,660
Alcoholic Beverage Control	-	-	456,986	433,944	456,986	433,944
Local Choice Health Care	-	-	202,318	179,032	202,318	179,032
Nonmajor	-	-	117,741	109,261	117,741	109,261
Total Expenses	27,781,348	27,145,618	2,390,431	2,212,796	30,171,779	29,358,414
Excess/deficiency before transfers and Contributions	146,492	(180,608)	380,161	838,548	526,653	657,940
Contributions to Permanent Funds						
Transfers	593,223	563,978	(593,223)	(563,978)	-	-
Contributions to Permanent Funds	-	20,000	-	-	-	20,000
Increase in net assets	739,715	403,370	(213,062)	274,570	526,653	677,940
Net assets, July 1, as restated	16,694,240	16,290,870	1,114,428	839,858	17,808,668	17,130,728
Net assets, June 30	$ 17,433,955	$ 16,694,240	$ 901,366	$ 1,114,428	$ 18,335,321	$ 17,808,668

Governmental Activities Revenues

Figure 11 is a graphical representation of the Statement of Activities revenues for governmental activities. Governmental activities revenues increased by $962.8 million, or 3.6 percent. This increase is mainly attributable to activities of the General Fund and the Commonwealth Transportation Fund which are discussed further on pages 34 and 35, respectively.

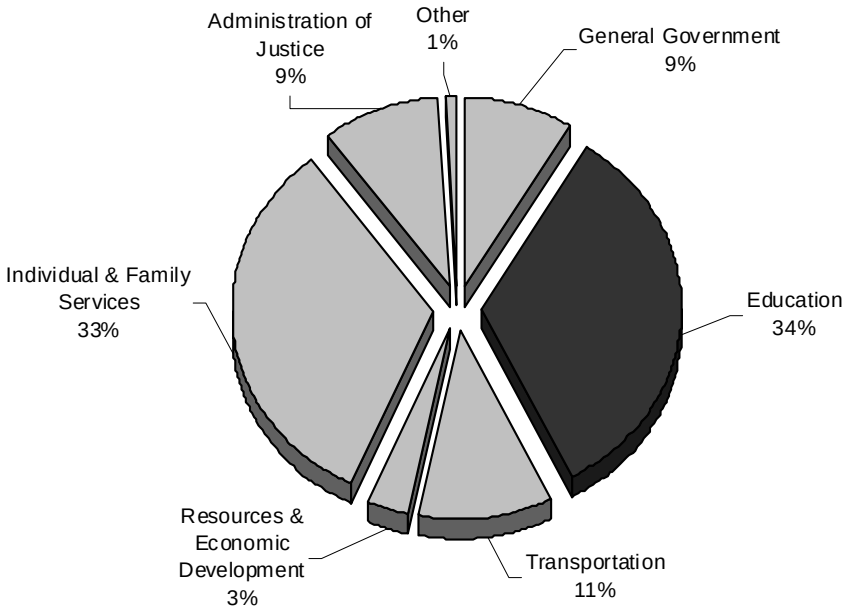
Figure 11
Revenues by Source – Governmental Activities
Fiscal Year 2008



Governmental Activities Expenses

Figure 12 is a graphical representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses increased by $635.7 million or 2.3 percent. The majority of the increase is related to the General Fund and the Commonwealth Transportation Fund which are discussed further on pages 34 and 35, respectively.

Figure 12
Expenses by Type – Governmental Activities
Fiscal Year 2008



Net Assets of Business-type Activities

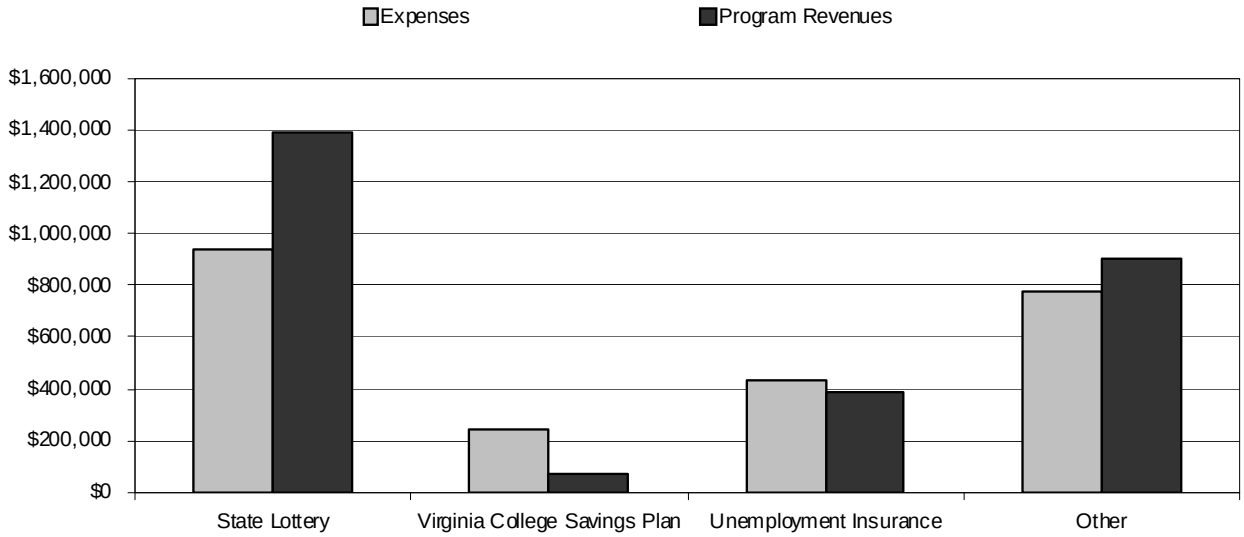
Net assets of business-type activities decreased by $213.1 million during the fiscal year. Highlights of the changes in net assets for the major enterprise funds were as follows:

- Lottery sales were $1.4 billion, increasing nearly two percent from the prior year. Net income was $465.1 million, an increase of $17.3 million (3.9 percent) from fiscal year 2007. Sales of scratch games decreased by $3.4 million (0.5 percent) and online sales increased by $27.4 million (4.1 percent). This is offset by an increase of $8.2 million (0.9 percent) in total expenses, primarily attributable to the cost of sales and services.

- Virginia College Savings Plan's net assets decreased by $174.2 million (143.3 percent), from a surplus of $121.6 million to a deficit of $52.6 million. This deterioration in financial position is primarily attributable to much worse than anticipated investment performance and a change in the tuition growth assumption that significantly increased the projected unfunded actuarial liability calculated by the Plan's actuary. The decrease in net assets was offset somewhat by revenue from new contract sales.

- Unemployment Compensation Fund net assets decreased by $56.1 million during fiscal year 2008 as a result of a net operating loss of $83.1 million and net transfers out of $11.3 million for administration, offset by interest income of $38.3 million. The net operating loss reflects increased benefit claim payments as well as decreased premium revenues from participating employers. For fiscal year 2008 the average employer assessment rate decreased from 1.2 percent in fiscal year 2007 to 1.0 percent, contributing to an overall premium revenue decrease of $90.3 million. For benefit payments, which are reflective of Virginia's softening employment market, the overall blended unemployment rate for fiscal year 2008 rose from 3.0 percent to 3.4 percent. The increase in the unemployment rate translated into an additional 26,650 benefit claimants for fiscal year 2008 over the prior year. Additionally, the average weekly benefit payment increased from $259 to $269 per week, a 4.6 percent increase, and the average claim duration also slightly increased from an average 12.4 weeks to 12.5 weeks. These multiple influences led to total increased benefit payments of $49.8 million over the prior year.

Figure 13
Business-type Activities
Program Revenues and Expenses
For the Fiscal Year Ended June 30, 2008
(Dollars in Thousands)



Fund Statements Financial Analysis

As of the end of the fiscal year, the primary government's governmental funds reported combined ending fund balances of $4.8 billion. Of this total amount, $3.4 billion, or 69.6 percent, constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to a variety of other restricted purposes, such as the Revenue Stabilization Fund, outstanding debt and capital outlay.

General Fund Highlights

The General Fund is the chief budgetary operating fund of the primary government. At the end of the current fiscal year, unreserved fund balance of the General Fund was $78.5 million and reserved fund balance was $1.1 billion. As discussed in Note 5, the decrease in reserved fund balance is due largely to a withdrawal of $351.5 million from the Revenue Stabilization Fund during the fiscal year to offset declining revenue. When compared to the prior year, the net change in fund balance of the General Fund is a decrease of $508.6 million. Fiscal year 2008 General Fund revenues were 1.4 percent or $219.8 million greater than fiscal year 2007 revenues. This was attributable to a $275.7 million increase (1.8 percent) in overall tax revenues offset by a $72.6 million decrease (22.4 percent) in interest revenue. Fiscal year 2008 expenditures increased $762.6 million as compared to fiscal year 2007. This was attributable to increases in education expenditures, capital outlay expenditures, individual and family services expenditures, and administration of justice expenditures of $224.0 million, $173.4 million, $162.5 million, and $142.9 million, respectively. Net other financing sources and uses increased by $34.2 million which is due to both higher transfers in and lower transfers out.

Budget Highlights

While the General Fund recognized modest increases in overall growth when compared to fiscal year 2007, the slowing economy contributed to a decrease in the original revenue budget of $683.0 million. This reduction was primarily attributable to decreases in the final budget for individual and fiduciary income tax revenue of $344.0 million, sales and use tax revenue of $167.9 million, and corporation income revenue of $95.8 million. Total actual revenues were higher than final budgeted revenues by $6.6 million.

Total final budget expenditures exceeded original budget expenditures by $152.1 million or one percent. Approximately $255.3 million of the increase relates to additional capital outlay projects. Additionally, administration of justice final budget expenditures increased approximately $127.8 million due to increased legislative appropriations. The increases in the final budgeted expenditures were offset by decreases in general government and education expenditures of approximately $215.1 million and $116.9 million, respectively.

The Commonwealth spent less than planned so the actual expenditures were $309.6 million or two percent lower than the final budgeted expenditures. This variance was primarily a result of $141.4 million related to capital outlay projects.

Budget Outlook

The economic indicators for fiscal year 2008 revenues reflect a slowing economy. Declining employment levels, slower income growth, lower consumer confidence, and the continued downward trends in the housing market drove shortfalls in withholding, sales, and recordation taxes. The two General Fund revenue sources most closely tied to current economic activity – payroll withholding and retail sales taxes – experienced a meaningful slowdown in the rate of growth during the second half of fiscal year 2008. In addition, as discussed in Note 37, the United States' credit market has experienced tremendous fluctuations in recent months. The resulting economic concerns coupled with lower than anticipated revenue growth during fiscal year 2008 have contributed to a $2.5 billion reduction in the General Fund revenue forecast for the 2008-2010 biennium. Based on the most recent General Fund revenue estimate, the fiscal year 2009 revenue is projected to decline by 4.0 percent while the fiscal year 2010 revenue is projected to increase by 3.6 percent over the revised 2009 forecast. In addition, the projected fiscal year 2010 revenue will be less than the actual revenue collected in fiscal year 2008. Due to lower anticipated revenue collections, the Commonwealth must reevaluate the planned General Fund spending. Accordingly, the Governor instructed Cabinet Secretaries to prepare and submit plans for five, ten, and fifteen percent reductions in General Fund spending for the remainder of fiscal year 2009. In addition to proposed spending reductions, the Governor proposes a withdrawal of $400 million from the Revenue Stabilization Fund to help address the fiscal year 2009 budget shortfall. The Governor will release his proposed fiscal year 2010 budget reductions in conjunction with his amendments to the 2008-2010 biennial budget on December 17, 2008.

Major Special Revenue Fund Highlights

The Commonwealth Transportation Fund ended the fiscal year with a fund balance of $1.84 billion, a decrease of $109.2 million from the prior year. Approximately $2.4 billion is committed for various highway, public transportation, and rail preservation projects (see Note 18). The decrease in fund balance was primarily the result of the following activities: in fiscal year 2008, revenues and expenditures both increased $337.6 million or 9.9 percent and $739.1 million or 23 percent, respectively, with expenditures exceeding revenues by approximately $173.8 million. This increased activity is primarily due to increased federal funds available for construction and increases in secondary highway maintenance.

The Federal Trust Fund balance increased by $31.1 million or 55.9 percent. Federal Grants and Contracts revenue increased by approximately $176.8 million or 3.2 percent. This increase was offset with an increase in total expenditures of approximately $117.4 million or 2.1 percent. The increases in Federal Grants and Contracts revenue were offset with decreases associated with the Department of Medical Assistance Services (DMAS). During the fiscal year, DMAS received less drug rebate recoveries, primarily attributable to the implementation of Medicare Part D and timing differences related to drug rebate receivables.

The Literary Fund's fund balance decreased by $6.6 million or 2.2 percent in fiscal year 2008 from fiscal year 2007. The decrease is the result of net disbursements exceeding net receipts by $17.1 million, offset by a cash transfer in of $10.5 million from the State Lottery representing unclaimed prizes.

Capital Asset and Long-term Debt

Capital Assets. The primary government's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to $18.6 billion (net of accumulated depreciation totaling $10.9 billion). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable such as roads, bridges, drainage systems, and other similar assets. As noted on page 30, increases in capital assets contributed to the overall increase in governmental activities' net assets. The increase in the primary government's investment in capital assets was primarily attributable to increases in infrastructure, construction in progress, and building acquisitions or improvements of $653.5 million, $372.2 million, and $295.2 million, respectively. These increases are primarily attributable to transportation. The primary government reports equipment with a value of $50,000 or greater and an expected useful life of two or more years. The primary government capitalizes all land, buildings, and infrastructure that have a cost or value greater than $100,000. Additional information on the primary government's capital assets can be found in Note 12, "Capital Assets."

Figure 14
Capital Assets as of June 30, 2008
(Net of Depreciation)
(Dollars in Thousands)

	Governmental Activities	Business-type Activities	Total
Land	$ 1,934,665	$ 1,977	$ 1,936,642
Buildings	1,875,342	7,736	1,883,078
Equipment	458,548	20,708	479,256
Infrastructure	11,046,369	-	11,046,369
Construction in Progress	3,279,565	252	3,279,817
Total	$ 18,594,489	$ 30,673	$ 18,625,162

Long-term Debt. The Commonwealth is prohibited from issuing general obligation bonds for operating purposes. At the end of the current fiscal year, the Commonwealth had total debt outstanding of $26.9 billion, including total tax-supported debt of $7.8 billion and total debt not supported by taxes of $19.1 billion. Bonds backed by the full faith and credit of the government and tax-supported total $1.0 billion. Debt is considered tax supported if Commonwealth tax revenues are used or pledged for debt service payments. An additional $1.0 billion is considered moral obligation debt which is not tax-supported. The Commonwealth has no direct or indirect pledge of tax revenues to fund reserve deficiencies. However, in some cases, the Commonwealth has made a moral obligation pledge to consider funding deficiencies in debt service reserves that may occur. The remainder of the Commonwealth's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

During fiscal year 2008, the Commonwealth issued $3.9 billion of new debt for various projects. $503.3 million of the new debt was for the primary government and $3.4 billion for the component units. Additional information on the Commonwealth's outstanding debt can be found in Note 23, as well as in the section entitled "Debt Schedules." The Commonwealth maintains a "triple A" bond rating for general obligation debt from the three rating agencies: Moody's Investors Service; Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc.; and Fitch, Inc.

State statutes limit the amount of general obligation debt the Commonwealth may issue for each specific type of debt. The 9(a) bonds, which have been issued to redeem previous debt obligations, are limited to 30 percent of 1.15 times the annual tax revenues for fiscal year 2008. The 9(b) bonds, which have been authorized by the citizens of Virginia through bond referenda to finance capital projects, are limited to 1.15 times the average of selected tax revenues for fiscal years 2006, 2007, and 2008. The 9(c) bonds, which have been issued to finance capital projects that will generate revenue upon their completion, are limited to 1.15 times the average of selected tax revenues for fiscal years 2006, 2007, and 2008. The current debt limitation for the Commonwealth is $4.9 billion, $14.9 billion, and $15.3 billion, respectively, for the 9(a), 9(b), and 9(c) general obligation bond issues. These limits significantly exceed the Commonwealth's outstanding general obligation debt. Currently, there is no 9(a) debt outstanding.

Figure 15
Outstanding Debt as of June 30, 2008
General Obligation Bonds
(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
General obligation bonds				
9(b)	$ 935,105	$ -	$ 935,105	$ -
9(c)	66,884	-	66,884	487,296
Total	$ 1,001,989	$ -	$ 1,001,989	$ 487,296

Economic Factors and Review

In fiscal year 2008, Virginia's economy weakened as it mirrored the national economy's slowdown. The Commonwealth's growth rate was just below the national growth rate for the second consecutive year since 1996. Virginia's personal income in current dollars grew by just 4.4 percent, the lowest growth in the four previous years. Although higher in fiscal year 2008 than in prior years, unemployment in Virginia was only 3.4 percent, in comparison with the national average, which was 4.9 percent. During fiscal year 2008, new housing in Virginia again fell by 28 percent. Overall, Virginia's economic decline was not as severe as for the nation as a whole. For a more in-depth discussion on the Commonwealth's economy see "Economic Review" on page 8.

Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State Comptroller's Office, Commonwealth of Virginia, P. O. Box 1971, Richmond, Virginia 23218. This report is also available for download from the World Wide Web. Our Internet address is www.doa.virginia.gov.

The Commonwealth's component units issue their own separate financial statements. Contact information regarding each component unit is provided in Note 1.B.

Government-wide Financial Statements

Statement of Net Assets

June 30, 2008
(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and Cash Equivalents (Notes 1 and 6)	$ 3,868,274	$ 1,136,054	$ 5,004,328	$ 1,712,939
Investments (Notes 1 and 6)	3,606,123	2,049,919	5,656,042	10,493,215
Receivables, Net (Notes 1 and 7)	2,235,041	450,879	2,685,920	11,084,157
Contributions Receivable, Net (Notes 1 and 8)	-	-	-	338,449
Internal Balances (Note 1)	46,787	(46,787)	-	-
Due from Primary Government (Note 9)	-	-	-	346,585
Due from Component Units (Note 9)	926	-	926	42,758
Due from External Parties (Fiduciary Funds) (Note 9)	188	-	188	-
Inventory (Note 1)	131,111	47,605	178,716	83,239
Prepaid Items (Note 1)	52,612	2,305	54,917	90,232
Other Assets (Notes 1 and 10)	5,464	303	5,767	160,153
Loans Receivable from Primary Government (Notes 1 and 9)	-	-	-	173,090
Loans Receivable from Component Units (Notes 1 and 9)	15,641	-	15,641	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	362,689	-	362,689	2,651,793
Restricted Investments (Notes 6 and 11)	-	-	-	3,851,652
Other Restricted Assets (Note 11)	-	-	-	166,505
Nondepreciable Capital Assets (Notes 1 and 12)	5,214,230	2,229	5,216,459	2,555,510
Depreciable Capital Assets, Net (Notes 1 and 12)	13,380,259	28,444	13,408,703	7,882,783
Total Assets	28,919,345	3,670,951	32,590,296	41,633,060
Liabilities				
Accounts Payable (Notes 1 and 21)	809,640	44,604	854,244	1,009,191
Amounts Due to Other Governments	460,165	14,139	474,304	72,506
Due to Primary Government (Note 9)	-	-	-	926
Due to Component Units (Note 9)	344,212	2,373	346,585	42,758
Unearned Revenue (Note 1)	100,572	5,189	105,761	271,245
Obligations Under Securities Lending Program (Notes 1 and 6)	1,784,767	335,643	2,120,410	607,323
Other Liabilities (Notes 1 and 22)	1,378,025	77,748	1,455,773	1,158,712
Loans Payable to Primary Government (Notes 1 and 9)	-	-	-	15,641
Loans Payable to Component Units (Notes 1 and 9)	173,090	-	173,090	-
Claims Payable:				
Due Within One Year (Notes 1 and 20)	156,031	23,975	180,006	48,562
Due in More Than One Year (Notes 1 and 20)	317,134	8,483	325,617	44,216
Long-term Liabilities:				
Due Within One Year (Notes 1, 19, and 23)	572,062	180,633	752,695	1,176,190
Due in More Than One Year (Notes 1, 19, and 23)	5,389,692	2,076,798	7,466,490	17,551,462
Total Liabilities	11,485,390	2,769,585	14,254,975	21,998,732

The accompanying notes are an integral part of this financial statement.

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Net Assets				
Invested in Capital Assets, Net of Related Debt	15,240,757	26,592	15,267,349	6,440,351
Restricted For:				
Nonexpendable:				
Higher Education	-	-	-	2,173,608
Permanent Funds	49,847	-	49,847	-
Other	-	-	-	90,560
Expendable:				
Higher Education	-	-	-	4,532,765
Permanent Funds	2,394	-	2,394	-
Revenue Stabilization Fund	1,036,191	-	1,036,191	-
Literary Fund	293,733	-	293,733	-
Gifts and Grants	162,199	-	162,199	25,014
Unemployment Compensation	-	815,874	815,874	-
Virginia Pooled Investment Program	-	-	-	6,466
Capital Projects/Construction/Capital Acquisition	66,042	187	66,229	1,513,972
Debt Service	101,085	-	101,085	66,117
Bond Indenture	-	-	-	1,854,543
Other	-	-	-	96,141
Unrestricted	481,707	58,713	540,420	2,834,791
Total Net Assets	$ 17,433,955	$ 901,366	$ 18,335,321	$ 19,634,328

Statement of Activities

For the Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	$ 2,476,981	$ 243,958	$ 128,590	$ -
Education	9,302,822	378,891	757,675	286
Transportation	3,053,918	709,178	62,054	1,139,029
Resources and Economic Development	873,015	296,815	193,601	8,473
Individual and Family Services	9,254,559	388,583	4,880,874	1,941
Administration of Justice	2,615,198	386,673	44,564	2,710
Interest and Charges on Long-term Debt	204,855	-	-	-
Total Governmental Activities	27,781,348	2,404,098	6,067,358	1,152,439
Business-type Activities				
State Lottery	936,416	1,388,752	-	-
Virginia College Savings Plan	244,165	69,971	-	-
Unemployment Compensation	432,805	349,723	38,298	-
Alcoholic Beverage Control	456,986	552,607	945	-
Local Choice Health Care	202,318	216,362	-	-
Other	117,741	128,750	-	-
Total Business-type Activities	2,390,431	2,706,165	39,243	-
Total Primary Government	$ 30,171,779	$ 5,110,263	$ 6,106,601	$ 1,152,439
Component Units				
Virginia Housing Development Authority	$ 553,484	$ 507,271	$ 135,018	$ -
Virginia Public School Authority	157,145	149,824	-	-
Higher Education:				
Major	5,656,728	3,905,070	1,146,849	100,089
Nonmajor	3,627,658	1,520,602	512,084	275,577
Other Nonmajor	722,235	530,565	1,819	65,908
Total Component Units	$ 10,717,250	$ 6,613,332	$ 1,795,770	$ 441,574

The accompanying notes are an integral part of this financial statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (2,104,433)	$ -	$ (2,104,433)	$ -
(8,165,970)	-	(8,165,970)	-
(1,143,657)	-	(1,143,657)	-
(374,126)	-	(374,126)	-
(3,983,161)	-	(3,983,161)	-
(2,181,251)	-	(2,181,251)	-
(204,855)	-	(204,855)	-
(18,157,453)	-	(18,157,453)	-
-	452,336	452,336	-
-	(174,194)	(174,194)	-
-	(44,784)	(44,784)	-
-	96,566	96,566	-
-	14,044	14,044	-
-	11,009	11,009	-
-	354,977	354,977	-
(18,157,453)	354,977	(17,802,476)	-
-	-	-	88,805
-	-	-	(7,321)
-	-	-	(504,720)
-	-	-	(1,319,395)
-	-	-	(123,943)
-	-	-	(1,866,574)

Continued on next page

Statement of Activities *(Continued from previous page)*

For the Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
General Revenues				
Taxes				
Individual and Fiduciary Income	10,099,573	-	10,099,573	-
Sales and Use	3,820,715	-	3,820,715	-
Corporation Income	772,323	-	772,323	-
Motor Fuel	923,894	-	923,894	-
Motor Vehicle Sales and Use	533,755	-	533,755	-
Deeds, Contracts, Wills, and Suits	456,984	-	456,984	-
Premiums of Insurance Companies	396,858	-	396,858	-
Alcoholic Beverage Sales Tax	105,655	-	105,655	-
Tobacco Products	182,850	-	182,850	-
Estate	135,781	-	135,781	-
Public Service Corporations	106,378	-	106,378	-
Beer and Beverage Excise	44,357	-	44,357	-
Wine and Spirits/ABC Liter	18,552	-	18,552	-
Bank Stock	13,724	-	13,724	-
Other Taxes	66,319	12,531	78,850	-
Operating Appropriations from Primary Government	-	-	-	2,004,859
Unrestricted Grants and Contributions	53,709	-	53,709	60,489
Investment Earnings	348,446	11,743	360,189	260,525
Miscellaneous	224,072	910	224,982	50,563
Tobacco Master Settlement	-	-	-	12,672
Transfers	593,223	(593,223)	-	-
Contributions to Permanent Funds and Endowments	-	-	-	153,055
Total General Revenues and Transfers	18,897,168	(568,039)	18,329,129	2,542,163
Change in Net Assets	739,715	(213,062)	526,653	675,589
Net Assets - July 1, as restated (Note 2)	16,694,240	1,114,428	17,808,668	18,958,739
Net Assets - June 30	$ 17,433,955	$ 901,366	$ 18,335,321	$ 19,634,328

The accompanying notes are an integral part of this financial statement.

Governmental Funds

General Fund

The General Fund accounts for transactions related to resources received and used for those services traditionally provided by a state government, which are not accounted for in any other fund.

Special Revenue Funds

Special Revenue Funds account for specific revenue sources that are restricted to finance particular functions and activities of the Commonwealth.

The Commonwealth Transportation Fund accounts for the revenues and expenditures associated with highway operations, maintenance, construction, and other transportation related activities. Funding for these programs is provided from highway user taxes, fees, and funds received from the federal government.

The Federal Trust Fund accounts for all federal dollars received by the Commonwealth except those received by the Commonwealth Transportation Fund, the Unemployment Compensation Fund, and institutions of higher education. The entire fund is restricted pursuant to federal regulations. As such, a separate fund balance reservation is not reflected.

The Literary Fund accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings. The entire fund is constitutionally restricted for public schools. As such, a separate fund balance reservation is not reflected.

Nonmajor Governmental Funds include those Special Revenue, Debt Service, Capital Projects, and Permanent Funds listed on page 179 in the Combining and Individual Fund Statements and Schedules section of this report.

Balance Sheet – Governmental Funds

June 30, 2008
(Dollars in Thousands)

	General	Special Revenue: Commonwealth Transportation	Special Revenue: Federal Trust	Special Revenue: Literary
Assets				
Cash and Cash Equivalents (Notes 1 and 6)	$ 199,610	$ 1,802,555	$ 173,455	$ 160,630
Investments (Notes 1 and 6)	2,943,506	351,338	12,400	35,901
Receivables, Net (Notes 1 and 7)	1,030,134	320,824	418,887	334,481
Due from Other Funds (Note 9)	25,301	52	857	-
Due from Component Units (Note 9)	-	-	-	-
Due from External Parties (Fiduciary Funds) (Note 9)	6	-	-	-
Interfund Receivable (Note 9)	-	-	-	-
Inventory (Note 1)	46,693	49,578	12,249	-
Prepaid Items (Note 1)	41,567	2,595	416	-
Other Assets (Notes 1 and 10)	2,163	2,422	2,097	-
Loans Receivable from Component Units (Notes 1 and 9)	-	-	-	-
Restricted Cash and Cash Equivalents (Notes 1, 6, and 11)	-	82,923	-	-
Total Assets	$ 4,288,980	$ 2,612,287	$ 620,361	$ 531,012
Liabilities and Fund Balances				
Accounts Payable (Notes 1 and 21)	$ 287,505	$ 257,301	$ 101,066	$ 207
Amounts Due to Other Governments	276,969	1,178	142,756	-
Due to Other Funds (Note 9)	22,292	16,410	22,057	-
Due to Component Units (Note 9)	49,963	-	-	-
Interfund Payable (Note 9)	-	-	2,682	-
Deferred Revenue (Note 1)	368,015	24,931	31,264	18,551
Unearned Revenue (Note 1)	30	21,578	4,618	-
Deferred Taxes (Note 1)	194,497	-	-	-
Obligations Under Securities Lending Program (Notes 1 and 6)	995,920	444,606	15,691	45,431
Other Liabilities (Notes 1 and 22)	889,967	2,416	213,481	-
Loans Payable to Component Units (Notes 1 and 9)	-	-	-	173,090
Long-term Liabilities Due Within One Year (Notes 1, 19, and 23)	903	271	78	-
Total Liabilities	3,086,061	768,691	533,693	237,279
Fund Balances Reserved for (Note 1):				
Revenue Stabilization Fund	1,036,191	-	-	-
Inventory	46,693	49,578	12,249	-
Prepaid Items	41,567	2,595	416	-
Debt Service	-	-	-	-
Gifts and Grants	-	25,238	-	-
Capital Acquisition / Construction	-	80,650	-	-
Fund Balances Unreserved, Reported in (Note 1):				
General Fund	78,468	-	-	-
Special Revenue Funds	-	1,685,535	74,003	293,733
Capital Projects Funds	-	-	-	-
Permanent Funds	-	-	-	-
Total Fund Balances	1,202,919	1,843,596	86,668	293,733
Total Liabilities and Fund Balances	$ 4,288,980	$ 2,612,287	$ 620,361	$ 531,012

The accompanying notes are an integral part of this financial statement.

Nonmajor Governmental Funds	Total Governmental Funds
$ 1,347,313	$ 3,683,563
178,148	3,521,293
92,726	2,197,052
6,913	33,123
674	674
182	188
51,157	51,157
6,091	114,611
7,476	52,054
1,151	7,833
15,641	15,641
-	82,923
$ 1,707,472	$ 9,760,112
$ 71,596	$ 717,675
1,456	422,359
6,580	67,339
32,865	82,828
-	2,682
14,106	456,867
9,256	35,482
-	194,497
175,770	1,677,418
5,334	1,111,198
-	173,090
338	1,590
317,301	4,943,025
-	1,036,191
6,151	114,671
7,476	52,054
101,085	101,085
57,071	82,309
591	81,241
-	78,468
1,032,044	3,085,315
133,512	133,512
52,241	52,241
1,390,171	4,817,087
$ 1,707,472	$ 9,760,112

Reconciliation of the Balance Sheet – Governmental Funds to the Government-wide Statement of Net Assets

June 30, 2008
(Dollars in Thousands)

Total fund balances - governmental funds (see Balance Sheet - Governmental Funds)	$	4,817,087
When capital assets (land, buildings, equipment, improvements, construction in progress, and/or infrastructure) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the primary government as a whole.		
Non Depreciable Capital Asset		5,213,364
Depreciable Capital Assets		13,325,652
Long-term liabilities applicable to the primary government's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Assets.		
Pension Liability		(868,591)
OPEB Liability		(56,258)
Capital Lease		(113,477)
Installment Purchases		(51,697)
Compensated Absences		(337,303)
Uninsured Employer's Fund		(20,203)
Regional Jails		(9,980)
Bonds		(4,347,248)
Notes		(23,040)
Accrued Interest Payable		(66,639)
Other Obligations		(111,853)
Internal service funds are used by the primary government to charge costs to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Assets.		(34,260)
Other long-term payables are not due and payable in the current period and, therefore, are not reported in the funds.		(338,449)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		456,850
Net assets of governmental activities (see Government-wide Statement of Net Assets)	$	17,433,955

The accompanying notes are an integral part of this financial statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

		Special Revenue		
	General	Commonwealth Transportation	Federal Trust	Literary
Revenues				
Taxes	$ 15,614,924	$ 1,959,038	$ -	$ -
Rights and Privileges	67,422	604,455	-	258
Institutional Revenue	7,592	-	-	-
Interest, Dividends, Rents, and Other Investment Income (Note 1)	251,738	111,661	3,687	28,891
Federal Grants and Contracts	-	898,021	5,714,516	-
Other (Note 24)	331,979	166,050	50,972	162,431
Total Revenues	16,273,655	3,739,225	5,769,175	191,580
Expenditures				
Current:				
General Government	1,819,829	2,242	110,684	2,729
Education	7,825,792	2,410	875,916	205,962
Transportation	25,990	3,839,906	13,615	-
Resources and Economic Development	333,137	15,788	124,143	-
Individual and Family Services	4,192,321	-	4,557,077	-
Administration of Justice	2,419,640	7,991	38,192	-
Capital Outlay	374,612	44,700	9,783	-
Debt Service:				
Principal Retirement	-	-	-	-
Interest and Charges	-	-	-	-
Total Expenditures	16,991,321	3,913,037	5,729,410	208,691
Revenues Over (Under) Expenditures	(717,666)	(173,812)	39,765	(17,111)
Other Financing Sources (Uses)				
Transfers In (Note 29)	632,744	349,600	14,082	10,480
Transfers Out (Note 29)	(700,861)	(292,979)	(22,773)	-
Notes Issued	340	-	-	-
Insurance Recoveries	139	4,083	-	-
Capital Leases	4,534	-	-	-
Bonds Issued	-	-	-	-
Premium on Debt Issuance	-	-	-	-
Refunding Bonds Issued	-	-	-	-
Sale of Capital Assets	-	3,872	-	-
Payment to Refunded Bond Escrow Agents	-	-	-	-
Total Other Financing Sources (Uses)	(63,104)	64,576	(8,691)	10,480
Net Change in Fund Balances	(780,770)	(109,236)	31,074	(6,631)
Fund Balance, July 1	1,983,689	1,952,832	55,594	300,364
Fund Balance, June 30	$ 1,202,919	$ 1,843,596	$ 86,668	$ 293,733

The accompanying notes are an integral part of this financial statement.

Nonmajor Governmental Funds	Total Governmental Funds
$ 84,912	$ 17,658,874
274,117	946,252
382,189	389,781
56,376	452,353
14,249	6,626,786
465,128	1,176,560
1,276,971	27,250,606
110,944	2,046,428
30,137	8,940,217
3,667	3,883,178
395,281	868,349
595,916	9,345,314
77,076	2,542,899
415,301	844,396
361,676	361,676
203,253	203,253
2,193,251	29,035,710
(916,280)	(1,785,104)
656,338	1,663,244
(53,119)	(1,069,732)
-	340
1,604	5,826
-	4,534
416,145	416,145
23,347	23,347
58,995	58,995
2,872	6,744
(62,757)	(62,757)
1,043,425	1,046,686
127,145	(738,418)
1,263,026	5,555,505
$ 1,390,171	$ 4,817,087

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Government-wide Statement of Activities

For the Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

Net Change in fund balances - total government funds (See Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds)	$	(738,418)
When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.		
Net Non-Depreciable Capital Assets		453,146
Net Depreciable Capital Assets		1,540,399
Net Depreciation Expense		(558,078)
Debt proceeds provide current financial resources to governmental funds by issuing debt, which increases long-term debt in the Statement of Net Assets.		
Debt Issuance		(416,145)
Capital Lease Proceeds		(4,534)
Bond Premiums		(23,347)
Refunding Bonds Issued		(58,995)
Installment Purchase Proceeds		(340)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Assets.		
Debt Service Fund Repayment of Debt Principal		361,676
Repayment of Debt Principal in Other Funds:		
Capital Lease		9,203
Installment Purchases		7,344
Uninsured Employer's Fund		3,795
Regional Jails		2,632
Payment to Refunded Bond Escrow Agent is an expenditure in the governmental funds, but the refunding reduces long-term debt in the Statement of Net Assets.		62,757
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		54,527
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Increase in Pension Liability		(87,758)
Increase in OPEB Liability		(56,258)
Increase in Accrued Interest Liability		(884)
Increase in Compensated Absences		(4,781)
Increase in Interest Expense and Amortization of Deferrals on Long-term Debt		(816)
Other		(16,198)
Net Decrease in Due to Component Units for Capital and Other Projects resulting from appropriation reductions		238,483
The net revenue (expenses) of certain activities of internal service funds is reported within governmental activities.		(27,695)
Change in net assets of governmental activities (See Government-wide Statement of Activities)	$	739,715

The accompanying notes are an integral part of this financial statement.

Proprietary Funds

The Proprietary Funds account for operations that are financed and operated in a manner similar to private business enterprises. It is the intent that the cost of providing such goods or services will be recovered through user charges.

Major Enterprise Funds

The State Lottery accounts for all receipts and expenses from the operations of the State Lottery.

The Virginia College Savings Plan administers the Virginia Prepaid Education Program. The plan offers contracts, for actuarially determined amounts, guaranteeing full 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.

The Unemployment Compensation administers the temporary partial income replacement payments to unemployed covered workers.

Nonmajor Enterprise Funds include those operations of state agencies which are listed on page 191 in the Combining and Individual Fund Statements and Schedules section of this report.

Internal Service Funds include those operations of state agencies which are listed on page 207 in the Combining and Individual Fund Statements and Schedules section of this report.

Statement of Net Assets – Proprietary Funds

June 30, 2008
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Assets				
Current Assets:				
Cash and Cash Equivalents (Notes 1 and 6)	$ 9,956	$ 152,538	$ 787,363	$ 186,197
Investments (Notes 1 and 6)	335,514	16,960	-	32,408
Receivables, Net (Notes 1 and 7)	48,411	76,153	68,624	35,053
Due from Other Funds (Note 9)	-	-	688	2,471
Inventory (Note 1)	-	-	-	47,605
Prepaid Items (Note 1)	621	-	-	1,684
Other Assets (Notes 1 and 10)	1	-	-	165
Total Current Assets	394,503	245,651	856,675	305,583
Noncurrent Assets:				
Investments (Notes 1 and 6)	269,992	1,395,044	-	1
Receivables, Net (Notes 1 and 7)	-	222,638	-	-
Other Assets (Notes 1 and 10)	-	-	-	137
Nondepreciable Capital Assets (Notes 1 and 12)	-	-	-	2,229
Depreciable Capital Assets, Net (Notes 1 and 12)	6,186	2,540	-	19,718
Total Noncurrent Assets	276,178	1,620,222	-	22,085
Total Assets	670,681	1,865,873	856,675	327,668
Liabilities				
Current Liabilities:				
Accounts Payable (Notes 1 and 21)	9,340	1,927	139	35,918
Amounts Due to Other Governments	-	-	8,981	5,158
Due to Other Funds (Note 9)	394	21	456	8,656
Due To Component Units (Note 9)	-	-	-	2,373
Interfund Payable (Note 9)	5,000	-	-	31,494
Unearned Revenue (Note 1)	2,058	-	-	3,131
Obligations Under Securities Lending Program (Notes 1 and 6)	273,169	21,463	-	41,011
Other Liabilities (Notes 1 and 22)	46,335	117	31,038	258
Claims Payable Due Within One Year (Notes 1 and 20)	-	-	-	23,975
Long-term Liabilities Due Within One Year (Notes 1, 19, and 23)	63,556	112,783	-	4,294
Total Current Liabilities	399,852	136,311	40,614	156,268
Noncurrent Liabilities:				
Interfund Payable (Note 9)	-	-	-	394
Claims Payable Due in More Than One Year (Notes 1 and 20)	-	-	-	8,483
Long-term Liabilities Due in More Than One Year (Notes 1, 19, and 23)	274,341	1,782,198	-	20,259
Total Noncurrent Liabilities	274,341	1,782,198	-	29,136
Total Liabilities	674,193	1,918,509	40,614	185,404
Net Assets				
Invested in Capital Assets, Net of Related Debt	6,186	193	-	20,213
Restricted for Unemployment Compensation	-	-	815,874	-
Restricted for Capital Acquisition	-	-	187	-
Unrestricted	(9,698)	(52,829)	-	122,051
Total Net Assets (Deficit) (Note 3)	$ (3,512)	$ (52,636)	$ 816,061	$ 142,264

Some amounts reported for business-type activities in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included in business-type activities.
Net assets of business-type activities

The accompanying notes are an integral part of this financial statement.

	Total	Governmental Activities Internal Service Funds
	$ 1,136,054	$ 464,477
	384,882	84,830
	228,241	37,989
	3,159	41,463
	47,605	16,500
	2,305	558
	166	6,578
	1,802,412	652,395
	1,665,037	-
	222,638	-
	137	-
	2,229	866
	28,444	54,607
	1,918,485	55,473
	3,720,897	707,868
	47,324	57,991
	14,139	666
	9,527	879
	2,373	-
	36,494	938
	5,189	65,148
	335,643	107,349
	77,748	5,691
	23,975	156,031
	180,633	3,618
	733,045	398,311
	394	10,649
	8,483	317,134
	2,076,798	16,845
	2,085,675	344,628
	2,818,720	742,939
	26,592	52,409
	815,874	-
	187	-
	59,524	(87,480)
	$ 902,177	$ (35,071)
	(811)	
	$ 901,366	

Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds

For the Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Operating Revenues				
Charges for Sales and Services	$ 1,386,412	$ 137,852	$ 349,723	$ 875,582
Interest, Dividends, Rents, and Other Investment Income (Note 1)	-	(68,439)	-	-
Other (Note 24)	-	21	-	27,232
Total Operating Revenues	1,386,412	69,434	349,723	902,814
Operating Expenses				
Cost of Sales and Services	93,344	-	-	321,000
Prizes and Claims (Note 25)	781,860	-	432,805	189,430
Tuition Benefits Expense	-	234,072	-	-
Personal Services	21,854	4,700	-	101,767
Contractual Services	33,218	4,189	-	52,160
Supplies and Materials	1,062	71	-	22,945
Depreciation and Amortization (Note 26)	1,063	62	-	8,771
Rent, Insurance, and Other Related Charges	1,537	218	-	23,888
Interest Expense	-	-	-	-
Non-recurring Cost Estimate Payments to Providers	-	-	-	47,804
Other (Note 27)	-	298	-	4,987
Total Operating Expenses	933,938	243,610	432,805	772,752
Operating Income	452,474	(174,176)	(83,082)	130,062
Nonoperating Revenues (Expenses)				
Interest, Dividends, Rents, and Other Investment Income (Note 1)	14,083	537	38,298	8,515
Other (Note 28)	(1,469)	(537)	-	(2,469)
Total Nonoperating Revenues (Expenses)	12,614	-	38,298	6,046
Income Before Transfers	465,088	(174,176)	(44,784)	136,108
Transfers In (Note 29)	-	-	1,641	210
Transfers Out (Note 29)	(465,738)	(10)	(12,970)	(116,356)
Change in Net Assets	(650)	(174,186)	(56,113)	19,962
Total Net Assets (Deficit), July 1	(2,862)	121,550	872,174	122,302
Total Net Assets (Deficit), June 30 (Note 3)	$ (3,512)	$ (52,636)	$ 816,061	$ 142,264

Some amounts reported for business-type activies in the Statement of Activities are different because the net revenue (expense) of certain internal service funds is reported w ith business-type activities.
Change in Net Assets of business-type activities

The accompanying notes are an integral part of this financial statement.

	Governmental Activities
Total	Internal Service Funds
$ 2,749,569	$ 1,473,814
(68,439)	-
27,253	583
2,708,383	1,474,397
414,344	63,997
1,404,095	1,003,431
234,072	-
128,321	56,552
89,567	324,299
24,078	11,230
9,896	17,751
25,643	30,916
-	486
47,804	-
5,285	13,913
2,383,105	1,522,575
325,278	(48,178)
61,433	20,633
(4,475)	(1,936)
56,958	18,697
382,236	(29,481)
1,851	680
(595,074)	(969)
(210,987)	(29,770)
1,113,164	(5,301)
$ 902,177	$ (35,071)

(2,075)
$ (213,062)

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Cash Flows from Operating Activities				
Receipts for Sales and Services	$ 1,387,978	$ 143,521	$ 361,023	$ 880,427
Internal Activity-Receipts from Other Funds	-	-	2,840	17,445
Internal Activity-Payments to Other Funds	-	(375)	-	(4,252)
Payments to Suppliers for Goods and Services	(93,344)	(258)	-	(379,709)
Payments for Contractual Services	(22,487)	(3,973)	-	(51,909)
Payments for Prizes, Claims, and Loss Control (Note 32)	(788,285)	-	(428,447)	(185,728)
Payments for Tuition Benefits	-	(73,130)	-	-
Payments to Employees	(21,265)	(4,487)	-	(99,545)
Payments to Providers for Non-recurring Cost Estimates	-	-	-	(41,670)
Other Operating Revenue (Note 32)	-	21	-	8,124
Other Operating Expense (Note 32)	-	(35)	-	(557)
Net Cash Provided by (Used for) Operating Activities	462,597	61,284	(64,584)	142,626
Cash Flows from Noncapital Financing Activities				
Transfers In From Other Funds	-	-	1,641	269
Transfers Out to Other Funds	(468,659)	(10)	(12,970)	(266,140)
Other Noncapital Financing Receipt Activities (Note 32)	8,132	-	-	181,393
Other Noncapital Financing Disbursement Activities (Note 32)	(6,000)	-	-	(35,367)
Net Cash Provided by (Used for) Noncapital Financing Activities	(466,527)	(10)	(11,329)	(119,845)
Cash Flows from Capital and Related Financing Activities				
Acquisition of Capital Assets	(5,652)	(110)	-	(1,236)
Payment of Principal and Interest on Bonds and Notes	-	-	-	(1,024)
Proceeds from Sale of Capital Assets	-	-	-	11
Other Capital and Related Financing Receipt Activities (Note 32)	-	-	-	-
Other Capital and Related Financing Disbursement Activities (Note 32)	-	-	-	(385)
Net Cash Provided By (Used for) Capital and Related Financing Activities	(5,652)	(110)	-	(2,634)
Cash Flows from Investing Activities				
Purchase of Investments	(58,713)	(2,462,007)	-	-
Proceeds from Sales or Maturities of Investments	61,063	2,273,229	-	-
Investment Income on Cash, Cash Equivalents, and Investments	9,482	100,378	38,298	6,438
Net Cash Provided by (Used for) Investing Activities	11,832	(88,400)	38,298	6,438
Net Increase (Decrease) in Cash and Cash Equivalents	2,250	(27,236)	(37,615)	26,585
Cash and Cash Equivalents, July 1	7,318	175,272	824,978	151,174
Cash and Cash Equivalents, June 30	$ 9,568	$ 148,036	$ 787,363	$ 177,759
Reconciliation of Cash and Cash Equivalents				
Per the Statement of Net Assets:				
Cash and Cash Equivalents	$ 9,956	$ 152,538	$ 787,363	$ 186,197
Cash and Travel Advances	1	-	-	165
Less:				
Securities Lending Cash Equivalents	(389)	(4,502)	-	(8,603)
Cash and Cash Equivalents per the Statement of Cash Flows	$ 9,568	$ 148,036	$ 787,363	$ 177,759

The accompanying notes are an integral part of this financial statement.

	Governmental Activities
Total	Internal Service Funds
$ 2,772,949	$ 1,057,586
20,285	420,910
(4,627)	(10,631)
(473,311)	(102,890)
(78,369)	(320,416)
(1,402,460)	(916,983)
(73,130)	-
(125,297)	(54,338)
(41,670)	-
8,145	583
(592)	(9,074)
601,923	64,747
1,910	680
(747,779)	(969)
189,525	226
(41,367)	-
(597,711)	(63)
(6,998)	(11,351)
(1,024)	(1,594)
11	790
-	24
(385)	(632)
(8,396)	(12,763)
(2,520,720)	-
2,334,292	-
154,596	16,634
(31,832)	16,634
(36,016)	68,555
1,158,742	373,514
$ 1,122,726	$ 442,069
$ 1,136,054	$ 464,477
166	111
(13,494)	(22,519)
$ 1,122,726	$ 442,069

Continued on next page

Statement of Cash Flows – Proprietary Funds *(Continued from previous page)*

For the Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Reconciliation of Operating Income				
To Net Cash Provided by (Used for)				
Operating Activities				
Operating Income (Loss)	$ 452,474	$ (174,176)	$ (83,082)	$ 130,062
Adjustments to Reconcile Operating				
Income to Net Cash Provided by (Used for)				
Operating Activities				
Depreciation and Amortization	1,063	62	-	8,771
Interest, Dividends, Rents, and Other Investment Income	(21,963)	69,453	-	-
Miscellaneous Nonoperating Income	-	-	-	-
Other Expenses	-	-	-	1
Change in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	2,348	4,598	10,269	(1,394)
(Increase) Decrease in Due From Other Funds	-	-	93	1,577
(Increase) Decrease in Other Assets	-	-	-	1,224
(Increase) Decrease in Inventory	-	-	-	(1,005)
(Increase) Decrease in Prepaid Items	48	-	-	(414)
Increase (Decrease) in Accounts Payable	2,582	113	23	(2,153)
Increase (Decrease) in Amounts Due to Other Governments	-	-	1,622	(2,451)
Increase (Decrease) in Due to Other Funds	84	21	(37)	8
Increase (Decrease) in Due to Component Units	-	-	-	2,373
Increase (Decrease) in Interfund Payables	-	-	-	-
Increase (Decrease) in Unearned Revenue	(782)	-	-	214
Increase (Decrease) in Other Liabilities	6,403	54	6,528	1
Increase (Decrease) in Claims Payable: Due Within One Year	-	-	-	2,350
Increase (Decrease) in Claims Payable: Due in More Than One Year	-	-	-	858
Increase (Decrease) in Long-term Liabilities: Due Within One Year	3,879	27,672	-	162
Increase (Decrease) in Long-term Liabilities: Due in More Than One Year	16,461	133,487	-	2,442
Net Cash Provided by (Used for) Operating Activities	$ 462,597	$ 61,284	$ (64,584)	$ 142,626
Noncash Investing, Capital, and Financing Activities:				
The following transactions occurred prior to the statement of net assets date:				
Trade-ins of Used Equipment on New Equipment	$ -	$ -	$ -	$ -
Change in Fair Value of Investments	-	(169,832)	-	-
Capital Asset Addition Included in Accounts Payable	-	-	-	-
Other	-	-	-	-
Total Noncash, Investing, Capital, and Financing Activities	$ -	$ (169,832)	$ -	$ -

The accompanying notes are an integral part of this financial statement.

	Total	Governmental Activities Internal Service Funds
	$ 325,278	$ (48,178)
	9,896	17,751
	47,490	-
	-	727
	1	-
	15,821	(16,456)
	1,670	(1,491)
	1,224	4,790
	(1,005)	1,829
	(366)	(190)
	565	125
	(829)	(1,049)
	76	89
	2,373	-
	-	(143)
	(568)	3,468
	12,986	378
	2,350	13,928
	858	87,012
	31,713	(185)
	152,390	2,342
	$ 601,923	$ 64,747
	$ -	$ 23
	(169,832)	-
	-	983
	-	135
	$ (169,832)	$ 1,141

Fiduciary Funds

Private Purpose Funds

Private Purpose Funds are trust arrangements that benefit individuals, private organizations, or other governments.

Pension and Other Employee Benefit Trust Funds

Pension and Other Employee Benefit Trust Funds reflect the activities of the retirement systems and postemployment benefits administered by the Virginia Retirement System (VRS), the Department of Accounts (DOA), or the Department of Human Resource Management (DHRM) for the Commonwealth.

Investment Trust Fund

Investment Trust Fund reflects the external portion of the Local Government Investment Pool sponsored by the Commonwealth.

Agency Funds

Agency Funds report those funds for which the Commonwealth acts solely in a custodial capacity.

A listing of all Fiduciary Funds is located on pages 216-217 in the Combining and Individual Fund Statements and Schedules section of this report. Combining financial statements for all Fiduciary Funds begin on page 218.

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2008
(Dollars in Thousands)

	Private Purpose Trust Funds	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
Assets				
Cash and Cash Equivalents (Notes 1 and 6)	$ 17,629	$ 371,991	$ 2,003,623	$ 290,258
Investments (Notes 1 and 6):				
Bonds and Mortgage Securities	2	15,946,528	156,544	-
Stocks	138,795	18,928,017	-	-
Fixed Income Commingled Funds	-	1,896,865	-	-
Index and Pooled Funds	295,844	11,942,560	-	-
Real Estate	-	2,865,510	-	-
Private Equity	-	4,430,403	-	-
Mutual and Money Market Funds	25,475,694	-	-	-
Short-term Investments	-	230,699	1,318,106	86,717
Other	146,340	3,428,441	-	312,623
Total Investments	26,056,675	59,669,023	1,474,650	399,340
Receivables, Net (Notes 1 and 7):				
Accounts	62	-	-	163,980
Contributions	-	191,165	-	-
Interest and Dividends	1,157	169,189	11,157	-
Security Transactions	-	3,032,192	-	-
Other Receivables	-	40,967	-	-
Total Receivables	1,219	3,433,513	11,157	163,980
Prepaid Items	201	-	-	-
Furniture and Equipment (Note 1)	-	6,798	-	-
Total Assets	26,075,724	63,481,325	3,489,430	853,578
Liabilities				
Accounts Payable and Accrued Expenses (Notes 1 and 21)	2,007	76,888	-	11,766
Amounts Due to Other Governments	-	-	-	342,299
Due to Internal Parties (Governmental Funds and Business-type Activities) (Note 9)	-	-	6	182
Obligations Under Securities Lending Program (Notes 1 and 6)	1,838	3,433,432	-	16,519
Other Liabilities (Notes 1 and 22)	114	35,744	-	482,217
Retirement Benefits Payable	-	196,420	-	-
Refunds Payable	-	5,559	-	-
Compensated Absences Payable (Notes 1 and 19)	199	1,709	-	-
Insurance Premiums and Claims Payable	-	35,701	-	595
Payable for Security Transactions	-	4,584,098	-	-
Pension Liability	438	4,036	-	-
Other Post Employment Benefits (OPEB) Liability	43	393	-	-
Total Liabilities	4,639	8,373,980	6	853,578
Net Assets Held in Trust for Pension/ Other Employment Benefits, Pool Participants, and Other Purposes	$ 26,071,085	$ 55,107,345	$ 3,489,424	$ -

The accompanying notes are an integral part of this financial statement.

Statement of Changes in Fiduciary Net Assets – Fiduciary Funds

For the Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

	Private Purpose Trust Funds	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ (1,975,403)	$ (2,395,178)	$ 115,938
Distributions to Shareholders from Net Investment Income	-	-	(115,938)
Total Investment Income	(1,975,403)	(2,395,178)	-
Less Investment Expenses	19,923	459,419	-
Net Investment Income (Note 1)	(1,995,326)	(2,854,597)	-
Proceeds from Unclaimed Property	2,364	-	-
Contributions:			
Participants	6,163,793	-	-
Member	-	863,551	-
Employer	-	1,681,735	-
Total Contributions	6,163,793	2,545,286	-
Shares Sold	-	-	5,391,865
Reinvested Distributions	-	-	115,672
Other Revenue (Note 24)	344	21,360	-
Total Additions	4,171,175	(287,951)	5,507,537
Deductions:			
Loan Servicing Payments	83	-	-
Educational Expense Benefits	993,893	-	-
Retirement Benefits	-	2,536,624	-
Refunds to Former Members	-	102,939	-
Retiree Health Insurance Credits	-	103,762	-
Insurance Premiums and Claims	17,657	139,108	-
Trust Payments	3	-	-
Administrative Expenses	28,802	29,213	-
Other Expenses (Note 27)	-	5,860	-
Shares Redeemed	1,270,118	-	5,078,409
Long-term Disability Benefits	-	31,211	-
Total Deductions	2,310,556	2,948,717	5,078,409
Transfers:			
Transfers In	-	294	-
Transfers Out	-	(294)	-
Total Transfers	-	-	-
Net Increase	1,860,619	(3,236,668)	429,128
Net Assets Held in Trust for Pension/ Other Employment Benefits, Pool Participants, and Other Purposes			
July 1	24,210,466	58,344,013	3,060,296
June 30	$ 26,071,085	$ 55,107,345	$ 3,489,424

The accompanying notes are an integral part of this financial statement.

Component Units

Component Units are organizations that are legally separate from the primary government. Each discrete component unit serves or benefits those outside of the primary government.

The Virginia Housing Development Authority provides investment in and stimulates construction of low to moderate income housing for the citizens of the Commonwealth.

The Virginia Public School Authority provides financing for capital construction of primary and secondary schools to cities and counties.

The Higher Education Institutions account for the resources received and used in the operation of the Commonwealth's institutions of higher education and medical teaching hospitals. Higher education institutions included in this section are:

University of Virginia, including the University of Virginia College at Wise, and the University of Virginia Hospital
Virginia Polytechnic Institute and State University
Virginia Commonwealth University, including the Virginia Commonwealth University Health System Authority

Nonmajor Component Units include those listed on pages 242-243 in the Combining and Individual Fund Statements and Schedules section of this report.

Statement of Net Assets – Component Units

June 30, 2008
(Dollars in Thousands)

	Virginia Housing Development Authority	Virginia Public School Authority	University of Virginia	Virginia Polytechnic Institute and State University
Assets				
Cash and Cash Equivalents (Notes 1 and 6)	$ 139,991	$ 15,867	$ 176,611	$ 137,877
Investments (Notes 1 and 6)	122,938	3,008,767	6,076,073	142,480
Receivables, Net (Notes 1 and 7)	7,912,925	68,683	175,833	89,637
Contributions Receivable, Net (Note 8)	-	-	100,869	72,235
Due from Primary Government (Note 9)	-	-	17,838	17,676
Due from Component Units (Note 9)	-	-	8,085	5,572
Inventory (Note 1)	-	-	23,116	20,382
Prepaid Items (Note 1)	-	-	17,031	10,064
Other Assets (Notes 1 and 10)	44,445	-	20,121	2,801
Loans Receivable from Primary Government (Notes 1 and 9)	-	173,090	-	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	971,679	80,085	192,862	148,006
Restricted Investments (Notes 6 and 11)	113,853	-	494,429	540,104
Other Restricted Assets (Note 11)	16,969	-	-	11,830
Nondepreciable Capital Assets (Notes 1 and 12)	2,936	-	553,869	171,151
Depreciable Capital Assets, Net (Notes 1 and 12)	18,587	-	1,786,350	846,960
Total Assets	9,344,323	3,346,492	9,643,087	2,216,775
Liabilities				
Accounts Payable (Notes 1 and 21)	20,783	20	344,581	111,652
Amounts Due to Other Governments	-	65,821	-	-
Due to Primary Government (Note 9)	-	-	-	-
Due to Component Units (Note 9)	-	-	-	-
Unearned Revenue (Note 1)	-	-	92,235	43,990
Obligations Under Securities Lending Program (Notes 1 and 6)	-	-	476,858	19,203
Other Liabilities (Notes 1 and 22)	107,508	64,157	701,295	40,880
Loans Payable to Primary Government (Notes 1 and 9)	-	-	-	-
Claims Payable (Notes 1 and 20):				
Due Within One Year	-	-	-	-
Due in More Than One Year	-	-	-	-
Long-term Liabilities (Notes 1, 19, and 23):				
Due Within One Year	366,708	260,592	95,442	57,788
Due in More Than One Year	6,807,554	2,942,586	1,168,293	417,910
Total Liabilities	7,302,553	3,333,176	2,878,704	691,423
Net Assets				
Invested in Capital Assets, Net of Related Debt	(3,701)	-	1,466,291	705,758
Restricted For:				
Nonexpendable:				
Higher Education	-	-	801,141	295,136
Other	-	-	-	-
Expendable:				
Higher Education	-	-	2,722,200	469,565
Gifts and Grants	-	-	-	-
Virginia Pooled Investment Program	-	-	-	-
Capital Projects/Construction/Capital Acquisition	-	-	-	-
Debt Service	-	-	-	-
Bond Indenture	1,854,543	-	-	-
Other	-	-	-	-
Unrestricted	190,928	13,316	1,774,751	54,893
Total Net Assets	$ 2,041,770	$ 13,316	$ 6,764,383	$ 1,525,352

The accompanying notes are an integral part of this financial statement.

Virginia Commonwealth University	Nonmajor Component Units	Total
$ 334,005	$ 908,588	$ 1,712,939
381,066	761,891	10,493,215
226,623	2,610,456	11,084,157
32,184	133,161	338,449
19,052	292,019	346,585
9,272	19,829	42,758
13,133	26,608	83,239
7,272	55,865	90,232
17,046	75,740	160,153
-	-	173,090
158,915	1,100,246	2,651,793
439,674	2,263,592	3,851,652
19,626	118,080	166,505
354,136	1,473,418	2,555,510
890,375	4,340,511	7,882,783
2,902,379	14,180,004	41,633,060
138,178	393,977	1,009,191
-	6,685	72,506
-	926	926
-	42,758	42,758
17,302	117,718	271,245
6,701	104,561	607,323
84,931	159,941	1,158,712
2,786	12,855	15,641
48,562	-	48,562
44,216	-	44,216
60,152	335,508	1,176,190
732,911	5,482,208	17,551,462
1,135,739	6,657,137	21,998,732
645,153	3,626,850	6,440,351
239,209	838,122	2,173,608
-	90,560	90,560
285,546	1,055,454	4,532,765
-	25,014	25,014
-	6,466	6,466
-	1,513,972	1,513,972
-	66,117	66,117
-	-	1,854,543
-	96,141	96,141
596,732	204,171	2,834,791
$ 1,766,640	$ 7,522,867	$ 19,634,328

Statement of Activities – Component Units

For the Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenue
Virginia Housing Development Authority	$ 553,484	$ 507,271	$ 135,018	$ -	$ 88,805
Virginia Public School Authority	157,145	149,824	-	-	(7,321)
Higher Education:					
University of Virginia	2,538,660	1,751,988	653,298	32,247	(101,127)
Virginia Polytechnic Institute & State University	1,067,365	468,638	291,210	19,048	(288,469)
Virginia Commonwealth University	2,050,703	1,684,444	202,341	48,794	(115,124)
Total Higher Education	5,656,728	3,905,070	1,146,849	100,089	(504,720)
Nonmajor Component Units:					
Higher Education	3,627,658	1,520,602	512,084	275,577	(1,319,395)
Other	722,235	530,565	1,819	65,908	(123,943)
Total Nonmajor Component Units	4,349,893	2,051,167	513,903	341,485	(1,443,338)
Total Component Units	$ 10,717,250	$ 6,613,332	$ 1,795,770	$ 441,574	$ (1,866,574)

The accompanying notes are an integral part of this financial statement.

General Revenues					
Operating Appropriations from Primary Government	Unrestricted Grants and Contributions	Investment Earnings (Note 1)	Miscellaneous	Tobacco Master Settlement	Contributions to Permanent / Term Endowments
$ -	$ -	$ (17,329)	$ 61	$ -	$ -
-	-	4,159	-	-	-
179,610	-	147,050	4,273	-	59,073
266,985	5,906	15,700	16,562	-	25,167
219,482	2,973	16,613	552	-	12,215
666,077	8,879	179,363	21,387	-	96,455
1,251,381	45,939	42,749	28,270	-	41,596
87,401	5,671	51,583	845	12,672	15,004
1,338,782	51,610	94,332	29,115	12,672	56,600
$ 2,004,859	$ 60,489	$ 260,525	$ 50,563	$ 12,672	$ 153,055

Continued on next page

Statement of Activities – Component Units *(Continued from previous page)*

For the Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

	Changes in Net Assets	Net Assets July 1 as restated (Note 2)	Net Assets June 30
Virginia Housing Development Authority	$ 71,537	$ 1,970,233	$ 2,041,770
Virginia Public School Authority	(3,162)	16,478	13,316
Higher Education:			
University of Virginia	288,879	6,475,504	6,764,383
Virginia Polytechnic Institute & State University	41,851	1,483,501	1,525,352
Virginia Commonwealth University	136,711	1,629,929	1,766,640
Total Higher Education	467,441	9,588,934	10,056,375
Nonmajor Component Units:			
Higher Education	90,540	4,092,653	4,183,193
Other	49,233	3,290,441	3,339,674
Total Nonmajor Component Units	139,773	7,383,094	7,522,867
Total Component Units	$ 675,589	$ 18,958,739	$ 19,634,328

The accompanying notes are an integral part of this financial statement.

Index to the Notes to the Financial Statements

1. Summary of Significant Accounting Policies
   - A. Basis of Presentation 72
   - B. Reporting Entity 72
   - C. Government-wide and Fund Financial Statements 78
   - D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation 79
   - E. Budgetary Process 81
   - F. Cash, Cash Equivalents, and Investments 81
   - G. Receivables 82
   - H. Contributions Receivable, Net 82
   - I. Internal Balances 82
   - J. Inventory 82
   - K. Prepaid Items 82
   - L. Interfund Loans Receivable/Payable 83
   - M. Other Assets 83
   - N. Capital Assets 83
   - O. Accounts Payable 83
   - P. Unearned and Deferred Revenue 83
   - Q. Deferred Taxes 84
   - R. Obligations Under Securities Lending Program 84
   - S. Other Liabilities 84
   - T. Claims Payable 84
   - U. Long-term Liabilities 84
   - V. Reserved Fund Balances 85
   - W. Unreserved, Designated Fund Balances 85
   - X. Unreserved, Undesignated Fund Balances 85
   - Y. Cash Management Improvement Act 85
   - Z. Investment Income 85
   - AA. Intrafund Eliminations 85
   - BB. Interfund Activity 85
2. Restatement of Beginning Balances 86
3. Deficit Fund Balances/Net Assets 86
4. General Fund Analysis – Basis of Budgeting 87
5. Revenue Stabilization Fund 87
6. Cash, Cash Equivalents, and Investments 88
7. Receivables 98
8. Contributions Receivable, Net 100
9. Interfund and Inter-Entity Assets/Liabilities 100
10. Other Assets 104
11. Restricted Assets 104
12. Capital Assets 105
13. Retirement and Pension Systems
   - A. Administration 108
   - B. Summary of Significant Accounting Policies (VRS) 108
   - C. Plan Description 108
   - D. Funding Policy 109
   - E. Annual Pension Cost and Net Pension Obligation 110
   - F. Funded Status and Funding Progress 111
   - G. Defined Contribution Plan for Political Appointees 112
   - H. Defined Contribution Plan for Public School Superintendents 112
   - I. Virginia Supplemental Retirement Plan 112
   - J. Higher Education Fund (Component Unit) 112
   - K. Other Component Units 113
14. Other Employment Benefits 116
15. Other Post-Employment Benefits (OPEB)
   - A. VRS Administered Plans 117
   - B. Other Plans 118
   - C. Annual OPEB Cost and Net OPEB Obligation 119
   - D. Funded Status and Funding Progress 120
   - E. Higher Education Fund (Component Unit) 121
   - F. Other Component Units 121
16. Deferred Compensation Plans 121
17. State Non-Arbitrage Pool 122
18. Commitments
   - A. Construction Projects 122
   - B. Operating Leases 123
   - C. Investment Commitments – Virginia Retirement System 123
   - D. Tobacco Grants 123
   - E. Other Commitments 123
19. Accrued Liability for Compensated Absences 124
20. Insurance
   - A. Self-Insurance 124
   - B. Public Entity Risk Pools 126
21. Accounts Payable 128
22. Other Liabilities 129
23. Long-Term Liabilities 131
24. Other Revenue 149
25. Prizes and Claims 150
26. Depreciation and Amortization 150
27. Other Expenses 151
28. Other Non-Operating Revenue/Expenses 151
29. Transfers 152
30. On-Behalf Payments 152
31. Endowments 152
32. Cash Flows – Additional Detailed Information 154
33. Tobacco Settlement and Securitization 156
34. Information Technology Infrastructure Partnership – Northrop Grumman 156
35. OxyContin Settlements 157
36. Contingencies
   - A. Grants and Contracts 157
   - B. Litigation 157
   - C. Subject to Appropriation 157
   - D. Bailment Inventory 157
   - E. Loan Guarantees 158
37. Subsequent Events 158

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

B. Reporting Entity

For financial reporting purposes, the Commonwealth of Virginia's (the "Commonwealth's") reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable (blended component units), and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government (discrete component units). The funds of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (GASB Statement No. 39) requires the inclusion of numerous organizations that raise and hold funds for the direct benefit of the primary government.

Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) describes the criteria for determining which organizations, functions, and activities should be considered part of the Commonwealth for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, and the Commonwealth's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

(1) Primary Government – A primary government consists of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, and departments are, for financial reporting purposes, part of the primary government.

(2) Blended Component Units – Though legally separate entities, these component units are, in substance, part of the primary government's operations. The blended component unit serves or benefits the primary government almost exclusively. Financial information from these units is combined with that of the primary government. The Commonwealth's only blended component unit is:

Virginia Public Building Authority (VPBA) (nonmajor governmental fund) – The authority was created as a body politic and corporate and is fiscally independent. A government instrumentality, the authority finances the acquisition and construction of buildings for the use of the Commonwealth and other approved purposes. The Governor appoints the seven-member board, and the primary government is able to impose its will on the authority. The Auditor of Public Accounts audits the authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

(3) Discrete Component Units – Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discrete component units serve or benefit those outside of the primary government.

GASB Statement No. 39 generally requires any organization that raises and holds economic resources for the direct benefit of the reporting entity to be reported as a component unit, even if the reporting entity is not financially accountable for the organization. The entities are included in the Commonwealth's reporting entity as non-profit charitable organizations and exist solely to support the Commonwealth's higher education institutions, museums, and the Library of Virginia. The higher education institution non-profit organizations are included in the applicable higher education institution's column in the accompanying financial statements. The museum foundations, and the Library of Virginia Foundation, which are discretely presented, are more fully described later in this footnote. In all instances where separate disclosure of these non-profit organizations is

required in the accompanying footnotes, the entities' totals are aggregated and disclosed as "foundations." Discretely presented component units are:

Higher Education Institutions – The Commonwealth's higher education institutions are granted broad corporate powers by state statutes. The Governor appoints the members of each institution's board of trustees. In addition to the annual appropriations to support the institutions' operations, the state provides funding for, and construction of, major academic plant facilities for the institutions. Institutions reported Operating Appropriations from Primary Government of approximately $1.92 billion and reported Program Revenue – Capital Grants and Contributions of approximately $221.0 million from the primary government. Therefore, there is a financial benefit/burden to the primary government. The bonds issued to finance the construction of these facilities are obligations of the state. The major higher education institutions are: University of Virginia, including the University of Virginia Hospital and the University of Virginia's College at Wise; Virginia Polytechnic Institute and State University; and Virginia Commonwealth University, including the Virginia Commonwealth University Health System Authority. The nonmajor higher education institutions are: the College of William & Mary, including Richard Bland College and the Virginia Institute of Marine Science; Virginia Military Institute; Virginia State University; Norfolk State University; University of Mary Washington; James Madison University; Radford University; Old Dominion University; George Mason University; Virginia Community College System; Christopher Newport University; and Longwood University. The Southwest Virginia Higher Education Center, Roanoke Higher Education Authority, Institute for Advanced Learning and Research, Southern Virginia Higher Education Center, and New College Institute are also included as nonmajor higher education institutions. The colleges and universities are funded through state appropriations, tuition, federal grants, and private donations and grants. As previously noted, certain foundations are considered component units of the higher education institutions, and are included in the accompanying financial statements as well as the higher education institutions' individually published financial statements. The Auditor of Public Accounts (APA) does not audit the Roanoke Higher Education Authority, the Institute for Advanced Learning and Research, and the component units of the higher education institutions, including foundations, but relies on the reports issued by other auditors to render his opinion. The APA audits the colleges and universities, and individual reports are issued under separate cover. Complete financial statements for each institution may be obtained from their respective administrative offices. The addresses for these institutions may be obtained from the Virginia Department of Accounts, 101 North 14th Street, Richmond, Virginia 23219-3638.

Virginia Housing Development Authority (VHDA) (major) – The Authority was created as a political subdivision and instrumentality of the Commonwealth and is granted both politic and corporate powers by the *Code of Virginia*. The Governor appoints a majority of the Authority's board members and the remaining board members are ex-officio. The Commonwealth may make grants to the Authority including, but not limited to, reserve funds, which is a potential financial benefit/burden to the primary government. The Commonwealth is not legally obligated by the debt of the Authority. The Authority was created in the public interest to provide investment in and stimulate construction of low to moderate income housing which benefits the citizens of the Commonwealth. The administrative offices of the Authority are located at 601 South Belvidere Street, Richmond, Virginia 23220. KPMG, LLP audits the Authority, and a separate report is issued.

Virginia Public School Authority (VPSA) (major) – The Authority was created as a public body corporate, and an agency and instrumentality of the Commonwealth to finance capital projects of city and county school boards. The Governor appoints the board members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Virginia Economic Development Partnership (VEDP) (nonmajor) – The Partnership was created as a body corporate and operates to encourage, stimulate, and support the development and expansion of commerce in the Commonwealth. The Governor appoints the 15-member board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the partnership, and a separate report is issued.

Virginia Outdoors Foundation (nonmajor) – The foundation was created as a body politic and is administratively assigned to the

Department of Conservation and Recreation (part of primary government) and charged with promoting preservation through the acceptance of donated conservation easements and raising funds for the purchase of preservation land. The Governor appoints the seven-member board of trustees, and the primary government can impose its will on the foundation. The administrative offices of the foundation are located at 900 South Main Street, Blacksburg, Virginia 24060. Goodman and Company, LLP, audits the foundation, and a separate report is issued.

Virginia Port Authority (VPA) (nonmajor) – The Authority was established as a corporate body and operates to serve the citizens and promote commerce through the harbors and ports of Virginia. The Governor appoints a majority of the 12-member board, and the primary government is able to impose its will on the Authority. There is also a financial benefit/burden to the primary government. The administrative offices of the Authority are located at 600 World Trade Center, Norfolk, Virginia 23510. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Resources Authority (VRA) (nonmajor) – The Authority was created as a statewide public body corporate political subdivision of the Commonwealth to provide financing of infrastructure projects for water supply, wastewater, storm water, solid waste treatment, airports, public safety, brownfields remediation and redevelopment, and recycling. The Governor appoints the 11-member board and the Executive Director of the Authority. The primary government is able to impose its will on the Authority, and there is a financial benefit/burden to the primary government. The Commonwealth does not guarantee any bonds issued by the Virginia Resources Authority. The administrative offices of the Authority are located at 1111 East Main Street, Suite 1920, Richmond, Virginia 23219. PBGH, LLP audits the Authority, and a separate report is issued.

Virginia Tourism Authority (nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority encourages, stimulates, and promotes tourism and film production industries of the Commonwealth. The Governor appoints all of the board members, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, 19th Floor, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Tobacco Settlement Foundation (nonmajor) – The foundation was created as a body corporate and as a political subdivision of the Commonwealth. The foundation was established to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund and to distribute monies in this fund for such efforts as restricting the use of tobacco products by minors and the enforcement of laws restricting the distribution of tobacco products to minors. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 501, Richmond, Virginia, 23219. The Auditor of Public Accounts audits the foundation, and a separate report is issued.

Tobacco Indemnification and Community Revitalization Commission (nonmajor) – The Commission was created as a body corporate and as a political subdivision of the Commonwealth. The Commission was established to determine the appropriate recipients of the monies in the Tobacco Indemnification and Community Revitalization Fund. This fund is to provide payments to tobacco farmers as compensation for the adverse economic effects resulting from loss of investment in specialized tobacco equipment and barns, and lost tobacco production opportunities. It also provides monies to revitalize tobacco dependent communities. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 501, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Commission, and a separate report is issued.

Hampton Roads Sanitation District Commission (nonmajor) – The Commission was established as a political subdivision of the Commonwealth and a government instrumentality. The Commission, which is the governing board of the district, was granted corporate powers by the *Code of Virginia*. The Governor appoints the Commission members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Commission. The Commonwealth is not obligated by the debt of the Commission. The Commission was established to benefit the inhabitants of the district and operates a sewage system for 17 localities in the Chesapeake Bay area. The address for the administrative offices of the Commission is 1436 Air Rail Avenue, Virginia Beach, Virginia 23455. KPMG, LLP, audits the Commission, and a separate report is issued.

Virginia Biotechnology Research Partnership Authority (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in the development of a biotechnology research park. The Governor appoints the board members of the Authority, and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at 800 East Leigh Street, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Small Business Financing Authority (SBFA) (nonmajor) – The Virginia Small Business Financing Act of 1984 (Chapter 28, Title 9, *Code of Virginia*) established the Authority as a public body corporate and a political subdivision of the Commonwealth. The Governor appoints the 11-member board, and the primary government is able to impose its will on the Authority. The Authority was created to assist small businesses in the Commonwealth in obtaining financing for new businesses or the expansion of existing businesses. The Authority can provide financial assistance to small businesses by providing loans, guarantees, insurance, and other assistance, thereby encouraging the investment of private capital in small businesses in the Commonwealth. The Authority can loan money to local governments as defined by the *Code of Virginia* for economic development purposes. The Authority also guarantees loans made to small businesses by banks. The administrative offices of the Authority are located at 707 East Main Street, Suite 300, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Schools for the Deaf and Blind Foundation (nonmajor) – The Foundation operates as a non-private educational and fundraising organization solely in connection with, and exclusively for the benefit of the Virginia School for the Deaf and Blind at Staunton (part of primary government) and the Virginia School for the Deaf, Blind and Multi-Disabled at Hampton (part of primary government), and within the jurisdiction and management of the Virginia Board of Education. The Foundation uses a December 31 calendar year-end. The administrative offices of the Foundation are located at the Virginia Department of Education, 101 North 14th Street, 25th Floor, Richmond, Virginia, 23219. The Auditor of Public Accounts audits the Foundation along with the audit of the Department of Education, and a separate report is issued.

Science Museum of Virginia Foundation (nonmajor) – The Foundation is a non-stock, non-profit corporation established to implement and fund programs, projects, and operations that are authorized and approved by the trustees of the Science Museum of Virginia (part of primary government). The administrative offices of the Foundation are located at the Science Museum of Virginia, Post Office Box 11624, Richmond, Virginia 23230. Cherry, Bekaert, & Holland, LLP, audits the Foundation, and a separate report is issued.

Belmont Bay Science Center Foundation (nonmajor) – The Foundation is a non-stock, non-profit corporation formed under the *Code of Virginia* for the purpose of implementing and funding those programs, projects and operations to educate the students about science that are authorized and approved by the trustees of the Science Museum of Virginia. Resources for the Foundation's activities are primarily provided by charitable contributions and investment income. The administrative offices of the Foundation are located at 751 Norwood Lane, Woodbridge, Virginia 22191. Cherry, Bekaert, & Holland, LLP, audits the Foundation, and a separate report is issued.

Danville Science Center, Inc. (nonmajor) – The Foundation is non-profit corporation formed for the purpose of implementing and funding those programs, projects and operations which are authorized and approved by the trustees of the Science Museum of Virginia. The administrative offices of the Foundation are located at 657 Craghead Street, Post Office Box 167, Danville, Virginia 24541. Goodman and Company, LLP, audits the Foundation, and a separate report is issued.

Virginia Museum of Fine Arts Foundation (nonmajor) – The Foundation operates as a non-profit corporation under the laws of Virginia to fund exhibitions, programs, and capital asset expansion to ensure that the Virginia Museum of Fine Arts (part of primary government) has the space and resources for art to help improve the quality of life for many. The administrative offices of the Foundation are located at 200 North Boulevard, Richmond, Virginia 23220. Goodman and Company, LLP, audits the Foundation, and a separate report is issued.

A. L. Philpott Manufacturing Extension Partnership (nonmajor) – The partnership has the mission to foster economic growth by enhancing the competitiveness of Virginia's manufacturers. The partnership provides manufacturing firms with fee-based technology consulting services, access to business modernization resources, and support for

interfirm collaboration. Further, the partnership provides direct assistance to increase sales, decrease costs, and improve quality, productivity, and competitiveness. The partnership has a 23-member board of trustees. The board consists of the presidents of two public four-year institutions of higher education; three community college presidents; the director of Virginia's Center for Innovative Technology; Virginia's Secretary of Commerce and Trade; and fifteen citizen members, representing manufacturing industries, appointed by the Governor. There is also a financial benefit/burden to the primary government. The administrative office is located at Patrick Henry Community College, 645 Patriot Avenue, Post Office Box 5311, Martinsville, Virginia 24115-5311. The Auditor of Public Accounts audits the partnership, and a separate report is issued.

Virginia Horse Center Foundation (nonmajor) – The Foundation operates the Virginia Horse Center for the benefit of the equine and tourism industries. The Foundation is a discrete component unit of the Commonwealth due to the limited ability of the Foundation to incur additional debt without the Commonwealth's approval. In addition, the Governor appoints one member of the Foundation's board of directors, and this member must approve any changes to the Foundation's by-laws or conveyance of property. The address for the administrative offices of the Foundation is 487 Maury River Road, Lexington, Virginia 24450. The accounting firm of Raetz and Hawkins, P.C., audits the Foundation, and a separate report is issued.

Virginia University Research Partnership (nonmajor) – The partnership was created as a non-profit, non-stock corporation to receive grant monies appropriated by the General Assembly and to oversee the administration of those grant payments for use by a non-profit, public benefit research institute that conducts research and development for government agencies, commercial businesses, Foundations, and other organizations as well as commercializes technology. Due to the primary government being the sole source of funding, it is able to impose its will on the partnership. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798.

Fort Monroe Federal Area Development Authority (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in formulating a reuse plan for Fort Monroe. The Governor appoints a majority of the 18-member board and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at Old Quarters #1, 151 Bernard Road, Fort Monroe, Virginia 23651. Robinson, Farmer, Cox Associates audits the Authority, and a separate report is issued.

Assistive Technology Loan Fund Authority (nonmajor) – The Authority was created as a political subdivision and public body corporate by the *Code of Virginia*. The Governor appoints the board of directors as directed by the *Code*. The Authority manages a fund to provide loans to individuals to acquire assistive technology, other equipment, or other authorized purposes designed to help disabled individuals become more independent. The administrative offices are located at 1602 Rolling Hills Drive, Suite 107, Richmond, Virginia 23229. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia National Defense Industrial Authority (nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority fosters and promotes business, technology, transportation, education, economic development and other efforts in support of the mission, execution, and transformation of the United States military and national defense activities located in the Commonwealth. The Governor appoints a majority of the 16-member board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Coalfield Coalition Authority (nonmajor) – The Authority was created as a body corporate and as a political subdivision of the Commonwealth. Its goals are to build a diverse, prosperous, self-reliant and globally competitive economy in Virginia's coalfield region through regional cooperation. The Governor appoints the 11-member board as directed by the *Code of Virginia*. The administrative offices of the Authority are located at Post Office Box 548, Lebanon, Virginia 24266. Bostic, Tucker and Company, P.C., audits the Authority. However, as of June 30, 2008, the Authority has disbanded and is no longer in operation.

Virginia Land Conservation Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (part of primary government) by acquiring interests in preservation land and providing grants to other entities to acquire interests in preservation land. The Governor appoints the

18-member board, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 203 Governor Street, Suite 302, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Department of Conservation and Recreation and discloses its existence in that report.

Virginia Arts Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Virginia Commission for the Arts (part of primary government) by promoting the arts in the Commonwealth. The Governor appoints the board of trustees for the Virginia Commission for the Arts, which also serves as the board for the Virginia Arts Foundation. The Director of the Virginia Commission for the Arts serves as the board chairman. In addition, the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 223 Governor Street, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Virginia Commission for the Arts.

Library of Virginia Foundation (nonmajor) – The Foundation was created as a private, non-profit 501 (c) (3) corporation supporting the Library of Virginia. The Foundation was established upon receipt of a major bequest. The articles of incorporation stipulate that the Foundation shall at all times be operated solely in connection with, and exclusively for the benefit of the Library of Virginia. The Foundation is governed by a separate board of directors and promotes and supports the Library of Virginia in all activities. The administrative offices of the Foundation are located at 800 East Broad Street, Richmond, Virginia 23219. Barcalow & Hart, PLLC, audits the Foundation, and a separate report is issued.

Innovative Technology Authority (ITA) (nonmajor) – The Authority is granted corporate powers by the *Code of Virginia*. The Authority serves to facilitate the marketing, organization, and development of scientific research and technology by the state's institutions of higher education and private industry in the Commonwealth. In addition, the Authority serves to promote the economic development of the Commonwealth by attracting and retaining high technology jobs and businesses in Virginia. The Governor appoints the 16-member board, and there is a financial benefit/burden to the primary government. The Authority's combined financial statements include the accounts of the Center for Innovative Technology (CIT) after elimination of all significant intercompany balances and transactions. CIT is a non-stock, not-for-profit corporation, which acts as the operating arm of the Authority. The address for the administrative offices of the Authority is CIT Building, Suite 600, 2214 Rock Hill Road, Herndon, Virginia 20170-4228. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia College Building Authority (VCBA) (nonmajor) – The Authority was created as a public body corporate, a political subdivision, and an agency and instrumentality of the Commonwealth. The Governor appoints a majority of the board and members serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Authority finances certain capital projects and equipment purchases of state-supported colleges and universities. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Only the activity of the Authority that relates to the financing of capital projects and equipment purchases by state-supported colleges and universities is included in the financial statements. The state-supported colleges and universities reported revenue from the Authority of $78.6 million as Program Revenue Capital Grants and Contributions for the 21st Century Program and $59.4 million as Program Revenue Operating Grants and Contributions for equipment. The Authority assists private institutions of higher education in the financing and refinancing of a broad range of facilities. The Authority is authorized to issue obligations and lend the proceeds to private institutions; however, such financings or refinancings are not obligations of the primary government nor the Authority, but are payable solely from the revenues pledged by the respective private institution. This indebtedness, totaling $455.3 million, is not included in the financial statements.

(4) Related Organizations – Organizations for which the primary government appoints a majority of the board, but is not financially accountable, are related organizations. Related organizations are:

Tobacco Settlement Financing Corporation – The corporation was created by the Tobacco Settlement Financing Corporation Act, Chapters 482 and 488 of the Acts of the General Assembly of the Commonwealth of Virginia (Commonwealth) during the 2002 General Assembly Session. The corporation is a public body corporate entity and an independent instrumentality of the Commonwealth, managed by a six-member board, including the State Treasurer. The corporation purchased all of the future tobacco

settlement revenue allocated to the Tobacco Indemnification and Community Revitalization Commission, a discrete component unit of the Commonwealth. Neither the Commonwealth's nor the Virginia Tobacco Settlement Foundation's (component unit) tobacco revenue was securitized. The administrative offices of the corporation are located at 101 N. 14th Street, 3rd Floor, Post Office Box 1879 Richmond, Virginia 23218-1879. PBGH, LLP audits the corporation, and a separate report is issued.

Virginia Recreational Facilities Authority – The authority was created as a political subdivision and instrumentality of the Commonwealth and given separate corporate powers by the *Code of Virginia*. The Governor appoints the 13-member board of directors. The authority operates educational programs, tourism, and commerce in the Roanoke Valley. The address for the administrative offices of the authority is 5204 Bernard Drive SW, Post Office Box 29800, Roanoke, Virginia 24018. Foti, Flynn, Lowen and Company audits the authority, and a separate report is issued.

Jamestown-Yorktown Foundation, Inc. – The non-profit corporation was created by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The corporation board consists of five members selected from the Foundation's board of trustees. Several Commonwealth officials serve as ex-officio members of the Foundation's board, and the Governor appoints 12 members. The corporation's basic activities consist of soliciting and collecting contributions, purchasing artifacts, sponsoring events and exhibits, and overseeing investments. The administrative offices of the corporation are located at 2207 Colonial Parkway, Post Office Box 3605, Williamsburg, Virginia 23187-3605. Goodman and Company, LLP, audits the corporation, and a separate report is issued.

Jamestown-Yorktown Educational Trust – The trust was created as a non-profit corporation by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The trust board consists of six members selected from the Foundation's board of trustees. Several Commonwealth officials serve as ex-officio members of the Foundation's board, and the Governor appoints 12 members. The trust operates the Jamestown Settlement and Yorktown Victory Centers' gift shops and café. The address for the administrative offices of the trust is 2207 Colonial Parkway, Post Office Box 3605, Williamsburg, Virginia 23187-3605. Goodman and Company, LLP, audits the trust, and a separate report is issued.

Virginia Birth-Related Neurological Injury Compensation Program – The program was created to provide a no-fault alternative for birth-related neurological injuries. The Governor appoints the seven-member board. The administrative offices of the program are located at 7501 Boulders View Drive, Suite 210, Richmond, Virginia 23225. Cherry, Bekaert, & Holland, LLP, audits the program, and a separate report is issued.

Chesapeake Bay Bridge and Tunnel Commission – The commission was created to establish policy and administer operations of the Chesapeake Bay Bridge Tunnel District. Any of the 11 members of the commission appointed or reappointed on or after July 1, 1998, shall be appointed by the Governor, subject to confirmation by each house of the General Assembly. The administrative offices of the commission are located at Post Office Box 111, 32386 Lankford Highway, Cape Charles, Virginia 23310. KPMG, LLP, audits the commission, and a separate report is issued.

C. Government-wide and Fund Financial Statements

The Government-wide Financial Statements, the Statement of Net Assets and the Statement of Activities, report information on all nonfiduciary activities of the primary government and component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Also, the primary government activity is reported separately from the legally separate component units for which the Commonwealth is financially accountable.

The Statement of Activities demonstrates the degree to which direct expenses of a specific function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit, as well as investment income generated by operations. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items properly excluded from program revenues are reported as general revenues.

Net assets are restricted when constraints are placed on them that are imposed by external parties or constitutional provisions. Designations solely imposed by the Commonwealth's management are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, the Commonwealth's policy is to use the restricted resources first. Some institutions of higher education may follow a different policy.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and component units. However, fiduciary funds are not included in the government-wide statements. Major governmental funds, enterprise funds, and component units are reported as separate columns in the fund financial statements, with nonmajor funds being aggregated into a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the primary government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year (or one year for Medicaid). Significant revenues subject to accrual include federal grants and income and sales taxes. Income tax revenues for tax underpayments are only recognized to the extent of the primary government's estimated refunds for tax overpayments received. Revenues that the primary government earns by incurring obligations are recognized in the same period as when the obligations are recognized.

Expenditures generally are recorded when a liability is incurred, as under full accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when the payment is due.

The primary government reports the following major governmental funds:

General Fund – Accounts for the transactions related to resources received and used for those services traditionally provided by a state government, and which are not accounted for in any other fund. These services include general government, legislative and judicial activities, public safety, health and mental health programs, resources and economic development, licensing and regulation, and primary and secondary education.

Commonwealth Transportation Special Revenue Fund – Accounts for the revenues and expenditures associated with highway operations, maintenance, construction, and other transportation related activities. Funding for these programs is received from highway user taxes, fees, and funds received from the federal government.

Federal Trust Special Revenue Fund – Accounts for all federal dollars received by the Commonwealth except those received by the Commonwealth Transportation Fund the Unemployment Compensation Fund, and institutions of higher education.

Literary Fund Special Revenue Fund – Accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements – The financial statements of the proprietary funds, fiduciary funds, and component units are reported using the economic resources measurement focus and the full accrual basis of accounting. As with the government-wide statements, revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus since they only report assets and liabilities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides governments two options for reporting their enterprise funds (including component units reporting as business-type activities). All enterprise funds reported herein, with the exception of the State Lottery (major enterprise fund), Mental Health Local Funds (nonmajor enterprise fund), the Virginia Port Authority (nonmajor component unit), the A. L. Philpott Manufacturing Extension Partnership (nonmajor component unit), the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major), and the Innovative Technology Authority (nonmajor component unit) apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The State Lottery (major enterprise fund), Mental Health Local Funds (nonmajor enterprise fund), the Virginia Port Authority (nonmajor component unit), the A. L. Philpott Manufacturing Extension Partnership (nonmajor component unit), the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major), and the Innovative Technology Authority (nonmajor component unit) apply all of these pronouncements, and also apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Foundations' (component units) financial statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. The financial statements are prepared under FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. FASB rather than GASB pronouncements are followed. In some instances, activities of the foundations (component units) are reported separately within the footnotes because of the different reporting standards. Also, some foundations (component units) have a calendar rather than a fiscal year-end. Foundations (component units) with a calendar year-end are included in these financial statements for the year ending December 31, 2007. Significant intrafund activity/balances between each higher education institution and their foundations have been eliminated. However, Old Dominion University (nonmajor component unit) reported the following intrafund balances that could not be eliminated because of differing year-ends: institution assets of $72.5 million and liabilities of $72.4 million, and foundation assets of $58.1 million and liabilities of $73.9 million.

The primary government reports the following major enterprise funds:

State Lottery Fund – Accounts for all receipts and expenses of the State Lottery.

Virginia College Savings Plan Fund – Administers the Virginia Prepaid Education Program.

Unemployment Compensation Fund – Accounts for receipts from employers and expenses incurred to provide benefits to eligible unemployed workers.

Additionally, the primary government reports the following fund types:

Governmental Fund Types:

Special Revenue Funds – Account for transactions related to resources received and used for restricted or specific purposes.

Debt Service Funds – Account for transactions related to resources retained and used for the payment of interest and principal on long-term obligations.

Capital Project Funds – Account for transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental or proprietary funds. The primary resource for these funds is the proceeds of bond issues and energy performance contracts. Principal uses are for construction and improvement of state office buildings, correctional and mental health facilities, and parks.

Permanent Funds – Account for transactions of the Commonwealth Health Research Fund, the Prescription Monitoring Fund, and the Mental Health Endowment Funds whose principal must be maintained intact and whose income is used to benefit the Commonwealth's citizens and mental health patients.

Proprietary Fund Types:

Enterprise Funds – Account for transactions related to resources received and used for financing self-supporting activities of the primary government that offer products and services on a user-charge basis to external users.

Internal Service Funds – Account for transactions related to the financing and sale of goods or services provided by the agencies of the primary government to other agencies and institutions of the Commonwealth. Activities include the provision of information technology, manufacturing activities, insurance programs, fleet services, facilities and property management, and engineering services.

Fiduciary Fund Types:

Private Purpose Trust Funds – Account for transactions of all other trust arrangements in which the principal and income benefit individuals, private organizations, or other governments. These trusts include those for escheat property, educational savings plans, and others.

Pension and Other Employee Benefit Trust Funds – Account for transactions of the Commonwealth administered retirement systems and other employment benefits.

Investment Trust Fund – Accounts for the external portion of the Local Government Investment Pool that is sponsored by the Commonwealth.

Agency Funds – Account for amounts held in trust by the primary government for others. Agency funds include those funds established to account for the collection of taxes and fees for distribution to localities and other states, employee benefits, deposits of insurance carriers, child support collections and other miscellaneous accounts.

E. Budgetary Process

Budgetary amounts shown in the Required Supplementary Information and Combining and Individual Fund Statements and Schedules Sections represent the total of the original budgeted amounts and all supplemental appropriations. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the *Code of Virginia*, submits a budget composed of all proposed expenditures for the Commonwealth, and of estimated revenues and borrowing for a biennium, to the General Assembly. Budgets are adopted for the General and Special Revenue Funds, except for the Literary (major) – Special Revenue Fund. Formal budgetary integration is not employed for the Capital Projects (nonmajor), Debt Service (nonmajor), Permanent Funds (nonmajor), and the Literary – Special Revenue (major) because effective budgetary control is alternatively achieved through the General Fund and the remaining Special Revenue Funds.

The budget is prepared on a biennial basis; however, the budgets of the General and Special Revenue Funds contain separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor. For management control purposes, the budget is controlled at the program level. The Governor may transfer an appropriation within a state agency or from one state agency to another, provided that total fund appropriations, as contained within the budget, are not exceeded. Increases in General Fund appropriations must be approved by the General Assembly.

Appropriations for programs funded from Special Revenue Funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

F. Cash, Cash Equivalents, and Investments

Cash

In order to maximize the Commonwealth's earning potential, the majority of the primary government's cash balances are pooled together in the general account for investment purposes. The amounts required for operations are liquidated as needed. Since all amounts not required for operations are held in investment securities, it is possible that the cash balances could be negative due to timing differences in liquidating the investments.

As of June 30, 2008, the General Fund had a negative cash balance of $4.7 billion. In order to properly reflect the general account position, this negative cash balance has been eliminated in the accompanying statements and offset against the primary government's cash equivalents and investments (see Note 6).

Cash Equivalents

Cash equivalents are investments with an original maturity of 90 days or less.

Investments

Investments are principally comprised of monies held by component units, Pension and Other Employee Benefit Trust Funds, and monies held by the State Treasurer in both the general account and other fiduciary accounts.

Governmental and proprietary funds, both primary government and component units, report investments in money market and in the Commonwealth sponsored investment pools at amortized cost. All other investments are reported at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Investments administered by the Virginia Retirement System (VRS) are reported at fair value. The cost of investments sold is the average cost of the aggregate holding of the specific investment sold. Investments in affiliated organizations are accounted for on the equity method of accounting

and the VRS' share of their earnings (losses) for the period is included in investment income using the equity method.

Investments of higher education institutions (component units) are reported at fair value, except for money market investments and investments in the Commonwealth sponsored investment pools, which are reported at amortized cost.

Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes (see Note 6).

G. Receivables

Receivables in the governmental funds consist primarily of the accrual of taxes, as well as federal receivables of the primary government's Medicaid program. Receivables in the proprietary funds consist primarily of tuition contribution receivables. Receivables of fiduciary funds are primarily the accrual of member and employer contributions in the Pension and Other Employee Benefit Trust Funds and the accrual of local sales taxes in the Agency Funds. Receivables of the component units consist primarily of mortgage receivables, loan receivables, patient receivables, and student receivables. Receivables are recorded net of allowances for doubtful accounts (see Note 7).

H. Contributions Receivable, Net

Contributions Receivable reported by the foundations (component units) represents pledges or unconditional promises to give that have been discounted (see Note 8).

I. Internal Balances

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities (see Note 9).

J. Inventory

Inventories consist of materials and supplies and are reported as expenditures when consumed. These assets are offset by a fund balance reserve that indicates they are not available for spending. Inventories exceeding $1 million of the General and the Special Revenue Funds are maintained at cost using the first-in, first-out (FIFO) methodology, except for the following:

- Department of State Police (VSP)
- Virginia Department of Transportation (VDOT)
- Department of Health (VDH)
- Department for the Blind and Vision Impaired (DBVI)

VSP inventories are recorded in the General (major) and Other Special Revenue (nonmajor) Funds using the average cost methodology and are maintained at cost. VDOT inventories are recorded in the Commonwealth Transportation Fund (major) using the FIFO and average cost methodologies and are maintained at either cost or average cost. VDH inventories are recorded in the General (major), Health and Social Services Special Revenue (nonmajor), and Federal Trust (major) Funds. These inventories are maintained at cost based on either FIFO or the average cost methodology. DBVI inventories are maintained at cost or average cost based on the FIFO methodology and are recorded in the General (major) and Health and Social Services Special Revenue (nonmajor) Funds.

Inventories maintained by Correctional Enterprises (internal service fund) are stated at the lower of cost or market using FIFO. Inventories maintained by the Virginia Museum of Fine Arts (nonmajor enterprise fund), the Science Museum of Virginia (nonmajor enterprise fund), the Consolidated Laboratory (nonmajor enterprise fund), and the Library of Virginia (nonmajor enterprise fund) are stated at cost using FIFO. Inventories maintained by the internal service funds except for Correctional Enterprises are stated at cost using FIFO.

Inventories maintained by the Department of Alcoholic Beverage Control (nonmajor enterprise fund) are stated at average cost using FIFO.

The Virginia Industries for the Blind (nonmajor enterprise fund) maintains inventories at cost using the average cost methodology.

Institutions of higher education (component units) use several methods for inventory valuations, including cost using FIFO, the lower of cost or market using FIFO, or weighted average methods. Inventories maintained by the Virginia Horse Center Foundation (nonmajor component unit) are stated at the lower of cost or market using FIFO. Inventories maintained by the Virginia Port Authority (nonmajor component unit) are reported using the moving average cost methodology.

K. Prepaid Items

Prepaid assets for rent, insurance, and similar items are recognized when purchased and expensed when used.

L. Interfund Loans Receivable/Payable

Loans Receivable/Payable represents working capital advances from one fund to another (see Note 9).

M. Other Assets

Other Assets include those balances of a miscellaneous nature that are not specifically classified elsewhere (see Note 10).

N. Capital Assets

Capital assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the Government-wide Statement of Net Assets. Capital assets of the other funds and component units are capitalized in the fund in which they are utilized. All depreciable capital assets are depreciated on the straight-line basis over their useful lives (see Note 12).

Capital assets are stated at historical cost or, in some instances, estimated historical cost. Donated capital assets from entities external to the reporting entity are stated at fair market value at the time of donation. Asset transfers or donations from within the reporting entity are recorded at the carrying value of the transferring entity as required by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The primary government capitalizes all equipment that has a cost or value greater than $50,000 and expected useful life of greater than two years. The capitalization of software is included in amounts reported for equipment. The primary government capitalizes all land, buildings and infrastructure that have a cost or value greater than $100,000 and an expected useful life of greater than two years. Selected agencies, business-type entities, and component units utilize a capitalization limit lower or higher than the primary government's established thresholds for various reasons. Accordingly, reported capital assets may include some items that cost less than those thresholds. Infrastructure, including highways, bridges, and rights-of-way, is capitalized using the historical approach and includes any assets acquired prior to fiscal year 1980.

The primary government's capitalization policy regarding works of art/historical treasures is that capitalization is encouraged, but not required, for works of art/historical treasures that meet the following conditions:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain;
- The collection is protected, kept unencumbered, cared for and preserved; and,
- The collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

The primary government capitalizes construction-in-progress when project expenditures exceed $100,000. Interest incurred during construction is not capitalized in governmental funds. Interest incurred during the construction of proprietary fund assets is included in the capitalized value of the asset. Expenditures are classified as construction-in-progress if:

(1) they extend the asset life, improve productivity, or improve the quality of service; and,

(2) they fall into the planning, acquisition, construction, improvement, renovation, repair, replacement, relocation or demolition phase of the asset life.

The estimated lives of capital assets are as follows:

	Years
Buildings	10-75
Equipment	2–50
Infrastructure	5–50

Selected agencies, business-type entities, and component units may utilize estimated lives and policies that differ from the above for various reasons.

O. Accounts Payable

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, accounts payable also includes payments for nonexchange transactions that met eligibility requirements prior to year-end (see Note 21).

P. Unearned and Deferred Revenue

Unearned revenue represents monies received or revenues accrued but not earned as of June 30, 2008. Deferred revenue represents revenues accrued but not available to finance expenditures of the current fiscal period. The majority of unearned revenue is reported by higher education institutions (component unit), where it is primarily composed of revenue for student tuition accrued in advance of the semester and advance payments on grants and contracts. In the General Fund (major), deferred revenue represents receivables that will be

collected after August 31, 2008. In the Special Revenue Funds, unearned revenue is composed primarily of federal grant money received but not spent. In the enterprise funds, a majority of unearned revenue represents on-line ticket monies received by the State Lottery (major) for which corresponding drawings have not been held and unearned revenues of Consolidated Laboratory (nonmajor). In the internal service funds, it represents primarily unearned premiums for the Risk Management Fund and prepaid rent and work orders for the Property Management Fund. Additionally, in the Virginia Information Technologies Agency internal service fund, unearned revenue relates to the transfer and purchase of assets for transition agencies and advanced customer receipts. Unearned revenues in the other component units consist primarily of the deferral of fees related to various activities.

Q. Deferred Taxes

Deferred taxes represent the deferral of income taxes withheld or received for the period January through June 2008. This amount is the estimate to be refunded (overpayments by taxpayers) reduced by the estimate to be received (underpayments from taxpayers) that will be finalized when income tax returns are filed in subsequent years. Individual income tax estimated overpayments total $699,511,074 and estimated underpayments total $505,014,262. This results in deferred taxes of $194,496,812.

Corporate income tax estimated overpayments total $12,279,525 and estimated underpayments total $57,851,572. When underpayments exceed overpayments, revenue on the fund statements is only recognized to the extent of estimated overpayments. Since underpayments exceed overpayments for corporate income taxes, the deferred tax amount is zero for the fiscal year.

R. Obligations Under Securities Lending Program

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, liabilities resulting from these transactions have been recorded as obligations under securities lending transactions.

S. Other Liabilities

Other liabilities represent amounts owed for various governmental and proprietary activities. Some of these amounts will be paid shortly after fiscal year-end (see Note 22).

Short-term debt results from borrowings from anticipation notes, lines of credit, and similar loans with parties external to the primary government. The primary government's policy is to disclose activity related to short-term borrowings occurring during the fiscal year. For fiscal year 2008, the primary government's agencies did not participate in short-term borrowings with external parties. Higher education institutions' foundations (component units) have short-term debt outstanding as of year-end that amount to approximately $67.6 million. Also, the University of Virginia (major component unit) reports $17.6 million and the Virginia Polytechnic Institute and State University (major component unit) reports $2.0 million of commercial paper that provides bridge financing for capital projects. The Roanoke Higher Education Authority (nonmajor component unit) reports $1.4 million of short-term debt for a construction loan. The Virginia Horse Center Foundation (nonmajor component unit) reported a $250,000 short-term working capital line of credit loan.

T. Claims Payable

Claims payable, reported in the proprietary funds of the primary government, represent both health and liability insurance claims payable at June 30, 2008. This includes both actual claims submitted, as well as actuarially determined claims incurred but not reported. Claims relating to the primary government's liability insurance programs are reported in the Risk Management – internal service fund and the Risk Management – nonmajor enterprise fund. Also, health insurance claims are reported in the Health Care – internal service fund and the Local Choice Health Care – nonmajor enterprise fund (see Notes 20.A. and 20.B.). Claims payable reported by the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit) represents estimated malpractice, workers' compensation, and medical claims payable amounts.

U. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. The governmental fund statements reflect the portion of long-term liabilities that will be paid from expendable resources that represent payments to employees for separations that occurred prior to June 30. The proprietary fund statements and discrete component unit statements reflect total long-term liabilities and distinguish between those portions payable within one year and those payable in future years (see Note 23).

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Expenditures for principal and interest payments for governmental fund general obligation bonds and revenue bonds are recognized in the Debt Service Fund (nonmajor) when due. In these fund

statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures (see Note 23).

V. Reserved Fund Balances

Reserved fund balances indicate that portion of fund balance that is not available to fund operations or is legally segregated for specific future use. Fund balance reservations are not specifically denoted in instances where the nature of the fund dictates the entire amount is reserved.

W. Unreserved, Designated Fund Balances

Designations of fund balance, as shown in Note 4, are established to reflect tentative plans for future utilization of current financial resources. It is the policy of the primary government to designate the portion of fund balance set aside by the General Assembly through the Appropriation Act to fund tentative but approved future plans. Unexpended appropriations approved by the Governor to be used to fund expenditures of the ensuing fiscal year are also reflected through a designation of fund balance. It is the policy of the primary government to limit such designations in the event that their accumulation and presentation would cause a negative unreserved, undesignated fund balance to occur.

X. Unreserved, Undesignated Fund Balances

The unreserved, undesignated basis of budgeting fund balance is the amount of fund balance remaining from operations of the current and prior years, net of amounts established as reserved and designated fund balance described in Notes 1.V. and 1.W. above.

Y. Cash Management Improvement Act

Included in “Due to Other Governments” is the Commonwealth's Cash Management Improvement Act (CMIA) interest liability to the federal government, which is calculated in accordance with the interest calculation and exchange provisions of the Federal Cash Management Improvement Act of 1990. The Commonwealth's interest liability is subject to review and final confirmation by the Financial Management Service (FMS) of the U.S. Treasury. The payment is to be made on or before March 1, 2009. Payment will be made from a sum sufficient appropriation authorized for this purpose by the Appropriation Act. The CMIA interest rate of exchange is based by law on the annualized average earnings rate of 13-week Treasury Bills.

Z. Investment Income

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investment income reported in the accompanying financial statements include changes in the fair value of investments and the amount reported may be negative. Additionally, the Commonwealth’s policy is to record all unrealized gains or losses for the Treasurer’s Portfolio in the General Fund.

AA. Intrafund Eliminations

Eliminations have been incorporated into the report to eliminate intrafund transactions within the related fund type. These eliminations prevent overstatement of financial activity.

BB. Interfund Activity

Generally, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions.

In the fund financial statements, transfers represent the movement of resources between funds. For example, transfers are recorded when a fund receives revenue and subsequently disburses the resources to another fund for expenditure.

2. RESTATEMENT OF BEGINNING BALANCES

The government-wide beginning balance restatements for governmental activities resulted from a correction of prior year errors regarding the understatement of capital assets of $22.7 million due primarily to various agencies not recording assets at the time of acquisition. The government-wide and fund statement beginning balance restatements for component units is the result of a $19.5 million increase for the correction of errors related to prior year accruals and a decrease of $8.6 million primarily for a duplicate building capitalization resulting in a net restatement of $10.9 million for the College of William and Mary (nonmajor component unit).

Beginning Balance Restatement

(Dollars in Thousands)

	Balance as of June 30, 2007	Correction of Prior Year Errors	Balance June 30, 2007 as restated
Government-wide Activities:			
Primary Government:			
Governmental Activities	$ 16,671,527	$ 22,713	$ 16,694,240
Business-type Activities	1,114,428	-	1,114,428
Total Primary Government	$ 17,785,955	$ 22,713	$ 17,808,668
Component Units	$ 18,947,819	$ 10,920	$ 18,958,739
Fund Statements - Component Units:			
Virginia Housing Development Authority	$ 1,970,233	$ -	$ 1,970,233
Virginia Public School Authority	16,478	-	16,478
University of Virginia	6,475,504	-	6,475,504
Virginia Polytechnic Institute and State University	1,483,501	-	1,483,501
Virginia Commonwealth University	1,629,929	-	1,629,929
Nonmajor Component Units	7,372,174	10,920	7,383,094
Total Component Units	$ 18,947,819	$ 10,920	$ 18,958,739

3. DEFICIT FUND BALANCES / NET ASSETS

The State Lottery (major enterprise fund) and Department of Alcoholic Beverage Control (nonmajor enterprise fund) ended the year with deficit net assets of $3.5 million and $10.3 million, respectively. This was solely attributable to the net pension obligation resulting from GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and the net other postemployment benefits (OPEB) obligation resulting from GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Since the Commonwealth is the employer, the agencies do not report this liability in their individually published financial statements.

The Virginia College Savings Plan (major enterprise fund) ended the year with a deficit net assets balance of $52.6 million. This decrease is mostly attributable to the projected unfunded actuarial liability calculated by the plan's actuary. The plan shifted from a surplus of $121.6 million as reflected at the end of the prior fiscal year. The change in the projected tuition benefits payable liability is mostly attributable to investment losses and a change in the tuition growth assumption, offset somewhat by revenue from new contract sales.

The Library of Virginia (nonmajor enterprise fund) ended the year with a deficit net assets balance of $162,470. This is attributable to start-up costs and other operating expenses exceeding revenues.

The Property Management Fund (internal service fund) ended the year with a deficit net assets balance of $5.9 million. This deficit was the result of the purchase of a leasehold interest in a state-owned building in fiscal year 2006.

The Risk Management Fund (internal service fund) ended the year with a deficit net assets balance of $301.6 million. The deficit was the result of the Worker's Compensation Program having estimated claims payable exceeding the available equity in the fund.

Claims are paid on a pay-as-you-go basis. To the extent that claims exceed current resources, they will ultimately become a liability of the fund from which the claim originated.

The Virginia College Building Authority (nonmajor component unit) ended the year with a deficit net assets balance of $820.9 million. This deficit occurs because the Authority issues bonds for the 21st Century College and Equipment programs subject to future appropriations from the General Fund of the Commonwealth without any other security.

4. GENERAL FUND ANALYSIS – BASIS OF BUDGETING

The following schedule represents reservations and designations of General Fund balance on the basis of budgeting.

Reservations and Designations of Fund Balance
General Fund, Basis of Budgeting
June 30, 2008

(Dollars in Thousands)

Reserved Fund Balance:		
Revenue Stabilization Reserve Fund	$ 1,014,870	
Revenue Stabilization Reserve 2007	21,321	
Payroll Reserve for July 1, 2008 Payroll	91,717	
Total Reserved Fund Balance		1,127,908
Unreserved Fund Balance:		
Designated:		
Amount Required for Reappropriation of 2008 Unexpended Balances for Capital Outlay	382,932	
Central Capital Planning Fund	50,000	
Natural Disaster Sum Sufficient	21,100	
Amount Required by Chapter 879	149,785	
Amount Required for Mandatory Appropriation	417,138	
Virginia Water Quality Improvement Fund - Part A	1,589	
Virginia Water Quality Improvement Fund - Part B	6,934	
FY 2008 Budget Reductions Designated for FY 2009 Budget Reductions	17,069	
Discretionary Reappropriations	45,335	
Total Designated Fund Balance		1,091,882
Fund Balance, June 30, 2008		$ 2,219,790

5. REVENUE STABILIZATION FUND

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. The General Assembly has appropriated $21.3 million for deposit into the fund during fiscal year 2009. This amount was computed under the provisions of Article X section 8 on the *Constitution of Virginia.* During fiscal year 2008, in accordance with the provisions of Article X, Section 8 of the *Constitution* and Section 2.2-1830 of the *Code of Virginia*, a withdrawal of $351.5 million was made from the fund.

The *Constitution* requires a deposit based on growth in income and retail sales tax revenue and allows revenue growth from increases in tax rates or the repeal of exemptions to be excluded, in whole or part, from the deposit calculation for up to six years. A deposit is not required based on fiscal year 2008 revenue collections when revenue increases from tax reform were included or excluded, including those derived from estimates.

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 designation is required since the specified criteria were not met for fiscal year 2008.

The Revenue Stabilization Fund has principal and interest on deposit of $1.0 billion reserved as a part of General Fund balance. The amount on deposit cannot exceed ten percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. The

maximum amount allowed is $1.3 billion and $1.4 billion for fiscal year 2008 and fiscal year 2009, respectively.

6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2008, the carrying amount of cash for the primary government was $4,043,183,730 and the bank balance was $289,747,247. The carrying amount of cash for component units was $816,578,569 and the bank balance was $400,843,746. Cash equivalents are investments with an original maturity of 90 days or less. Cash and cash equivalents for foundations (component units) totaled $399,812,066 as of year-end. A portion of this amount and some balances during the year exceeded Federal Deposit Insurance Corporation (FDIC) insurance coverage. Foundation investments are disclosed in the Interest Rate Risk section of this note.

For purposes of this note, primary government includes governmental, business-type activities, and fiduciary funds. The deposits of the primary government and the component units, excluding foundations (component units), are secured in accordance with the provisions of the Virginia Security for Public Deposits Act, Section 2.2-4400 of the *Code of Virginia*. The act requires any public depository that receives or holds public deposits to pledge collateral to the Treasury Board to cover public deposits in excess of Federal deposit insurance. The required collateral percentage is determined by the Treasury Board and ranges from 50 percent to 100 percent of public deposits in the case of a bank and 100 percent to 110 percent for a savings institution. During the fiscal year, there was an unrealized loss of $3.9 billion, $3.9 billion, and $58.9 million attributable to Virginia Retirement System (VRS), Virginia College Savings Plan, and the Treasurer's Portfolio, respectively. As stated in Note 1. Z., unrealized losses for the Treasurer's Portfolio are recorded in the General Fund.

Securities pledged by banks and savings institutions, under the act, are held by an approved escrow agent for the Treasury Board. In the event a depository bank defaults or becomes insolvent, the Treasury Board first assesses the collateral of the defaulting or insolvent institution and then assesses the collateral pledged by other public depositories on a statutory based ratio to the extent necessary to satisfy the assessment against the defaulting bank. The collateral pledged by all banks is sufficient to cover the uncollateralized public deposits of any single bank. Upon default or insolvency of a savings institution, the Treasury Board assesses the institution the amount of public funds on deposit in excess of FDIC insurance. The State Treasurer liquidates the necessary pledged collateral of the institution to reimburse public depositors to the extent of the institution's deposit liability to them. As a result, these deposits are considered insured.

Certain deposits are held by trustees in accordance with the Trust Subsidiary Act, Section 6.1–32.8 et seq. of the *Code of Virginia*. The act requires that cash held by trustees while awaiting investment or distribution is not to be used by an affiliate bank of the trustee in the conduct of its business unless the affiliate bank delivers securities to the trust department as collateral that is at least equal to the fair value of the trust funds held on deposit in excess of amounts insured by the FDIC.

The Commonwealth is authorized, in accordance with the guidelines set forth in Section 2.2-4500 et seq. of the *Code of Virginia*, to invest public funds in the following:

- U.S. Treasury and agency securities
- Corporate debt securities
- Asset–backed securities
- Mortgage–backed securities
- Municipal securities
- AAA rated obligations of foreign governments
- Bankers' acceptances and bank notes
- Negotiable certificates of deposit
- Repurchase agreements
- Money market funds

Permitted investments include agency mortgage-backed securities, corporate or private label mortgage-backed securities, and asset-backed securities which by definition usually expose the investor to prepayment risk.

Prepayment risk, or the prepayment option granted the borrower, can create uncertainty concerning cash flows, can affect the price of the security causing negative convexity, and can expose the investor to reinvestment risk. Similarly, many agency and corporate securities are callable after some predetermined date at a predetermined price. The call options in regular agency debentures and some corporate securities can be open ended and may significantly impact cash flows, security pricing, and reinvestment risks of these securities.

Certain investments held in trust by the Treasurer of Virginia in accordance with bond indentures and resolutions may have more restrictive investment policies. Investment policies of institutions of higher education (component units) are established by the institutions' governing boards.

The board of trustees of the VRS (part of primary government) has full power to invest and reinvest the trust funds in accordance with Section 51.1–124.30 of the *Code of Virginia*, as amended. This section requires the board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The board must also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so. The VRS does not have investment policies that place specific restrictions on investments related to custodial risk, interest rate risk, credit risk, or foreign currency risk. The VRS investment portfolio is intended to be managed through diversification and prudent judgment, rather than through specific policy restrictions.

The information presented for the external investment pool was obtained from audited financial statements. Copies of the Local Government Investment Pool (LGIP) report may be obtained by writing the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218. Participation in this pool is voluntary.

Custodial Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commonwealth may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Policies related to credit risk pertaining to the Commonwealth's securities lending program are found in the securities lending section of this note.

As of June 30, 2008, the primary government had $1,688,239,728 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. The VRS had $1,678,185,000 of this amount that consisted of various types of debt and equity securities that were held by counterparties' trust departments or agents, but not in the VRS' name. Investments held by broker-dealers under securities loan for common and preferred stocks represented $1,319,794,000 and U.S. Treasury and agency securities represented $173,109,000 of the total. The remainder was for various types of debt and equity securities. The component units had $139,682,668 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. Mutual and money market funds represented $84,200,420 and U.S. Treasury and agency securities represented $24,540,852 of the total and the remainder was for various types of debt and equity securities.

As of June 30, 2008, the investments of the Pension and Other Employee Benefit Trust Funds were approximately 62 percent of the primary government investments, and 99 percent of those that were exposed to custodial risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Commonwealth has elected the Segmented Time Distribution method of disclosure.

The State Treasurer's guidelines limit the following maximum durations for any single security of the following investment types:

Security Type	Maximum Duration
Corporate Security	15 years
Asset-Backed Securities	5 years
Sovereign Government Obligations (excluding U.S.)	5 years
Negotiable Certificates of Deposit and Negotiable Bank Notes	5 years

The State Treasurer's guidelines further describe target durations for the overall general account portfolio of 1.6 years, with a 2.3 year maximum and a 0.4 year minimum duration.

The VRS manages the risk within the portfolio using the effective duration or option-adjusted methodology. It is widely used in the management of fixed income portfolios in that it quantifies, to a much greater degree, the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve.

At June 30, 2008, the Commonwealth had the following investments and maturities:

Primary Government Investments

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 1,884,167	$ 476,508	$ 860,394	$ 271,673	$ 275,592
Corporate Notes	6,005,166	2,590,028	2,047,988	983,473	383,677
Corporate Bonds	2,700,557	1,364,894	806,897	338,879	189,887
Commercial Paper	4,197,353	4,197,353	-	-	-
Negotiable Certificates of Deposit	3,532,037	3,507,032	25,005	-	-
Non-negotiable Certificates of Deposit	335,974	335,268	141	565	-
Reverse Repurchase Agreements	1,026,316	1,026,316	-	-	-
Repurchase Agreements	435,209	435,209	-	-	-
Municipal Securities	166,915	5,188	28,955	27,368	105,404
Asset Backed Securities	2,276,254	1,029,513	533,877	178,486	534,378
Agency Mortgage Backed	3,757,111	126,895	2,167,328	936,840	526,048
Agency Unsecured Bonds and Notes	2,540,434	1,393,679	1,111,026	29,373	6,356
Mutual and Money Market Funds (Includes SNAP)	917,793	917,673	-	120	-
The Boston Company Pooled Employee Trust Fund	803,769	803,769	-	-	-
Guaranteed Investment Contracts	295,767	-	295,767	-	-
Fixed Income and Commingled Funds	1,914,840	48,631	908,217	957,992	-
Deposits with the U.S. Treasury for Unemployment Compensation	779,103	779,103	-	-	-
Investments held by broker-dealers under securities loans					
U. S. Government and Agency Securities	1,040,002	7,604	427,718	386,075	218,605
Corporate Notes	146,989	45,798	54,043	31,384	15,764
Corporate Bonds	70,574	19,333	38,564	10,684	1,993
Agency Unsecured Bonds and Notes	281,728	7,334	176,370	75,876	22,148
Asset Backed Securities	588	588	-	-	-
Other	1,568,357	492,121	504,854	424,965	146,417
Total	$ 36,677,003	$ 19,609,837	$ 9,987,144	$ 4,653,753	$ 2,426,269

Component Unit Investments

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 325,103	$ 126,527	$ 164,158	$ 23,491	$ 10,927
Corporate Notes	40,675	8,926	23,558	5,883	2,308
Corporate Bonds	142,278	5,439	85,474	38,713	12,652
Banker's Acceptance	9,980	9,980	-	-	-
Commercial Paper	638,362	638,362	-	-	-
Negotiable Certificates of Deposit	227,260	227,100	160	-	-
Non-negotiable Certificates of Deposit	40,450	40,450	-	-	-
Repurchase Agreements	462,816	462,816	-	-	-
Municipal Securities	3,386,760	24,584	110,378	87,037	3,164,761
Asset Backed Securities	192,482	8,729	21,968	9,335	152,450
Agency Unsecured Bonds and Notes	332,654	201,442	95,782	10,414	25,016
Agency Mortgage Backed	277,888	29,270	31,181	7,027	210,410
Mutual and Money Market Funds (Includes SNAP)	1,141,957	1,026,862	92,407	20,613	2,075
Guaranteed Investment Contracts	365,033	-	148,933	-	216,100
Fixed Income and Commingled Funds	19,150	13,500	5,650	-	-
Investments held by broker-dealers under securities loans					
U. S. Government and Agency Securities	18,646	18,646	-	-	-
Other	39,310	36,748	1,678	694	190
Total	$ 7,660,804	$ 2,879,381	$ 781,327	$ 203,207	$ 3,796,889

Foundation Investments

(Dollars in Thousands)

Investment Type	Fair Value
U.S. Treasury and Agency Securities	$ 742,638
Common & Preferred Stocks	1,888,350
Corporate Notes	24,979
Corporate Bonds	89,066
Commercial Paper	95,811
Negotiable Certificates of Deposit	9,376
Municipal Securities	11,485
Repurchase Agreements	60,208
Asset Backed Securities	29,817
Agency Unsecured Bonds and Notes	116
Agency Mortgage Backed	3,059
Mutual and Money Market Funds	1,245,388
Bankers' Acceptance	286
Real Estate	221,670
Index Funds	13,572
Hedge Funds	1,854,127
Partnerships and Other Joint Ventures	1,704,144
Investment in Grantor Trust	344,187
Others	666,856
Total	$ 9,005,135

Note: Foundations represent FASB reporting entities defined in Note 1.B. A portion of these amounts are reported at cost rather than fair value because fair value was not available or readily determinable.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Treasurer of the Commonwealth places emphasis on securities of high credit quality and marketability. At the time of purchase, the following limitations are in place:

- Bankers acceptances: P-1, Moody's and A-1, S&P
- Negotiable CDs and bank notes:
  - maturities of one year or less: P-1, Moody's and A-1, S&P
  - maturities over one year: Aa, Moody's and AA, S&P
- Commercial paper: P-1, Moody's and A-1, S&P
- Corporate Notes and Bonds and Busted Convertibles: A or better by two nationally recognized rating agencies, one of whom must be Moody's or S&P. However, each external investment manager may invest up to ten percent of their portfolio in Baa2/BBB rated bonds which, at a minimum, must be rated Baa2/BBB by two nationally recognized rating agencies (one of which must be either Moody's or S&P). In addition, all such rated securities purchased in the portfolio must be considered "investment grade" by Lehman Brothers as related to inclusion in the appropriate Lehman index. Busted convertibles must be liquidated prior to conversion to equity. Also, to avoid holding the equity-like securities, busted convertibles must be sold when they reach 105 percent of their bond value.
- Taxable Municipal Bonds: A or better by two nationally recognized rating agencies, one of whom must be Moody's or S&P
- Asset-backed securities: AAA or better by two nationally recognized rating agencies, one of whom must be Moody's or S&P
- Dollar denominated obligations of sovereign governments: Aaa, Moody's and AAA, S&P
- Commercial Mortgage-Backed Securities (CMBS), Collateralized Mortgage Obligations (CMOs), and Planned Amortization Classes (PACs): AAA or better by two nationally recognized rating agencies, one of whom must be Moody's or S&P

The following tables present the credit ratings for the majority of the investments of the primary government and component units as of June 30, 2008. The ratings presented below are using Standard & Poor's (S&P) and Moody's Investors Service (Moody's) rating scales. Within the primary government, the investments presented in the table represented 71.6 percent of the total debt securities, 8.5 percent of which were invested in unrated agency mortgage-backed securities. Within the component units, the investments presented in the table represented 83.0 percent of the total debt securities, 39.3 percent of which were invested in unrated Municipal Securities.

Credit risk for derivative instruments held by the Commonwealth results from counterparty risk assumed by the Commonwealth. This is essentially the risk that the borrower will be unable to meet its obligation. Information regarding the Commonwealth's credit risk related to derivatives is found in the Derivative Financial Instruments note.

Policies related to credit risk pertaining to the Commonwealth's securities lending program are found in the Securities Lending section of this note.

Credit Rating - Primary Government

(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Agency Mortgage Backed Securities	$ 3,116,012		N/A	8.50%
Negotiable Certificates of Deposit	2,967,049	Standard & Poor's	A-1+	8.09%
Commercial Paper	2,687,684	Standard & Poor's	A-1+	7.33%
U. S. Treasury and Agency Securities	1,884,167		N/A	5.14%
Corporate Bonds	1,593,429		Unrated	4.34%
Commercial Paper	1,449,755	Moody's	P-1	3.95%
Agency Unsecured Bonds and Notes	1,411,953	Standard & Poor's	A-1+	3.85%
Asset Backed Securities	1,084,517	Standard & Poor's	AAA	2.96%
Investments held by broker-dealers under securities loans (U.S. Government and Agency Securities)	1,039,795		N/A	2.84%
Reverse Repurchase Agreements	1,026,316		Unrated	2.80%
Asset Backed Securities	964,223	Moody's	Aaa	2.63%
Agency Unsecured Bonds and Notes	887,405	Standard & Poor's	AAA	2.42%
The Boston Company Pooled Employee Trust Fund	803,769		Unrated	2.19%
Deposits with the U.S. Treasury for Unemployment Compensation	779,103		N/A	2.12%
Mutual and Money Market Funds (Includes SNAP)	766,891	Standard & Poor's	AAA	2.09%
Other Debt Securities	701,627	Moody's	Aaa	1.91%
Corporate Notes	649,700	Moody's	Aaa	1.77%
Fixed Income and Commingled Funds	648,166	Moody's	Aaa	1.77%
Corporate Notes	633,965	Moody's	Aa3	1.73%
Corporate Notes	597,627	Moody's	A1	1.63%
Agency Mortgage Backed Securities	560,278	Standard & Poor's	AAA	1.53%

Credit Rating - Component Units

(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Municipal Securities	$ 3,008,767		Unrated	39.27%
Mutual and Money Market Funds (Includes SNAP)	768,169	Standard & Poor's	AAA	10.03%
Commercial Paper	600,006	Moody's	N/A	7.83%
Guaranteed Investment Contracts	365,033		Unrated	4.76%
U. S. Treasury and Agency Securities	325,103		N/A	4.24%
Repurchase Agreements	310,974	Moody's	P-1	4.06%
Agency Mortgage Backed Securities	177,152	Standard & Poor's	AAA	2.31%
Mutual and Money Market Funds	164,119		N/A	2.14%
Repurchase Agreements	148,529		Unrated	1.94%
Agency Unsecured Bonds and Notes	146,231	Standard & Poor's	A-1+	1.91%
Negotiable Certificates of Deposit	122,000	Moody's	N/A	1.59%
Municipal Securities	119,412	Standard & Poor's	AAA	1.56%
Asset Backed Securities	106,213	Moody's	Aaa	1.39%

Concentration of Credit Risk

Concentration of credit risk is related to the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The Commonwealth holds no investment in the securities of a single issuer that is more than five percent of the total market value of its investments. In addition, the Treasury and VRS have individual investment policies limiting the amounts that may be invested in any single issuer.

It is the State Treasurer's policy that each portfolio will be diversified with no more than five percent of the value of the fund invested in the securities of any single issuer. This limitation shall not apply to the U.S. Government, or agency thereof, or U.S. Government sponsored corporation securities and fully insured and/or collateralized certificates of deposit.

The VRS investment guidelines for each specific portfolio also limit investments in any corporate entity to no more than five percent of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents five percent or more of plan net assets available for benefits.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. All investments exposed to foreign currency risk were part of the VRS portfolio at June 30, 2008.

The VRS' currency risk exposure, or exchange rate risk, primarily exists in the international and global equity investment holdings. From time to time, the VRS' external managers may hedge their portfolios' foreign currency exposures with currency forward contracts. This will depend upon their views about a specific foreign currency relative to the U.S. dollar. The VRS' exposure to foreign currency risk is highlighted in the following table.

Currency Exposures by Asset Class

(Dollars in Thousands)

Currency	Cash & Cash Equivalents	Equity	Corporate Bonds	Private Equity	Real Estate	International Funds	Total
U. S. Dollar	$ -	$ -	$ -	$ -	$ -	$ 4,208,574	$ 4,208,574
Euro Currency Unit	44,614	1,436,255	(22,366)	843,105	31,788	-	2,333,396
British Pound Sterling	11,443	654,698	(30,063)	11,320	39,485	-	686,883
Australian Dollar	25,712	197,637	294	-	29,323	-	252,966
Canadian Dollar	14,224	430,794	(857)	-	1,028	-	445,189
Norwegian Krone	5,015	351,438	5,144	-	-	-	361,597
Hong Kong Dollar	6,383	447,903	-	-	56,531	-	510,817
New Taiwan Dollar	14,699	356,931	-	-	-	-	371,630
Swedish Krona	1,399	83,475	-	11,612	2,767	-	99,253
Japanese Yen	40,030	215,648	31,653	-	54,645	-	341,976
South Korean Won	752	205,892	-	-	-	-	206,644
Brazil Real	5,177	315,478	2,393	-	1,741	-	324,789
Indian Rupee	6,306	216,036	-	-	-	-	222,342
Mexican New Peso	81	166,770	-	-	-	-	166,851
S African Comm Rand	20,837	87,934	-	-	-	-	108,771
Singapore Dollar	3,273	(259)	-	-	14,825	-	17,839
New Turkish Lira	29	71,649	-	-	-	-	71,678
Thailand Baht	188	64,478	-	-	-	-	64,666
Israeli Shekel	3,127	18,977	-	-	-	-	22,104
Polish Zloty	368	66,906	-	-	-	-	67,274
Malaysian Ringgit	973	54,918	9,280	-	-	-	65,171
Danish Krone	2,534	41,530	-	-	-	-	44,064
Russian Rubel (New)	16	29,914	-	-	-	-	29,930
Egyptian Pound	1	60,715	-	-	-	-	60,716
Chinese Yuan Renminbi	-	10,554	-	-	-	-	10,554
Indonesian Rupian	69	47,831	-	-	-	-	47,900
Chilean Peso	-	(28,888)	-	-	-	-	(28,888)
Hungarian Forint	1,067	(20,060)	-	-	-	-	(18,993)
Turkish Lira	7,189	-	-	-	-	-	7,189
Romanian Leu	3	-	-	-	-	-	3
Pakistan Rupee	-	5,228	-	-	-	-	5,228
Omani Rial	99	3,620	-	-	-	-	3,719
Peruvian Nuevo Sol	-	2,063	-	-	-	-	2,063
Philippines Peso	331	(17,311)	-	-	-	-	(16,980)
Argentina Peso	-	39,527	-	-	-	-	39,527
Columbian Peso	-	23,871	-	-	-	-	23,871
Czech Koruna	123	(31,525)	-	-	-	-	(31,402)
New Zealand Dollar	1,857	(96,984)	(7,066)	-	-	-	(102,193)
Swiss Franc	24,159	274,286	-	-	772	-	299,217
Total	$ 242,078	$ 5,787,929	$ (11,588)	$ 866,037	$ 232,905	$ 4,208,574	$ 11,325,935

Securities Lending

The State Treasury's securities lending program is managed by Dresdner Bank, AG – New York Branch, under a contract dated March 31, 2006. The enabling legislation for the securities lending program is Section 2.2-4506 of Chapter 45 of the *Code of Virginia*, as amended. No violations of legal or contractual provisions were noted during the year. The general account participated in a securities lending program for the entire year.

All securities lending loans are on an open-ended or one-day basis and may be terminated by Treasury with a 24-hour notice or are term loans with the right of substitution. Per the contract with Dresdner Bank, AG – New York Branch, all cash reinvestment securities attributable to loans made on the Commonwealth's behalf shall be maintained by Dresdner Bank, AG – New York Branch, and Treasury cannot pledge or sell such collateral absent a default.

The State Treasury's contract with Dresdner Bank, AG – New York Branch, provides for loss indemnification against insolvency default in respect of lending transactions and in the case of reverse transactions as defined in the applicable Agency Securities Lending and Repurchase Agreement. Additionally, Dresdner Bank, AG – New York Branch, is liable for any losses experienced from reinvestment of cash collateral in investments not authorized by the provisions of the investment guidelines for the Commonwealth of Virginia agreed upon by both parties and made a part of the Agency Securities Lending and Repurchase Agreement. There were no realized losses resulting from default during the reporting period, or recoveries of prior period losses during this reporting period.

When securities are loaned, the collateral received is at least 100 percent of fair value of the securities loaned and must be maintained at 100 percent or greater. There are no stated restrictions on the amount of securities that may be loaned, but the basic composition of the general account portfolio effectively caps the maximum percentage of the portfolio that may be loaned. During the past fiscal year, approximately 32 percent of the general account securities were on loan.

During the past year, a combination of U.S. Treasury, Agency, Agency mortgage and corporate securities have been loaned, with the majority of the loaned securities being U.S. Treasury and Agency securities. At June 30, 2008, all collateral received was in the form of cash.

Securities loaned for the general account as of June 30, 2008, had a carrying value of $1,920,181,443 and a fair value of $1,944,595,729. The fair value of the collateral received was $1,972,092,561 providing for coverage of 101.4 percent. As a result, the State Treasury assumes no credit risk on securities loaned. The carrying value of the cash collateral reinvestment pool received was $1,969,778,976, and the fair value of the investments purchased with the cash collateral was $1,925,092,477. As of June 30, 2008, the Treasurer's cash collateral reinvestment pool had an unrealized loss of $44.7 million, and is recorded in the General Fund as stated in Note 1. Z. This amount is included in the total Treasurer's Portfolio discussed earlier in this note.

Current cash investment guidelines allow for a maximum weighted-average portfolio maturity of up to 60 days. At June 30, 2008, the cash reinvestment portfolio had a weighted average maturity of 26 days, using the next interest reset date as the maturity for floating rate securities. Using the expected maturity date, the weighted average maturity is considerably longer. Treasury's current cash reinvestment guidelines allow for investment in government securities, AAA rated sovereign governments, asset-backed securities, commercial paper and corporate notes, negotiable certificates of deposit, liquid master notes and promissory notes, bank notes, repurchase agreements. and registered money market funds. At June 30, 2008, the majority of the cash reinvestments were in asset-backed (including mortgage-backed) floating rate securities and corporate floating rate notes and indemnified repurchase agreements.

At June 30, 2008, $140 million or 6.2 percent of the total cash reinvestment portfolio was out of compliance with Treasury's securities lending cash collateral investment guidelines due to various security ratings downgrades during the year. Included in these out of compliance securities are $10 million or 0.4 percent of the total cash reinvestment portfolio that are in default. It is not known at this time what the recovery rate will be on this security. Approximately 88 percent of these out of compliance securities are part of the general account portion of the securities lending program. The Commonwealth's intent is to hold these securities to maturity.

Under authorization of the board, the VRS lends its fixed income and equity securities to various broker-dealers on a temporary basis. This program is administered through an agreement with the VRS' custodial agent bank. All security loan agreements are collateralized by cash, securities, or an irrevocable letter of credit issued by a major bank, and have a market value equal to at least 102 percent of the market value for domestic securities and 105 percent for international securities. Securities received as collateral cannot be pledged or sold by the VRS unless the borrower defaults. Contracts require the lending agents to indemnify the VRS if the borrowers fail to return the securities lent and related distributions, and if the collateral is inadequate to replace the securities lent. All securities loans can be terminated on demand by either the VRS or the borrowers. The majority of loans are open loans, meaning the rebate is set daily. This results in a maturity of one or two days on average, although securities are often on loan for longer periods. The maturity of loans generally does not match the maturity of collateral investments, which averages 42 days. At year-end, the VRS has no credit risk exposure to borrowers because the amounts it owes the borrowers exceed the amounts the borrowers owe it. The market value of securities on loan at June 30, 2008, was $5,026,739,000. The June 30, 2008, balance was composed of U.S. Government

and agency securities of $1,321,524,000, corporate and other bonds of $217,999,000 and common and preferred stocks of $3,487,216,000.
The value of collateral (cash and non-cash) at June 30, 2008, was $5,329,015,000.

Securities on loan are included with investments on the Statement of Net Assets. The invested cash collateral is included in the Statement of Net Assets as an asset and corresponding liability.

As authorized by Section 2.2–4506 of the *Code of Virginia*, the Virginia Lottery, through its master custodian, JP Morgan Chase Bank, N. A., N.Y., and Dresdner Bank, AG – New York Branch, lends securities to various security brokers and lenders on a temporary basis for a fee. Up to 100 percent of the securities may be available for loan. Prior to or simultaneously with the transfer of securities to a counterparty, the Bank shall obtain collateral on the Lottery's behalf. The principal amount of cash collateral and the market value (at the time of delivery by the counterparty) of collateral in the form of securities shall, in each case, be no less than 100 percent of the aggregate market value of the transferred securities or the principal amount of such cash collateral.

At June 30, 2008, the fair value of investment account securities on loan was $273,703,985 secured by $277,940,268 in cash deposits. The fair value of the re-invested cash was $271,316,230 at June 30, 2008.

Derivative Financial Instruments

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indexes. They include futures, forwards, options, and swap contracts. Some traditional securities, such as structured notes, can have derivative-like characteristics. In this case, the return may be linked to one or more indexes and asset-backed securities such as collateralized mortgage obligations (CMO), which are sensitive to changes in interest rates and prepayments. Futures, forwards, options, and swaps generally are not recorded on the financial statements, whereas structured notes and asset-backed investments generally are recorded.

The VRS is a party, both directly and indirectly, to various derivative financial investments that may or may not appear on the financial statements and that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value resulting from fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements. Credit risk is the possibility that loss may occur from the failure of a counterparty to perform according to the terms of the contract. Market risk arises from adverse changes in market prices, interest rates and foreign exchange rates that may result in a decrease in the market value of a financial investment or an increase in its funding cost, or both.

In addition to risk exposure from directly held derivative financial instruments, the VRS may have indirect exposure to risk through its ownership interests in commingled investment funds that use, hold, or write derivative financial instruments. Indirect exposure also may arise from stock lending programs in which the commingled funds participate. Such programs usually reinvest a portion of their cash collateral holdings in derivative instruments. The VRS' pro rata share of the contractual or notional amounts of outstanding derivative transactions in commingled investment funds and their related security lending programs approximated $156,211,000 at June 30, 2008.

The University of Virginia (major component unit) from time to time may use, through its investments and through investments in pooled funds, a variety of derivative securities including futures, options, and forward foreign currency contracts. These financial instruments are used to modify market risk exposure. Futures contracts and options on futures contracts are traded on organized exchanges and require collateral or margin in the form of cash or marketable securities. The net change in the futures contract value, if any, is settled with a cash transaction on a daily basis. Holders of futures contracts look to the exchange for performance under the contract and not the entity holding the offsetting futures position. Accordingly, the amount of risk due to nonperformance of counterparties to the futures contracts is minimal. Foreign exchange contracts are used to protect the University's portfolio against fluctuations in the values of foreign currencies. The credit risk of forward currency contracts traded over-the-counter lies with the counterparty. Asset swap contracts are privately negotiated agreements between two participants to exchange the return stream derived from their assets to each other without exchanging underlying assets. The University uses asset swaps to gain exposure to certain market sectors in lieu of direct investment. The credit risk lies with the intermediary who arranges the asset swap. The University had no direct exposure to derivative instruments at June 30, 2008.

Forward, Futures, and Options Contracts

Forward contracts are contracts to purchase or sell, and futures contracts are contracts to deliver or receive financial instruments, foreign currencies or commodities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange-traded) and require initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk posed by nonperformance of counterparties to futures

contracts is minimal. In contrast, forward contracts traded over-the-counter are generally negotiated between two counterparties. They are subject to credit risks resulting from nonperformance of one of the counterparties and to market risks resulting from adverse fluctuations in market prices, interest rates, and foreign exchange rates.

Options may be either exchange-traded or negotiated directly between two counterparties over-the-counter. Options grant the holder the right, but not the obligation, to purchase or sell a financial instrument at a specified price and within a specified period of time from the 'writer' of the option. As a purchaser of options, the VRS typically pays a premium at the outset. This premium is reflected as an asset on the financial statements. The VRS then retains the right but not the obligation to exercise the option and purchase the underlying financial instrument. Should the option not be exercised, it expires worthless and the premium is recorded as a loss. A writer of options assumes the obligation to deliver or receive the underlying financial instrument on exercise of the option. Certain option contracts may involve cash settlements based on specified indexes such as stock indexes. As a writer of options, the VRS receives a premium at the outset. The premium is reflected as a liability on the financial statements, and the VRS bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

Forward, futures, and options contracts provide the VRS with the opportunity to build passive benchmark positions, manage portfolio duration in relation to various benchmarks, adjust portfolio yield curve exposure, and gain market exposure to various indexes in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange-traded or are exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates, and foreign exchange rates. At June 30, 2008, the VRS had purchased S & P, Russell Index, treasury bonds and notes and global indices futures and options with a notional value of $8,382,747,000 and sold treasury bonds and notes and global indices futures and options with a notional value of $588,717,000. At June 30, 2008, the VRS had pledged as collateral U.S. Treasury and U.S. Government agency securities with a total market value of $192,318,000 as the margin requirement for futures contracts.

In addition to unsettled purchases and sales, accounts receivable and accounts payable for security transactions at June 30, 2008, included receivables for deposits with brokers for securities sold short of $1,299,708,000 and payables for securities sold short and not covered with market values of $1,189,940,000.

Foreign Exchange Contracts

Foreign exchange contracts include forward, futures, and options contracts. They involve either the exchange of specific amounts of two currencies or the delivery of a fixed amount of a currency at a future date and specified exchange rate. Forward and futures contracts settle three or more business days from the contract date. Forward contracts are negotiated over-the-counter between two counterparties, while futures contracts are exchange-traded. Foreign currency options, which are either negotiated between two counterparties or are exchange-traded, grant the buyer the right, but not the obligation, to purchase or sell at a specified price, a stated amount of an underlying currency at a future date. At June 30, 2008, the VRS had sold foreign currency contracts with a notional value of $7,513,138,000 and had purchased foreign currency contracts with a notional value of $7,509,004,000.

Foreign exchange contracts are used by the VRS to effect settlements and to protect the base currency ($US) value of portfolio assets denominated in foreign currencies against fluctuations in the exchange rates of those currencies. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the-counter lies with the counterparty, and exposure is usually equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates.

Swap Agreements

Swaps are negotiated contracts between two counterparties for the exchange of payments at certain intervals over a predetermined timeframe. The payments are based on a notional principal amount and calculated using either fixed or floating interest rates or total returns from certain instruments or indices. During fiscal year 2008, the VRS entered into interest rate and total return swaps with a total notional value of $1,225,106,000. Swaps are used to manage risk and enhance returns. To reduce the risk of counterparty nonperformance, the VRS generally requires collateral on any material gains from these transactions.

7. RECEIVABLES

The following schedule (dollars in thousands) details the accounts, loans, interest, taxes, prepaid tuition contributions, security transactions, and other receivables presented in the major funds, aggregated nonmajor funds by type, internal service funds, fiduciary funds, major component units, and aggregated nonmajor component units, as of June 30, 2008:

	Accounts Receivable	Loans / Mortgage Receivable	Interest Receivable	Taxes Receivable	Prepaid Tuition Contributions Receivable
Primary Government:					
General	$ 701,048	$ 94	$ 463,997	$ 1,454,012	$ -
Major Special Revenue Funds:					
Commonwealth Transportation	142,406	37,106	-	164,509	-
Federal Trust	428,395	228	-	-	-
Literary	216,209	309,662	21,993	-	-
Nonmajor Governmental Funds	182,458	-	2,326	82	-
Major Enterprise Funds:					
State Lottery	48,411	-	-	-	-
Virginia College Savings Plan	6,439	-	4,328	-	288,024
Unemployment Compensation	89,210	-	-	-	-
Nonmajor Enterprise Funds	37,695	-	-	-	-
Internal Service Funds	38,179	-	-	-	-
Private Purpose	-	62	1,157	-	-
Pension and Other Employee Benefit Trust	191,165	-	169,189	-	-
Investment Trust Fund	-	-	11,157	-	-
Agency Funds	429	-	-	216,906	-
Total Primary Government (1)	$ 2,082,044	$ 347,152	$ 674,147	$ 1,835,509	$ 288,024
Discrete Component Units:					
Virginia Housing Development Authority (2)	$ -	$ 7,854,868	$ 39,458	$ -	$ -
Virginia Public School Authority	-	-	68,683	-	-
University of Virginia	155,908	31,861	27	-	-
Virginia Polytechnic Institute and State University	58,755	32,013	1,499	-	-
Virginia Commonwealth University	266,135	29,446	281	-	-
Nonmajor Component Units	142,009	2,357,548	41,837	5,825	-
Total Component Units	$ 622,807	$ 10,305,736	$ 151,785	$ 5,825	$ -

Note (1): Fiduciary net receivables in the amount of $3,609,869 (dollars in thousands) are not included in the Government-wide Statement of Net Assets.

Note (2): $7,764,124 (dollars in thousands) is Restricted Loans Receivable, $37,784 (dollars in thousands) is Restricted Interest Receivable, and $9,013 (dollars in thousands) is Restricted Other Receivable.

Security Transactions	Other Receivables	Allowance for Doubtful Accounts	Net Accounts Receivable	Amounts to be Collected Greater than One Year
$ -	$ -	$ (1,589,017)	$ 1,030,134	$ 17,208
-	-	(23,197)	320,824	37,072
-	-	(9,736)	418,887	166
-	-	(213,383)	334,481	289,371
-	-	(92,140)	92,726	2,659
-	-	-	48,411	-
-	-	-	298,791	222,638
-	-	(20,586)	68,624	-
-	-	(2,642)	35,053	-
-	-	(190)	37,989	37,989
-	-	-	1,219	-
3,032,192	40,967	-	3,433,513	-
-	-	-	11,157	-
-	-	(53,355)	163,980	114
$ 3,032,192	$ 40,967	$ (2,004,246)	$ 6,295,789	$ 607,217
$ -	$ 18,599	$ -	$ 7,912,925	$ 7,719,304
-	-	-	68,683	68,681
-	33,055	(45,018)	175,833	41,314
-	101	(2,731)	89,637	35,831
-	29,384	(98,623)	226,623	23,339
-	73,779	(10,542)	2,610,456	2,295,664
$ -	$ 154,918	$ (156,914)	$ 11,084,157	$ 10,184,133

8. CONTRIBUTIONS RECEIVABLE, NET

The following schedule details the contributions receivable for foundations[1] included with the major component units, and aggregated nonmajor component units, as of June 30, 2008:

(Dollars in Thousands)

	Due in Less Than One Year	Due Between One and Five Years	Due in More Than Five Years	Subtotal	Present Value Discount (2)	Allowance for Doubtful Accounts	Contributions Receivable, Net
Discrete Component Units:							
University of Virginia	$ 32,244	$ 77,819	$ 7,814	$ 117,877	$ (11,256)	$ (5,752)	$ 100,869
Virginia Polytechnic Institute & State University	32,608	40,626	8,611	81,845	(6,436)	(3,174)	72,235
Virginia Commonwealth University	15,812	18,651	1,564	36,027	(3,371)	(472)	32,184
Nonmajor Component Units	52,639	77,887	23,035	153,561	(15,200)	(5,200)	133,161
Total Component Units	$ 133,303	$ 214,983	$ 41,024	$ 389,310	$ (36,263)	$ (14,598)	$ 338,449

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.
Note (2): The discount rate used to determine present value ranges from 1.13 percent to 8.66 percent.

9. INTERFUND AND INTER-ENTITY ASSETS/LIABILITIES

Due from/to Other Funds

Due from Other Funds are amounts to be received from one fund by another fund for goods sold or services rendered. Due to Other Funds are amounts owed by one fund to another fund for goods purchased or services obtained.

Included in the category Due from Other Funds are "Due from Other Funds," "Due from Internal Parties (governmental funds and business-type activities)," and "Due from External Parties (fiduciary funds)." Included in the category Due to Other Funds are "Due to Other Funds," "Due to Internal Parties (governmental funds and business-type activities)," and "Due to External Parties (fiduciary funds)." The following schedule shows the Due from/to Other Funds as of June 30, 2008.

Schedule of Due from/to Other Funds

June 30, 2008

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 25,301	Major Special Revenue Funds:	
		Federal Trust	$ 16,861
		Major Enterprise Funds:	
		State Lottery	259
		Unemployment Compensation	274
		Nonmajor Enterprise Funds	7,600
		Internal Service Funds	307
Major Special Revenue Funds:			
Commonwealth Transportation	52	Internal Service Funds	52
Federal Trust	857	Nonmajor Governmental Funds	857
Nonmajor Governmental Funds	6,913	Major Special Revenue Funds:	
		Commonwealth Transportation	6,731
		Major Enterprise Funds:	
		Unemployment Compensation	182
Major Enterprise Funds:			
Unemployment Compensation	688	General Fund	301
		Major Special Revenue Funds:	
		Commonwealth Transportation	64
		Federal Trust	228
		Nonmajor Governmental Funds	54
		Major Enterprise Funds:	
		State Lottery	17
		Nonmajor Enterprise Funds	13
		Internal Service Funds	11
Nonmajor Enterprise Funds	2,471	General Fund	664
		Major Special Revenue Funds:	
		Commonwealth Transportation	962
		Federal Trust	220
		Nonmajor Governmental Funds	489
		Major Enterprise Funds:	
		State Lottery	1
		Nonmajor Enterprise Funds	24
		Internal Service Funds	111
Internal Service Funds	41,463	General Fund	21,327
		Major Special Revenue Funds:	
		Commonwealth Transportation	8,653
		Federal Trust	4,748
		Nonmajor Governmental Funds	5,180
		Major Enterprise Funds:	
		State Lottery	117
		Virginia College Savings Plan	21
		Nonmajor Enterprise Funds	1,019
		Internal Service Funds	398
Total Primary Government	$ 77,745	Total Primary Government	$ 77,745

Schedule of Due from/to Internal/External Parties
June 30, 2008
(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 6	Investment Trust	$ 6
Nonmajor Governmental Funds	182	Agency	182
Total Primary Government	$ 188	Total Primary Government	$ 188

Interfund Receivables/Payables

Interfund Receivables/Payables are loans made by one fund to another.

The following schedule shows the Interfund Receivables/Payables for the primary government as of June 30, 2008. There were no Interfund Receivables/Payables for the component units as of June 30, 2008.

Interfund Receivables/Payables
June 30, 2008
(Dollars in Thousands)

Receivable From:	Amount	Payable To:	Amount
Primary Government		**Primary Government**	
Nonmajor Governmental Funds	$ 51,157	Major Special Revenue Funds:	
		Federal Trust	$ 2,682
		Major Enterprise Funds:	
		State Lottery Department	5,000
		Nonmajor Enterprise Funds	31,888
		Internal Service	11,587
Total	$ 51,157	**Total**	$ 51,157

Due from/to Primary Government and Component Units

Included in this category is activity between the Commonwealth and its component units, as well as activity between component units.

The following due from primary government amounts represent General Fund appropriation available amounts that are due from the General Fund: University of Virginia (major component unit) - $16.8 million, Virginia Polytechnic Institute and State University (major component unit) - $16.7 million, Virginia Commonwealth University (major component unit) - $16.6 million, nonmajor component units - $241.2 million. The General Fund reports $36.7 million of the due to component units in the governmental funds and the entire amount of $291.3 million is reported in the government-wide financial statements.

The following due from primary government amounts represent amounts due from the General Fund related to interest/rebate allocations: University of Virginia (major component unit) - $0.1 million, Virginia Polytechnic Institute and State University (major component unit) - $0.1 million, Virginia Commonwealth University (major component unit) - $1.6 million, nonmajor component units - $11.5 million. The following due from primary government amounts represent amounts due from the eVA Procurement System (nonmajor enterprise fund) for rebates: University of Virginia (major component unit) - $0.5 million, Virginia Polytechnic Institute and State University (major component unit) - $0.2 million, Virginia Commonwealth University (major component unit) - $0.2 million, nonmajor component units - $1.5 million.

The following due from primary government amounts represent amounts due from nonmajor governmental funds related to the Department of Treasury's reimbursement programs: University of Virginia (major component unit) - $0.4 million, Virginia Polytechnic Institute and State University (major component unit) - $0.7 million, Virginia Commonwealth University (major component unit) - $0.7 million, nonmajor component units - $31.0 million.

A $6.8 million due from primary government amount represents an amount due from a nonmajor governmental fund related to the pledging of monies towards an acquisition for the Virginia Museum of Fine Arts Foundation (nonmajor component unit). The entire nonmajor governmental amount is reported in the government-wide financial statements.

A $0.3 million due from component unit represents monies owed for administrative expenses from the Science Museum of Virginia Foundation (nonmajor component unit) to a nonmajor governmental fund. The entire nonmajor governmental amount is reported in the government-wide financial statements. The following due from component unit amounts represent amounts owed back to a nonmajor governmental fund: University of Mary Washington (nonmajor component unit) - $0.4 million, Norfolk State University (nonmajor component unit) - $0.2 million.

The following due from component units amounts represent amounts due from the Virginia College Building Authority (nonmajor component unit) related to the Department of Treasury's reimbursement programs: University of Virginia (major component unit) - $8.1 million, Virginia Polytechnic Institute and State University (major component unit) - $5.6 million, Virginia Commonwealth University (major component unit) - $9.3 million, nonmajor component units - $19.6 million. There is an additional due to/from component units of $0.2 million between nonmajor component units.

Loans Receivable/Payable Between Primary Government and Component Units

The Virginia Commonwealth University (major component unit) loan of $2.8 million and the Christopher Newport University (nonmajor component unit) loan of $0.2 million were used to fund programs until bonds were issued. The Virginia Community College System (nonmajor component unit) loan of $1.0 million and a majority of the George Mason University (nonmajor component unit) loan of $11.6 million were used to advance fund federally-funded grant programs.

The $173.1 million in loans receivable from primary government represents loans from the Virginia Public School Authority (VPSA) to the Literary Fund. The VPSA makes grants to local school divisions to finance the purchase of educational technology equipment. The VPSA makes these grants using the proceeds of notes issued for that purpose which will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund.

10. OTHER ASSETS

The following table summarizes Other Assets as of June 30, 2008:

(Dollars in Thousands)

	Cash and Travel Advances	Unamortized Bond Issuance Expense	Other Assets (1)	Total Other Assets (2)
Primary Government:				
General	$ 1,606	$ -	$ 557	$ 2,163
Major Special Revenue Funds:				
Commonwealth Transportation	610	-	1,812	2,422
Federal Trust	1,970	-	127	2,097
Nonmajor Governmental Funds	811	-	340	1,151
Major Enterprise Funds:				
State Lottery	1	-	-	1
Nonmajor Enterprise Funds	165	-	137	302
Internal Service Funds	111	-	6,467	6,578
Total Primary Government	$ 5,274	$ -	$ 9,440	$ 14,714
Discrete Component Units:				
Virginia Housing Development Authority	$ -	$ 6,387	$ 38,058	$ 44,445
University of Virginia	-	201	19,920	20,121
Virginia Polytechnic Institute and State University	-	359	2,442	2,801
Virginia Commonwealth University	294	6,537	10,215	17,046
Nonmajor Component Units	10,249	42,099	23,392	75,740
Total Component Units	$ 10,543	$ 55,583	$ 94,027	$ 160,153

Note (1): The $6,467 (dollars in thousands) shown above represents a Virginia Information Technologies Agency interfund asset due from various governmental funds that will not be received within 60 days. In addition, $2,720 (dollars in thousands) relates to rebates to be received from the Virginia Information Technologies Agency. These amounts are reclassified to internal balances on the Government-wide Statement of Net Assets.

Note (2): $240 (dollars in thousands) related to an other post employment benefit asset recorded in the Government-wide Statement of Net Assets is not reflected in the above schedule.

11. RESTRICTED ASSETS

Restricted assets represent monies or other resources that must be used for specific legal or contractual requirements. The Commonwealth Transportation Fund (major special revenue) and Debt Service and Capital Projects (nonmajor governmental funds) reported $362.7 million in restricted assets related to bond agreements. The Virginia Housing Development Authority (major component unit) reported restricted assets totaling $1.1 billion. The Virginia Public School Authority (major component unit) reported restricted assets of $80.1 million. Both major component unit's assets are restricted for debt service under a bond indenture agreement or other agreements. The Virginia Port Authority (nonmajor component unit) reported restricted assets of $151.7 million. Of this amount, $85.2 million are assets placed in an escrow account for construction projects, $43.7 million for debt service under a bond indenture agreement, $0.7 million for securities lending transactions, and $22.1 million reserved as part of the Port Facility Revenue Bond requirement. The Virginia Resources Authority (nonmajor component unit) reported restricted assets of $619.6 million. Of this amount, $613.1 million is restricted for loans to local governments, bond indentures, or federal and state regulations for various revolving funds, and $6.5 million is restricted for the Operating Reserve Fund for the Virginia Pooled Financing Program. Hampton Roads Sanitation District Commission (nonmajor component unit) reported restricted assets of $129.2 million. Of this amount, $7.4 million is for debt service and $121.8 million is revenue bond construction funds. The Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) reported restricted assets of $356.4 million to be used for financial aid to tobacco growers and to foster community economic growth.

The higher education institutions (component units) reported restricted assets totaling approximately $4.0 billion primarily for endowment and other contractual

obligations. Included in this amount is approximately $3.0 billion of foundations' restricted assets. The two museum foundations, the Virginia Museum of Fine Arts Foundation (nonmajor component unit) and the Science Museum of Virginia Foundation (nonmajor component unit) had restricted assets of $206.4 million and $12.8 million, respectively, primarily for donor-imposed restricted endowments.

The remaining $18.8 million is spread among the Virginia Outdoors Foundation (nonmajor component unit), the Virginia Horse Center Foundation (nonmajor component unit), the Virginia Small Business Financing Authority (nonmajor component unit), the Virginia Arts Foundation (nonmajor component unit), the Fort Monroe Federal Area Development Authority (nonmajor component unit), the Library of Virginia Foundation (nonmajor component unit) and the Danville Science Center (nonmajor component unit).

12. CAPITAL ASSETS

The following schedule presents the changes in the Capital Assets:

Schedule of Changes in Capital Assets

Governmental Activities

(Dollars in Thousands)

	Balance July 1, as restated	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 1,853,747	$ 105,366	$ (24,448)	$ 1,934,665
Construction in Progress	2,906,916	1,759,071	(1,386,422)	3,279,565
Total Nondepreciable Capital Assets	4,760,663	1,864,437	(1,410,870)	5,214,230
Depreciable Capital Assets:				
Buildings	2,442,045	363,982	(15,334)	2,790,693
Equipment	859,914	94,428	(39,108)	915,234
Infrastructure	19,320,556	1,330,740	(203,058)	20,448,238
Total Capital Assets being Depreciated	22,622,515	1,789,150	(257,500)	24,154,165
Less Accumulated Depreciation for:				
Buildings	860,850	67,007	(12,506)	915,351
Equipment	423,983	59,877	(27,174)	456,686
Infrastructure	8,927,663	502,334	(28,128)	9,401,869
Total Accumulated Depreciation	10,212,496	629,218	(67,808)	10,773,906
Total Depreciable Capital Assets, Net	12,410,019	1,159,932	(189,692)	13,380,259
Total Capital Assets, Net	$ 17,170,682	$ 3,024,369	$ (1,600,562)	$ 18,594,489

Note: Beginning balances have been restated by $22,713 (dollars in thousands) due to prior year errors, as discussed in Note 2. Additionally, there have been reclassifications in the beginning balances of certain line items above.

Depreciation Expense Charged to Functions of the Primary Government

June 30, 2008

(Dollars in Thousands)

Governmental Activities:	
General Government	$ 12,184
Education	7,048
Transportation	521,760
Resources and Economic Development	10,187
Individual and Family Services	21,926
Administration of Justice	38,362
Capital Assets held by the Internal Service Funds are charged to various functions	17,751
Total	$ 629,218

Schedule of Changes in Capital Assets

Business-type Activities

(Dollars in Thousands)

	Balance July 1	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 1,977	$ -	$ -	$ 1,977
Construction in Progress	740	174	(662)	252
Total Nondepreciable Capital Assets	2,717	174	(662)	2,229
Depreciable Capital Assets:				
Buildings	17,065	2,347	(1,092)	18,320
Equipment	87,860	7,404	(4,605)	90,659
Infrastructure	1	-	-	1
Total Capital Assets being Depreciated	104,926	9,751	(5,697)	108,980
Less Accumulated Depreciation for:				
Buildings	10,428	156	-	10,584
Equipment	64,770	9,664	(4,483)	69,951
Infrastructure	1	-	-	1
Total Accumulated Depreciation	75,199	9,820	(4,483)	80,536
Total Depreciable Capital Assets, Net	29,727	(69)	(1,214)	28,444
Total Capital Assets, Net	$ 32,444	$ 105	$ (1,876)	$ 30,673

Schedule of Changes in Capital Assets

Component Units

(Dollars in Thousands)

	Balance July 1 as restated	Increases	Decreases	Subtotal June 30	Foundations (1)	Total June 30
Nondepreciable Capital Assets:						
Land	$ 405,577	$ 32,162	$ (2,327)	$ 435,412	$ 187,733	$ 623,145
Construction in Progress	1,355,216	1,424,005	(1,068,258)	1,710,963	130,186	1,841,149
Inexhaustible Works of Art / Historical Treasures	71,811	989	-	72,800	15,463	88,263
Livestock	701	-	(123)	578	2,375	2,953
Total Nondepreciable Capital Assets	1,833,305	1,457,156	(1,070,708)	2,219,753	335,757	2,555,510
Depreciable Capital Assets:						
Buildings (2)	6,645,628	877,654	(24,504)	7,498,778	750,633	8,249,411
Infrastructure	1,804,969	126,140	(3,365)	1,927,744	-	1,927,744
Equipment (2)	2,290,357	304,136	(134,703)	2,459,790	107,688	2,567,478
Improvements Other Than Buildings	348,997	15,699	(9,548)	355,148	44,996	400,144
Library Books	637,353	35,176	(6,028)	666,501	-	666,501
Total Capital Assets being Depreciated	11,727,304	1,358,805	(178,148)	12,907,961	903,317	13,811,278
Less Accumulated Depreciation for:						
Buildings	2,327,103	200,782	(10,614)	2,517,271	140,725	2,657,996
Infrastructure	917,552	55,828	(267)	973,113	-	973,113
Equipment	1,370,647	203,292	(90,720)	1,483,219	70,829	1,554,048
Improvements Other Than Buildings	173,972	12,879	(421)	186,430	17,921	204,351
Library Books	512,742	32,302	(6,057)	538,987	-	538,987
Total Accumulated Depreciation	5,302,016	505,083	(108,079)	5,699,020	229,475	5,928,495
Total Depreciable Capital Assets, Net	6,425,288	853,722	(70,069)	7,208,941	673,842	7,882,783
Total Capital Assets, Net	$ 8,258,593	$ 2,310,878	$ (1,140,777)	$ 9,428,694	$ 1,009,599	$ 10,438,293

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Note (2): Beginning balance for buildings has been decreased by $9,947 (dollars in thousands) and equipment has been increased by $9,947 (dollars in thousands) for reclassifications. In addition, beginning balance for buildings has been decreased by $8,740 (dollars in thousands) for a correction of prior year errors.

13. RETIREMENT AND PENSION SYSTEMS

A separately issued financial report that includes financial statements and required supplemental information for each of the individual plans discussed below is publicly available. Copies may be obtained by writing to Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

A. Administration

The Virginia Retirement System (VRS) is an independent agency of the Commonwealth that administers defined benefit pension plans, other employee benefit plans and other funds for Commonwealth employees, teachers, political subdivision employees, and other qualifying employees. The board of trustees is responsible for the general administration and operation of the plans. The board consists of five members appointed by the Governor and four members appointed by the Joint Rules Committee, all subject to confirmation by the General Assembly. The board of trustees appoints a director to serve as the chief administrative officer of the system and a chief investment officer to direct, manage and administer the investment of the system's funds. The board of trustees has appointed Mellon Trust as the custodian of designated assets of the system.

The VRS administers four defined benefit pension plans: the Virginia Retirement System (VRS); State Police Officers' Retirement System (SPORS); Virginia Law Officers' Retirement System (VaLORS); and the Judicial Retirement System (JRS). In addition to the pension plans, the Commonwealth participates in three Other Employee Benefit Plans: Group Life Insurance Fund; Retiree Health Insurance Credit Fund; and the Virginia Sickness and Disability Program (VSDP).

B. Summary of Significant Accounting Policies (VRS)

Basis of Accounting

The financial statements of the pension and other employee benefit trust funds are prepared using the economic resources measurement focus and the accrual basis of accounting. Employee and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as earned by the pension plans. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investment

Investments are reported at fair value as determined by the VRS master custodian, Mellon Trust, from its Global Pricing System. This system assigns a price source, based on asset type and the vendor pricing products to which the master custodian subscribes, for every security held immediately following its acquisition. Prices supplied by these sources are monitored on a daily basis by the master custodian.

When a pricing source is unable to provide a price, quotes are sought from major investment brokers and market-making dealers; or internal calculations are applied if feasible. As a last resort, the master custodian will contact investment managers for a price. The master custodian prices commingled funds, partnerships, and real estate assets from statements received from the funds, partnerships, or investment managers.

The pricing sources utilized by the master custodian provide daily prices for equity securities, corporate, government and mortgage-backed fixed income securities, private placement securities, futures and options on futures, open-ended funds, and foreign exchange rates. Depending on the vendor, collateralized mortgage obligations (CMOs), adjustable rate mortgages (ARMs) and asset-backed securities are priced either daily, weekly or twice a month and at month-end.

The retirement plans have no concentrations of investments in any one organization that represent five percent or more of plan net assets available for benefits, adjustable rate mortgages, and asset-backed securities are priced either daily, weekly or twice a month, and at month-end. Municipal fixed income securities and options on Treasury/Government National Mortgage Association securities are priced at month-end.

C. Plan Description

Retirement Plans

VRS is a qualified governmental retirement plan that provides defined benefit coverage for state employees, public school board employees, employees of participating political subdivisions and other qualifying employees. VRS is a mixed-agent and cost-sharing, multiple-employer retirement plan. The plan's accumulated assets may legally be used to pay all plan benefits provided to any of the plan members or beneficiaries. Contributions for fiscal year 2008, were $2.0 billion with a reserve balance available for benefits of $51.7 billion. At June 30, 2008, the VRS had 821 contributing employers.

Single-employer Retirement Plans

The Commonwealth administers the following single-employer retirement plans:

- State Police Officers' Retirement System (SPORS)
- Virginia Law Officers' Retirement System (VaLORS)
- Judicial Retirement System (JRS)

All full-time, salaried permanent employees of VRS participating employers are automatically covered under VRS, SPORS, VaLORS or JRS with the following exceptions: (1) certain full-time faculty and administrative staff of public colleges and universities; and (2) eligible classified employees of the two state teaching hospitals. These employees have the option to elect not to participate in the systems. Benefit provisions and all other requirements are established by Title 51.1 of the *Code of Virginia*, as amended.

Benefits vest for all plans after five years of service. Vested VRS members are eligible for an unreduced retirement benefit at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit as elected by the employer. Vested SPORS members, VaLORS members that have elected enhanced benefits are eligible for an unreduced benefit at age 50 with at least five years of hazardous duty service credit or age 50 with at least 25 years of total service credit.

Annual retirement benefits are payable monthly for life in an amount equal to 1.7 percent of eligible members' average final compensation (AFC) for each year of service credit. AFC is the average of the member's 36 consecutive months of highest creditable compensation. The benefit for members of SPORS and VRS-covered sheriffs is calculated using a 1.85 percent multiplier. Members of SPORS receiving enhanced benefits also are eligible for a hazardous duty supplement, paid monthly, until they reach full Social Security retirement age.

Members of VaLORS hired before July 1, 2001, were allowed to make a one-time election to increase the multiplier from 1.7 to 2.0 percent instead of receiving a monthly hazardous duty supplement. VaLORS members who elected to retain the 1.7 percent multiplier are eligible for the supplement until age 65. Members of VaLORS hired after June 20, 2001, have their benefit computed using the two percent multiplier and are not eligible for the supplement.

Members of JRS receive weighted years of service credit for each year of actual service under JRS. VRS, SPORS, VaLORS, and JRS also provide death and disability benefits. Cost-of-living increases, based on changes in the consumer price index and limited to five percent per year, are granted in the second year of retirement and in every year thereafter.

Benefits for all vested members are actuarially reduced if they retire before becoming eligible for an unreduced retirement benefit, provided they meet age requirements for a reduced retirement benefit.

As required by Title 51.1 of the *Code of Virginia*, as amended, members contribute five percent of their annual compensation to the defined benefits plans. Employers may assume the five percent member contribution. If a member leaves covered employment, the accumulated contributions plus earned interest may be refunded to the member. Each participating employer is required by state statute to contribute the remaining amounts necessary to fund the retirement plans using the entry age normal actuarial cost method adopted by the board of trustees. Contributions for fiscal year 2008, were $26.2 million, $74.0 million, $25.5 million and reserved balances available for benefits of $636.4 million, $852.6 million, and $367.1 million for SPORS, VaLORS and JRS, respectively. State statute may be amended only by the General Assembly.

D. Funding Policy

The funding policy of the retirement plans provides for periodic employer contributions at actuarially determined rates, which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the cost of all basic benefits when due. Contribution rates are developed using the entry age normal cost method for both normal cost and amortization of the unfunded actuarial accrued liability. Gains and losses are reflected in the unfunded actuarial accrued liability that is being amortized as a level percentage of payroll within 30 years or less.

The system's actuary, Wachovia Retirement Services, computed the amount of contributions to be provided by state agency employers, state police and other Virginia law employers. The contribution rates for fiscal year 2008 were based on the actuary's valuation as of June 30, 2005. Employer contributions by the Commonwealth to VRS, SPORS, VaLORS, and JRS were 6.15 percent, 20.76 percent, 15.86 percent, and 38.01 percent, respectively, of covered payrolls.

In addition to determining contribution requirements, the actuarial computations present an estimate of the discounted present value of the prospective accrued liability contributions that employers will have to pay in the future so that such contributions, together with the assets on hand, the normal contributions to be made in the future by employers and members and the income earned by investing funds, will be sufficient to provide all benefits to be paid to present members in the future as well as the annuitants and their designated beneficiaries.

E. Annual Pension Cost and Net Pension Obligation

The following table (dollars in thousands) shows the Commonwealth's annual pension cost and net pension obligation to the VRS, SPORS, JRS, and VaLORS for the current and prior years.

	VRS			SPORS		
	2008	2007	2006	2008	2007	2006
Annual required contribution	$ 316,649	$ 294,388	$ 166,975	$ 29,718	$ 25,488	$ 27,939
Interest on net pension obligation	54,933	47,378	46,853	6,587	5,915	5,259
Adjustment to annual required contribution	(56,436)	(48,915)	(42,825)	(6,777)	(6,085)	(4,807)
Annual pension cost	315,146	292,851	171,003	29,528	25,318	28,391
Contributions made	(218,256)	(192,360)	(124,789)	(20,990)	(16,358)	(15,258)
Increase in net pension obligation	96,890	100,491	46,214	8,538	8,960	13,133
Net pension obligation, beginning of year	732,366	631,875	585,661	87,831	78,871	65,738
Net pension obligation, end of year	$ 829,256	$ 732,366	$ 631,875	$ 96,369	$ 87,831	$ 78,871
Percentage of annual pension cost contributed	69.3%	65.7%	73.0%	71.1%	64.6%	53.7%

	JRS			VaLORS		
	2008	2007	2006	2008	2007	2006
Annual required contribution	$ 28,284	$ 26,768	$ 27,048	$ 79,420	$ 72,460	$ 90,011
Interest on net pension obligation	4,553	4,094	3,476	17,589	15,814	13,782
Adjustment to annual required contribution	(4,684)	(4,211)	(3,177)	(18,096)	(16,270)	(12,597)
Annual pension cost	28,153	26,651	27,347	78,913	72,004	91,196
Contributions made	(22,387)	(20,530)	(16,206)	(55,929)	(48,338)	(52,610)
Increase in net pension obligation	5,766	6,121	11,141	22,984	23,666	38,586
Net pension obligation, beginning of year	60,706	54,585	43,444	234,522	210,856	172,270
Net pension obligation, end of year	$ 66,472	$ 60,706	$ 54,585	$ 257,506	$ 234,522	$ 210,856
Percentage of annual pension cost contributed	79.5%	77.0%	59.3%	70.9%	67.1%	57.7%

The amounts in the above table include governmental and component unit activity for which the Commonwealth is considered the employer. It does not include the VRS liability for the Virginia Economic Development Partnership (component unit), the Virginia Tourism Authority (component unit), and the Virginia National Defense Industrial Authority (component unit) of $1.7 million, $861,417, and $60,241, respectively. The table also excludes the non-VRS pension liability of $57.9 million for all other component units.

The most recent actuarial valuations were conducted as of June 30, 2005. The valuations were prepared using the entry age normal cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return, per year compounded annually; (b) projected salary increases ranging from 3.5 percent to 5.6 percent, including a 2.5 percent inflation component; and (c) 2.5 percent per year COLA. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining closed amortization period at June 30, 2008, was 20 years. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

F. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2008, was as follows:

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Virginia Retirement System (VRS)			
2007	$ 47,815	$ 58,116	$ 10,301	82.3%	$ 13,834	74.5%
			State Police Officers' Retirement System (SPORS)			
2007	$ 595	$ 806	$ 211	73.8%	$ 101	209.4%
			Virginia Law Officers' Retirement System (VaLORS)			
2007	$ 766	$ 1,166	$ 400	65.7%	$ 341	117.2%
			Judicial Retirement System (JRS)			
2007	$ 340	$ 442	$ 102	76.9%	$ 58	177.3%

Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plans and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

G. Defined Contribution Plan for Political Appointees

Officers appointed by the Governor, officers elected by popular vote or the General Assembly, and executive branch chief deputies and confidential assistants may participate in the deferred contribution plan for Political Appointees, rather than the VRS. This optional retirement plan is authorized by the *Code of Virginia* and offered through the Great West Retirement Services. This is a defined contribution plan where the retirement benefits are based upon the Commonwealth's (6.15 percent) and the employee's (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2008, the total contributions to this plan were $813,108.

The summary of significant accounting policies for the plan is in accordance with those discussed in Note 13. B.

H. Defined Contribution Plan for Public School Superintendents

The Public School Superintendent Plan is a defined contribution pension plan that provides optional postemployment benefits for school superintendents. This plan is authorized by the *Code of Virginia*. The board of trustees of the VRS manages the investments of the fund as custodian. School boards may elect to offer this plan as an option to the standard VRS plan that is available for school board members. Contributions are provided by the school board for credit to the member. At June 30, 2008, there was one participant in this plan. Total contributions to the plan for fiscal year 2008 were $21,372.

I. Virginia Supplemental Retirement Plan

The Virginia Supplemental Retirement Plan is a defined contribution pension plan established by the Department of Education to provide an optional postemployment benefit plan for turnaround specialists in the public school system. This plan is utilized as an incentive to attract highly skilled teachers for participating public schools pursuant to the *Code of Virginia* by Title 51.1-617. The Board of Trustees of the VRS manages the investments of the fund as custodian. School boards may elect to offer this plan as an option to the standard VRS plan that is available for school board members. Contributions are provided by the school boards for credit to the members. At June 30, 2008, there were three participants in this plan. Total contributions to the plan for fiscal year 2008 were $16,372.

J. Higher Education Fund (Component Unit)

The Commonwealth's colleges and universities participate in the VRS, a mixed-agent and cost-sharing multiple-employer retirement plan. The VRS issues a separate stand-alone report that is publicly available as previously discussed.

In addition, full-time faculty and certain administrative staff of the Commonwealth's colleges and universities may participate in an optional retirement annuity program, rather than the VRS. Optional retirement plans are authorized by the *Code of Virginia* and provide retirement and death benefits. The optional retirement annuity programs are offered through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) Insurance Companies, Variable Annuity Life Insurance Company (VALIC), Fidelity Investments, Inc., Vanguard, and others including Great West Life, Inc. Overall, these are defined contribution programs where the retirement benefits received are based upon the Commonwealth's (5.4 percent) and employees' (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2008, the total contributions to these plans were:

TIAA-CREF	$	91,002,963
VALIC		2,850,221
Fidelity Investments		48,517,293
Vanguard		4,212,398
Others		982,037
Total	$	147,564,912

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – major) contributes to the VRS. The VRS issues a separate stand-alone report that is publicly available as previously discussed. Effective July 1, 1997, the Authority established the Virginia Commonwealth University Health System Authority Defined Contribution Plan (the plan). All employees, excluding house staff, working at least 20 hours per week in a benefit eligible position are eligible to participate in the plan. Per the plan document as approved by the Authority's board of directors, the Authority contributes up to ten percent of the participant's salary to the plan not to exceed the lesser of (a) the amount in accordance with Internal Revenue Code 415(d), or (b) 100 percent of the participant's compensation for such limitation year. Total contributions for the year ended June 30, 2008, were approximately $12,395,000. The

Authority has the right at anytime, and without the consent of any party, to terminate the plan in its entirety. The Authority's board of directors must approve any changes to the provisions of the plan, including the contribution requirements, in writing. The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP plan). All persons hired as a health care provider on or after July 1, 1993, and prior to July 1, 1997, and working at least 35 hours of service per week were eligible to participate in the HCP plan. At June 30, 2008, there were five actively employed participants in the HCP plan. Total contributions to the HCP plan for the year ended June 30, 2008, were approximately $33,900.

Previously, the Medical College of Virginia Associated Physicians (MCVAP) (a component unit of the Authority) sponsored the MCVAP 403(b) Retirement Fund (the 403(b) Plan), a defined contribution plan which covered substantially all non-medical employees of MCVAP. As of January 1, 2002, no additional contributions were made to this plan.

MCVAP also sponsors the MCVAP 401(a) Retirement Plan (the 401(a) plan), a noncontributory, defined contribution plan which covers substantially all benefit eligible clinical providers of MCVAP. Contributions to the 401(a) plan, as determined annually at the discretion of the board of directors were approximately $8,636,000 for the year ended June 30, 2008.

MCVAP also sponsors the VCUHS 401(a) Retirement Plan a defined contribution plan which covers all non-medical employees of MCVP and the VCUHS 457(b) Retirement Plan, a salary reduction plan that represents employee contributions. These plans became effective on January 1, 2002, and replaced the MCVAP 403 (b) plan for all non-medical staff. The contributions to the VCUHS 401(a) for the period ended June 30, 2008, were approximately $1,667,000.

VA Premier (a component unit of the Authority) adopted a 401(k) plan sponsored by Fidelity Investments. Employees may enter into the plan on the first day of the month coinciding with or following the date on which the employee begins employment. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute one percent to 15 percent of their compensation. VA Premier will match 50 percent of the employees' contributions up to four percent of the employees' compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes three percent of the employee's compensation after each bi-weekly payroll effective when the employee begins employment. Employees are fully vested after four years of service in which the employees have at least 1,000 hours of service each year. The total expense to VA Premier in fiscal year 2008 was approximately $685,000. Effective June 2007, the Carolina Crescent Health Plan's (a component unit of the Authority) (CCHP) adopted a 401(k) plan, for which Fidelity Investments is the trustee. All terms are consistent with the VA Premier 401(k) plan. CCHP's expense for its contributions to this plan was approximately $36,000 for the year ended 2008.

Effective January 1, 1997, James Madison University (nonmajor) established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. Since it is a governmental plan, the plan is not subject to the Employee Retirement Income Security Act of 1974 as amended. Since inception, 142 faculty members have elected to enroll in the plan. As of June 30, 2008, 39 participants remain, including 14 new participants who retired under this plan during fiscal year 2008. In order to satisfy IRS requirements, a trust fund has been established as a means to make the payments to the plan participants. The University prepaid a portion of the 2009 plan contribution of $951,437 in 2008. The remaining 2009 plan contribution of $26,492 will be paid in 2009.

The Center for Innovative Technology (CIT) is a blended component unit of the Innovative Technology Authority (nonmajor). The CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, contributions are fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by TIAA-CREF. Pension contributions for the plan totaled $511,594 in fiscal year 2008.

K. Other Component Units

Note 1.B. outlines the component units included in the Commonwealth's reporting entity. The Virginia Public Building Authority (blended - primary government), the Virginia Public School Authority (major), the Virginia College Building Authority (nonmajor), the Virginia University Research Partnership (nonmajor), and the Virginia Schools for the Deaf and Blind Foundation (nonmajor) have no employees. The Virginia Economic Development Partnership, the Small Business Financing Authority, the Hampton Roads Sanitation District Commission, the Virginia Biotechnology Research

Partnership Authority, the A. L. Philpott Manufacturing Extension Partnership, the Virginia Tourism Authority, the Tobacco Indemnification and Community Revitalization Commission, the Virginia Tobacco Settlement Foundation, the Virginia Land Conservation Foundation, the Virginia Arts Foundation, the Virginia National Defense Industrial Authority, and the Library of Virginia Foundation (all nonmajor) contribute solely to the VRS, a mixed-agent and cost-sharing multiple-employer retirement plan. The VRS issues a separate stand-alone report that is publicly available as previously discussed.

Full-time employees of the Virginia Housing Development Authority (major) participate in a defined contribution employees' retirement savings plan administered by the Authority. This is a noncontributory plan where the authority incurs employment retirement savings expense equal to eight percent of full-time employees' compensation. Total retirement savings expense under this plan was $1,709,222 in fiscal year 2008.

The Virginia Outdoors Foundation (nonmajor) maintains a simple defined contribution plan and provides an employer contribution to all eligible employees of two percent of their salary. Employees can contribute to the plan up to the IRS limit and the foundation will match up to four percent of an employees' contribution.

The Virginia Port Authority (nonmajor) contributes to the VRS. The Authority also sponsors two single-employer noncontributory defined benefit pension plans. The Virginia Port Authority Pension Plans are administered by the Authority and provide retirement, disability, and death benefits to plan members and beneficiaries. Benefit provisions and obligations are established and may be amended by the board of commissioners of the Authority. The plan was restated October 1, 2001, to ensure compliance with additional regulations.

The components of annual pension cost and prepaid pension obligation for the first single-employer noncontributory defined benefit pension plan are as follows:

Trend Information

	2008	2007	2006
Service cost - benefits earned during the year	$ 2,136,300	$ 2,036,800	$ 1,801,800
Interest cost on projected benefit obligation	3,660,500	3,316,900	2,903,200
Expected return on assets	(4,286,500)	(3,729,500)	(3,213,200)
Net amortization and deferral	779,200	941,500	709,500
Annual pension cost	2,289,500	2,565,700	2,201,300
Contributions made	(1,640,100)	(2,634,600)	(4,216,500)
Increase in prepaid pension obligation	649,400	(68,900)	(2,015,200)
Prepaid pension obligation, beginning of year	(9,390,200)	(9,321,300)	(7,306,100)
Prepaid pension obligation, end of year	$ (8,740,800)	$ (9,390,200)	$ (9,321,300)

Costs have been computed in accordance with the aggregate cost method. Changes in plan provisions and actuarial assumptions, and actuarial gains and losses are not separately amortized under this method. Rather the impact is spread through the nominal cost component over the future working lifetime of participants. The actuarial present value of accumulated plan benefits is determined by an actuary from New York Life Benefit Services, LLC using end of year benefit information as of September 30, 2007 and 2006, respectively, and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money and the probability of payment between the valuation date and the expected date of payment.

The following table sets forth the plan's funded status and the related amounts recorded in the authority's balance sheets at June 30, 2008, 2007, and 2006.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2008	$ 2,289,500	72 %	$ (8,740,800)
2007	$ 2,565,700	103 %	$ (9,390,200)
2006	$ 2,201,300	192 %	$ (9,321,300)

In November 2001, the second plan was amended to provide benefits to sworn police officers that more closely resemble the new retirement benefits provided to members of the Virginia Law Enforcement Officers Retirement System. The effect of those changes is included in the accompanying pension data.

The components of annual pension cost and prepaid pension obligation for the second single-employer noncontributory defined benefit pension plan are shown in the following schedule.

Trend Information

	2008	2007	2006
Service cost - benefits earned during the year	$ 642,254	$ 532,378	$ 514,545
Interest cost on projected benefit obligation	356,456	299,507	223,047
Expected return on assets	260,403	(434,736)	(165,669)
Net amortization and deferral	(458,630)	387,386	191,195
Annual pension cost	800,483	784,535	763,118
Contributions made	(1,166,439)	(1,654,371)	(896,505)
Additional minimum liability	-	(1,402,080)	(126,285)
Increase in pension obligation	(365,956)	(2,271,916)	(259,672)
Pension obligation, beginning of year	(1,127,803)	1,144,113	1,403,785
Pension obligation, end of year	$ (1,493,759)	$ (1,127,803)	$ 1,144,113

The annual pension cost for the current year was determined as part of the August 2008 actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. Actual value of assets was determined using market value. The discount rate used in determining the actuarial present value of the projected benefit obligation was 6.92 percent in 2008, 6.25 percent in 2007, and 6.25 percent in 2006. The expected long-term rate of return on assets used in determining net periodic pension cost was eight percent.

The following table sets forth the plan's funded status and the related amounts recorded in the authority's balance sheets at June 30, 2008, 2007, and 2006.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2008	$ 800,483	146 %	$ (1,493,759)
2007	$ 784,535	211 %	$ (1,127,803)
2006	$ 763,118	117 %	$ 1,144,113

The Authority also sponsors two noncontributory supplemental plans covering certain key employees. The plans had assets of $3,661,172 and an accrued liability of $4,497,374.

Contributions to the plans were $987,731 for the year ended June 30, 2008.

As of January 1, 2005, the Virginia Resources Authority began mandatory participation for all new employees and optional participation for then-current employees who chose to enroll in the VRS. For the year ended June 30, 2008, the Authority's annual pension cost of $70,295 was equal to the Authority's required and actual contributions.

The Virginia Horse Center Foundation has a defined contribution plan which covers all full-time employees of the Foundation who have one year of service and are age 21 or older. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974. Contributions to the plan are discretionary and the Foundation will determine the amount to contribute to the plan each year. No contributions were made on behalf of the employees for the fiscal year ended June 30, 2008. As of July 1, 2006, employees were able to make contributions to the plan, however, the contributions are not matched by the Foundation.

The Assistive Technology Loan Fund Authority sponsors a Simple Employee Plan (SEP) for all of its employees. The Authority contributes five percent of each employee's wages, which is paid into their account managed by American Funds each pay period.

Employees of the Virginia Museum of Fine Arts Foundation who are age 21 or older are eligible to participate in the Employee's Savings Plan (the plan), a 401(k) defined contribution profit sharing plan. Under the plan, the Foundation may make a discretionary contribution. For the plan years ended June 30, 2008, and 2007, the Foundation contributed 8.4 percent and 7.0 percent, respectively, of employees' gross income to the plan. In addition, contributions made by an employee up to four percent of the employee's gross income are matched 50 percent by the foundation. Employees may contribute up to 100 percent of gross income each year as long as it is within the IRS limitation. Contributions paid to the plan by the Foundation on behalf of its employees were $87,857 for the fiscal year ended June 30, 2008.

The Science Museum of Virginia Foundation has a 403(b) defined contribution pension plan through the Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) Retirement Plan for employees meeting age and service requirements. The Foundation contributes an amount not to exceed three percent of the regular salary of each participant. The Foundation's employer contributions totaled $6,403 in 2008. The Foundation also has a 537 plan through the Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF); employer contributions totaled $15,500 in 2008. In addition, the Belmont Bay Science Center Foundation also participates in the Science Museum of Virginia Foundation's 403(b) defined contribution pension plan. The foundation contributed $4,920 during 2008.

14. OTHER EMPLOYMENT BENEFITS

In addition to the pension plans, the Commonwealth participates in two other employment benefit plans, Group Life Insurance and Virginia Sickness and Disability Program, which are administered by the Virginia Retirement System (VRS). The VRS administers a third other employment benefit plan, the Volunteer Firefighters' and Rescue Squad Workers' Fund, in which the Commonwealth does not participate, but may provide funding. The significant accounting policies for all three plans are the same as those described in Note 13 for pension plans. A separately issued financial report that includes financial statements for the Group Life Insurance and Virginia Sickness and Disability Program is publicly available. Copies may be obtained by writing to the Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Group Life Insurance

The Group Life Insurance Plan was established for Commonwealth employees, teachers, employees of political subdivisions participating in the VRS, state police officers, other state law enforcement and correctional officers, judges, and other qualifying employees. The program provides life insurance for natural death coverage equal to a members' annual compensation rounded to the next highest $1,000 and then doubled. Accidental death coverage is double the natural death benefit. The program also provides coverage for accidental dismemberment and accidental blindness, a safety belt benefit, a repatriation benefit, a felonious assault benefit and an accelerated death benefit for terminal conditions. Approximately 361,906 members participate in the program at June 30, 2008.

Participating employers and their covered employees are required by Title 51.1 of the *Code of Virginia*, as amended, to contribute to the cost of group life insurance benefits. Employers may assume the employees' contributions.

An optional Group Life Insurance Fund was established for members covered under the group life program as a supplement to that plan. Members may purchase optional life insurance coverage for themselves, their spouses and/or their dependent children. The optional program provides natural death coverage equal to one, two, three or four times the member's annual compensation rounded to the next highest $1,000, up to a maximum of $600,000. Spouse coverage is available for up to one-half of the member's optional insurance amount. Minor children who are at least 15 days old can be insured for $10,000, $20,000 or $30,000, depending on the option chosen by the member. An additional accidental death and dismemberment benefit is payable for death or bodily injuries. Approximately

63,734 members were covered under this program at June 30, 2008.

Optional group life insurance coverage ends for members when they retire or terminate their employment, or when their basic coverage ends. Members who retire on disability may continue their optional coverage until age 65 provided they continue to pay the required insurance premiums. Spouse coverage terminates should a couple divorce or when the member leaves employment. Children's coverage ends with the termination of the member's coverage or when the child marries or turns 21 years of age (25 years of age for full-time college students).

Employers of members who elect optional life insurance coverage deduct the premiums from the members' paychecks, as required by Title 51.1 of the *Code of Virginia*, as amended. Premiums are based on the member's age and determined by the board of trustees. Because optional life insurance is an insured product, the carrier bills each employer directly, and the employer makes the contribution payments to the carrier. Any differences and adjustments are settled between the employer and the carrier.

Virginia Sickness and Disability Program

The VRS administers the Virginia Sickness and Disability Program (VSDP) to provide income protection in the event of a disability for eligible state employees hired on or after January 1, 1999. State agencies are required by Title 51.1 of the *Code of Virginia* to contribute to the cost of providing long-term disability benefits and administering the program.

VSDP benefits include sick, family and personal leave and short-term and long-term disability benefits. After a seven-calendar day waiting period following the first day of disability, eligible employees receive short-term disability benefits from 60 percent to 100 percent of their compensation depending on their months of state service. After 125 work days of short-term disability, eligible employees receive long-term disability benefits equal to 60 percent of their compensation. Long-term disability benefits continue until employees either return to work, reach age 65 (age 60 for state police officers and other state law enforcement and correctional officers) or die.

Full-time permanent salaried state employees, including state police officers and other Virginia law and correctional officers, are automatically enrolled in the VSDP. Part-time permanent salaried state employees who work at least 20 hours a week and accrue leave also are automatically enrolled. Teaching, administrative and research faculty of Virginia public colleges and universities who elect VRS as their retirement plan must make an irrevocable election to participate in either the VSDP or the institution's disability program. If there is no institution program, the faculty member is covered under VSDP.

Eligible state employees and state police officers employed before January 1, 1999 had the option to elect to participate in the VSDP or remain under the Commonwealth's existing sick leave program and retain their eligibility for disability retirement benefits under VRS and SPORS. (Members of VaLORS have been automatically enrolled in the VSDP since October 1, 1999 when VaLORS was created.) Eligible employees enrolled in the VSDP are not eligible for disability retirement benefits under VRS, SPORS, or VaLORS. Approximately 74,956 members were covered under the program at June 30, 2008.

Volunteer Firefighters' and Rescue Squad Workers' Fund

Volunteer firefighters and rescue squad workers may participate in an optional employment benefit plan. This optional plan is authorized by the *Code of Virginia*. The board of trustees of the VRS manages the investments of the fund as custodian. Members of the plan contribute $30 per quarter. The Commonwealth will contribute an amount determined by the board and appropriated by the General Assembly, if such funds are appropriated, for a period not to exceed 20 years. For fiscal year 2008, $78,000 was appropriated. At June 30, 2008, there were 1,389 workers participating in the fund.

15. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

A. VRS Administered Plans

The Government Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which requires additional reporting and disclosures for OPEB plans. The statement became effective for VRS-administered OPEB plans beginning with the fiscal year ended June 30, 2007. The assets and actuarial accrued liabilities for the following other post-employment benefits were determined through an actuarial valuation performed as of June 30, 2007, by Wachovia Retirement Services, and are presented in the Required Supplemental Schedule of Funding Progress for Other Post-Employment Benefit Plans. The significant accounting policies for all three plans are the same as those described in Note 13 for pension plans and a separately issued report is available as previously discussed.

Group Life Insurance Benefits

Employees who retire or terminate from service after age 50 with at least ten years of service credit or at age 55 with at least five years of service credit (age 50 for vested state police officers, other state law enforcement and correctional officers and hazardous duty employees of participating political subdivisions), or who retire because of disability, are entitled to post-employment group life insurance benefits. At retirement or termination, accidental death benefits cease and natural death coverage reduces at a rate equal to 25 percent on January 1 of the first full calendar year following retirement or termination and on January 1 of each year thereafter, until it reaches 25 percent of its original value. These group life insurance benefit provisions and requirements are established by Title 51.1 of the *Code of Virginia*. There were approximately 128,502 retirees in the program in fiscal year 2008.

Since 1960, when the group life insurance program was established, a portion of the premium contributions collected during members' active careers has been placed in an advance premium deposit reserve. This reserve was established to pre-fund death benefits to members after retirement.

Employers providing life insurance benefits are part of a cost-sharing pool. Therefore, separate measurements of assets and actuarial accrued liabilities are not made for individual employers participating in the program.

Retiree Health Insurance Credit Program

The Retiree Health Insurance Credit Fund was established on January 1, 1990, to provide benefits for retired state employees, state police officers, other state law enforcement and correctional officers and judges who have at least 15 years of service credit under the retirement plans. The program provides a credit reimbursement of $4 per month per year of service credit against the monthly health insurance premiums of eligible retirees.

A similar program was established on July 1, 1993, to provide a health insurance credit for retired teachers and employees of participating political subdivisions with at least 15 years of service credit under the retirement plans. Retired teachers are eligible for a monthly credit of $4 per month per year of service credit, and local government retirees may receive a maximum credit of $1.50 per month per year of service with a maximum monthly credit of $45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the *Code of Virginia*. The amount required to fund all credits is financed on a current disbursement basis by the employers based on contribution rates determined by the system's actuary. Approximately 80,115 retired members were covered under this program at June 30, 2008. The Retiree Health Insurance Credit Program is a cost-sharing, multiple-employer defined benefit OPEB plan.

Disability Insurance Trust Fund

The Commonwealth provides OPEB disability insurance benefits, in accordance with state statutes, to eligible retired and terminated employees. State agencies are required by Title 51.1 of the *Code of Virginia* to contribute to the cost of providing long-term disability benefits and administering the program. There were approximately 2,353 former members receiving benefits from the program during fiscal year 2008. The Disability Insurance Trust Fund is a single-employer defined Benefit OPEB plan.

B. Other Plans

The Commonwealth administers the following single-employer defined benefit OPEB plans.

Line of Duty Death and Disability

The Commonwealth provides death and health benefits to the beneficiaries of certain law enforcement and rescue personnel disabled or killed in the line of duty. An irrevocable trust fund was established on July 1, 2007, to account for the activity related to this plan. Benefit provisions and eligibility requirements are established by Title 9.1 Chapter 4 of the *Code of Virginia*. The significant accounting policies for this plan are the same as those described in Note 13 for pension plans. The Line of Duty and Disability is administered by the Department of Accounts. There were approximately 1,047 retirees in the program in fiscal year 2008.

Pre-Medicare Retiree Healthcare

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the Virginia Retirement System (VRS) or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

- be receiving (not deferring) the annuity or periodic benefit immediately upon retirement;
- have his or her last employer before retirement be the state;
- be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage); and,
- have submitted within 31 days of his or her retirement date an Enrollment Form to his or her Benefits Administrator to enroll.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. The significant accounting policies for this plan are the same as those described in Note 13 for pension plans. The Pre-Medicare Retiree Healthcare is administered by Department of Human Resource Management. There were approximately 8,531 retirees in the program in fiscal year 2008.

C. Annual OPEB Cost and Net OPEB Obligation

The Government Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires additional reporting and disclosures for OPEB plans beginning with the fiscal year ending June 30, 2008, prospectively. The Commonwealth calculated an OPEB liability as of June 30, 2008, for each of the five OPEB plans. The VSDP and Pre-Medicare Healthcare OPEB liabilities were $19.5 million and $95.1 million, respectively. An OPEB asset of $240,000 was calculated for the Line of Duty Death and Disability Trust Fund.

The following table (dollars in thousands) shows the Commonwealth's annual OPEB cost and net OPEB obligation for the current year.

	Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund	Line of Duty Death and Disability Trust Fund	Pre-Medicare Retiree Healthcare
	2008	2008	2008	2008	2008
Annual required contribution	$ 48,000	$ 62,387	$ 97,689	$ 9,786	$ 127,156
Interest on net OPEB obligation	-	-	-	-	-
Adjustment to annual required contribution	-	-	-	-	-
Annual OPEB cost	48,000	62,387	97,689	9,786	127,156
Contributions made	(48,000)	(62,387)	(78,151)	(10,026)	(32,056)
Increase in net OPEB obligation	-	-	19,538	(240)	95,100
Net OPEB obligation, beginning of year	-	-	-	-	-
Net OPEB obligation (Asset), end of year	$ -	$ -	$ 19,538	$ (240)	$ 95,100
Percentage of annual OPEB cost contributed	100.0%	100.0%	80.0%	102.5%	25.2%

The amounts in the previous table include Governmental and Component Unit activity for which the Commonwealth is considered the employer. It does not include the OPEB liability for the Virginia Economic Development Partnership (component unit), the Virginia Tourism Authority (component unit), and the Virginia National Defense Industrial Authority (component unit) of $168,935, $84,123, and $5,878, respectively. The table also excludes non-Commonwealth sponsored OPEB liabilities of $6.7 million for all other Component Units.

The annual required contributions for the current year were determined during the actuarial valuations conducted as of June 30, 2006, for all but Pre-Medicare Retiree Healthcare for which the June 30, 2007, valuation was used, as that is the most recent report that reflects the current funding policies. Employer contributions by the Commonwealth for Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance were 1.0 percent, 1.2 percent, and 2.0 percent, respectively, of covered payrolls. The valuations were prepared using the entry age normal cost method for all plans except for the Disability Insurance and Line of Duty Trust funds for which the Projected Unit Credit actuarial cost method was used. The actuarial assumptions for all but the Pre-Medicare Retiree Healthcare plan included (a) 7.5 percent investment rate of return, per year compounded annually; (b) projected salary increases ranging from 2.5 percent to 3.0 percent, including a 2.5 percent inflation component. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five year period. The remaining closed amortization period at June 30, 2008, was

30 years. The actuarial assumptions for the Pre-Medicare Retiree Healthcare plan as to current claim cost, projected increases in health insurance costs, mortality, turnover, retirement, disability and discount rate include (a) 4.97 percent investment rate of return, per year compounded annually; (b) projected salary increases ranging from 3.75 percent to 5.6 percent, including a 2.5 percent inflation component; and, (c) assumption that there is no liability associated with those retirees eligible for Medicare, as costs for members aged 65 and older are not subsidized by the active population (no implicit subsidy), participants pay 100 percent of the costs, and the liability associated with the health insurance credit is measured and held by the Virginia Retirement System. Initial healthcare costs trend rates used were 10 percent, 11 percent, and 6 percent for medical, pharmacy, and dental benefits, respectively. The ultimate trend rates used were 5 percent, 5 percent, and 4 percent for medical, pharmacy, and dental benefits, respectively. The remaining closed amortization period at June 30, 2008 is 30 years.

D. Funded Status and Funding Progress

The funded status of the plans as of June 30, 2008, was as follows:

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Group Life Insurance Fund			
2007	$ 880	$ 1,552	$ 672	56.7%	$ 14,822	4.5%
			Retiree Health Insurance Credit Fund			
2007	$ 198	$ 1,814	$ 1,616	10.9%	$ 10,571	15.3%
			Disability Insurance Trust Fund			
2007	$ 264	$ 451	$ 187	58.5%	$ 3,909	4.8%
			Line of Duty Death and Disability Trust Fund			
2008	$ 3	$ 185	$ 182	1.6%	$ N/A	-
			Pre-Medicare Retiree Healthcare Fund			
2007	$ -	$ 982	$ 982	-	$ 2,931	33.5%

Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Amounts determined regarding the funded status of the plans and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

E. Higher Education Fund (Component Unit)

The University of Virginia (major) has a Retiree Health Plan that covers employees who retire before becoming eligible for Medicare until they reach age 65 and can then participate in the Commonwealth's Medicare Supplement Plan. Additional information on this plan can be found in the individually published financial statements of the University.

F. Other Component Units

The Virginia Housing Development Authority (major component unit) has a Retiree Health Care Plan, a single-employer defined benefit plan which is administered through the Virginia Housing Development Authority Retiree Health Care Plan Trust, an irrevocable trust to be used solely for providing benefits to eligible participants. Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service or at least 55 years of age with 10 years of service if employed by the Authority prior to such date. For the year ended June 30, 2008, the Authority's Annual OPEB cost was $753,288; the percentage of Annual OPEB Cost Contributed was 100 percent; and the ending Net OPEB asset was $29,736.

Hampton Roads Sanitation District Commission (nonmajor component unit) provides other post-employment benefits for its employees through a single employer defined benefit plan. The plan was established and may be amended by the Commission. For 2008, the Commission's annual OPEB cost was $1.8 million; the percentage of annual OPEB cost contributed was 100 percent; and the ending net OPEB obligation was zero.

The Virginia Port Authority (nonmajor component unit) offers post retirement medical and dental benefits to employees who retire under either VRS or the Virginia Port Authority pension plan. For employees and their spouses, who are participants in the VPA medical plan, not participants under the state health care plan VRS, benefit provisions and obligations are established and may be amended by the board of commissioners of the Authority. For the year ended June 30, 2008, the Authority's annual OPEB cost was $32,137; contribution towards OPEB cost was $11,377; the percentage of annual OPEB cost contributed was 35.4 percent; and the ending net OPEB obligation was $43,514.

16. DEFERRED COMPENSATION PLANS

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Virginia Retirement System (VRS) administers the deferred compensation plan, pursuant to the Government Employees Deferred Compensation Plan Act, Section 51.1, Chapter 6 et seq. of the *Code of Virginia*. The VRS contracts with private corporations or institutions subject to the standards set forth in the *Code* to provide investment products as well as any other goods and services related to the administration of the deferred compensation plan. The Department of Accounts is responsible for the accounting, reconciliation, and record keeping associated with state employees' enrollment, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the VRS for investment. The plan provides a number of investment options and is designed so that each participant retains investment control of his/her individual account. The plan, available to all state employees, permits them to defer a portion of their salary until future years. The deferred compensation is held in trust for the exclusive benefit of plan participants and their beneficiaries and is not available to employees until termination, retirement, death, or unforeseeable emergency. Since the VRS has no fiduciary relationship with plan participants, plan assets of $1,059.3 million are not included in the financial statements.

In addition, the Commonwealth provides a cash match under Internal Revenue Code Section 401(a) for employees participating in the deferred compensation plan who have been employed at least one year. The match amount for an employee was established at 50 percent of the voluntary contributions to the deferred compensation plan. During the current fiscal year, the maximum match was $20 per pay period or $40 per month. The fair value of assets in the cash match savings plan at June 30, 2008, was $152.7 million, which is also excluded from the financial statements.

The Virginia Housing Development Authority (major component unit) and the Virginia Resources Authority (nonmajor component unit) have deferred compensation plans available to all employees created in accordance with Internal Revenue Section 457. The plans permit participants to defer a portion of their salary or wage until future years. The deferred compensation is not available to employees until termination, retirement, or death. The assets of the plans are in irrevocable trusts with an external trustee and, accordingly, no assets or liabilities are reflected in the financial statements.

The Virginia Port Authority (VPA) (nonmajor component unit) offers three deferred compensation plans and two matching savings plans under Internal Revenue Code Sections 457 and 401(a), respectively. Employees who maintain status under VRS are covered under the deferred compensation plan administered by the VRS as discussed above. The VPA deferred compensation plan covers all employees hired after July 1, 1997, and those employees electing coverage under the authority's deferred compensation plan. The VPA also offers a matching savings plan that covers substantially all employees. The matching savings plan requires the VPA to match contributions in an amount equal to 50 percent of the first six percent of the participant's base pay contributed to the plan. VPA's total contribution to the matching savings plan was $167,685 for the fiscal year ended June 30, 2008. Further, the right to modify, alter, amend, or terminate the deferred compensation plan and matching savings plan rests with the VPA board of commissioners.

The third deferred compensation plan and second matching savings plan covers substantially all non-union employees with 90 days or more of service. The matching savings plan requires the VPA to match employee contributions in an amount equal to 50 percent of the first three percent of the participant's base pay contributed to the deferred compensation plan. VPA's total contribution to the matching savings plan was $334,396 for the fiscal year ended June 30, 2008.

The Hampton Road Sanitation District Commission (nonmajor component unit) adopted a post-retirement health benefit for qualifying employees beginning after July 1, 2002. The program furnishes health and dental benefits for life for all employees with at least 15 years of service and who also qualify for an unreduced retirement benefit through the VRS. The program allows the retiree at their expense to cover their spouse and dependent under the district's health care provider. Contribution requirements are actuarially determined and funding is subject to approval by the commission. The current rate is 5.1 percent of annual covered payroll.

17. STATE NON-ARBITRAGE POOL

The Commonwealth sponsors the Virginia State Non-Arbitrage Program (SNAP) for use by the Commonwealth and local governments to invest bond proceeds. The Commonwealth's responsibility is limited to hiring service providers to manage SNAP. The investment manager and the custodian have the fiduciary responsibility for SNAP.

The SNAP fund, a money market mutual fund registered with the Securities and Exchange Commission, is a series of the Commonwealth Cash Reserve Fund, Inc., a diversified, open-end management investment company (corporation). Shares of the SNAP fund are solely available to investors participating in the SNAP program. The corporation's board of directors has overall responsibility for supervising the SNAP fund's business and affairs, including the oversight of organizations providing investment advisory, administration, and distribution services to the SNAP fund. PFM Asset Management LLC serves as the investment adviser of the SNAP fund. The SNAP individual investment portfolios are the responsibility of the SNAP investment manager and the governments investing proceeds in the portfolios. These investments are held solely in the SNAP participants' names. Since the Commonwealth has no fiduciary relationship with local governmental entities participating in the plan, these assets of $2.7 billion are not included in the financial statements.

18. COMMITMENTS

A. Construction Projects

Highway Projects

At June 30, 2008, the Department of Transportation (part of primary government) had contractual commitments of approximately $2.2 billion for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) federal funds – approximately 44 percent or $983.0 million, (2) state funds – approximately 51 percent or $1.1 billion, and (3) Proceeds from Bonds – approximately five percent or $113.0 million.

Mass Transit Projects

At June 30, 2008, the Department of Rail and Public Transportation (part of primary government) had contractual commitments of approximately $204.4 million for various public transportation, rail preservation, and rail enhancement projects. Funding of the future expenditures is expected to be as follows: (1) state funds - approximately 85 percent or $173.0 million, and (2) federal funds - approximately 15 percent or $31.4 million.

Port Projects

At June 30, 2008, the Virginia Port Authority (nonmajor component unit) was committed to construction contracts totaling $311.0 million.

Sanitation District Project

At June 30, 2008, the Hampton Roads Sanitation District Commission (nonmajor component unit) was committed to construction programs totaling $24.3 million.

Higher Education Institutions

Colleges and universities (component units) had contractual commitments as of June 30, 2008, of approximately $1.1 billion primarily for construction contracts. Higher education foundations' commitments total approximately $45.3 million and are primarily for construction contracts.

B. Operating Leases

The Commonwealth has entered into numerous agreements to lease land, buildings, and equipment. Most of the operating leases contain the provision that the Commonwealth may renew the operating leases at the expiration date of the lease on a month-to-month basis. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases of a similar nature. Rental expense for the primary government under these operating leases for the year ended June 30, 2008, was $77.9 million for governmental activities (including internal service funds) and $19.2 million for business-type activities. Rental expense for the discrete component units (excluding foundations) for the year ended June 30, 2008, was $95.1 million. The Commonwealth has, as of June 30, 2008, the following minimum rental payments due under the above leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-type Activities	Component Units (1)
2009	$ 62,636	$ 18,110	$ 65,549
2010	44,743	15,407	49,697
2011	38,406	12,346	38,463
2012	33,463	7,749	30,974
2013	26,718	4,300	23,948
2014-2018	63,044	2,253	54,432
2019-2023	2,503	-	12,958
2024-2028	177	-	2,114
2029-2033	24	-	823
2034-2038	72	-	823
2039-2043	-	-	823
2044-2048	-	-	823
2049-2053	-	-	329
Total	$ 271,786	$ 60,165	$ 281,756

Note (1): The above amounts exclude operating lease obligations of foundations.

	Foundations (2)
2009	$ 1,996
2010	1,546
2011	1,319
2012	1,299
2013	1,142
Thereafter	6,941
Total	$ 14,243

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Rental expense for the year ended June 30, 2008, was approximately $1.7 million.

Lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

C. Investment Commitments – Virginia Retirement System

The Virginia Retirement System extends investment commitments in the normal course of business, which, at June 30, 2008, amounted to $4.6 billion.

D. Tobacco Grants

The Tobacco Indemnification and Community Revitalization Commission (Commission) (nonmajor component unit) has $97.0 million in grant award commitments not reflected in these statements since eligibility requirements were not met as of June 30, 2008, in accordance with GASB Statement No. 33. The Commission awarded an additional $50.6 million in grants in July 2008 that are also not reflected in these statements.

The Virginia Tobacco Settlement Foundation (nonmajor component unit) has $10.9 million in grant commitments and outstanding contracts not reflected in these statements since eligibility requirements were not met as of June 30, 2008, in accordance with GASB Statement No. 33.

E. Other Commitments

The Virginia Land Conservation Foundation (nonmajor component unit) has $6.2 million in grant award commitments, which were not dispersed since eligibility requirements were not met as of June 30, 2008, in accordance with GASB Statement No. 33.

The Virginia University Research Partnership (nonmajor component unit) has $6.0 million in grant award commitments not reflected in these statements since eligibility requirements were not met as of June 30, 2008, in accordance with GASB Statement No. 33.

The Virginia Small Business Financing Authority (nonmajor component unit) has $2.2 million in loan commitments in the Federal Economic Development Loan Fund and in the Small Business Environmental Compliance Assistance Fund as of June 30, 2008, in accordance with GASB Statement No. 33.

19. ACCRUED LIABILITY FOR COMPENSATED ABSENCES

Employees accrue annual leave at a rate of four to nine hours semimonthly, depending on their length of service. The maximum leave accumulation is dependent upon years of service, but in no case may it exceed 432 hours. The maximum compensation for annual leave balances is also dependent upon years of service, but in no case may an employee be compensated for more than 336 hours.

All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program (VSDP) (see Note 14). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the calendar year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the original sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the original sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave state service after a minimum of five years employment receive the lesser of 25 percent of the value of their disability credits or accumulated sick leave at their current earnings rate or $5,000. All employees leaving state service are paid for accrued annual leave up to the maximum calendar year limit at their current earnings rate.

In conformance with Section C60 of the GASB Codification, the monetary value of accumulated annual and sick leave and disability credits payable upon termination is included in the accompanying financial statements. In the government-wide statements, proprietary fund statements, and discrete component unit fund statements, amounts are segregated into two components – the amount due within one year and the amount due in more than one year. In the governmental fund statements, amounts to be paid from expendable resources are recognized as fund liabilities in the applicable governmental fund types as long-term liabilities and represent payments to employees for separations that occurred prior to June 30. Amounts not payable from expendable resources are reflected in the governmental activities column in the Government-wide Statement of Net Assets (see Note 23). All amounts related to the fiduciary funds are recognized in those funds.

The liability at June 30, 2008, was computed using salary rates effective at that date, and represents vacation, compensatory and sick leave earned or disability credits held up to the allowable ceilings.

20. INSURANCE

A. Self-Insurance

The Commonwealth maintains two types of self-insurance plans. The first type of self-insurance is a health care plan administered by the Department of Human Resource Management for Commonwealth employees. The plan is accounted for in the Health Care – internal service fund. Interfund premiums are accounted for as internal activity receipts from other funds. At June 30, 2008, $97.6 million is reported as the estimated claims payable for this fund, which is undiscounted as nearly all health care claims are current in nature. The estimated liability is based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported as described in Note 1.T. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2007-2008	$ 90,736	$ 863,346	$ (856,451)	$ 97,631
2006-2007	$ 81,474	$ 768,965	$ (759,703)	$ 90,736

(1) Of the balance shown above, $97.6 million is due within one year.

The second type of plan, Risk Management, is administered by the Department of the Treasury, Division of Risk Management and the Department of Human Resource Management, Worker's Compensation Program. These plans are accounted for in the Risk Management - internal service fund. The Department of Treasury

administers risk management programs providing property, general (tort) liability, medical malpractice, automobile and surety bond exposures for the Commonwealth of Virginia as provided in Sections 2.2-1834 through 1838 and Section 2.2-1840 of the *Code of Virginia*. Established subject to the approval of the Governor, risk management plans provide state agencies with protection through purchased insurance, self insurance or a combination thereof. Interfund premiums for the fund are accounted for as internal activity receipts from other funds. The claims payable is an estimated liability based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported. At June 30, 2008, $375.5 million is reported as the estimated claims payable for the risk management plan. This amount is discounted to present value at a rate of three percent. Undiscounted claims payable at June 30, 2008, is $472.8 million. The estimated losses are based upon actual claims that have been submitted, as well as claims incurred but not reported. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2007-2008	$ 281,489	$ 154,558	$ (60,513)	$ 375,534
2006-2007	$ 272,128	$ 66,654	$ (57,293)	$ 281,489

(1) Of the balance shown above, $58.4 million is due within one year.

For workers' compensation, the Commonwealth assumes the full risk of claims filed. For tort and automobile liability is assumed at a maximum of $2,000,000 per occurrence. Medical malpractice liability is assumed at the maximum of $2,000,000 per occurrence recovery limit stated in Section 8.01-581.15 of the *Code of Virginia*. Risk Management purchases commercial insurance to protect state-owned property with deductibles as stated in the insurance policies.

The Commonwealth has not had any insurance settlements exceed the coverage during the past three years.

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – major) is self-insured for medical malpractice and provides for the liability on an undiscounted basis, based on the ultimate cost of known claims and claims incurred but not yet reported. The Authority is also self-insured for workers' compensation and provides for the liability on a blended discounted and undiscounted basis, based on the ultimate cost of known claims and claims incurred but not yet reported. These liabilities include assumptions and factors related to the frequency and severity of claims, claims development history, and claims settlement practices. Previously, these amounts were reported on the Long-term Liabilities – Other line items. Estimated losses on malpractice and workers' compensation claims for the current and prior fiscal years are as follows (dollars in thousands):

Estimated Malpractice Losses

	Balance July 1,	Claims Expense	Claims Settled	Balance June 30, (1)
2007-2008	$ 30,898	$ 1,610	$ (1,494)	$ 31,014
2006-2007	$ 32,142	$ 1,972	$ (3,216)	$ 30,898

(1) Of the balance shown above, $2.5 million is due within one year.

Estimated Workers' Compensation Losses

	Balance July 1,	Claims Expense	Claims Settled	Balance June 30, (1)
2007-2008	$ 11,396	$ 8,505	$ (2,099)	$ 17,802
2006-2007	$ 11,529	$ 1,702	$ (1,835)	$ 11,396

(1) Of the balance shown above, $2.1 million is due within one year.

In addition, expenses and liabilities arising from services rendered to VA Premier's and Carolina Crescent Health Plan's (component units of the Authority) HMO members are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable includes an estimate of claims that have been incurred but not reported. At June 30, 2008 the amount of these liabilities is $43,962,019 and is reported as Claims Payable – Due Within One Year. This liability is VA Premier's best estimate based on available information. Previously, this liability was reported as Other Liabilities.

Additional information on the claims payable amounts reported by the Authority can be found in the individually published financial statements of the Authority.

The Virginia Port Authority (nonmajor component unit) is partially self-insured for certain workers' compensation claims. The authority maintains insurance coverage of $5,000,000 per claim, but is obligated to pay the first $1,000,000 of any individual's claims per incident. The authority is also partially self-insured for employee health coverage. The authority is responsible for actual claim costs up to $75,000 per individual per calendar year. Insurance coverage is maintained for claims in excess of the individual employee limit and for aggregate claims in excess of $4,912,504.

B. Public Entity Risk Pools

The Commonwealth administers two types of public entity risk pools for the benefit of local governmental units: health care and risk management insurance. The Local Choice Health Care plan was established to make comprehensive health care insurance available to localities and political subdivisions at affordable rates and with stable premiums. During the fiscal year, there were 248 local government units participating in the pool. This includes 28 school districts, 30 counties, 94 cities/towns, and 96 other subdivisions. This program is accounted for in the Local Choice Health Care Enterprise Fund (nonmajor).

The Department of Human Resource Management, under Section 2.2-1204 of the *Code of Virginia*, has the authority to design, set rates, and administer the Local Choice Health Care fund. The pool's standard contract period is one year. However, a member group may withdraw on the last day of any month with three month's written notice. Contributions are based on the current necessary contribution and the amortization of experience adjustments in the pool. At June 30, 2008, $19.2 million is reported as the actuarially determined estimated claims payable for this fund based on claims incurred but not reported.

The actuarial liability is determined for the membership pool in total and then adjusted for each locality based on individual historic and demographic data. If the pool's assets were to be exhausted, the program participants would share the responsibility for any liabilities or deficits.

The Department of Treasury, Division of Risk Management administers risk management programs for political subdivisions, constitutional officers and others in accordance with Section 2.2-1839 of the *Code of Virginia*. These pools were established to provide an economical, low-cost alternative to the commercial insurance market for the Commonwealth's political subdivisions. These risk programs are accounted for in the Risk Management Enterprise Fund (nonmajor). The pool is established subject to approval of the Governor. It may be insurance, self-insurance, or any combination thereof, and must provide protection and legal defense against liability. Local participation is voluntary and open to any political subdivision. As of June 30, 2008, there were 550 units of local government in the pool, including 4 cities, 39 towns, and 33 counties. The remaining 474 units include a large variety of boards, commissions, authorities, and special districts.

The pool has a minimum membership period of one year. However, a member group can cancel their membership and withdraw from the plan on their coverage anniversary date or at the end of the fiscal year with 30 days notice.

The pool is actuarially valued annually and is considered sound. Investment income is considered in the anticipation of premium deficiencies. No excess insurance or reinsurance is provided, but a "stability fund" is incorporated into the actuarially determined required reserves. If, however, the plan assets and reserves were to be exhausted, the members would be responsible for any deficits or liabilities. For the liability insurance pool, local participation is voluntary and open to any political subdivision. The risk assumed by the local public entity pool for member liability is $1,000,000 per occurrence.

At June 30, 2008, $13.2 million is reported as estimated claims payable for these programs. This figure is actuarially determined for the fund in total and is reported at gross and does not reflect possible reimbursements for insurance recoveries.

The following schedule (dollars in thousands) shows the changes in claims liabilities for the past two fiscal years.

	Local Choice Health Care		Risk Management	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	$ 16,549	$ 16,573	$ 13,450	$ 12,804
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	184,578	162,536	1,413	2,928
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	(1,431)	(1,841)
Total Incurred Claims and Adjustment Expenses	184,578	162,536	(18)	1,087
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	181,916	162,560	493	106
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year	-	-	-	1,344
Total Payments	181,916	162,560	493	1,450
Change in Provision for Discounts	-	-	308	260
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted) (1) (2) (3)	$ 19,211	$ 16,549	$ 13,247	$ 12,701
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	$ 19,211	$ 16,549	$ 14,072	$ 13,450

Note (1): The entire balance for Local Choice Health Care, $19,211 (dollars in thousands) is due within one year.

Note (2): Of the balance shown above for Risk Management, $4,764 (dollars in thousands) is due within one year.

Note (3): The interest rate used for discounting is three percent.

21. ACCOUNTS PAYABLE

The following table (dollars in thousands) summarizes Accounts Payable as of June 30, 2008.

	Vendor	Salary/ Wage	Retainage	Other	Foundations (1)	Total
Primary Government:						
General	$ 176,553	$ 109,181	$ 1,771	$ -	$ -	$ 287,505
Major Special Revenue Funds:						
Commonwealth Transportation	217,526	35,476	4,299	-	-	257,301
Federal Trust	86,444	14,611	-	11	-	101,066
Literary	207	-	-	-	-	207
Nonmajor Governmental Funds	35,748	28,691	6,953	204	-	71,596
Major Enterprise Funds:						
State Lottery (2)	4,387	1,501	-	3,452	-	9,340
Virginia College Savings Plan (2)	297	239	-	1,391	-	1,927
Unemployment Compensation	-	139	-	-	-	139
Nonmajor Enterprise Funds	31,628	4,280	-	10	-	35,918
Internal Service Funds	54,506	3,485	-	-	-	57,991
Private Purpose	1,898	105	4	-	-	2,007
Pension and Other Employee Benefit Trust (3)	391	1,697	-	74,800	-	76,888
Agency Funds	2,049	2	-	9,715	-	11,766
Total Primary Government (4)	$ 611,634	$ 199,407	$ 13,027	$ 89,583	$ -	$ 913,651
Discrete Component Units:						
Virginia Housing Development Authority	$ 20,783	$ -	$ -	$ -	$ -	$ 20,783
Virginia Public School Authority	20	-	-	-	-	20
University of Virginia	125,938	59,036	9,733	1,194	148,680	344,581
Virginia Polytechnic Institute and State University	39,910	53,970	4,170	1,500	12,102	111,652
Virginia Commonwealth University	54,503	68,244	9,176	-	6,255	138,178
Nonmajor Component Units	191,214	152,816	32,868	492	16,587	393,977
Total Component Units	$ 432,368	$ 334,066	$ 55,947	$ 3,186	$ 183,624	$ 1,009,191

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Note (2): Other Accounts Payable for the State Lottery represents administrative costs payable. Other Accounts Payable for the Virginia College Savings Plan represents investment fees payable.

Note (3): Other Accounts Payable for the Pension and Other Employee Benefit Trust Fund consists of $27,407 (dollars in thousands) in investment management expense, $27,588 (dollars in thousands) of other investment payables generally related to Futures and month-end rebalancing items, $11,259 (dollars in thousands) in program benefit liabilities, and $8,546 (dollars in thousands) of investment interest payable.

Note (4): Fiduciary liabilities of $90,661 (dollars in thousands) are not included in the Government-wide Statement of Net Assets, and Nonmajor Enterprise Fund liabilities of $2,720 (dollars in thousands) are shown as internal balances in the Government-wide Statement of Net Assets. In addition, governmental fund liabilities of $33,974 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

22. OTHER LIABILITIES

The following table (dollars in thousands) summarizes Other Liabilities as of June 30, 2008.

	Primary Government				
	General	Commonwealth Transportation	Federal Trust	Nonmajor Governmental Funds	State Lottery
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ 46,335
Due to Program Participants, Escrows, and Providers	-	-	-	-	-
Medicaid Payable	213,501	-	210,296	-	-
Family Access to Medical Insurance Security Payable	1,715	-	3,185	-	-
Tax Refunds Payable	409,990	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	1,736	2,416	-	2,532	-
Car Tax Refund Payable	263,025	-	-	-	-
Other Liabilities	-	-	-	2,802	-
Total Other Liabilities	$ 889,967	$ 2,416	$ 213,481	$ 5,334	$ 46,335

	Primary Government *(continued)*				
	Virginia College Savings Plan	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Funds
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ -
Due to Program Participants, Escrows, and Providers	117	31,038	-	-	114
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Tax Refunds Payable	-	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	-	-	179	294	-
Car Tax Refund Payable	-	-	-	-	-
Other Liabilities	-	-	79	5,397	-
Total Other Liabilities	$ 117	$ 31,038	$ 258	$ 5,691	$ 114

(Continued on next page)

	Primary Government *(continued)*		
	Pension and Other Employee Benefit Trust Funds	Agency Funds	Total Primary Government (1)
Lottery Prizes Payable	$ -	$ -	$ 46,335
Due to Program Participants, Escrows, and Providers	-	25,870	57,139
Medicaid Payable	-	-	423,797
Family Access to Medical Insurance Security Payable	-	-	4,900
Tax Refunds Payable	-	-	409,990
Insurance Carrier Surety Deposit	-	418,124	418,124
Deposits Pending Distribution	-	35,885	43,042
Car Tax Refund Payable	-	-	263,025
Other Liabilities	35,744	2,338	46,360
Total Other Liabilities	$ 35,744	$ 482,217	$ 1,712,712

Note (1): Fiduciary liabilities of $518,075 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. In addition, $33,652 (dollars in thousands) reported in pension and other employee benefit trust funds is related to funds that VRS holds and invests for the Commonwealth Health Research Fund. Governmental fund liabilities of $261,136 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

	Component Units				
	Virginia Housing Development Authority	Virginia Public School Authority	University of Virginia	Virginia Polytechnic Institute & State University	Virginia Commonwealth University
Accrued Interest Payable	$ 107,508	$ 63,686	$ 1,140	$ 539	$ 4,686
Other Liabilities	-	471	66,718	23,154	53,459
Deposits Pending Distribution	-	-	567,397	15,232	26,786
Short-term Debt	-	-	66,040	1,955	-
Grants Payable	-	-	-	-	-
Total Other Liabilities	$ 107,508	$ 64,157	$ 701,295	$ 40,880	$ 84,931

	Component Units *(continued)*	
	Nonmajor Component Units	Total Component Units
Accrued Interest Payable	$ 62,897	$ 240,456
Other Liabilities	43,971	187,773
Deposits Pending Distribution	21,061	630,476
Short-term Debt	20,821	88,816
Grants Payable	11,191	11,191
Total Other Liabilities	$ 159,941	$ 1,158,712

Medicaid Payable

Medicaid Payable represents services rendered but not billed by providers and potential liability resulting from cost reports not settled as of year-end. Providers subject to cost settlement are paid in the interim based on established per diem or diagnosis related group rates for services.

The Department of Medical Assistance Services (DMAS) estimates, based on past experience, the total amount of Medicaid claims that will be paid from the Medicaid program in the future which relate to services provided before year-end. At June 30, 2008, the estimated liability related to Medicaid claims totaled $423.8 million. Of this amount, $213.5 million is reflected in the General Fund (major) and $210.3 million in the Federal Trust Special Revenue Fund (major).

Family Access to Medical Insurance Security Payable

DMAS estimates the total amount of claims that will be paid from the Family Access to Medical Insurance Security program in the future which relate to services provided before year-end. At June 30, 2008, the estimated liability related to claims totaled $4.9 million. Of this amount, $1.7 million is reflected in the General Fund (major) and $3.2 million in the Federal Trust Special Revenue Fund (major).

Tax Refunds Payable

Tax refunds payable represent refunds due on individual tax returns filed for the calendar year ended on or before December 31, 2007, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2008. The individual tax return filing deadline is May 1 of each year for the preceding calendar year. The corporate tax return filing deadline is the 15th day of the fourth month following the close of the corporate fiscal year.

Car Tax Refund Payable

During the year ended June 30, 1998, the General Assembly passed the Personal Property Tax Relief Act. Under the terms of this legislation, the Commonwealth assumed financial responsibility for a portion, ranging from 12.5 percent to 70.0 percent, of the personal property taxes assessed by localities.

During 2004, the General Assembly modified this legislation. Chapter 1 of Special Session 1 (2004) established a $950.0 million limit on the amount the Commonwealth would appropriate for personal property tax relief, beginning in tax year 2006. It further established that each county, city, and town would receive a fixed percentage of the $950.0 million, with payments to begin on or after July 1, 2006 (fiscal year 2007). The accrued liability amount of $263.0 million reflects payments owed to localities as of June 30 and paid in July.

Short-term Debt

Various higher education institutions' foundations (component units) have short-term debt. University of Virginia Foundations (major component unit) report $48.5 million and nonmajor component unit foundations report $19.1 million. This short-term debt is for working capital, property acquisition, construction costs, and operating costs. The University of Virginia (major component unit) has commercial paper of $17.6 million and the Virginia Polytechnic Institute and State University (major component unit) reports $2.0 million of commercial paper that provides bridge financing for capital projects. The Roanoke Higher Education Authority (nonmajor component unit) reports $1.4 million of short-term debt for a construction loan. The Virginia Horse Center Foundation (nonmajor component unit) has a $250,000 line of credit used for short-term working capital.

The balance of Other Liabilities is spread among various other funds.

23. LONG–TERM LIABILITIES

Commonwealth bonds are issued pursuant to Section 9 of Article X of the *Constitution of Virginia*. Section 9(a) bonds have been issued to redeem previous debt obligations. Section 9(b) bonds have been authorized by the citizens of Virginia through bond referenda to finance capital projects. These bonds are retired through the use of state appropriations. Section 9(c) bonds are issued to finance capital projects which, when completed, will generate revenue to repay the debt. Section 9(a), 9(b), and 9(c) bonds are tax-supported general obligation bonds and are backed by the full faith, credit, and taxing power of the Commonwealth. No other long-term debt or obligations are backed by the full faith, credit, and taxing power of the Commonwealth.

Section 9(d) bonds are revenue bonds and are not backed by the full faith, credit and taxing power of the Commonwealth. These bonds are not general obligation bonds and are not deemed to constitute a legal liability of the Commonwealth. This debt may be supported by state appropriations in whole or in part, as in the case of certain debt of the VPA (nonmajor component unit), VPBA (part of primary government), ITA (nonmajor component unit), and VCBA (nonmajor component unit). Other 9(d) revenue bonds are payable from general revenues of the component units, or from revenues of specific revenue-producing capital projects such as the teaching hospitals, dormitories, student centers, and dining halls at the various colleges and universities (component units). Additionally, the 9(d) Transportation Bonds (primary government) are payable solely from revenues or earnings, and other available sources of funds appropriated by the General Assembly.

Certain 9(d) bonds are considered, with 9(a), 9(b), and 9(c) bonds, to be tax-supported debt of the Commonwealth. Tax-supported debt includes all bond issues and short-term debt supported by tax revenues (net of sinking fund requirements), for which debt service payments are made or are ultimately pledged to be made from general governmental funds.

Other 9(d) revenue bonds are considered debt not supported by taxes. For this debt, the Commonwealth has no direct or indirect pledge of tax revenues. However, in some cases, the Commonwealth has made a moral obligation pledge. A government's moral obligation pledge provides a deficiency make-up for bondholders should underlying project revenues prove insufficient. The mechanics involve funding a debt service reserve fund when the bonds are issued. If a revenue deficiency exists, reserve fund monies are used to pay bondholders. The issuer then informs the legislative body requesting that it replenish the reserve fund before subsequent debt service is due. The legislative body may, but is not legally required to, replenish the reserve fund. These bonds are considered to be moral obligation debt.

The following schedule presents the total long-term liabilities of the Commonwealth, and the portion of these amounts which are due within one year, as reported on the Government-wide Statement of Net Assets.

Total Long-term Liabilities
June 30, 2008

(Dollars in Thousands)	Balance At June 30	Amount Due Within One Year
Primary Government:		
Governmental Activities:(1)		
General Obligation Bonds: (2)		
9(b) Transportation Facilities (3)	$ 18,622	$ 5,415
9(b) Public Facilities (3)	916,483	67,860
9(c) Parking Facilities (3)	7,590	1,000
9(c) Transportation Facilities (3)	59,294	7,549
Total General Obligation Bonds	1,001,989	81,824
Nongeneral Obligation Bonds - 9(d):		
Transportation Debt (3) (4)	1,625,804	162,960
Virginia Public Building Authority (3)	1,719,455	124,745
Total Nongeneral Obligation Bonds	3,345,259	287,705
Other Long-term Obligations:		
Pension Liability	878,579	-
OPEB Liability	57,473	-
Compensated Absences	345,361	170,754
Capital Lease Obligations	113,477	9,760
Regional Jail Financing Payable	9,980	1,749
Notes Payable	23,040	2,976
Installment Purchase Obligations	54,761	5,734
Industrial Development Authority Obligations	14,640	4,615
Economic Development Authority Obligations (3)	96,992	3,345
Other Liabilities	20,203	3,600
Total Other Long-term Obligations	1,614,506	202,533
Total Governmental Activities (3)	5,961,754	572,062
Business-type Activities: (1) (5)		
Other Long-term Obligations:		
Pension Liability	18,887	-
OPEB Liability	1,551	-
Compensated Absences	8,761	4,464
Capital Lease Obligations	2,347	428
Installment Purchase Obligations	1,735	771
Tuition Benefits Payable	1,891,424	112,236
Lottery Prizes Payable	332,726	62,734
Total Other Long-term Obligations	2,257,431	180,633
Total Business-type Activities	2,257,431	180,633
Total Primary Government	8,219,185	752,695

(Continued on next page)

Total Long-term Liabilities
June 30, 2008
(continued from previous page)

(Dollars in Thousands)	Balance At June 30	Amount Due Within One Year
Component Units:		
General Obligation Bonds: (2)		
Higher Education Fund - 9(c) Bonds (3)	487,296	36,200
Nongeneral Obligation Bonds:		
Higher Education Institutions - 9(d) (3) (5)	1,147,172	21,581
Virginia College Building Authority (3)	899,572	85,983
Innovative Technology Authority	6,270	855
Virginia Port Authority (3) (6)	511,578	22,079
Virginia Housing Development Authority (3) (7)	6,878,987	270,813
Virginia Resources Authority (3) (7)	1,782,941	65,465
Virginia Public School Authority (3) (5)	3,030,087	204,267
Hampton Roads Sanitation District Commission (5)	359,904	12,551
Virginia Biotechnology Research Park Authority (3) (8)	57,867	3,468
Foundations (5) (9)	695,199	26,712
Total Nongeneral Obligation Bonds	15,369,577	713,774
Other Long-term Obligations:		
Pension Liability (10)	358,881	-
OPEB Liability (11)	62,185	-
Compensated Absences	229,910	149,442
Capital Lease Obligations	136,773	7,936
Notes Payable (5)	1,293,035	160,926
Installment Purchase Obligations	118,811	19,772
Trust and Annuity Obligations (12)	1,003	13
Other Liabilities (5)	262,668	42,056
Total Other Long-term Obligations (Excluding Foundations)	2,463,266	380,145
Other Long-term Obligations (Foundations): (5) (9)		
Pension Liability	49,351	-
Compensated Absences	7,705	6,122
Capital Lease Obligations	295	114
Notes Payable	209,333	27,681
Installment Purchase Obligations	43	31
Trust and Annuity Obligations (12)	90,337	2,806
Other Liabilities	50,449	9,317
Total Other Long-term Obligations - Foundations	407,513	46,071
Total Other Long-term Obligations	2,870,779	426,216
Total Component Units	18,727,652	1,176,190
Total Long-term Liabilities	$ 26,946,837	$ 1,928,885

1. Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.
2. Total general obligation debt of the Commonwealth is $1,489.3 million.
3. Amounts are net of any unamortized discounts, premiums, and deferrals.
4. This debt includes $677.3 million that is not supported by taxes.
5. This debt is not supported by taxes.
6. This debt includes $293 million that is not supported by taxes.
7. This debt is not supported by taxes; however, $391.7 million from VHDA and $681.9 million from VRA is considered moral obligation debt.
8. This debt includes $10 million that is not supported by taxes.
9. Foundations represent FASB reporting entities defined in Note 1.B.
10. This includes pension obligations that do not relate to the Virginia Retirement System from Virginia Commonwealth University of $4.1 million and Virginia Port Authority of $4.5 million. It does not include pension obligations from fiduciary funds of $4.5 million.
11. This includes OPEB obligations that do not relate to the Virginia Retirement System from University of Virginia of $6.7 million and Virginia Port Authority of $43,514. It does not include OPEB obligations from fiduciary funds of $436,241.
12. These generally represent split-interest agreements that represent donor contributed assets with the requirement that an annual distribution be made to the donor or specified beneficiary. The annual distributions are usually for a fixed dollar amount or a fixed percentage of the trust's fair market value. The present value of these commitments is reported as Trust and Annuity Obligations.

Primary Government

Transportation Facilities Debt

Transportation Facilities Bonds include $18,622,040 of Section 9(b) general obligation bonds, $59,294,107 of Section 9(c) general obligation bonds and $948,507,697 of Section 9(d) revenue bonds. The Transportation Facilities Section 9(d) debt of $1,625,803,895 includes $677,296,198 of outstanding Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes in addition to the outstanding Section 9(d) revenue bonds. 9(b) Principal and interest requirements for the current year totaled $6,243,500. 9(c) Principal and interest requirements for the current year totaled $13,700,669. 9(d) Principal and interest requirements for the current year totaled $238,098,958. The Section 9(b) Transportation Facilities bonds represent Powhite Refunding Bonds. The Section 9(c) Transportation Facilities Bonds were issued to fund the construction and improvement of the Omer L. Hirst - Adelard L. Brault Expressway and the George P. Coleman Bridge. The Section 9(d) Transportation Facilities Bonds were issued to fund the construction of State Route 28, U.S. Route 58, the Northern Virginia Transportation District Program, and the Oak Grove Connector (Chesapeake). The Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes were issued to finance various capital transportation projects throughout the Commonwealth. The interest rates for these bonds range from two percent to 7.25 percent and the issuance dates range from June 28, 1989, to February 15, 2007.

The following schedules detail the annual funding requirements necessary to amortize Transportation Facilities 9(b) and 9(c) bonds and 9(d) debt:

9(b) TRANSPORTATION FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 5,415,000	$ 857,000	$ 6,272,000
2010	5,715,000	586,250	6,301,250
2011	6,010,000	300,500	6,310,500
Less:			
Deferral on Debt Defeasance	(355,000)	-	(355,000)
Add:			
Unamortized Premium	1,837,040	-	1,837,040
Total	$ 18,622,040	$ 1,743,750	$ 20,365,790

9(c) TRANSPORTATION FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 7,549,000	$ 2,522,950	$ 10,071,950
2010	4,585,000	2,346,350	6,931,350
2011	4,795,000	2,136,100	6,931,100
2012	5,045,000	1,896,350	6,941,350
2013	5,295,000	1,644,100	6,939,100
2014-2018	22,860,000	4,322,400	27,182,400
2019-2023	8,855,000	717,400	9,572,400
Less:			
Unamortized Discount	(183,501)	-	(183,501)
Deferral on Debt Defeasance	(1,863,600)	-	(1,863,600)
Add:			
Unamortized Premium	2,357,208	-	2,357,208
Total	$ 59,294,107	$ 15,585,650	$ 74,879,757

9(d) TRANSPORTATION FACILITIES DEBT
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 162,960,000	$ 70,589,474	$ 233,549,474
2010	176,790,000	62,494,092	239,284,092
2011	185,490,000	53,622,701	239,112,701
2012	141,000,000	45,637,179	186,637,179
2013	145,655,000	38,593,144	184,248,144
2014-2018	427,360,000	121,178,408	548,538,408
2019-2023	218,675,354	39,213,794	257,889,148
2024-2028	70,897,586	5,382,356	76,279,942
2029-2032	7,475,728	-	7,475,728
Less:			
Unamortized Discount	(65,327)		(65,327)
Deferral on Debt Defeasance	(7,789,189)		(7,789,189)
Add:			
Accretion on Capital Appreciation Bonds	12,048,685	-	12,048,685
Unamortized Premium	85,306,058	-	85,306,058
Total	$ 1,625,803,895	$ 436,711,148	$ 2,062,515,043

Fairfax Economic Development Authority Obligations

In fiscal year 2006, the Fairfax County Economic Development Authority (EDA) issued Section 9(d) revenue bonds to pay for the Commonwealth's (VDOT) costs of the planning, design and construction of a transportation infrastructure and related public safety operations complex to be developed on the contiguous sites in the county commonly referred to as "Camp 30" for the joint use of VDOT and the county. The Commonwealth's obligation is set out in a payment agreement between Fairfax County EDA and the Commonwealth of Virginia, Department of Transportation, in which the Commonwealth agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 4.25 percent to five percent and the issue date was April 12, 2006. The principal and interest requirements for current year totaled $7,830,188. The following schedule details the annual funding requirements necessary to repay these bonds:

FAIRFAX COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 3,345,000	$ 4,480,687	$ 7,825,687
2010	3,515,000	4,313,437	7,828,437
2011	3,690,000	4,137,688	7,827,688
2012	3,875,000	3,953,188	7,828,188
2013	4,070,000	3,759,438	7,829,438
2014-2018	23,605,000	15,534,688	39,139,688
2019-2023	29,805,000	9,338,713	39,143,713
2024-2026	21,420,000	2,064,400	23,484,400
Add:			
Unamortized Premium	3,666,664	-	3,666,664
Total	$ 96,991,664	$ 47,582,239	$ 144,573,903

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 1996 Refunding, Series 1997, Series 1998 Refunding, Series 1998, Series 1999A, Series 2002 Refunding, Series 2003A Refunding, Series 2004A, Series 2004B Refunding, Series 2005A, Series 2006A Refunding, Series 2006B, Series 2007A, Series 2007B, and Series 2008A. Bonds were issued to fund construction projects for higher educational institutions, mental health, and/or park facilities. The Series 2003A bonds were issued to advance refund outstanding Series 1993A and B, Series 1994, and Series 1996 bonds. The Series 2004B bonds were issued to advance refund outstanding Series 1997, Series 1998, and Series 1999A bonds. The Series 2006A bonds were issued to advance refund outstanding Series 1996 bonds. Principal and interest requirements for the current year totaled $95,380,384. The interest rates for all bonds range from two percent to 5.5 percent and the issuance dates range from June 6, 1996, to June 18, 2008. The following schedule details the annual funding requirements necessary to repay these bonds:

9(b) PUBLIC FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 67,860,000	$ 41,130,276	$ 108,990,276
2010	67,750,000	38,233,233	105,983,233
2011	67,690,000	35,096,383	102,786,383
2012	67,480,000	31,888,545	99,368,545
2013	67,265,000	28,583,935	95,848,935
2014-2018	249,045,000	99,095,050	348,140,050
2019-2023	187,470,000	49,143,944	236,613,944
2024-2028	102,840,000	10,686,344	113,526,344
Less:			
Deferral on Debt Defeasance	(7,830,600)	-	(7,830,600)
Add:			
Unamortized Premium	46,913,267	-	46,913,267
Total	$ 916,482,667	$ 333,857,710	$ 1,250,340,377

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, Series 1996, 2002 Refunding, 2003A, 2004A and 2006A Refunding. The Series 1996 bonds were issued to fund the renovation of the Seventh and Marshall Street parking deck. The Series 2002 Refunding bonds were issued to advance refund outstanding Series 1996 and Series 1993 Refunding bonds. The Series 2004A bonds were issued to fund the renovation of the Ninth and Franklin Street parking deck. The Series 2006A Refunding bonds were issued to advance refund outstanding Series 1996 outstanding bonds. The interest rates for these bonds range from 2.5 percent to 5.7 percent and the issuance dates range from June 6, 1996, to March 15, 2006. Current year principal and interest requirements totaled $1,561,126.

The following schedule details the annual funding requirements necessary to repay these bonds:

9(c) PARKING FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 1,000,426	$ 356,776	$ 1,357,202
2010	1,046,985	307,004	1,353,989
2011	1,068,102	254,655	1,322,757
2012	260,000	204,000	464,000
2013	270,000	191,000	461,000
2014-2018	1,450,000	744,500	2,194,500
2019-2023	1,770,000	356,750	2,126,750
2024-2028	410,000	18,450	428,450
Less:			
Deferral on Debt Defeasance	(221,700)	-	(221,700)
Add:			
Unamortized Premium	536,854	-	536,854
Total	$ 7,590,667	$ 2,433,135	$ 10,023,802

Virginia Public Building Authority

Virginia Public Building Authority (VPBA) Section 9(d) bonds consist of Series 1992B, 1995A, 1996A Refunding, 1997A, 1998A Refunding, 1998B, 1999A, 1999B, 2000A, 2001A, 2002A, 2003A Refunding, 2004A Refunding, 2004B, 2004C Refunding, 2004D Refunding, 2005A Refunding, 2005B Refunding, 2005C, 2005D, 2006A, 2006B, 2007A, and 2008A Refunding. All bonds were issued for the purpose of constructing, improving, furnishing, maintaining, and acquiring public buildings for the use of the Commonwealth and also to reimburse localities, regional jail authorities or other combination of localities under the Regional Jail Financing Program. The Series 2004C and 2005A bonds were issued to refinance certain capital lease obligations of the Commonwealth. The Series 2004D bonds were issued to advance refund outstanding Series 1997A, Series 1999B, and Series 2000A bonds. The Series 2005B bonds were issued to advance refund outstanding Series 1996A, Series 1998B, and Series 1999A bonds. The Series 2008A bonds were issued to advance refund outstanding series 1998A Refunding bonds. The interest rates for all fixed rate bonds range from 2.5 percent to 6.6 percent and the issuance dates range from

August 1, 1992, to May 6, 2008. The Series 2005D bonds are variable rate bonds and the rates are reset weekly by the remarketing agent. Current year principal and interest requirements totaled $182,597,028. The following schedule details the annual funding requirements necessary to repay these bonds:

9(d) VIRGINIA PUBLIC BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 124,745,000	$ 77,421,941	$ 202,166,941
2010	132,345,000	69,064,700	201,409,700
2011	132,075,000	63,188,125	195,263,125
2012	130,815,000	56,950,206	187,765,206
2013	131,315,000	50,486,418	181,801,418
2014-2018	536,630,000	165,062,439	701,692,439
2019-2023	272,805,000	72,102,958	344,907,958
2024-2028	203,715,000	17,037,575	220,752,575
Less:			
Unamortized Discount	(2,052,885)	-	(2,052,885)
Deferral on Debt Defeasance	(26,609,456)	-	(26,609,456)
Add:			
Unamortized Premium	83,671,857	-	83,671,857
Total	$ 1,719,454,516	$ 571,314,362	$ 2,290,768,878

Regional Jail Financing Program

The Regional Jail Financing Program of the Commonwealth of Virginia Treasury Board was created during the 1993 Session of the General Assembly to establish a method of reimbursing localities, regional jail authorities or other combination of localities for a portion of the capital and financing costs of a jail project, made pursuant to Sections 53.1-80, 53.1-81, or 53.1-82 of the *Code of Virginia*. The General Assembly, upon recommendation from the Department of Planning and Budget, may determine to reimburse localities for approved capital costs over time through a contractual reimbursement agreement between the localities or authority and the Treasury Board. The Board of Corrections determines the amount of reimbursable capital costs. If approved for reimbursement over time, the Treasury Board determines the amount of reimbursable financing costs and calculates the periodic reimbursement payments.

In 1996, the General Assembly adopted legislation that authorized funding of jail project reimbursements through bonds issued by the Virginia Public Building Authority (VPBA). As of June 30, 1998, all future jail reimbursements were approved for funding through the VPBA as opposed to the Treasury Board. All reimbursements whether up front or over time, are subject to appropriation by the General Assembly. Current year principal and interest requirements totaled $2,632,094.

The following schedule details the annual funding requirements necessary to repay these obligations:

REGIONAL JAILS FINANCING
Financial Obligations to Maturity

Calendar Year Obligations	*Capital Costs*	*Financing Costs*	*Total*
2009	$ 1,749,353	$ 884,436	$ 2,633,789
2010	1,785,867	847,422	2,633,289
2011	1,827,477	808,212	2,635,689
2012	1,869,189	766,526	2,635,715
2013	1,911,009	725,511	2,636,520
2014-2018	837,165	(646,926)	190,239
Total	$ 9,980,060	$ 3,385,181	$ 13,365,241

Industrial Development Authority Obligations

In fiscal year 2002, the Newport News Industrial Development Authority (IDA) issued Section 9(d) revenue bonds to pay a portion of the cost of construction and equipping of the Virginia Advanced Shipbuilding and Carrier Integration Center for use by the Newport News Shipbuilding and Dry Dock Company. The Commonwealth's obligation is set out in a payment agreement between Newport News IDA and the Treasury Board, in which the Treasury Board agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 2.75 percent to 5.03 percent and the issue date was July 27, 2000. Current year principal and interest requirements totaled $5,290,545. The following schedule details the annual funding requirements necessary to repay these bonds:

NEWPORT NEWS INDUSTRIAL DEVELOPMENT AUTHORITY
Debt Service Requriements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 4,615,000	$ 678,287	$ 5,293,287
2010	4,875,000	417,313	5,292,313
2011	5,150,000	141,625	5,291,625
Total	$ 14,640,000	$ 1,237,225	$ 15,877,225

Component Units

Higher Education Institution Bonds

Higher Education Institution Bonds are comprised of both 9(c) general obligation bonds and 9(d) revenue bonds. Section 9(d) bonds are from several sources as shown on the following schedule (dollars in thousands):

College and university bonds backed by pledge of general revenue or revenue from specific revenue-producing capital projects	$ 980,581
College and university debt backed exclusively by pledged revenues of an institution	166,591
Total Higher Education Institution 9(d) debt	$ 1,147,172

The interest rates for these bonds range from 1.5 percent to 9.25 percent and the issuance dates range from June 30, 1979 to November 21, 2007. The following schedules detail the annual funding requirements necessary to amortize Higher Education Institution 9(c) and 9(d) bonds:

9(c) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 35,499,574	$ 22,813,618	$ 58,313,192
2010	36,908,015	21,263,358	58,171,373
2011	34,263,898	19,482,795	53,746,693
2012	30,725,000	17,855,803	48,580,803
2013	31,170,000	16,353,553	47,523,553
2014-2018	125,745,000	60,980,281	186,725,281
2019-2023	98,770,000	34,382,450	133,152,450
2024-2028	71,030,000	13,173,288	84,203,288
2029-2033	19,065,000	2,749,300	21,814,300
2034-2038	3,500,000	425,125	3,925,125
Less:			
Unamortized Discount	(115,640)	-	(115,640)
Deferral on Debt Defeasance	(8,740,600)	-	(8,740,600)
Add:			
Unamortized Premium	9,475,487	-	9,475,487
Total	$ 487,295,734	$ 209,479,571	$ 696,775,305

9(d) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 21,857,515	$ 48,667,885	$ 70,525,400
2010	23,856,067	47,429,168	71,285,235
2011	30,509,726	46,526,893	77,036,619
2012	31,788,496	45,269,553	77,058,049
2013	33,122,380	43,871,672	76,994,052
2014-2018	127,859,390	199,649,160	327,508,550
2019-2023	117,485,210	172,421,847	289,907,057
2024-2028	117,955,000	147,638,861	265,593,861
2029-2033	171,905,000	123,087,117	294,992,117
2034-2038	305,065,000	82,837,723	387,902,723
2039-2043	157,975,000	11,944,500	169,919,500
Less:			
Deferral on Debt Defeasance	(10,348,753)	-	(10,348,753)
Add:			
Unamortized Premium	18,141,839	-	18,141,839
Total	$ 1,147,171,870	$ 969,344,379	$ 2,116,516,249

9(d) VIRGINIA COLLEGE BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 83,325,000	$ 33,606,867	$ 116,931,867
2010	77,915,000	32,238,194	110,153,194
2011	70,100,000	28,769,456	98,869,456
2012	60,695,000	25,509,876	86,204,876
2013	44,905,000	22,728,956	67,633,956
2014-2018	228,115,000	83,569,544	311,684,544
2019-2023	205,215,000	38,327,544	243,542,544
2024-2029	89,690,000	7,310,219	97,000,219
Less:			
Deferral on Debt Defeasance	(5,265,400)	-	(5,265,400)
Add:			
Unamortized Premium	44,877,542	-	44,877,542
Total	$ 899,572,142	$ 272,060,656	$ 1,171,632,798

Various higher education institutions' foundations (component units) have bonds outstanding as of year-end. The purpose of a majority of these bonds is for construction, property acquisition, and defeasance of prior debt. The following schedule details the future principal payments:

FOUNDATIONS' BONDS (1)
Debt Service Requirements to Maturity

Maturity	*Principal*
2009	$ 26,712,179
2010	8,447,244
2011	11,246,515
2012	11,027,215
2013	12,377,089
Thereafter	621,323,711
Mark-to-market estimate of bank swap transactions	4,064,916
Total	$ 695,198,869

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Innovative Technology Authority

The Innovative Technology Authority (ITA) has issued Taxable Lease Revenue Bonds, Series 1989, and Series 1997 Refunding. The Series 1989 bonds were issued to cover a portion of the costs related to the construction of a software development center and office building. Series 1997 bonds were issued to advance refund $11.2 million of the outstanding 1989 bonds.

The 1989 bonds had an average interest rate of 10.3 percent and the 1997 bonds have an average interest rate of 7.4 percent. The bonds were issued on March 1, 1989, and May 1, 1997, respectively. The following schedule details the annual funding requirements necessary to amortize ITA bonds:

9(d) INNOVATIVE TECHNOLOGY AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 855,000	$ 470,051	$ 1,325,051
2010	935,000	407,208	1,342,208
2011	1,015,000	336,896	1,351,896
2012	1,090,000	260,568	1,350,568
2013	1,155,000	178,600	1,333,600
2014-2018	1,220,000	91,744	1,311,744
Total	$ 6,270,000	$ 1,745,067	$ 8,015,067

Virginia Port Authority

The Virginia Port Authority (VPA) has issued Section 9(d) revenue bonds and notes pursuant to powers provided to its board of commissioners by the *Code of Virginia*. The interest rates for these bonds range from three percent to six percent and the issuance dates range from October 23, 1996, to April 11, 2007. Series 1998 bonds were issued to advance refund $71.0 million of the outstanding Series 1988 bonds. Series 2006A bonds were issued to advance refund $22.9 million of outstanding Series 1996 bonds The following schedule details the annual funding requirements necessary to amortize VPA bonds:

9(d) VIRGINIA PORT AUTHORITY DEBT
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 20,750,000	$ 20,974,008	$ 41,724,008
2010	76,205,000	22,420,450	98,625,450
2011	11,895,000	19,870,508	31,765,508
2012	12,465,000	19,280,908	31,745,908
2013	12,665,000	18,659,301	31,324,301
2014-2018	70,350,000	82,594,713	152,944,713
2019-2023	78,295,000	63,717,258	142,012,258
2024-2028	100,015,000	41,469,492	141,484,492
2029-2033	64,895,000	20,504,485	85,399,485
2034-2038	52,575,000	5,408,038	57,983,038
Less: Deferral on Debt Defeasance	(1,158,004)	-	(1,158,004)
Add: Unamortized Premium	12,626,181	-	12,626,181
Total	$ 511,578,177	$ 314,899,161	$ 826,477,338

Virginia Housing Development Authority

The Virginia Housing Development Authority (VHDA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 3.23 percent to 8.18 percent and the origination dates range from April 1, 1983, to June 28, 2007. The following schedule details the annual funding requirements necessary to amortize these bonds:

9(d) VIRGINIA HOUSING DEVELOPMENT AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 270,813,640	$ 338,683,540	$ 609,497,180
2010	291,380,000	328,280,045	619,660,045
2011	292,030,000	315,835,733	607,865,733
2012	289,295,000	303,203,454	592,498,454
2013	274,530,000	290,495,881	565,025,881
2014-2018	1,348,755,000	1,257,815,940	2,606,570,940
2019-2023	1,167,330,000	933,591,868	2,100,921,868
2024-2028	1,057,960,000	637,134,132	1,695,094,132
2029-2033	861,276,517	380,742,785	1,242,019,302
2034-2038	802,385,631	175,283,603	977,669,234
2039-2043	157,210,000	22,057,478	179,267,478
2044-2048	44,700,000	1,848,923	46,548,923
Add: Unamortized Premium	21,321,000	-	21,321,000
Total	$ 6,878,986,788	$ 4,984,973,382	$ 11,863,960,170

Virginia Resources Authority

The Virginia Resources Authority (VRA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 1.36 percent to 8.70 percent and the origination dates range from December 1, 1985, to March 18, 2007. The following schedule details the annual funding requirements necessary to amortize these bonds:

9(d) VIRGINIA RESOURCES AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 65,465,000	$ 78,144,326	$ 143,609,326
2010	69,250,000	75,704,822	144,954,822
2011	94,220,000	72,244,810	166,464,810
2012	98,035,000	67,773,878	165,808,878
2013	100,314,940	63,703,029	164,017,969
2014-2018	423,865,000	255,520,272	679,385,272
2019-2023	399,595,000	159,845,318	559,440,318
2024-2028	302,925,000	80,887,154	383,812,154
2029-2033	143,214,700	28,090,927	171,305,627
2034-2038	80,439,211	7,949,985	88,389,196
2039	1,635,000	38,566	1,673,566
Less: Unaccreted Capital Appreciation Bonds	51,201,706	-	51,201,706
Add: Unamortized Premium	(47,219,166)	-	(47,219,166)
Total	$ 1,782,941,391	$ 889,903,087	2,672,844,478

Virginia Public School Authority

The Virginia Public School Authority (VPSA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from two percent to six percent, and the origination dates range from November 20, 1997, to May 15, 2008. The following schedule details the annual funding requirements necessary to amortize these bonds:

9(d) VIRGINIA PUBLIC SCHOOL AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 204,945,000	$ 144,382,191	$ 349,327,191
2010	205,775,000	132,931,173	338,706,173
2011	200,645,000	122,750,232	323,395,232
2012	199,555,000	112,922,613	312,477,613
2013	185,680,000	103,235,135	288,915,135
2014-2018	877,997,063	380,470,197	1,258,467,260
2019-2023	683,145,000	184,683,328	867,828,328
2024-2028	383,485,000	55,932,666	439,417,666
2029-2033	70,170,000	6,902,253	77,072,253
2034-2038	5,450,000	511,200	5,961,200
Less:			
Deferral on Debt Defeasance	(39,600,000)	-	(39,600,000)
Add:			
Unamortized Premium	52,840,195	-	52,840,195
Total	$ 3,030,087,258	$ 1,244,720,988	$ 4,274,808,246

Hampton Roads Sanitation District Commission

The Hampton Roads Sanitation District Commission issued bonds under a Master Trust Indenture and a Trust Agreement dated December 1, 1993, and March 1, 2003. The interest cost for these bonds range from 2.5 percent to 4.75 percent. The following schedule details the annual funding requirements necessary to amortize these bonds:

HAMPTON ROADS SANITATION DISTRICT COMMISSION
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 12,551,000	$ 15,538,000	$ 28,089,000
2010	12,967,000	15,071,000	28,038,000
2011	13,499,000	14,549,000	28,048,000
2012	13,952,000	14,038,000	27,990,000
2013	14,389,000	13,540,000	27,929,000
2014-2018	63,034,000	59,962,000	122,996,000
2019-2023	51,288,000	49,705,000	100,993,000
2024-2028	55,234,000	38,160,000	93,394,000
2029-2033	54,030,000	25,609,000	79,639,000
2034-2038	68,960,000	10,681,000	79,641,000
Total	$ 359,904,000	$ 256,853,000	$ 616,757,000

Virginia Biotechnology Research Partnership Authority

The Virginia Biotechnology Research Partnership Authority issued Series 1996, 1998, 1999A, 1999B, and 2001 Commonwealth of Virginia Lease Revenue bonds. Coupon interest rates range from four percent to 6.4 percent. The Series 1996 Virginia Biotechnology Research Partnership Authority Lease Revenue Bonds were refinanced with VPBA Series 2005A bonds on March 1, 2005.

VIRGINIA BIOTECH RESEARCH AUTHORITY
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2009	$ 3,440,000	$ 2,862,134	$ 6,302,134
2010	3,610,000	2,698,507	6,308,507
2011	3,795,000	2,525,335	6,320,335
2012	3,995,000	2,329,744	6,324,744
2013	4,225,000	2,107,737	6,332,737
2014-2018	21,235,000	6,947,288	28,182,288
2019-2023	17,200,000	1,775,000	18,975,000
Add:			
Unamortized Premium	366,919	-	366,919
Total	$ 57,866,919	$ 21,245,745	$ 79,112,664

Total principal outstanding at June 30, 2008, on all component unit bonds amounted to $15.9 billion.

In addition to the above obligations, the Virginia Small Business Financing Authority (nonmajor component unit) has issued Industrial Development Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector entity served by the bond issuance. Neither the Small Business Financing Authority, nor the Commonwealth is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities on the accompanying financial statements. Total principal outstanding at June 30, 2008, of the Industrial Development Revenue Bonds is $296.4 million.

The following schedule summarizes the changes in long-term liabilities:

Schedule of Changes in Long-term Debt and Obligations (1) (2)

(Dollars in Thousands)

	Balance July 1, 2007	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30, 2008
Primary Government				
Governmental Activities:				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - 9(b) and 9(c):				
Public Facilities Bonds (3)	$ 761,195	$ 173,665	$ (57,460)	$ 877,400
Parking Facilities Bonds (3)	8,424	-	(1,149)	7,275
Transportation Facilities Bonds (3)	92,083	-	(15,959)	76,124
Add: Unamortized Premium	50,759	5,234	(4,349)	51,644
Accretion on Capital Appreciation Bonds	-	-	-	-
Less: Unamortized Discount	(555)	372	-	(183)
Deferral on Debt Defeasance	(11,577)	1,306	-	(10,271)
Total General Obligation Bonds	900,329	180,577	(78,917)	1,001,989
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Transportation Facilities Bonds (3)	1,696,209	-	(159,905)	1,536,304
Virginia Public Building Authority Bonds (3)	1,536,435	301,475	(173,465)	1,664,445
Regional Jails Financing Payable	11,693	-	(1,713)	9,980
Industrial Development Authority Obligations	19,010	-	(4,370)	14,640
Economic Development Authority Obligations (3)	96,515	-	(3,190)	93,325
Add: Unamortized Premium	172,962	18,113	(18,430)	172,645
Accretion on Capital Appreciation Bonds	9,691	2,358	-	12,049
Less: Unamortized Discount	(4,563)	2,446	-	(2,117)
Deferral on Debt Defeasance	(43,587)	12,416	(3,229)	(34,400)
Installment Purchase Obligations	59,574	1,083	(5,896)	54,761
Notes Payable - Virginia Public Broadcasting Board	11,070	-	(2,550)	8,520
Notes Payable - Transportation	12,325	-	-	12,325
Notes Payable - Aviation	2,482	-	(287)	2,195
Compensated Absences	340,008	13,778	(8,425)	345,361
Capital Lease Obligations	125,033	4,534	(16,090)	113,477
Pension Liability	789,771	88,808	-	878,579
OPEB Liability	-	57,473	-	57,473
Other	16,472	7,526	(3,795)	20,203
Total Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	4,851,100	510,010	(401,345)	4,959,765
Total Governmental Activities	5,751,429	690,587	(480,262)	5,961,754
Business-type Activities:				
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Installment Purchase Obligations	2,610	-	(875)	1,735
Capital Lease Obligations	-	2,347	-	2,347
Obligations:				
Compensated Absences	8,682	4,638	(4,559)	8,761
Pension Liability	16,966	1,921	-	18,887
OPEB Liability	-	1,551	-	1,551
Lottery Prizes Payable	313,112	58,714	(39,100)	332,726
Tuition Benefits Payable	1,730,482	244,115	(83,173)	1,891,424
Total Business-type Activities	2,071,852	313,286	(127,707)	2,257,431
Total Primary Government	$ 7,823,281	$ 1,003,873	$ (607,969)	$ 8,219,185

Foundations (4)	Balance June 30, 2008	Due Within One Year
$ -	$ 877,400	$ 67,860
-	7,275	1,000
-	76,124	12,964
-	51,644	-
-	-	-
-	(183)	-
-	(10,271)	-
-	1,001,989	81,824
-	1,536,304	162,960
-	1,664,445	124,745
-	9,980	1,749
-	14,640	4,615
-	93,325	3,345
-	172,645	-
-	12,049	-
-	(2,117)	-
-	(34,400)	-
-	54,761	5,734
-	8,520	2,690
-	12,325	-
-	2,195	286
-	345,361	170,754
-	113,477	9,760
-	878,579	-
	57,473	-
-	20,203	3,600
-	4,959,765	490,238
-	5,961,754	572,062
-	1,735	771
-	2,347	428
-	8,761	4,464
-	18,887	-
-	1,551	-
-	332,726	62,734
-	1,891,424	112,236
-	2,257,431	180,633
$ -	$ 8,219,185	$ 752,695

Continued on next page

Schedule of Changes in Long-term Debt and Obligations (1) (2)
(continued)

(Dollars in Thousands)

	Balance July 1, 2007	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30, 2008
Component Units				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - Higher Education 9(c) (3)	$ 411,842	$ 111,338	$ (35,884)	$ 487,296
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Bonds (3) (5)	12,904,988	2,490,252	(720,862)	14,674,378
Installment Purchase Obligations	126,755	14,048	(21,992)	118,811
Capital Lease Obligations	124,738	19,991	(7,956)	136,773
Notes Payable	1,034,475	530,072	(271,512)	1,293,035
Compensated Absences	220,887	137,414	(128,391)	229,910
Pension Liability	315,260	44,861	(1,240)	358,881
OPEB Liability	-	62,185	-	62,185
Bond Anticipation Notes	40,000	-	(40,000)	-
Trust and Annuity Obligations	911	119	(27)	1,003
Other (6)	250,037	251,215	(238,584)	262,668
Total Component Units	$ 15,429,893	$ 3,661,495	$ (1,466,448)	$ 17,624,940

(1) Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.
(2) Payments on bonded debt that pertain to the Commonwealth's governmental activities are made through the debt service funds. Payments for installment purchases, compensated absences, capital leases, pension, and other obligations that pertain to the Commonwealth's governmental activities are made through the general and special revenue funds. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the total for governmental activities. Enterprise funds, or business-type activities, are self-supporting funds. Accordingly, long-term liabilities are paid from each respective fund.
(3) Amounts are net of any unamortized discounts, premiums, and deferrals.
(4) Foundations represent FASB reporting entities defined in Note 1.B.
(5) Beginning balance was increased as a result of a reclassification by the Virginia Resource Authority of bond issuance costs which are reported as Other Assets in fiscal year 2008.
(6) Beginning balance was decreased as a result of a reclassification by Virginia Commonwealth University Health System Authority (blended component unit of the Virginia Commonwealth University - major) of certain claims payable classified as Long-term Liabilities in fiscal year 2007 but reported as Claims Payable in fiscal year 2008.

Foundations (4)	Balance June 30, 2008	Due Within One Year
$ -	$ 487,296	$ 36,200
695,199	15,369,577	713,774
43	118,854	19,803
295	137,068	8,050
209,333	1,502,368	188,607
7,705	237,615	155,564
49,351	408,232	-
-	62,185	-
-	-	-
90,337	91,340	2,819
50,449	313,117	51,373
$ 1,102,712	$ 18,727,652	$ 1,176,190

Bond Defeasance

Primary Government

In May 2008, the Virginia Public Building Authority (blended component unit) issued $58,995,000 of Series 2008A Public Facilities Revenue Refunding Bonds. The bonds refunded with the Series 2008A refunding bonds were $60,775,000 of Series 1998A Public Facilities Revenue Refunding Bonds. The net proceeds of $62,756,957 were deposited with escrow agents to provide for future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $3,229,495. Total debt service payments over the life of the bonds will be reduced by $2,744,136 resulting in an economic gain (savings) of $2,665,620 discounted at the rated of 2.49 percent.

Component Units

In October 2007, the Virginia College Building Authority (nonmajor) issued $100,765,000 of Series 2007B Pooled Bond Program refunding bonds. The bonds refunded with the series 2007B refunding bonds were $6,795,000 of series 1997A, $16,175,000 of series 1998A, $17,785,000 of series 2000A, $10,635,000 of series 2001A, $45,230,000 of series 2002A, and $1,630,000 of series 2005A 21st Century College Program bonds. The net proceeds from the sale of the refunding bonds of $102,054,758 were deposited in irrevocable trusts with escrow agents to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $3,707,000. Total debt service payments over the next 12 years will be reduced by $5,444,159 resulting in a present value savings of $4,640,463 discounted at the rate of 4.21 percent.

During the fiscal year, the Virginia Resources Authority (nonmajor) issued refunding bonds series 2008A and 2007B. The bonds that were refunded or partially refunded were $720,000 of series 1997, $4,080,000 of series 1997H, and $14,560,000 of series 1998A Water and Sewer Revenue Bonds. The refunding resulted in an economic gain of $1,300,040.

GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of June 30, 2008, there were $493.4 million in bonds from the primary government that have been refunded and defeased in-substance from the governmental activities column by placing existing assets and the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments. In addition, there were $551.1 million in bonds outstanding considered defeased from the component units.

Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986 calculate and rebate arbitrage earnings to the federal government. The U.S. Treasury has issued regulations on calculating the rebate amount and complying with the provisions of the Tax Reform Act of 1986. Governmental issuers must comply with the rebate regulations in order for their bonds to maintain tax-exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, to be rebated to the federal government. Income earned on excess earnings is also subject to rebate. Rebate liability, if any, must be paid every five years over the life of the bonds. Some bonds may be exempt from the rebate requirements if they qualify for certain regulatory exceptions. Governmental issuers may elect to pay a penalty in lieu of rebate. If the issuer meets one of the exceptions, the issuer retains any arbitrage earnings. Rebate and penalty payments are calculated and paid as required by law on bond issues that do not qualify for an exception.

Although rebatable arbitrage need only be calculated for tax purposes every fifth year that debt is outstanding, and consistent with modified accrual basis of accounting, is not recognized as a liability in governmental funds until amounts actually become due and payable, a liability is recognized in accrual basis government-wide statements as soon as the underlying event has occurred. Accordingly, as of June 30, 2008, the Commonwealth has recognized a government-wide liability of $218,569.

Amounts remitted to the federal government for rebate liability are generally paid from earnings derived from the issue. However, if all proceeds (including earnings) have been expended and depending on the type of issue, it may be necessary to use project revenues or general or nongeneral fund appropriations to satisfy any rebate liability. During the year, the Virginia College Building Authority (nonmajor component unit) remitted $23,238 to the federal government for rebate liability on its Series 2002 Pooled Bond Program issue. The Virginia Department of Transportation (primary government) paid $10,132 in rebate liability on its Commonwealth of Virginia, Transportation Program Revenue Bonds, Series 1997A (Oak Grove Connector, City of Chesapeake) issue. No rebate payments were owed during the year on the Commonwealth's general obligation bonds or bonds of the Virginia Public Building Authority.

Rebate liability on bonds of the Virginia Public School Authority (major component unit) is payable from earnings on related bond funds and from local issuers whose local school bonds were purchased by the VPSA. During the year, $65,406 was paid to the federal government for rebate on various VPSA school financing bonds.

Capital Leases

The Commonwealth leases buildings and equipment under various agreements that are accounted for as capital leases. The lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

Gross minimum lease payments, together with the present value of the net minimum lease payments as of June 30, 2008, are shown in the following table (dollars in thousands).

	Governmental Activities	Business-Type Activities	Component Units (1)
2009	$ 17,918	$ 428	$ 13,528
2010	17,532	547	13,877
2011	17,162	560	12,609
2012	16,281	575	11,256
2013	15,803	589	11,152
2014-2018	58,578	-	45,532
2019-2023	19,876	-	33,920
2024-2028	552	-	26,041
2029-2033	-	-	24,297
2034-2038	-	-	1,053
2039-2043	-	-	685
2044-2048	-	-	622
2049-2053	-	-	957
Total Gross Minimum Lease Payments	163,702	2,699	195,529
Less: Amount Representing Executory Costs	9,163	-	5,572
Net Minimum Lease Payments	154,539	2,699	189,957
Less: Amount Representing Interest	41,062	352	53,184
Present Value of Net Minimum Lease Payments	$ 113,477	$ 2,347	$ 136,773

Note (1): The above amounts exclude capital lease obligations of foundations.

	Foundations (2)
2009	$ 113
2010	89
2011	70
2012	23
Net Minimum Lease Payments	295
Less: Amount Representing Interest	-
Present Value of Net Minimum Lease Payments	$ 295

Note (2): Foundations represent FASB reporting entities defined in Note 1.B.

At June 30, 2008, assets purchased under capital leases were included in depreciable capital assets as follows (dollars in thousands). The amounts are net of accumulated depreciation where applicable. For a portion of these assets, ownership will pass to the Commonwealth at the end of the lease term.

	Buildings	Equipment	Total
Governmental Activities:			
Gross Capital Assets	$ 176,771	$ 1,770	$ 178,541
Less: Accumulated Depreciation	51,071	696	51,767
Total Governmental Activities	$ 125,700	$ 1,074	$ 126,774
Business-Type Activities:			
Gross Capital Assets	$ 2,347	$ -	$ 2,347
Less: Accumulated Depreciation	-	-	-
Total Business-Type Activities	2,347	-	2,347
Component Units:			
Gross Capital Assets	$ 158,815	$ 33,345	$ 192,160
Less: Accumulated Depreciation	15,763	20,982	36,745
Subtotal (excluding Foundations)	143,052	12,363	155,415
Foundations:			
Gross Capital Assets	-	567	567
Less: Accumulated Depreciation	-	155	155
Subtotal Foundations	-	412	412
Total Component Units	$ 143,052	$ 12,775	$ 155,827

Notes Payable

Notes Payable consist of several items as shown in the following schedule (dollars shown in thousands):

Primary Government		
Transportation Note	$	12,325
Virginia Public Broadcasting Board Note		8,520
Aviation Note		2,195
Installment Notes		56,496
Total Primary Government		79,536
Component Units		
Virginia Public School Authority		173,090
Virginia Housing Development Authority		61,330
University of Virginia		63,389
Virginia Polytechnic Institute and State University		122,198
Virginia Commonwealth University		184,113
Nonmajor Component Units		688,915
Installment Notes		118,811
Subtotal (excluding Foundations)		1,411,846
Foundations:		
Notes Payable		209,333
Installment Notes		43
Subtotal - Foundations		209,376
Total Component Units		1,621,222
Total Notes Payable	$	1,700,758

The Transportation (primary government) Note listed above represents an interest free note payable to Fairfax County, Virginia, of $4,325,000 which was issued pursuant to the State Revenue Bond Act, Article 5, Title 33.1, *Code of Virginia* to pay for the acquisition and construction of the Omer L. Hirst - Adelard L. Brault Expressway. Additionally, the Virginia Department of Transportation (part of primary government) entered into an interest free note payable to Chesterfield County, Virginia, of $8,000,000 for the repayment of the Powhite Parkway Extension Toll Road from surplus net revenues of the project prior to the retirement of all the bonds issued.

The Virginia Public Broadcasting Board (part of primary government) Note listed above represents a loan agreement entered into with the Harrisonburg Industrial Development Authority for $23,840,000. The purpose of the loan was to grant funds to Virginia's public television stations to assist with the cost of conversion to the Federal Communication Commission's new digital standard. The agreement was entered into February 27, 2001, and has a variable rate of interest. The variable interest rates are reset weekly by the remarketing agent. The General Assembly authorized these grants in Chapter 1073 of the 2000 Appropriation Act.

The Aviation (primary government) Note listed above represents a loan agreement with the Virginia Resources Authority in the amount of $6,600,000. The purpose of the loan was to finance and refinance grants-in-aid made to the Peninsula Airport Commission to provide funding for capital improvements at the Newport News/Williamsburg International Airport. The principal amount shall be paid semi-annually with the final payment due in 2017.

The Virginia Public School Authority (major component unit) notes of $173,090,000 are for the School Equipment Financing Notes Educational Technology program. The note proceeds were used to make grants to school divisions for the purchase of educational technology equipment. The notes will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund (major special revenue fund).

The Virginia Housing Development Authority (major component unit) has notes payable of $61,330,000. Of this amount, $25,000,000 is a revolving credit agreement with Bank of America to provide funds for general corporate purposes and $36,330,000 is a credit agreement with the Federal Home Loan Bank of Atlanta. The proceeds along with the bond proceeds are used to make mortgage loans.

The Virginia Resources Authority (nonmajor component unit) notes of $4,349,438 are Equipment and Term Financing loans borrowed from SunTrust Equipment and Finance Leasing Corporation. The amount consists of four loans with interest rates varying from 2.26 percent to 3.49 percent.

An additional amount of $1,058,615,000 is comprised primarily of higher education (component unit) promissory notes with the Virginia College Building Authority (nonmajor component unit) to finance the construction of various higher education facilities. The principal amount net of unamortized accruals is $1,045,382,186. Interest rates range from 2.75 percent to 5.75 percent and shall be paid semi-annually. The final principal payment is due in 2035. The Virginia Biotechnology Research Partnership Authority has a note payable in the amount of $1,990,625 used to purchase two pieces of land.

The higher education institutions (component units) also have notes payable. The University of Virginia (major component unit) has notes payable of $2,759,346 between the Medical Center and a subsidiary and a notes payable of $298,000 for a new GPS system. The College of William and Mary (nonmajor component unit) has notes payable of $583,068 with SunTrust Bank to partially finance the multi-year implementation of the administrative and financial system. This first note matured in 2008 and the second note has an interest rate of 3.75 percent and matures in 2011. Virginia State University (nonmajor component unit) has a note payable of $1,990,524, which is the result of a loan agreement with the U.S. Department of Housing and Urban Development to repair seven dormitories. The loan is to be repaid over 30 years at 3.0 percent interest per annum, and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. Norfolk State University (nonmajor component unit) has a note payable of $75,617, which is the result of an agreement with the City of Norfolk to purchase the Brambleton Center. The loan is payable in six full scholarships each year varying from $4,593 to $13,308 with the final amount due in 2019. The Radford University Property Acquisition Foundation (blended component unit of Radford University (nonmajor component unit)) has a notes payable of $1,187,906 to purchase land and a building. The note matures in 2012 and has a 6.8 percent interest rate.

Various foundations (component units) have notes outstanding as of year-end. The purpose of a majority of these notes is for property acquisition, working capital, and construction. Future principal payments as of June 30, 2008, are shown in the following table (dollars in thousands).

Foundations' Notes Payable (Component Units) (1)
June 30, 2008

Maturity	Principal
2009	$ 27,679
2010	10,124
2011	44,725
2012	14,279
2013	5,977
Thereafter	106,549
Total	$ 209,333

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Installment purchase obligations have been entered into by agencies and institutions of the Commonwealth. These agreements, other than those in the component units and certain institutions of higher education, contain nonappropriation clauses indicating that continuation of the installment purchase obligations is subject to funding by the General Assembly. Installment purchase obligations represent $175,307,343 of the total outstanding debt of the Commonwealth. The foundations (component units) had installment purchase obligations totaling $43,331 as of year-end. Presented in the following tables are repayment schedules for installment purchase obligations.

Installment Purchase Obligations - Governmental Funds
June 30, 2008

Maturity	Principal	Interest	Total
2009	$ 5,734,476	$ 1,759,005	$ 7,493,481
2010	6,120,818	1,798,522	7,919,340
2011	4,981,102	1,570,761	6,551,863
2012	3,446,184	1,450,668	4,896,852
2013	3,112,992	1,323,324	4,436,316
2014-2018	17,067,316	4,638,191	21,705,507
2019-2023	14,298,474	1,371,605	15,670,079
Total	$ 54,761,362	$ 13,912,076	$ 68,673,438

Installment Purchase Obligations - Business-type Activities
June 30, 2008

Maturity	Principal	Interest	Total
2009	$ 770,681	$ 46,587	$ 817,268
2010	776,891	20,579	797,470
2011	186,944	1,963	188,907
Total	$ 1,734,516	$ 69,129	$ 1,803,645

Installment Purchase Obligations - Component Units (1)
June 30, 2008

Maturity	Principal	Interest	Total
2009	$ 19,771,635	$ 4,733,518	$ 24,505,153
2010	20,272,143	4,981,970	25,254,113
2011	11,338,138	2,936,427	14,274,565
2012	10,504,926	2,532,108	13,037,034
2013	9,392,448	2,162,049	11,554,497
2014-2018	34,177,361	6,066,480	40,243,841
2019-2023	13,354,814	1,012,152	14,366,966
Total	$ 118,811,465	$ 24,424,704	$ 143,236,169

Note (1): The above amounts exclude installment purchase obligations of foundations.

Installment Purchase Obligations - Foundations (2)
June 30, 2008

Maturity	Principal
2009	$ 31,350
2010	11,028
2011	953
Total	$ 43,331

Note (2): Foundations represent FASB reporting entities defined in Note 1.B.

Lottery Prizes Payable

Lottery prizes are paid in 20, 25, 26, or 30 installments. The first installment is paid on the day the prize is claimed. The subsequent annual payments are funded with U.S. Treasury STRIPS purchased by the Virginia Lottery. For Life prizes payable represent estimated prizes payable monthly, quarterly or annually for the life of the winner based on life expectancy tables from the Virginia Bureau of Insurance, and funded with a pool of U.S. Treasury STRIPS.

Lottery prizes payable represent the future annual prize payments valued at cost plus accrued interest (present value of securities held to maturity) of the investment securities funding the payments.

Lottery prizes payable for the fiscal year ended June 30, 2008, are shown in the following table:

	Jackpot	Win For Life	Total
Due within one year	$ 59,575,093	$ 3,158,719	$ 62,733,812
Due in subsequent years	227,191,930	42,799,841	269,991,771
Total (present value)	286,767,023	45,958,560	332,725,583
Add: Interest to Maturity	92,593,977	37,601,440	130,195,417
Lottery Prizes Payable at Maturity	$ 379,361,000	$ 83,560,000	$ 462,921,000

Tuition Benefits Payable

The Virginia College Savings Plan administers the Virginia Prepaid Education Program (VPEP). VPEP offers contracts which, for actuarially determined amounts, provide for guaranteed full future tuition payments at state higher education institutions. The contract provisions also allow the benefits to be used for private or out-of-state institutions at a prorated amount based upon the amounts charged by the state's higher education institutions.

At June 30, 2008, tuition benefits payable of $1.9 billion have been recorded for the VPEP program on the balance sheet for the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the VPEP program. In addition, a receivable in the amount of $288.0 million has been recorded to reflect the actuarially determined present value of future payments anticipated from contract holders.

24. OTHER REVENUE

The following table (dollars in thousands) summarizes Other Revenue for the fiscal year ended June 30, 2008.

	Assessments and Receipts for Support of Special Services	Fines, Forfeitures, Court Fees, Penalties, and Escheats	Receipts from Cities Counties, and Towns	Private Gifts, Grants, and Contracts	Sales of Property
Primary Government:					
General	$ 447	$ 203,451	$ 10,091	$ 11	$ 2,461
Major Special Revenue Funds:					
Commonwealth Transportation	18,624	12,703	88,292	21,142	-
Federal Trust	-	416	-	-	286
Literary	-	67,319	-	-	-
Nonmajor Governmental Funds	89,514	96,164	77,920	10,296	26,475
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	-	-
Nonmajor Enterprise Funds	-	12,897	-	-	-
Internal Service Funds	-	583	-	-	-
Private Purpose	-	-	-	-	-
Pension and Other Employee Benefit Trust	-	-	-	-	-
Total Primary Government	$ 108,585	$ 393,533	$ 176,303	$ 31,449	$ 29,222

	Tobacco Master Settlement	Taxes	Smart Tag	Other (1)	Total Other Revenue
Primary Government:					
General	$ 53,684	$ -	$ -	$ 61,834	$ 331,979
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	11,579	13,710	166,050
Federal Trust	-	-	-	50,270	50,972
Literary	-	-	-	95,112	162,431
Nonmajor Governmental Funds	-	-	-	164,759	465,128
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	21	21
Nonmajor Enterprise Funds	-	12,531	-	1,804	27,232
Internal Service Funds	-	-	-	-	583
Private Purpose	-	-	-	344	344
Pension and Other Employee Benefit Trust	-	-	-	21,360	21,360
Total Primary Government	$ 53,684	$ 12,531	$ 11,579	$ 409,214	$ 1,226,100

Note (1): $85,007 (dollars in thousands) of the total amount recorded for the Literary fund is related to unclaimed property. $21,070 (dollars in thousands) of the total amount recorded for pension and other employee benefit trust is related to the transfer of assets from Aetna insurance company to the Virginia Sickness and Disability Program when the relationship with Aetna was terminated.

25. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2008.

(Dollars in Thousands)

	Insurance Claims	Lottery Prize Expense	Total Prizes and Claims
Proprietary Funds:			
Major Enterprise Funds:			
State Lottery	$ -	$ 781,860	$ 781,860
Unemployment Compensation	432,805	-	432,805
Nonmajor Enterprise Funds	189,430	-	189,430
Total Enterprise Funds	$ 622,235	$ 781,860	$ 1,404,095
Internal Service Funds	$ 1,003,431	$ -	$ 1,003,431

26. DEPRECIATION AND AMORTIZATION

The following table summarizes Depreciation and Amortization Expense for the fiscal year ended June 30, 2008.

(Dollars in Thousands)

	Depreciation	Amortization	Total Depreciation and Amortization
Proprietary Funds:			
Major Enterprise Funds:			
State Lottery	$ 1,063	$ -	$ 1,063
Virginia College Savings Plan	62	-	62
Nonmajor Enterprise Funds	8,694	77	8,771
Total Enterprise Funds	$ 9,819	$ 77	$ 9,896
Internal Service Funds	$ 17,751	$ -	$ 17,751

27. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2008.

(Dollars in Thousands)

	Grants and Distributions To Localities	Expendable Equipment/ Improvements	Other (1)	Total Other Expenses
Proprietary Funds:				
Major Enterprise Funds:				
Virginia College Savings Plan	$ -	$ 263	$ 35	$ 298
Nonmajor Enterprise Funds	62	1,957	2,968	4,987
Total Enterprise Funds	$ 62	$ 2,220	$ 3,003	$ 5,285
Internal Service Funds	$ 1,237	$ 7,114	$ 5,562	$ 13,913
Pension and Other Employee Benefit Trust (2)	$ -	$ -	$ 5,860	$ 5,860

Note (1): $5,100 (dollars in thousands) can be attributed to expenses related to closing cases in the Risk Management internal service fund.

Note (2): Fiduciary expenses of $5,860 (dollars in thousands) are not included in the Government-wide Statement of Activities.

28. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2008.

(Dollars in Thousands)

	Loss on Sale of Capital Assets	Expenses for Securities Lending Transactions	Other (1)	Total Other Non-Operating Revenue/ Expenses
Proprietary Funds:				
Major Enterprise Funds:				
State Lottery	$ -	$ (2,340)	$ 871	$ (1,469)
Virginia College Savings Plan	-	(537)	-	(537)
Nonmajor Enterprise Funds	-	(1,979)	(490)	(2,469)
Total Enterprise Funds	$ -	$ (4,856)	$ 381	$ (4,475)
Internal Service Funds	$ (843)	$ (3,898)	$ 2,805	$ (1,936)

Note (1): $2,060 (dollars in thousands) is related to revenues associated with asset transfers in the Virginia Information Technologies Agency internal service fund.

29. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2008 (dollars in thousands).

	Transfers In (Reported In):				
Transfers Out (Reported In):	**General**	**Commonwealth Transportation**	**Federal Trust**	**Literary Fund**	**Nonmajor Governmental Funds**
Primary Government					
General	$ -	$ 327,935	$ -	$ -	$ 372,926
Major Special Revenue Funds:					
Commonwealth Transportation	19,598	-	707	-	272,363
Federal Trust	209	20,663	-	-	223
Nonmajor Governmental Funds	44,289	1,002	345	-	6,973
Major Enterprise Funds:					
State Lottery	455,259	-	-	10,479	-
Virginia College Savings Plan	10	-	-	-	-
Unemployment Compensation	-	-	12,970	-	-
Nonmajor Enterprise Funds	113,297	-	60	1	2,967
Internal Service Funds	82	-	-	-	886
Total Primary Government	$ 632,744	$ 349,600	$ 14,082	$ 10,480	$ 656,338

Transfers are used to (1) move revenues from the fund that the *Code of Virginia* or budget requires to collect them to the fund that the *Code of Virginia* or budget requires to expend them; (2) move receipts restricted for debt service from the funds holding the resources to the debt service fund as principal and interest payments become due; (3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; and (4) reimburse the General Fund for expenses incurred on behalf of nongeneral funds.

During the fiscal year, the following significant transfers were made that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

- Various nongeneral funds transferred approximately $12.2 million to the General Fund as required by Chapter 847, 2008 Acts of Assembly.

- The Department of Motor Vehicles transferred certain fees of approximately $2.5 million to the General Fund as required by Chapter 847, 2008 Acts of Assembly.

30. ON-BEHALF PAYMENTS

Higher education institutions (component units) recognized various foundation and association on-behalf payments for fringe benefits and salaries during fiscal year 2008 totaling $1,031,187. This activity was recorded as Program Revenue – Operating Grants and Contributions in the amount of $1,017,437; and Program Revenue – Charges for Services in the amount of $13,750, with corresponding expenses.

31. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions. The net appreciation available for expenditure is $1,087,321,041, and of this amount, $1,085,657,496 is reported as restricted net assets and $1,663,545 is reported as unrestricted net assets. The *Code of Virginia* authorizes acceptance of donations. The governing boards of these entities and the donor agreements determine whether net appreciation can be spent and the accepted spending rate. These policies are entity specific and vary with each institution.

Unemployment Compensation Fund	Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
$ -	$ -	$ -	$ 700,861
-	-	311	292,979
1,640	38	-	22,773
-	141	369	53,119
-	-	-	465,738
-	-	-	10
-	-	-	12,970
-	31	-	116,356
1	-	-	969
$ 1,641	$ 210	$ 680	$ 1,665,775

32. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2008.

	State Lottery	Virginia College Savings Plan	Unemployment Compensation
Cash Flows Resulting from:			
Payments for Prizes, Claims, and Loss Control:			
Lottery Prizes	$ (788,285)	$ -	$ -
Claims and Loss Control	-	-	(428,447)
Total	$ (788,285)	$ -	$ (428,447)
Other Operating Revenues:			
Other Operating Revenue	$ -	$ 21	$ -
Total	$ -	$ 21	$ -
Other Operating Expenses:			
Other Operating Expenses (1)	$ -	$ (35)	$ -
Total	$ -	$ (35)	$ -
Other Noncapital Financing Receipt Activities:			
Advances/Contributions from the Commonwealth	$ 5,000	$ -	$ -
Receipts from Taxes	-	-	-
Other Noncapital Financing Receipt Activities	3,132	-	-
Total	$ 8,132	$ -	$ -
Other Noncapital Financing Disbursement Activities:			
Repayments of Advances/Contributions from the Commonwealth	$ (6,000)	$ -	$ -
Other Noncapital Financing Disbursement Activities	-	-	-
Total	$ (6,000)	$ -	$ -
Other Capital and Related Financing Receipt Activities:			
Other Capital and Related Financing Receipt Activities	$ -	$ -	$ -
Total	$ -	$ -	$ -
Other Capital and Related Financing Disbursement Activities:			
Disbursments for Capital Expenditures	$ -	$ -	$ -
Total	$ -	$ -	$ -

Note (1): $5,100 (dollars in thousands) can be attributed to disbursements related to closing cases in the Risk Management internal service fund.

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ -	$ (788,285)	$ -
(185,728)	(614,175)	(916,983)
$ (185,728)	$ (1,402,460)	$ (916,983)
$ 8,124	$ 8,145	$ 583
$ 8,124	$ 8,145	$ 583
$ (557)	$ (592)	$ (9,074)
$ (557)	$ (592)	$ (9,074)
$ 31,494	$ 36,494	$ -
149,798	149,798	-
101	3,233	226
$ 181,393	$ 189,525	$ 226
$ (35,023)	$ (41,023)	$ -
(344)	(344)	-
$ (35,367)	$ (41,367)	$ -
$ -	$ -	$ 24
$ -	$ -	$ 24
$ (385)	$ (385)	$ (632)
$ (385)	$ (385)	$ (632)

33. TOBACCO SETTLEMENT AND SECURITIZATION

On November 23, 1998, 46 states' Attorneys General and the major tobacco companies signed a proposed settlement that reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. The Commonwealth could receive approximately $4.1 billion over the next 25 years. The settlement was approved in a Consent Decree in December 1998. On March 29, 1999, the General Assembly enacted a law approving the establishment of the Virginia Tobacco Indemnification and Community Revitalization Commission (commission), in compliance with the Consent Decree, to help communities in Virginia hurt by the decline of tobacco.

The commission was established for the purposes of determining the appropriate recipients of monies in the Tobacco Indemnification and Community Revitalization Fund. The monies are to be used to provide payments to tobacco farmers as compensation for the tobacco equipment and barns and lost tobacco production opportunities associated with a decline in quota. The monies are also to be used to revitalize tobacco dependent communities.

The General Assembly also created The Virginia Tobacco Settlement Foundation (foundation). The purpose of the foundation is to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund. The foundation will also be responsible for distributing monies for the purposes provided in the legislation. Disbursements can be made to assist in financing efforts to restrict the use of tobacco products by minors, through educational and awareness programs describing the health effects of tobacco use on minors, and laws restricting the distribution of tobacco products to minors. The Virginia Tobacco Indemnification and Community Revitalization Commission and the Virginia Tobacco Settlement Foundation are included in the Comprehensive Annual Financial Report as component units.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies are accounted for in these funds and the General Fund. Fifty percent of the Settlement monies will be deposited into the Tobacco Indemnification and Community Revitalization Fund. Ten percent of the Settlement monies will be deposited into the Virginia Tobacco Settlement Fund. The remaining 40 percent will be reported in the General Fund.

In May 2005, pursuant to a Purchase and Sale Agreement with the Commonwealth, acting as an agent on behalf of the Tobacco Indemnification and Community Revitalization Commission (commission), the Commonwealth sold to the Tobacco Settlement Financing Corporation (corporation) 25 percent of its future right, title and interest in the Tobacco Settlement Revenues (TSRs). In May 2007, pursuant to a Purchase and Sale Agreement with the Commonwealth, acting as an agent on behalf of the commission, the Commonwealth sold to the Tobacco Settlement Financing Corporation the remaining 25 percent of its future right, title and interest in the TSRs. Specifically, these rights include all of the 50 percent share of the TSRs received by the commission starting May 15, 2005, and in perpetuity under the Master Settlement Agreement.

Consideration paid by the corporation to the commission for TSRs consisted of a cash amount deposited into an endowment to fund the long-term spending plan approved by the commission. The bonds of the corporation are asset-backed instruments secured solely by the TSRs, and the corporation's right to receive TSRs is expected to produce funding for its obligations.

The commission is a discrete component unit of the Commonwealth and the corporation is disclosed as a related organization.

34. INFORMATION TECHNOLOGY INFRASTRUCTURE PARTNERSHIP – NORTHROP GRUMMAN

The Comprehensive Infrastructure Agreement (CIA) is a contract between the Commonwealth of Virginia (Commonwealth) acting through the Virginia Information Technologies Agency (VITA) and Northrop Grumman Information Technology, Inc (NG). The CIA began July 1, 2006, for an initial term of ten years, and the Commonwealth may renew the CIA for one three-year renewal term. The Commonwealth's primary goal is to significantly improve the Commonwealth's IT infrastructure and the manner in which such infrastructure is operated, supported, and maintained.

The services and activities required to provide the Commonwealth the appropriate level of service are provided in the following infrastructure service towers: Desktop Computing Services; Data Network Services; Voice and Video Telecom Services; Mainframe and Server Services; Help Desk Services; Messaging Services; Security Services; and, Application Services. VITA made payments to NG of $230.5 million during the fiscal year and will make additional payments of approximately $1.7 billion over the next eight fiscal years.

The Commonwealth may terminate the CIA due to a variety of reasons including the Commonwealth's convenience; a significant change of control in the equity interests in NG; NG's failure to implement satisfactory improvements; or, NG's failure to prevent service interruption of 15 days or more. In these instances, the Commonwealth will be required to pay exit fees as outlined in the CIA. Additional causes for termination that do not require the payment of exit fees are NG's default on the CIA terms, the Commonwealth's lack of funds, or NG's incurrence of liabilities equal to or more than 75% of the direct damages cap. NG may terminate the CIA only if the Commonwealth owes an aggregate amount of at least $100 million that is more than 30 days past due and not being disputed in good faith. The Commonwealth may be required to pay exit fees if NG terminates the CIA. Any applicable exit fees

will be computed at the termination of the agreement based upon the number of service units in place at the time of termination. Accordingly, as service units change on a recurring basis, it is not possible to quantify exit fees. However, any exit fees resulting from the termination of the agreement are expected to be significant to the Commonwealth. Further, if the Commonwealth and NG terminate the business relationship at the conclusion of the CIA term, the Commonwealth will incur significant costs to obtain the IT infrastructure necessary to continue the Commonwealth's operations

35. OXYCONTIN SETTLEMENTS

During fiscal year 2007, lawsuits were filed related to OxyContin. As a result, the Commonwealth was party to three separate plea agreements. One agreement provided $20 million for a prescription monitoring program. These amounts are recorded in the Prescription Monitoring Permanent Fund (nonmajor) as the principal must remain intact. Under the terms of the second agreement, the Office of the Attorney General received $39.8 million to be used by the Virginia Medicaid Fraud Control Unit. This amount is recorded as revenue in the Other Special Revenue Fund (nonmajor) in fiscal year 2008. Under the terms of the third agreement, the Department of State Police will receive $44.2 million during fiscal years 2008 and 2009 to assist with enforcement activities, training, and equipment purchases. $38.6 million was received in fiscal year 2008 and $5.6 million will be received in fiscal year 2009.

36. CONTINGENCIES

A. Grants and Contracts

The Commonwealth has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the Commonwealth.

Institutions of higher education (component units) and other state agencies are required to comply with various federal regulations issued by the Office of Management and Budget, if such agencies are recipients of federal grants, contracts, or other sponsored agreements. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. It is believed that the ultimate disallowance pertaining to these regulations, if any, will be immaterial to the overall financial condition of the Commonwealth.

The U.S. Department of Health and Human Services (DHHS) Office of the Inspector General conducted a review and indicated that the Commonwealth's Statewide Indirect Cost Allocation Plan rates have allowed over-recoveries in the internal service funds. The U.S. DHHS has received the 2009 cost allocation plan, which is based on state fiscal year 2007 data. The Commonwealth believes this liability has the potential to total $950,954 as of June 30, 2008.

Virginia's combined overpayment and underpayment food stamp error rate for federal fiscal year 2007 was 6.47 percent. The national average combined error rate was 5.64 percent. A liability amount is established when, for the second or subsequent consecutive fiscal year, the USDA determines there is a 95 percent probability a state's payment error rate exceeds 105 percent of the national performance measure. Virginia fell within the tolerance level for 2007. Therefore, 2007 will not count as a first year of potential liability.

However, as of June 30, 2008, there is an outstanding liability of $355,258. This liability results from a USDA review of reinvestment expenditures made in accordance with reinvestment agreements for federal fiscal years 1994-1996. The Department of Social Services program improvement plan was approved by the USDA in October 2006.

B. Litigation

The Commonwealth is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations, some involving substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Commonwealth in respect to the various proceedings; however, it is believed that any ultimate liability resulting from these suits or investigations will not have a material, adverse effect on the financial condition of the Commonwealth.

C. Subject to Appropriation

Both the primary government and the discretely presented component units enter into agreements and issue debt secured solely by future appropriations from the General Fund of the Commonwealth. The primary government has leases and other agreements of such debt of $1.9 billion. The discretely presented component units have such debt of $947.4 million.

D. Bailment Inventory

The Department of Alcoholic Beverage Control (ABC) houses and controls bailment inventory in the warehouse and is therefore responsible for the exercise of reasonable care to preserve the inventory until it is purchased by ABC or returned to the supplier. ABC uses the bailment system for payment of merchandise for resale. ABC initiates payments to the vendors based on shipments from

the ABC warehouse to the retail stores, rather than receipt of invoice from the vendor. At June 30, 2008, the bailment inventory was valued at $38,352,876.

E. Loan Guarantees

The Virginia Small Business Financing Authority (nonmajor component unit) has a loan guaranty program which provides guarantees up to the lesser of $500,000 or 75 percent of a bank loan for lines of credit and short-term working capital loans for small businesses. As of June 30, 2008, the loan guaranty program has guarantees outstanding of $2.6 million. In addition, the Department of Minority Business Enterprise fund provides loan guarantees up to 90 percent of a bank loan for lines of credit and short-term working capital loans for minority businesses. As of June 30, 2008, there was $122,380 in outstanding guarantees.

The Assistive Technology Loan Fund Authority (nonmajor component unit) has an alternative financing program which provides guarantees of loans issued by its financial partner, SunTrust Bank. As of June 30, 2008, there was approximately $1.2 million of loans issued in which it was the guarantor.

37. SUBSEQUENT EVENTS

The financial markets began a period of considerable disruption and volatility in mid-September. On September 15, 2008, Lehman Brothers filed for bankruptcy and Bank of America announced a buyout of Merrill Lynch. On September 16, shares in the Reserve Primary Fund fell to under one dollar, and the Federal government seized control of AIG with an $85 billion bailout. By month end, Washington Mutual became the largest failure of a U. S. bank. Market uncertainties caused investors to sell off money market funds in favor of Treasury securities. By mid-October, tax-exempt short-term and long-term rates had increased dramatically from their pre-September 15 levels.

Due to this environment, many issuers, including the Commonwealth, postponed bond issues scheduled for this period in the hope that markets would regain stability. By late October, tax-exempt markets showed considerable improvement.

Primary Government

Other

On November 1, 2008, the control of the Dulles Toll Road transferred from the Virginia Department of Transportation (VDOT) to the Metropolitan Washington Airports Authority (MWAA). The terms of the agreement transferred the rights to operate the Dulles Toll Road from VDOT to MWAA for a 50-year term in consideration of MWAA's agreement to repay or defease all of the outstanding series of bonds of the Commonwealth relating to financing of the construction and maintenance of the toll road and to pay off the outstanding note issued by the Virginia State Highway and Transportation Commission of the Commonwealth of Virginia in favor of Fairfax County, Virginia, in the principal amount of $4,325,000. MWAA is required to use the toll revenues to fund the Dulles Corridor Metrorail project and other transportation improvements in the Dulles Corridor. Prior to the effective date of this transition, the outstanding note to Fairfax County was paid in full and funding was transferred to the Department of the Treasury to fund an escrow for the defeasance of the outstanding bonds (Series 1989A and series 2002). During the transition period, which may last for up to a year or more, VDOT will operate the Dulles Toll Road on behalf of MWAA.

Investment

The volatile and unfavorable conditions in the financial markets have adversely affected the Commonwealth's investment portfolios. As of November 14, 2008, it is estimated that the value of the portfolio including VRS, taken as a whole has declined approximately $25.0 billion or 26 percent since June 30. The majority of the valuation decline results directly from the market conditions. The Commonwealth has taken steps to mitigate the risk of loss by monitoring exposure in various asset classes and making adjustments within approved investment policies. While the Commonwealth currently has four financially impaired holdings, there is no significant financial risk to the Commonwealth.

Debt

On November 25, 2008, the Commonwealth issued $270,865,000 in General Obligation Bonds, Series 2008B to fund capital projects for educational facilities, parks and recreational facilities of the Commonwealth, revenue-producing projects at various institutions of higher education, and to refinance $52,150,000 in General Obligation Refunding Bonds, Series 1998.

The Virginia Public Building Authority had planned to issue its Public Facilities Revenue Bonds, Series 2008B in early October. The issue was postponed and is expected to be issued in December 2008. The bonds will be used to finance or refinance the acquisition, construction, improvement, rehabilitation, furnishing, and equipping of various public facilities for use by the Commonwealth and its agencies or the Commonwealth's share of various regional and local jails and juvenile detention facility projects.

Component Units

Debt

In July 2008, the Virginia Resource Authority issued Clean Water Revolving Fund Revenue Bonds in the amount of $181,280,000, dated August 14, 2008 with a final due date of October 1, 2031.

In July 2008, Hampton Roads Sanitation District was advised that a $30 million loan has been authorized from the Virginia Water Facilities Revolving Fund to partially fund improvements at the York River Treatment Plant. The 20-year loan has an interest rate of 3.55 percent. Hampton Roads Sanitation District has not yet closed on the loan.

In November 2008, the Virginia Resources Authority as part of the Virginia Pooled Financing Program issued $215,449,000 Infrastructure Revenue Bonds. Of this amount, $147,495,000 were Senior Series 2008B and $67,945,000 were Subordinate Series 2008B. The Subordinate Series are backed by the Commonwealth's Moral Obligation pledge.

In November 2008, the Virginia Housing Development Authority issued $55,500,706 of Commonwealth Mortgage Bonds Pass Through Certificates 2008 Series C with an effective rate of 6.3 percent maturing on June 25, 2038. In addition, in December 2008, the Virginia Housing Development Authority expects to issue approximately $300 million of Commonwealth Mortgage Bonds Series 2008DE.

The Virginia Public School Authority plans to issue $118,930,000 of School Financing Bonds (1997 Resolution) Series 2008B to purchase certain general obligation local school bonds to finance capital projects for public schools. The bonds are expected to be issued in December 2008. The Authority also plans to sell approximately $67,000,000 in a stand-alone issue for Fluvanna County in December 2008.

Investment

The volatile and unfavorable conditions in the financial markets have adversely affected the significant component units' investment portfolios as well. As of November 14, 2008, it is estimated that the value of the component unit portfolio has declined approximately $1.7 billion or 15 percent since June 30. While the majority of the valuation decline results directly from the market conditions, approximately $260.7 million or 15 percent of the decline is due to operational outflows in excess of inflows between July 1 and November 14, 2008. The component units have taken steps to mitigate the risk of loss by monitoring exposure in various asset classes and making adjustments within approved investment policies. While the component units currently have one financially impaired holding, there is no significant financial risk to the component units.

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds

Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

	General Fund			
	Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
Revenues:				
Taxes:				
Individual and Fiduciary Income	$ 10,515,300	$ 10,171,300	$ 10,114,833	$ (56,467)
Sales and Use	3,493,100	3,325,200	3,302,181	(23,019)
Corporation Income	794,900	699,100	807,852	108,752
Motor Fuel	-	-	-	-
Motor Vehicle Sales and Use	-	-	-	-
Deeds, Contracts, Wills, and Suits	554,900	495,500	456,348	(39,152)
Premiums of Insurance Companies	411,100	418,400	396,858	(21,542)
Alcoholic Beverage Sales	163,000	170,000	168,862	(1,138)
Tobacco Products	185,200	183,700	183,946	246
Estate	129,400	118,500	153,378	34,878
Public Service Corporations	95,100	88,000	96,390	8,390
Other Taxes	27,600	23,600	15,459	(8,141)
Rights and Privileges	66,600	68,800	67,449	(1,351)
Sales of Property and Commodities	100	5,100	2,460	(2,640)
Assessments and Receipts for Support of Special Services	400	300	461	161
Institutional Revenue	8,800	7,500	7,590	90
Interest, Dividends, and Rents	251,777	227,574	252,284	24,710
Fines, Forfeitures, Court Fees, Penalties, and Escheats	198,200	202,400	195,716	(6,684)
Federal Grants and Contracts	-	-	-	-
Receipts from Cities, Counties, and Towns	10,200	10,300	10,091	(209)
Private Donations, Gifts and Contracts	-	-	31	31
Tobacco Master Settlement	52,929	54,006	53,684	(322)
Other	67,550	73,838	63,844	(9,994)
Total Revenues	17,026,156	16,343,118	16,349,717	6,599
Expenditures:				
Current:				
General Government	2,047,158	1,832,064	1,789,768	42,296
Education	7,980,285	7,863,398	7,822,396	41,002
Transportation	44	52,042	25,971	26,071
Resources and Economic Development	298,438	353,333	329,729	23,604
Individual and Family Services	4,281,480	4,275,525	4,255,474	20,051
Administration of Justice	2,312,213	2,439,998	2,424,790	15,208
Capital Outlay	256,590	511,963	370,552	141,411
Total Expenditures	17,176,208	17,328,323	17,018,680	309,643
Revenues Over (Under) Expenditures	(150,052)	(985,205)	(668,963)	316,242
Other Financing Sources (Uses):				
Transfers:				
Transfers In	556,221	621,173	634,513	13,340
Transfers Out	(554,145)	(702,134)	(700,861)	1,273
Total Other Financing Sources (Uses)	2,076	(80,961)	(66,348)	14,613
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(147,976)	(1,066,166)	(735,311)	330,855
Fund Balance, July 1	2,955,101	2,955,101	2,955,101	-
Fund Balance, June 30	$ 2,807,125	$ 1,888,935	$ 2,219,790	$ 330,855

See notes on page 165 in this section.

Special Revenue Funds			
Commonwealth Transportation Fund			
Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
$ -	$ -	$ -	$ -
513,488	548,571	503,048	(45,523)
-	-	-	-
904,071	916,484	891,410	(25,074)
597,092	618,790	533,761	(85,029)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
61,246	42,014	36,699	(5,315)
425,971	543,091	604,811	61,720
556	556	3,536	2,980
20,147	18,983	18,630	(353)
-	-	-	-
31,069	166,622	92,872	(73,750)
11,029	10,333	12,514	2,181
1,189,318	1,223,351	879,850	(343,501)
204,129	237,679	82,276	(155,403)
-	-	21,142	21,142
-	-	-	-
1,497	26,280	26,713	433
3,959,613	4,352,754	3,707,262	(645,492)
2,303	2,387	2,234	153
2,400	2,400	2,400	-
3,919,643	4,506,274	3,777,444	728,830
15,428	17,541	16,245	1,296
-	-	-	-
7,958	7,958	7,958	-
63,739	68,286	42,024	26,262
4,011,471	4,604,846	3,848,305	756,541
(51,858)	(252,092)	(141,043)	111,049
170,700	327,935	349,600	21,665
(287,719)	(428,976)	(292,979)	135,997
(117,019)	(101,041)	56,621	157,662
(168,877)	(353,133)	(84,422)	268,711
1,876,376	1,876,376	1,876,376	-
$ 1,707,499	$ 1,523,243	$ 1,791,954	$ 268,711

Continued on next page

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds *(Continued from previous page)*

Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

	Special Revenue Funds			
	Federal Trust			
	Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
Revenues:				
Taxes:				
Individual and Fiduciary Income	$ -	$ -	$ -	$ -
Sales and Use	-	-	-	-
Corporation Income	-	-	-	-
Motor Fuel	-	-	-	-
Motor Vehicle Sales and Use	-	-	-	-
Deeds, Contracts, Wills, and Suits	-	-	-	-
Premiums of Insurance Companies	-	-	-	-
Alcoholic Beverage Sales	-	-	-	-
Tobacco Products	-	-	-	-
Estate	-	-	-	-
Public Service Corporations	-	-	-	-
Other Taxes	-	-	-	-
Rights and Privileges	40	20	-	(20)
Sales of Property and Commodities	438	485	286	(199)
Assessments and Receipts for Support of Special Services	-	-	-	-
Institutional Revenue	-	-	-	-
Interest, Dividends, and Rents	358	2,639	3,053	414
Fines, Forfeitures, Court Fees, Penalties, and Escheats	43	384	426	42
Federal Grants and Contracts	5,393,949	5,567,677	5,684,267	116,590
Receipts from Cities, Counties, and Towns	-	-	-	-
Private Donations, Gifts and Contracts	-	-	-	-
Tobacco Master Settlement	-	-	-	-
Other	30,216	28,477	60,825	32,348
Total Revenues	5,425,044	5,599,682	5,748,857	149,175
Expenditures:				
Current:				
General Government	123,128	153,966	114,153	39,813
Education	804,187	909,240	867,297	41,943
Transportation	34,017	23,025	13,644	9,381
Resources and Economic Development	154,443	165,325	123,634	41,691
Individual and Family Services	4,235,239	4,261,387	4,572,825	(311,438)
Administration of Justice	58,815	62,951	38,290	24,661
Capital Outlay	15,172	23,745	10,323	13,422
Total Expenditures	5,425,001	5,599,639	5,740,166	(140,527)
Revenues Over (Under) Expenditures	43	43	8,691	8,648
Other Financing Sources (Uses):				
Transfers:				
Transfers In	-	-	14,082	14,082
Transfers Out	(43)	(43)	(22,773)	(22,730)
Total Other Financing Sources (Uses)	(43)	(43)	(8,691)	(8,648)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	-	-
Fund Balance, July 1	-	-	-	-
Fund Balance, June 30	$ -	$ -	$ -	$ -

See notes on page 165 in this section.

1. BASIS OF BUDGETING VS. MODIFIED ACCRUAL BASIS FUND BALANCE (1)

Since the presentation of financial data on the basis of budgeting differs from that presented under accounting principles generally accepted in the United States of America, a schedule reconciling the fund balance on a budgetary basis at June 30, 2008, to the fund balance on a modified accrual basis follows.

Fund Balance Comparison
Budgetary Basis to GAAP Basis
June 30, 2008

(Dollars in Thousands)

	General Fund	Commonwealth Transportation Fund	Federal Trust Fund
Fund Balance, Basis of Budgeting	$ 2,219,790	$ 1,791,954	$ -
Adjustments from Budget to Modified Accrual, Undesignated:			
Accrued Revenues:			
Taxes	571,892	137,364	-
Tax Refunds	(419,980)	-	-
Other Revenue/Other Sources	(14,936)	141,268	465,094
Deferred Taxes (2)	(194,497)	-	-
Medicaid Payable	(213,501)	-	(213,481)
Accrued Expenditures/Other Uses	(745,849)	(226,990)	(164,945)
Fund Balance, Modified Accrual Basis	$ 1,202,919	$ 1,843,596	$ 86,668

1. As discussed in Note 1.E., the Literary Fund has no approved budget.
2. See also Note 1.Q.

2. APPROPRIATIONS

The amounts presented in the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds are principally on a cash basis and represent the original budget adopted by the General Assembly and all supplemental appropriations and transfers. The following schedule reconciles original appropriations to the final adjusted expenditure appropriations for the General Fund and Major Special Revenue Funds, at June 30, 2008, except the Literary Fund which has no approved budget.

(Dollars in Thousands)	General Fund (10)	Commonwealth Transportation Fund	Federal Trust Fund (11)
Appropriations (1)	$ 17,176,208	$ 4,011,471	$ 5,425,001
Supplemental Appropriations:			
Reappropriations (2)	1,168,709	63,739	27,695
Subsequent Executive (3)	53,417	277,356	229,109
Subsequent Legislative (4)	(40,577)	288,916	(42,567)
Capital Outlay and Operating Reversions (5)	(11,132)	(93)	(265)
Deficit (6)	3,413	-	-
Transfers (7)	(843,205)	160,211	(11,528)
Capital Outlay Adjustment (8)	(178,510)	(59,125)	(27,806)
Debt Service Adjustment (9)	-	(137,629)	-
Appropriations, as adjusted	$ 17,328,323	$ 4,604,846	$ 5,599,639

1. Represents the budget appropriated through Chapter 847, 2007 Acts of Assembly, as amended by Chapter 847, 2008 Acts of Assembly.
2. Actions taken to reappropriate any prior year unexpended balances per authority of the language in the Appropriation Act.
3. Actions taken by the Governor to carry forward any prior year unexpended balances, sum sufficient authority, and year 2 to year 1 reductions (General Fund) and actions taken to appropriate any additional revenues collected so that they can be legally spent (Special Revenue Funds).
4. Actions taken by the Governor and the General Assembly to adjust the budget.
5. Represents reversions of unexpended capital outlay and operating balances.
6. Represents additional appropriations authorized by the Governor to prevent agencies from incurring deficits. This deficit appropriation relates to the payment of startup costs for the Northern Virginia and Hampton Roads Transportation Authorities and the Sitter-Barfoot Veterans Care Center.
7. Represents transfers required by the Appropriation Act. Transfers out are reduced by approximately $1.7 billion (General Fund) and $2.3 million (Commonwealth Transportation Fund) for transfers to component units and fiduciary funds that have been reclassified as expenditures in accordance with GASB Statement No. 34.
8. Capital outlay appropriations cover the projects' lives and usually extend beyond the current fiscal year. These amounts have been adjusted to report the amount authorized for expenditure during the current fiscal year.
9. The Special Revenue Commonwealth Transportation Fund appropriations have been adjusted for debt service.
10. Prior year reversions of $444 million are included in the accounting system for monitoring, but do not represent current year appropriations and are not in this schedule.
11. Appropriations do not include food stamp issuances of $590 million since this is a noncash item; however, this amount is included in actual expenditures.

Funding Progress for Defined Benefit Pension Plans

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Virginia Retirement System (VRS) **			
2007	$ 47,815	$ 58,116	$ 10,301	82.3%	$ 13,834	74.5%
2006	42,669	52,822	10,153	80.8%	13,002	78.1%
* 2005	40,372	49,628	9,256	81.3%	12,212	75.8%
2004	39,691	43,958	4,267	90.3%	11,510	37.1%
2003	39,243	40,698	1,455	96.4%	10,885	13.4%
2002	38,957	38,265	(692)	101.8%	10,669	(6.5%)
2001	37,968	35,384	(2,584)	107.3%	10,145	(25.5%)
* 2000	34,392	32,643	(1,749)	105.4%	9,529	(18.4%)
1999	29,804	31,419	1,615	94.9%	9,138	17.7%
** 1998	25,481	29,027	3,546	87.8%	8,638	41.1%
			State Police Officers' Retirement System (SPORS)			
2007	$ 595	$ 806	$ 211	73.8%	$ 101	208.9%
2006	539	730	191	73.8%	94	203.2%
* 2005	514	673	159	76.4%	91	174.7%
2004	510	656	146	77.9%	82	176.8%
2003	509	616	107	82.6%	79	135.4%
2002	508	595	87	85.4%	81	107.4%
2001	495	557	62	88.9%	83	74.7%
* 2000	441	513	72	86.0%	81	88.9%
1999	377	463	86	81.4%	77	111.7%
** 1998	322	425	103	75.8%	65	158.5%
			Virginia Law Officers' Retirement System (VaLORS)			
2007	$ 766	$ 1,166	$ 400	65.7%	$ 341	117.3%
2006	656	1,096	440	59.9%	321	137.1%
* 2005	575	980	405	58.7%	307	131.9%
2004	509	927	418	54.9%	298	140.3%
2003	458	854	396	53.6%	292	135.6%
2002	418	806	388	51.9%	306	126.8%
2001	393	628	235	62.6%	320	73.4%
*** 2000	307	680	373	45.1%	315	118.4%
			Judicial Retirement System (JRS)			
2007	$ 340	$ 442	$ 102	76.9%	$ 58	175.9%
2006	302	424	122	71.2%	54	225.9%
* 2005	288	402	114	71.6%	52	219.2%
2004	285	366	81	77.9%	48	168.8%
2003	282	348	66	81.0%	48	137.5%
2002	281	352	71	79.8%	48	147.9%
2001	277	342	65	81.0%	47	138.3%
* 2000	245	330	85	74.2%	45	188.9%
1999	210	302	92	69.5%	42	219.0%
** 1998	180	274	94	65.7%	39	241.0%

* Revised economic and demographic assumptions due to experience study.

** Change in benefit formula, unreduced early retirement age and in the actuarial amortization method.

*** The first actuarial valuation for the Virginia Law Officers' Retirement System, established on October 1, 1999, was performed as of June 30, 2000.

See Notes on following page.

Notes:	Valuation Date:	June 30, 2007
	Actuarial Cost Method:	Entry Age Normal
	Amortization Method:	
	State Employees	Level percent, closed
	Teachers	Level percent, closed
	Political Subdivision Employees	Level percent, closed
	State Police / VA Law Officers / Judges	Level percent, closed
	Payroll Growth Rate:	
	State Employees	3.00%
	Teachers	3.00%
	Political Subdivision Employees	2.50%
	State Police / VA Law Officers / Judges	3.00%
	Remaining Amortization Period:	
	State Employees	20 years
	Teachers	20 years
	Political Subdivision Employees	20 years
	State Police / VA Law Officers / Judges	20 years
	Asset Valuation Method:	5 year Smoothed Market
	Actuarial Assumptions:	
	Investment Rate of Return (1)	7.50%
	Projected Salary Increases (1)	
	State Employees	3.75% to 5.60%
	Teachers	3.75% to 6.20%
	Political Subdivision Employees (Non-Hazardous Duty Employees)	3.75% to 5.60%
	Political Subdivision Employees (Hazardous Duty Employees)	3.50% to 4.75%
	State Police / VA Law Officers	3.50% to 4.75%
	Judges	3.50%
	Cost of Living Adjustments	2.50%

(1) Includes inflation at 2.50%.

Schedule of Employer Contributions – Defined Pension Plans

(Dollars in Millions)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Statutory Required Contribution	Percentage Contributed
		Virginia Retirement System (VRS)		
2008 *	$ 1,378,993	92.58%	$ 1,276,645	100.00%
2007 *	1,299,606	85.89%	1,116,217	100.00%
2006 *	864,245	89.51%	773,553	100.00%
2005 *	810,944	85.26%	691,415	100.00%
2004 *	469,200	91.66%	430,064	100.00%
2003 *	450,766	67.61%	304,784	100.00%
2002 *	459,613	79.68%	366,239	100.00%
2001 *	630,458	99.99%	630,370	100.00%
2000 *	785,376	93.24%	732,273	100.00%
1999 *	738,051	85.64%	632,084	100.00%
		State Police Officers' Retirement System (SPORS)		
2008 *	$ 22,941	91.49%	$ 20,989	100.00%
2007 *	19,402	84.31%	16,358	100.00%
2006 *	23,132	65.96%	15,258	100.00%
2005 *	21,946	65.96%	14,475	100.00%
2004 *	20,187	51.16%	10,328	100.00%
2003 *	19,866	44.20%	8,781	100.00%
2002 *	20,190	50.00%	10,095	100.00%
2001	20,420	100.00%	20,420	100.00%
2000 *	17,684	85.07%	15,044	100.00%
1999 *	16,088	69.87%	11,241	100.00%
		Virginia Law Officers' Retirement System (VaLORS)		
2008 *	$ 61,325	91.20%	$ 55,929	100.00%
2007 *	56,190	86.03%	48,338	100.00%
2006 *	77,414	67.96%	52,611	100.00%
2005 *	74,301	67.96%	50,495	100.00%
2004 *	72,752	55.80%	40,596	100.00%
2003 *	72,699	48.00%	34,895	100.00%
2002 *	77,417	32.30%	25,006	100.00%
2001	51,072	100.00%	51,072	100.00%
2000 **	16,216	84.81%	13,753	100.00%
		Judicial Retirement System (JRS)		
2008 *	$ 23,599	94.86%	$ 22,386	100.00%
2007 *	22,557	91.02%	20,530	100.00%
2006 *	23,871	67.89%	16,206	100.00%
2005 *	22,490	67.89%	15,269	100.00%
2004 *	21,341	71.18%	15,190	100.00%
2003 *	21,110	64.44%	13,604	100.00%
2002 *	21,282	50.00%	10,641	100.00%
2001	20,822	100.00%	20,822	100.00%
2000 *	15,075	99.07%	14,935	100.00%
1999 *	14,118	91.64%	12,938	100.00%

* Contributions made by employers during the fiscal years ended June 30, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, and 2008 were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet the statutory requirements.

** The VaLORS program went into effect on October 1, 1999.

Funding Progress for Other Post-Employment Benefit Plans

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Group Life Insurance Fund			
2007	$ 880	$ 1,552	$ 672	56.7%	$ 14,822	4.5%
* 2006	$ 751	$ 1,436	$ 685	52.3%	$ 13,923	4.9%
			Retiree Health Insurance Credit Fund			
2007	$ 198	$ 1,814	$ 1,616	10.9%	$ 10,571	15.3%
* 2006	$ 175	$ 1,316	$ 1,141	13.3%	$ 9,965	11.5%
			Disability Insurance Trust Fund			
2007	$ 264	$ 451	$ 187	58.5%	$ 3,909	4.8%
* 2006	$ 192	$ 423	$ 231	45.4%	$ 3,716	6.2%
			Line of Duty Death and Disability Trust Fund			
2008	$ 3	$ 185	$ 182	1.6%	$ N/A	-
2007	$ -	$ 146	$ 146	-	$ N/A	-
* 2006	$ -	$ 99	$ 99	-	$ N/A	-
			Pre-Medicare Retiree Healthcare Fund			
** 2007	$ -	$ 982	$ 982	-	$ 2,931	33.5%

* 2006 was the first actuarial valuation prepared using the required parameters of GASB Statement No. 43.
**2007 was the first actuarial valuation prepared for the Pre-Medicare Retiree Healthcare Fund.

See Notes on following page.

Notes	Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund	Line of Duty Death and Disability Trust Fund	Pre-Medicare Retiree Healthcare Fund
Valuation Date	June 30, 2007	June 30, 2007	June 30, 2007	June 30, 2008	June 30, 2007
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent, Open	Level Percent, Open	Level Percent, Open	Level Percent, Open	Level dollar, Open
Payroll Growth Rate:					
State Employees	3.00%	3.00%	3.00%	N/A	3.00%
Teachers	3.00%	3.00%	N/A	N/A	N/A
Political Subdivision Employees	3.00%	3.00%	N/A	N/A	N/A
State Police / VA Law Officers / Judges	3.00%	3.00%	3.00%	3.00%	3.00%
Judges	3.00%	3.00%	N/A	N/A	N/A
Remaining Amortization Period	29 years	29 years	29 years	30 years	30 years
Asset Valuation Method	5-Year, Smoothed Market	5-Year, Smoothed Market	Market Value	Market Value	Market Value
Actuarial Assumptions:					
Investment Rate of Return (1)	7.50%	7.50%	7.50%	7.50%	4.97%
Projected Salary Increases (1)					
State Employees	3.75% to 5.60%	N/A	3.75% to 5.60%	N/A	3.75% to 5.60%
Teachers	3.75% to 6.20%	N/A	N/A	N/A	N/A
Political Subdivision Employees (Non-Hazardous Duty Employees)	3.75% to 5.60%	N/A	N/A	N/A	N/A
Political Subdivision Employees (Hazardous Duty Employees)	3.50% to 4.75%	N/A	N/A	N/A	N/A
State Police / VA Law Officers / Judges	3.50% to 4.75%	N/A	3.50% to 4.75%	3.50% to 4.75%	3.50% to 4.75%
Judges	3.50%	N/A	N/A	N/A	N/A

(1) Includes inflation at 2.50%.

Schedule of Employer Contributions – Other Post-Employment Benefit Plans

(Dollars in Millions)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Statutory Required Contribution	Percentage Contributed
		Group Life Insurance Fund		
2008 *	$ 158,740	100.00%	$ 158,740	100.00%
		Retiree Health Insurance Credit Fund		
2008 *	$ 147,524	100.00%	$ 147,524	100.00%
		Disability Insurance Trust Fund		
2008 *	$ 97,975	80.00%	$ 78,380	100.00%
		Line of Duty Death and Disability Trust Fund		
2008 *	$ 9,786	102.45%	$ 10,026	100.00%
		Pre-Medicare Retiree Healthcare Fund		
2008 *	$ 127,426	25.21%	$ -	-

* 2008 was the first fiscal year in which contribution requirements were computed using the required parameters of GASB 43. For all plans, the contributions made were in accordance with the actuarially determined Annual Required Contribution (ARC) and the statutory requirements.

Claims Development Information – Risk Management

(Dollars in Thousands)

Comparison of Earned Revenues and Investment Income to Related Costs of Loss and Other Expenses

Fiscal and Policy Year Ended	1999	2000	2001	2002
1. Required contribution and investment revenue:				
Earned	$ 6,780	$ 6,478	$ 5,814	$ 5,936
Ceded (a)	-	-	-	-
Net earned	6,780	6,478	5,814	5,936
2. Unallocated expenses	703	1,223	1,863	902
3. Estimated incurred claims and expenses, end of policy year:				
Incurred	2,719	2,263	2,687	4,110
Ceded (a)	-	-	-	-
Net incurred	2,719	2,263	2,687	4,110
4. Net paid (cumulative) as of:				
End of policy year	439	196	336	550
One year later	2,100	2,688	1,628	1,979
Two years later	2,938	3,322	2,388	2,291
Three years later	4,555	3,369	2,490	2,556
Four years later	4,873	3,447	2,530	2,864
Five years later	4,931	4,042	2,616	2,900
Six years later	5,144	4,062	2,616	3,054
Seven years later	5,144	4,069	2,618	
Eight years later	5,175	4,080		
Nine years later	5,205			
5. Reestimated ceded claims and expenses (a)	-	-	-	-
6. Reestimated incurred claims and expenses:				
End of policy year	2,719	2,263	2,687	4,110
One year later	5,509	4,801	3,752	4,458
Two years later	5,997	4,467	3,318	4,196
Three years later	5,769	3,589	3,270	3,734
Four years later	5,146	3,575	3,186	3,299
Five years later	5,955	4,211	3,171	3,566
Six years later	6,017	4,236	3,171	3,240
Seven years later	6,017	4,212	3,168	
Eight years later	5,265	4,162		
Nine years later	5,290			
7. Increase (decrease) in estimated net incurred claims and expense from end of policy year	2,571	1,899	481	(870)

The Commonwealth provides errors and omissions liability insurance and law enforcement professional liability insurance for local governmental units, which went into effect in fiscal year 1987. For fiscal years 1992-2000, this insurance coverage was provided through the Department of General Services, Division of Risk Management. Effective July 1, 2000, this coverage was provided through the Department of Treasury, Division of Risk Management.

See Notes on page 176 in this section.

2003	2004	2005	2006	2007	2008
$ 5,740	$ 5,729	$ 5,788	$ 6,166	$ 6,560	$ 6,759
-	-	-	-	-	-
5,740	5,729	5,788	6,166	6,560	6,759
918	1,209	1,068	1,008	1,047	1,307
3,488	2,861	2,790	1,539	2,060	3,330
-	-	-	-	-	-
3,488	2,861	2,790	1,539	2,060	3,330
380	161	227	177	106	493
1,894	1,072	1,699	745	1,051	
2,181	1,420	2,079	1,421		
2,375	1,539	2,332			
2,435	1,559				
2,454					
-	-	-	-	-	-
3,488	2,861	2,790	1,539	2,060	3,330
3,237	3,302	3,563	2,168	3,316	
2,910	2,306	3,418	2,494		
2,619	1,700	3,204			
2,447	1,697				
2,467					
(1,021)	(1,164)	414	955	1,256	-

Claims Development Information – Health Care

(Dollars in Thousands)

Comparison of Earned Revenues and Investment Income to Related Costs of Loss and Other Expenses

Fiscal and Policy Year Ended	1999	2000	2001	2002
1. Required contribution and investment revenue:				
Earned	$ 64,419	$ 75,569	$ 88,313	$ 100,836
Ceded (a)	-	-	-	-
Net earned	64,419	75,569	88,313	100,836
2. Unallocated expenses	6,632	6,997	7,203	6,225
3. Estimated incurred claims and expenses, end of policy year:				
Incurred	70,719	76,816	87,222	95,860
Ceded (a)	-	-	-	-
Net incurred	70,719	76,816	87,222	95,860
4. Net paid (cumulative) as of:				
End of policy year	62,219	68,336	74,579	80,974
One year later	-	-	-	-
Two years later	N/A	N/A	N/A	N/A
Three years later	N/A	N/A	N/A	N/A
Four years later	N/A	N/A	N/A	N/A
Five years later	N/A	N/A	N/A	N/A
Six years later	N/A	N/A	N/A	N/A
Seven years later	N/A	N/A	N/A	
Eight years later	N/A	N/A		
Nine years later	N/A			
5. Reestimated ceded claims and expenses (a)	-	-	-	-
6. Reestimated incurred claims and expenses:				
End of policy year	70,719	74,417	87,222	95,860
One year later	70,719	74,417	87,222	95,860
Two years later	N/A	N/A	N/A	N/A
Three years later	N/A	N/A	N/A	N/A
Four years later	N/A	N/A	N/A	N/A
Five years later	N/A	N/A	N/A	N/A
Six years later	N/A	N/A	N/A	N/A
Seven years later	N/A	N/A	N/A	
Eight years later	N/A	N/A		
Nine years later	N/A			
7. Increase (decrease) in estimated net incurred claims and expense from end of policy year	-	(2,399)	-	-

The Commonwealth, through its Department of Human Resource Management, provides health care insurance for local governmental units, which went into effect in fiscal year 1987.

See Notes on page 176 in this section.

2003	2004	2005	2006	2007	2008
$ 118,825	$ 137,582	$ 157,959	$ 184,360	$ 202,366	$ 211,034
-	-	-	-	-	-
118,825	137,582	157,959	184,360	202,366	211,034
6,171	6,271	10,655	11,899	13,782	16,215
104,453	124,887	144,976	152,289	163,787	185,117
-	-	-	-	-	-
104,453	124,887	144,976	152,289	163,787	185,117
99,443	99,656	140,452	147,534	159,769	181,566
-	-	-	-	-	
N/A	N/A	N/A	N/A		
N/A	N/A	N/A			
N/A	N/A				
N/A					
-	-	-	-	-	-
104,453	124,887	144,976	152,289	163,787	185,117
104,453	124,887	144,976	152,289	163,787	
N/A	N/A	N/A	N/A		
N/A	N/A	N/A			
N/A	N/A				
N/A					
-	-	-	-	-	-

Notes for Claims Development Information Tables

The tables on the previous four pages illustrate how the Risk Management and Health Care Claims Funds earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of each of the past several years. The rows of the tables are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

2. This line shows each fiscal year's other operating costs of the funds, including overhead and claims expense not allocable to individual claims.

3. This line shows the funds' gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

4. This section of rows shows the cumulative net amounts paid as of the end of successive years for each policy year.

5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.

6. This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)

7. This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years.

The columns of the tables show data for successive policy years.

Notes:

(a) During fiscal year 1997, the Commonwealth implemented GASB Statement No. 30, *Risk Financing Omnibus*. The Commonwealth has no reinsurers; therefore, the ceded amounts on lines 1, 3, and 5 are zero.

APPENDIX B

COMMONWEALTH OF VIRGINIA

FINANCIAL AND OTHER INFORMATION

APPENDIX B
TABLE OF CONTENTS

INTRODUCTION 1
GOVERNMENTAL ORGANIZATION 1
Legislative Department 1
Executive Department 1
Judicial Department 2
FINANCIAL FACTORS 2
Budgetary Process 2
Development of Revenue Estimates 3
Financial Control Procedures 3
Investment of Public Funds 3
Financial Statements 4
Summary of General Fund Revenues, Expenditures and Changes in Fund Balance 4
General Fund Revenues 8
Collection of Delinquent Tax 9
General Fund Expenditures 10
General Fund Balance 11
Nongeneral Fund Revenues 12
The 2008 Appropriation Act 13
The 2009 Amendments to the 2008 Appropriation Act 15
INDEBTEDNESS OF THE COMMONWEALTH 17
Section 9(a) Debt 17
Section 9(b) Debt 17
Section 9(c) Debt 17
Effect of Refunding Debt 18
General Obligation Debt Limit and Debt Margin 19
Tax-Supported Debt – General Obligation 20
Other Tax-Supported Debt 20
Leases and Contracts 20
Outstanding Tax-Supported Debt 21
Outstanding Tax-Supported Debt Service 23
Authorized and Unissued Tax-Supported Debt 25
Moral Obligation Debt 25
Other Debt 26
Commonwealth Debt Management 27
RETIREMENT PLANS 27
OTHER LONG-TERM LIABILITIES 32
Employee Benefits Other than Pension Benefits 32
Self-Insurance 32
Medicaid Payable 32
Other Post Employment Benefits (OPEB) – Financial Statement Reporting 32
LABOR RELATIONS 33
LITIGATION 33
TOBACCO SETTLEMENT 34

INTRODUCTION

This financial and other information was provided by the Commonwealth of Virginia (the "Commonwealth"), its agencies, institutions and authorities. The data were compiled by the Department of the Treasury and were not independently verified; however, the Department of the Treasury has no reason to believe that such material is not true and correct.

GOVERNMENTAL ORGANIZATION

Under the Constitution of Virginia (the "Constitution"), the legislative, executive and judicial powers of the Commonwealth are divided into three separate and distinct departments.

Legislative Department

The legislative power is vested in the General Assembly, the oldest representative lawmaking body in the United States. The General Assembly is bicameral, consisting of a Senate with 40 Senators elected for four-year terms and a House of Delegates with 100 Delegates elected for two-year terms. The General Assembly meets annually each January. Regular sessions are 60 days in duration in even numbered years and 30 days in odd numbered years, but each can be extended for an additional 30 days by a two-thirds vote of each house.

The General Assembly is assisted in its legislative function by a full-time staff of over 100 persons and various commissions appointed by the General Assembly. The Joint Legislative Audit and Review Commission was established to carry out continuous legislative review and evaluation of Commonwealth programs from the standpoint of cost effectiveness.

The Auditor of Public Accounts is elected by the General Assembly. The Auditor and a staff of approximately 160 persons audit the accounts of all Commonwealth offices, departments, boards, commissions, institutions and other agencies handling Commonwealth funds and report thereon to the General Assembly.

Executive Department

The Governor, Lieutenant Governor and Attorney General are constitutional officers, elected every four years. The present term of each office began January 14, 2006 and each expires January 16, 2010. The Constitution does not allow a Governor to serve successive terms.

The Governor is the Commonwealth's chief executive officer. The Governor advises the General Assembly on the condition of the Commonwealth and makes recommendations for legislation. The Governor is also charged with the responsibility for preparing and executing the Commonwealth's budget. The Governor's veto of legislation may be overridden only by a two-thirds vote of each house of the General Assembly. If deemed necessary for the welfare of the Commonwealth, the Governor may convene the General Assembly at any time. With few exceptions, the Governor appoints the administrative heads and boards of all Commonwealth agencies. Commonwealth agencies report to the Governor through a cabinet of eleven Secretaries appointed by the Governor to supervise and manage the various functions of the Commonwealth's government.

The Lieutenant Governor is next in line in the event of the Governor's inability to serve. The Lieutenant Governor also serves as President of the Senate, but may not vote except in the event of a tie.

The Attorney General is the chief executive officer of the Department of Law. The Department of Law represents the Commonwealth in all civil cases to which the Commonwealth or any of its agencies is a party and in all criminal cases on appeal to the Supreme Court of Virginia. The Attorney General is also the legal advisor to the Governor, General Assembly and heads of Commonwealth agencies.

Judicial Department

The Supreme Court is the Commonwealth's highest court and consists of seven justices appointed by the General Assembly. Several agencies involved in legal administration operate under the control of the Supreme Court. These include the Judicial Inquiry and Review Commission, the Virginia State Bar and the State Board of Bar Examiners. The Commonwealth is divided into 31 Judicial Circuits over which Circuit Judges preside. The Circuit Courts are courts of record having original jurisdiction in cases involving a specified sum and felonies, and appellate jurisdiction over lower District Courts. A Court of Appeals stands between the Circuit Courts and the Supreme Court and has appellate jurisdiction.

FINANCIAL FACTORS

Budgetary Process

The Governor is the chief planning and budget officer of the Commonwealth. The Secretary of Finance and the Department of Planning and Budget assist the Governor in the preparation of executive budget documents. The Governor's Secretaries advise the Governor and the Department of Planning and Budget on the relative priority of the budget requests from their respective agencies.

The Governor is required by statute to present a bill detailing his budget (the "Budget Bill") and a narrative summary of the bill to the General Assembly by December 20th in the year immediately prior to each even-year session. The Budget Bill is introduced in both the House of Delegates and the Senate. It is referred to the House Appropriations and Senate Finance Committees, which hold joint meetings to hear from citizens, from other General Assembly members and from agency representatives. The Budget Bill is then approved by each Committee in an open session and reported to the respective floors for consideration, debate, amendment and passage. After the bill has passed both houses, differences between the House and Senate versions are reconciled by a conference committee with equal representation from both houses.

Under constitutional provisions, the Governor retains the right in his review of legislative action on the Budget Bill, to suggest alterations to or to veto appropriations made by the General Assembly. After enactment, the Budget Bill becomes law (the "Appropriation Act").

In the odd-year sessions of the General Assembly, amendments are considered to the Appropriation Act enacted in the previous year. The Governor submits a Budget Bill by December 20th which includes his proposed amendments. It is then introduced in both houses and is considered in the same manner as the regular biennial Budget Bill. The Appropriation Act enacted in the odd-year session is effective upon passage, whereas the regular biennial Appropriation Act is effective July 1, the beginning of the biennium.

An appropriation for a project or service is initially contained in the Appropriation Act enacted by the General Assembly. An agency request for an increase or other adjustments to its legislative appropriation must be reviewed and approved by the Department of Planning and Budget. Under the Constitution, no money may be paid out of the State Treasury except pursuant to appropriations made by law. No such appropriation may be made which is payable more than two years and six months after the end of the session of the General Assembly at which the appropriation was enacted.

Implementation and administration of the provisions of the Appropriation Act are functions of the Governor, assisted by the Secretary of Finance and the Department of Planning and Budget. This process also involves constant monitoring of revenue collections and expenditures to ensure that a balanced budget is maintained. The Appropriation Act requires that if projected revenue collections fall below amounts appropriated, the Governor must reduce expenditures and withhold allotments of appropriations, with the exception of amounts needed for debt service and specified other purposes, to the extent necessary to prevent any expenditure in excess of estimated revenues. The Appropriation Act provides that up to 15 percent of a general fund appropriation to an agency may be withheld, if required.

The Constitution requires the Governor to ensure that expenses do not exceed total revenues anticipated plus fund balances during the period of two years and six months following the end of the General Assembly session in which the appropriations are made. The Revenue Stabilization Fund was established by constitutional amendment effective January 1, 1993, and consists of an amount not to exceed 10 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the three immediately preceding fiscal years, as certified by the Auditor of Public Accounts. The Fund is available to offset, in part, anticipated shortfalls in revenues in years when appropriations based on previous forecasts exceed expected revenues in subsequent forecasts. If in any year total revenues are forecast to decline by more than 2 percent of the certified tax revenues collected in the most recently ended fiscal year, the General Assembly may

appropriate for transfer up to one-half of the Revenue Stabilization Fund balance to the General Fund to stabilize revenues. This transfer shall not exceed one-half of the forecast shortfall. If any amounts accrue to the credit of the Fund in excess of the 10 percent limitation, such as through interest or dividends, the Treasurer shall promptly transfer any such excess amounts to the General Fund.

Development of Revenue Estimates

The development of the General Fund revenue estimate begins with the selection of a forecast of national economic activity for the state budget period prepared by independent economic forecasting firms based on the advice of the Governor's Advisory Board of Economists and the Commonwealth's own staff. The national economic forecast is used to develop a forecast of similar indicators of in-state activity.

After the development of forecasts of major Commonwealth economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by the Department of Taxation. Adjustments are made on a revenue source-by-source basis for any legislative, judicial or administrative changes that would affect the projected level of revenues but that cannot be forecast by models constructed using historical data. Finally, adjustments are made if revenues are substantially above or below the projected level.

Financial Control Procedures

The General Assembly appropriates funds for a particular program in the Appropriation Act. These funds must then be allotted by the Governor and the Department of Planning and Budget for specific purposes. The State Comptroller accounts for certain specific personnel and non-personnel transactions. Once appropriation, allotment and accounting procedures have been completed, funds are disbursed by the State Treasurer upon a warrant of the State Comptroller drawn at the request of the responsible agency. The Auditor of Public Accounts audits such financial transactions to assure the reporting of such transactions is in compliance with generally accepted accounting principles.

The Director of the Department of Planning and Budget is appointed by the Governor. The Department of Planning and Budget monitors and evaluates the use of resources to ensure that agencies are delivering effective and efficient services. The Governor is empowered to withhold appropriations to agencies in the event that expenditures are no longer warranted or are not being made for the purposes for which the funds were initially appropriated.

The State Comptroller, who is appointed by the Governor subject to confirmation by the General Assembly, is the director of the Department of Accounts, the central accounting agency of the Commonwealth. The State Comptroller maintains a complete system of general accounts of every department, division, office, board, commission, institution and agency of the Commonwealth. In order to assure uniform accounting practices among the agencies and to avoid duplication, the State Comptroller also prescribes the accounts and control records that are to be kept by each state agency.

The State Treasurer, who is also appointed by the Governor subject to confirmation by the General Assembly, is the director of the Department of the Treasury. This department receives, maintains custody of and disburses all funds of the Commonwealth.

Unlike the State Comptroller and the State Treasurer, the Auditor of Public Accounts is appointed by the General Assembly for a term of four years and is, therefore, part of the Legislative Department rather than the Executive Department. The principal function of the Auditor is to audit the accounts of all state departments, offices, boards, commissions, institutions and agencies handling state funds. In the event the Auditor discovers some irregularity or misuse of funds, it is his duty to inform the Governor, the Joint Legislative Audit and Review Commission and the State Comptroller.

Investment of Public Funds

It is the policy of the State Treasurer to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands and conforming to all statutes governing the investment of public funds. The General Account of the Commonwealth, which is comprised of funds collected and held for various fund groups including the General Fund, is divided into two major pools. Both pools are managed in accordance with guidelines promulgated by the Treasury Board. The Primary Liquidity Pool, representing approximately 75 percent of the General Account, provides for disbursements and operational needs. Safety of principal and liquidity are the objectives of this portfolio. The Total Return Pool, which can be up to 25 percent of the General Account, is structured to generate investment returns over the long term higher than the return on the Primary Liquidity Pool, while maintaining sound credit quality and providing secondary liquidity.

Financial Statements

The Commonwealth operates on a fiscal year basis beginning on July 1 and ending on June 30. The Commonwealth's financial statements, audited by the Auditor of Public Accounts, for the fiscal year ended June 30, 2008, are contained in the Commonwealth Comprehensive Annual Financial Report (the "CAFR") available at www.doa.virginia.gov. The financial statements implement reporting standard GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The financial statements include government-wide statements using full accrual accounting, fund financial statements that use different accounting approaches based on the type of fund, and a reconciliation of the two types of statements. See the section in the CAFR entitled "Management's Discussion and Analysis" for a more detailed explanation of the types of financial statements prepared. The Commonwealth's annual budget is prepared principally on a cash basis and represents departmental appropriations as authorized by the General Assembly. Under the cash basis of accounting, revenues and other financial resources are recognized in the accounting period in which cash is received; expenditures and other financial uses are recognized when cash is disbursed. The section of the CAFR entitled "Required Supplementary Information" reconciles the budgetary (*i.e.*, cash) presentation to the financial statements. The Preliminary Annual Report, which is comprised of budgetary (cash) basis financial statements, is presented on an unaudited basis. The Preliminary Annual Report for the year ended June 30, 2009 is available at www.doa.virginia.gov. The CAFR for the fiscal year ended June 30, 2009 will be available on December 15, 2009.

Summary of General Fund Revenues, Expenditures and Changes in Fund Balance

The following tables summarize the Commonwealth's General Fund revenues, expenditures and fund balance on a budgetary (*i.e.*, cash) basis for fiscal years 2005 through 2009 and compares the budgeted to actual numbers on a budgetary basis. The financial information for fiscal year 2009 is preliminary and unaudited.

The General Fund balance, as shown on page B-5, decreased by $1.4 billion in fiscal year 2009, a decrease of 62.9 percent from fiscal year 2008. Overall tax revenues decreased by 8.9 percent from fiscal year 2008 to fiscal year 2009. Individual and Fiduciary Income tax revenues decreased by 6.3 percent. Additional tax revenue decline occurred in the form of an 19.8 percent decrease in Corporation Income taxes, while there was a 27.9 percent decrease in other taxes. Public Service Corporation taxes decreased by 5.2 percent, while State Sales and Use tax collections decreased by 5.6 percent during fiscal year 2009. Overall revenue and non-tax revenues decreased by 9.0 percent and by 11.5 percent, respectively. Overall expenditures declined by 3.8 percent in fiscal year 2009, compared to an 6.6 percent increase in fiscal year 2008. Individual and family service expenditures decreased by $243.0 million, or 5.7 percent, and education expenditures increased by $223.2 million, or 2.85 percent. General government expenditures decreased $120.5 million or 6.7 percent.

Of the $823.5 million fund balance as of June 30, 2009, $575.1 million was reserved as the Revenue Stabilization Fund (the "Fund"). A deposit of $21.3 million was made to the Fund during fiscal year 2009 as required by Section 2.2-1829(b) of the Code of Virginia. Also during fiscal year 2009, $490.0 million was transferred from the Fund to the General Fund. The Fund is segregated from the General Fund and can be used only for constitutionally authorized purposes. Virginia law directs that the Fund be included as a component of the General Fund only for financial reporting purposes.

Under the provisions of Article X, Section 8 of the Constitution of Virginia, and based on fiscal year 2009 revenue collections, no deposits are required during FY 2011. Section 2.2-1829(b) of the Code of Virginia, requires that if certain revenue criteria are met, then an additional deposit to the Fund equal to at least one-half the mandatory deposit must be included in the Governor's budget. The Code further requires that any such additional deposits to the Fund shall be included in the Governor's budget recommendations only if the estimate of General Fund revenues for the fiscal year in which the deposit is to be made is at least five percent greater than the actual General Fund revenues for the immediately preceding fiscal year. These conditions were not met for fiscal year 2009. The Constitutional maximum for the Fund remains at $1.4 billion for fiscal year 2010. The fiscal year 2010 maximum is pending certification by the Auditor of Public Accounts.

SUMMARY OF GENERAL FUND
REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGETARY BASIS
(in thousands)

	Fiscal Year Ended June 30,				
	2005	**2006**	**2007**	**2008**	**2009***
Revenues:					
Taxes					
Individual and Fiduciary Income	$8,352,366	$9,308,570	$9,787,592	$10,114,833	$9,481,109
State Sales and Use	3,093,725	3,029,949	3,274,286	3,302,181	3,116,831
Corporation Income	616,690	871,554	879,575	807,852	648,033
Deeds, Contracts, Wills and Suits	596,058	694,712	582,946	456,348	314,264
Premiums of Insurance Companies	373,571	373,781	384,894	396,858	255,019
Alcoholic Beverage Sales	144,466	152,963	161,845	168,862	173,227
Tobacco Products	113,120	187,084	186,920	183,946	183,750
Estate	149,962	160,407	152,864	153,378	6,006
Public Service Corporations	88,309	89,992	87,961	96,390	91,340
Other Taxes	41,677	27,424	19,229	15,459	28,230
Total Taxes	13,569,944	14,896,436	15,518,112	15,696,107	14,297,809
Rights and Privileges	60,975	65,212	68,407	67,449	67,426
Sales of Property and Commodities	11,778	7,026	-	2,460	1
Assessments and Receipts for Support of Special Services	333	332	224	461	396
Institutional Revenue	9,198	8,235	7,169	7,590	6,402
Interest, Dividends, Rents	102,794	142,429	229,007	252,284	134,400
Fines, Forfeitures, Court Fees, Penalties, and Escheats	181,116	145,189	193,280	195,716	197,875
Receipts from Cities, Counties, and Towns	9,446	9,999	10,281	10,091	10,265
Private Donations, Gifts and Contracts	1	-	16	31	118
Tobacco Master Settlement	52,126	47,852	50,087	53,684	58,966
Other	142,978	81,353	60,894	63,844	102,568
Total Revenues	14,140,689	15,404,063	16,137,477	16,349,717	14,876,226
Expenditures:					
General Government	1,484,308	1,342,711	1,750,274	1,789,768	1,669,257
Education	6,242,886	6,767,114	7,592,975	7,822,396	8,045,614
Transportation	44	43	44	25,971	11,863
Resources and Economic Development	234,857	280,689	308,657	329,729	288,877
Individual and Family Services	3,348,455	3,652,319	3,919,109	4,255,474	4,012,450
Administration of Justice	2,042,773	2,221,646	2,220,203	2,424,790	2,300,008
Capital Outlay	25,368	85,952	175,713	370,552	47,421
Total Expenditures	13,378,691	14,350,474	15,966,975	17,018,680	16,375,490
Revenues Over (Under) Expenditures	761,998	1,053,589	170,502	(668,963)	(1,499,264)
Other Financing Sources (Uses):					
Transfers In	636,063	651,262	611,041	634,513	664,741
Transfers Out	(642,289)	(680,173)	(716,463)	(700,861)	(561,792)
	-	-	-	-	-
Total Other Financing Sources (Uses)	(6,226)	(28,911)	(105,422)	(66,348)	102,949
Revenues and Other Sources Over (Under) Expenditures and Other Uses	755,772	1,024,678	65,080	(735,311)	(1,396,315)
Fund Balance, July 1:					
Reserved	432,482	738,767	1,085,538	1,420,528	1,127,908
Unreserved	677,089	1,126,576	1,804,483	1,534,573	1,091,882
Total Fund Balance, July 1	1,109,571	1,865,343	2,890,021	2,955,101	2,219,790
Fund Balance, June 30:					
Reserved	738,767	1,085,538	1,420,528	1,127,908	662,489
Unreserved	1,126,576	1,804,483	1,534,573	1,091,882	160,986
Total Fund Balance, June 30	$1,865,343	$2,890,021	$2,955,101	$2,219,790	$823,475

*Preliminary and Unaudited

Source: Department of Accounts.

SUMMARY OF GENERAL FUND
REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND VARIANCE OF ACTUAL-BUDGETARY BASIS
(in thousands)

	Fiscal Year Ended June 30,			
	2005		2006	
	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
Revenues:				
Taxes				
Individual and Fiduciary Income	$8,002,700	349,666	$9,170,400	138,170
State Sales and Use	3,096,100	(2,375)	3,006,300	23,649
Corporation Income	549,000	67,690	851,500	20,054
Public Service Corporations	87,400	909	90,600	(608)
Premiums of Insurance Companies	381,000	(7,429)	392,500	(18,719)
Other	965,300	79,983	1,230,500	(7,910)
Total Taxes	13,081,500	488,444	14,741,800	154,636
Rights and Privileges	57,300	3,675	62,500	2,712
Institutional Revenue	8,600	598	9,200	(965)
Interest, Dividends, Rents and Other Investment Income	80,182	22,612	118,579	23,850
Tobacco Master Settlement	50,500	1,626	52,978	(5,126)
Other [1]	310,501	35,151	243,699	200
Total Revenues	13,588,583	552,106	15,228,756	175,307
Expenditures:				
General Government	1,533,591	49,283	1,388,701	45,990
Education	6,283,117	40,231	6,858,325	91,211
Transportation	44	-	44	1
Resources and Economic Development	247,533	12,676	298,832	18,143
Individual and Family Services	3,402,280	53,825	3,693,804	41,485
Administration of Justice	2,065,812	23,039	2,239,874	18,228
Capital Outlay	63,755	38,387	143,292	57,340
Total Expenditures	13,596,132	217,441	14,622,872	272,398
Revenues Over (Under) Expenditures	(7,549)	769,547	605,884	447,705
Other Financing Sources (Uses):				
Transfers In	624,973	11,090	612,667	38,595
Transfers Out	(593,733)	(48,556)	(646,516)	(33,657)
Total Other Financing Sources (Uses)	31,240	(37,466)	(33,849)	4,938
Revenues and Other Sources Over (Under) Expenditures and Other Uses	23,691	732,081	572,035	452,643
Fund Balance, July 1	1,109,571	-	1,865,343	-
Fund Balance, June 30	1,133,262	732,081	2,437,378	452,643

[1] Note that under Revenues above, certain line items have been combined into the "Other" line item; they are: "Sales of Property and Commodities," "Assessments and Receipts for Support of Special Services," "Fines, Forfeitures, Court Fees, Penalties, and Escheats," "Receipts from Cities, Counties, and Towns," and "Private Donations, Gifts, and Contracts." The reason for this is consistency with the CAFR line items.

*Preliminary and Unaudited

Source: Department of Accounts.

Fiscal Year Ended June 30,					
2007		2008		2009*	
Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
$9,968,800	(181,208)	$10,171,300	(56,467)	$9,697,300	(216,191)
3,319,100	(44,814)	3,325,200	(23,019)	3,179,300	(62,469)
901,400	(21,825)	699,100	108,752	685,000	(36,967)
92,500	(4,539)	88,000	8,390	92,800	(1,460)
384,600	294	418,400	(21,542)	257,500	(2,481)
1,086,700	17,104	991,300	(13,307)	671,000	34,477
15,753,100	(234,988)	15,693,300	2,807	14,582,900	(285,091)
64,800	3,607	68,800	(1,351)	63,900	3,526
8,800	(1,631)	7,500	90	7,500	(1,098)
248,472	(19,465)	227,574	24,710	121,986	12,414
45,439	4,648	54,006	(322)	66,754	(7,788)
248,573	16,122	291,938	(19,335)	308,597	2,626
16,369,184	(231,707)	16,343,118	6,599	15,151,637	(275,411)
1,801,933	51,659	1,832,064	42,296	1,722,663	53,406
7,658,804	65,829	7,863,398	41,002	8,083,328	37,714
500,044	500,000	52,042	26,071	53,949	42,086
335,845	27,188	353,333	23,604	313,963	25,086
4,010,002	90,893	4,275,525	20,051	4,075,027	62,577
2,239,237	19,034	2,439,998	15,208	2,440,305	140,297
430,654	254,941	511,963	141,411	74,498	27,077
16,976,519	1,009,544	17,328,323	309,643	16,763,733	388,243
(607,335)	777,837	(985,205)	316,242	(1,612,096)	112,832
571,217	39,824	621,173	13,340	641,873	22,868
(708,579)	(7,884)	(702,134)	1,273	(557,013)	(4,779)
(137,362)	31,940	(80,961)	14,613	84,860	18,089
(744,697)	809,777	(1,066,166)	330,855	(1,527,236)	130,921
2,890,021	-	2,955,101	-	2,219,790	-
2,145,324	809,777	1,888,935	330,855	692,554	130,921

General Fund Revenues

Of total fiscal year 2009 tax revenue, 96.6 percent was derived from five major taxes imposed by the Commonwealth: Individual and Fiduciary Income Taxes, State Sales and Use Taxes, Corporate Income Taxes, Taxes on Premiums of Insurance Companies and Taxes on Deeds, Contracts, Wills and Suits.

Individual and fiduciary income taxes are the principal component of General Fund revenues. These revenues support a number of government functions, primarily education, individual and family services, public safety and general government. General Fund revenues are available for payment of debt service obligations of the Commonwealth.

Individual and Fiduciary Income Taxes: (66.3 percent of Total Taxes in fiscal year 2009) The individual and fiduciary income tax applies to income derived by resident and non-resident individuals and fiduciaries. The tax is based on a taxpayer's federal adjusted gross income with modifications, if applicable, and with deductions for personal exemptions and standard or itemized deductions. The following tax rates are applicable to net taxable income for the taxable year 2009:

PERSONAL TAX RATES

Taxable Income	Rate	Of Excess Over
$0 – $3,000	2.00%	
$3,001 – $5,000	$ 60 + 3.00%	$ 3,000
$5,001 – $17,000	$120 + 5.00%	$ 5,000
Over $17,000	$720 + 5.75%	$17,000

Source: Department of Taxation.

An individual income tax return for a taxable year must be filed by May 1 of the following year. Prepayment of the tax on most earnings is accomplished through withholdings by employers. Employers must transfer withholding taxes to the Department of Taxation quarterly, monthly or, in some cases, eight times a month. Individual income taxpayers are required to file a declaration of estimated tax for any income not subject to withholding and pay one-fourth of such estimated tax in quarterly installments.

State Sales and Use Taxes: (21.8 percent of Total Taxes in fiscal year 2009) A sales and use tax is imposed at the rate of 4.0 percent on the sale, rental, lease or storage for use or consumption of tangible personal property except food for home consumption. Food for home consumption is taxed at a rate of 2.5 percent. There are certain exclusions from the tax, including motor vehicles, aircraft and large watercraft, sales of gasoline and prescription medicines. One and one-eighth cents of the 4.0 percent sales tax is distributed to localities on the basis of school age population for use in public education.

Retail sellers collect the sales and use taxes from customers at the time of sale. Sellers are required to remit collected taxes either monthly or quarterly.

Corporation Income Taxes: (4.5 percent of Total Taxes in fiscal year 2009) The Commonwealth imposes a 6 percent income tax on the net income of all corporations having income from sources in the Commonwealth, whether domestic or foreign, with the exception of insurance companies, inter-insurance exchanges, state and national banks, banking associations, companies doing business on a mutual basis, credit unions and non-profit corporations. Commonwealth taxable income is based on federal income, with modifications. If a corporation is engaged in multi-state activities, and if its income is taxable both by the Commonwealth and another state, the Commonwealth permits the corporation to apportion its taxable income (other than dividends which are allocated according to the commercial domicile of the taxpayer) according to a three factor formula comprised of property, payroll and sales.

A corporation income tax return must be filed on or before the 15th day of the 4th month following the close of the corporation's taxable year. Corporations are required to make a declaration of estimated tax directly to the Department of Taxation and pay such estimated tax in such taxable year.

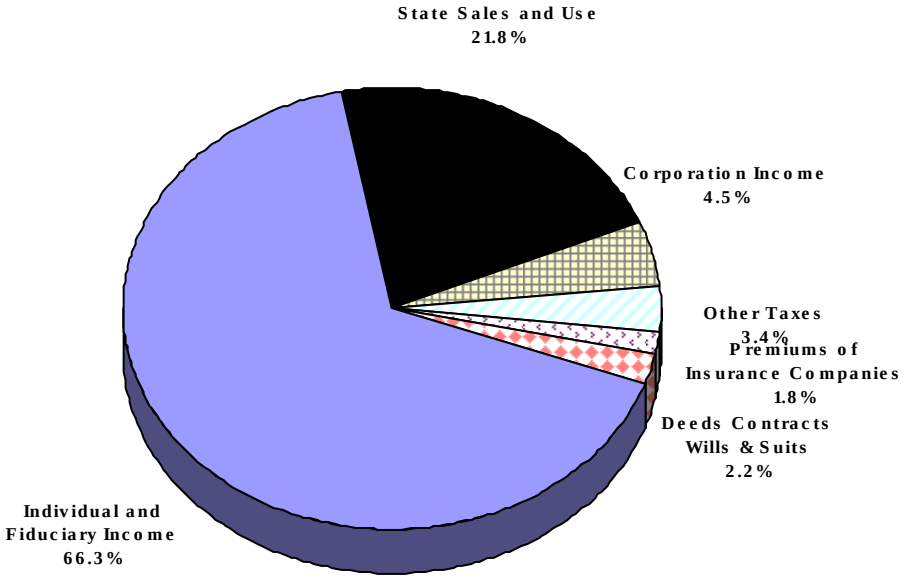
Taxes on Premiums of Insurance Companies: (1.8 percent of Total Taxes in fiscal year 2009) Insurance companies are required to pay an annual license tax measured by the gross premium income derived from business done in the Commonwealth. The rate of tax varies according to the type of company. Insurance companies subject to this state license tax must make a declaration of estimated tax and pay one-fourth of such estimated tax in quarterly installments.

Taxes on Deeds, Contracts, Wills and Suits: (2.2 percent of Total Taxes in fiscal year 2009) The Commonwealth taxes the admission to record of deeds, deeds of trust, mortgages, leases and contracts at the rate of 25 cents per $100 of

consideration or value, whichever is greater. An additional tax is imposed on deeds or conveyances of real estate at the rate of 50 cents per $500 of consideration or value, exclusive of the value of any lien or encumbrance. A tax is also imposed on the probate of wills and grants of administration not exempt by law at the rate of 10 cents per $100 of the value of the probate estate. A tax ranging from $5 to $25 is imposed on the filing of various types of legal actions.

The following pie chart summarizes general revenue fund tax revenue by source.

COMPOSITION OF GENERAL FUND TAX REVENUES BY SOURCE
Fiscal Year Ended June 30, 2009*



Preliminary and Unaudited.

Collection of Delinquent Tax

When the Department of Taxation determines that taxes are delinquent, the taxpayer is sent a billing notice. A second notice is sent 30 days later demanding immediate payment within 10 days. If payment is not received at the end of that time, the Department of Taxation may take legal action to obtain payment including the placement of a lien on the taxpayer's wages or bank account. If the delinquency exceeds $100, the Department of Taxation may issue a memorandum of lien against the taxpayer's property. If subsequent to these actions satisfactory payment arrangements are not made, the Department of Taxation may execute the memorandum of lien or initiate court proceedings against the taxpayer.

Penalties for late payment or nonpayment of most taxes are assessed at the rate of 6 percent per month, not to exceed 30 percent of the delinquent tax liability. Interest on late or under payments is charged at an annualized rate of interest established pursuant to § 6621(a) (2) of the Internal Revenue Code, plus 2 percent.

The following table presents total outstanding collectible tax receivables for all tax types at the end of fiscal years 2005 through 2009:

OUTSTANDING COLLECTIBLE TAX RECEIVABLES

Fiscal Year Ended June 30,	Amount
2005	$178,255,909
2006	157,452,960
2007	150,090,049
2008	178,122,389
2009	259,893,992

Source: Department of Taxation.

General Fund Expenditures

General Fund expenditures relate to resources used for those services traditionally provided by a state government, which are not accounted for in any other fund. These services include general government, legislative, public safety, judicial, health and mental health, human resources, licensing and regulation, and primary and secondary education (See table on page B-5).

Education: (49.1 percent of Total Expenditures in fiscal year 2009) Expenditures for education support individuals in developing knowledge, skills and cultural awareness, including elementary and secondary education instruction, supervision and assistance.

Individual and Family Services: (24.5 percent of Total Expenditures in fiscal year 2009) Expenditures for individual and family services support programs to benefit the economic, social and physical well-being of the individual and family, including disease research, control and prevention.

Administration of Justice: (14.0 percent of Total Expenditures in fiscal year 2009) Expenditures for administration of justice relate to the activities of the civil and criminal justice systems. These activities encompass the apprehension, trial, punishment and rehabilitation of law violators, and the deterrence and detection of crime.

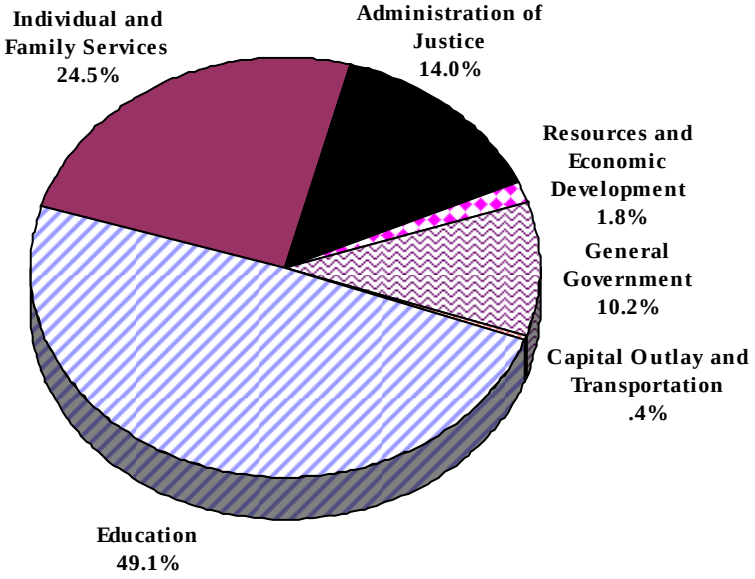
General Government: (10.2 percent of Total Expenditures in fiscal year 2009) General government expenditures support the general activities of state, regional and local levels of government. These activities include financial assistance to localities, enactment of legislative policy, intergovernmental projects, and payments to localities pursuant to the Personal Property Tax Relief Act of 1998.

Resources and Economic Development: (1.8 percent of Total Expenditures in fiscal year 2009) Resources and economic development expenditures support activities to develop the Commonwealth's economic base, including alternative natural resources, and to regulate this base with regard to the public interest of the Commonwealth.

Capital Outlay & Transportation: (0.4 percent of Total Expenditures in fiscal year 2009) Expenditures for capital outlay relate to the construction and renovation of state-owned buildings and facilities. Transportation expenditures relate to the movement by road, water or air of people, goods and services, and the regulation thereof.

The following pie chart summarizes the general fund expenditures by source:

DISTRIBUTION OF GENERAL FUND EXPENDITURES BY SOURCE
Fiscal Year Ended June 30, 2009*



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General Fund Balance

The Commonwealth's General Fund unreserved fund balance for the last ten years is shown below:

UNRESERVED GENERAL FUND ENDING BALANCE
(in thousands)

Fiscal Year	Budgetary Basis	Modified Accrual Basis
2000	$1,109,843	$ 662,755
2001	200,953	(405,198)
2002	70,004	(749,102)
2003	241,626	(220,982)
2004	677,089	36,941
2005	1,126,576	520,546
2006	1,804,483	973,461
2007	1,534,573	563,367
2008	1,091,882	78,468
2009	160,986*	**

Source: Department of Accounts.
*Preliminary and Unaudited.
** Data not yet available.

2005. General Fund revenues and other sources exceeded expenditures and other uses by $755.8 million in fiscal year 2005. The General Fund unreserved balance on a budgetary basis increased by $449.5 million, or 66.4 percent, from fiscal year 2004 to fiscal year 2005 while reserved General Fund balances increased by 70.8 percent over fiscal year 2004. Total revenues and total expenditures increased by 17.4 percent and 14.1 percent, respectively. Transfers to the General Fund decreased by 8.9 percent while transfers out increased by 38.7 percent. Transfers to and from Component Units in fiscal year 2005 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2006. General Fund revenues and other sources exceeded expenditures and other uses by $1,024.7 million in fiscal year 2006. The General Fund unreserved balance on a budgetary basis increased by $677.9 million, or 60.2 percent, from fiscal year 2005 to fiscal year 2006 while reserved General Fund balances increased by 46.9 percent over fiscal year 2005. Total revenues and total expenditures increased by 8.9 percent and 7.3 percent, respectively. Transfers to the General Fund increased by 2.4 percent while transfers out increased by 5.9 percent. Transfers to and from Component Units in fiscal year 2006 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2007. General Fund revenues and other sources exceeded expenditures and other uses by $65.1 million in fiscal year 2007. The General Fund unreserved balance on a budgetary basis decreased by $269.9 million, or 15 percent, from fiscal year 2006 to fiscal year 2007, while reserved General Fund balances increased by $335 million or 30.9 percent over fiscal year 2006. Total revenues and total expenditures increased by 4.8 percent and 11.3 percent, respectively. Transfers to the General Fund decreased by 6.2 percent while transfers out increased by 5.3 percent. Transfers to and from Component Units in fiscal year 2007 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2008. General Fund revenues and other sources were less than expenditures and other uses by $735.3 million in fiscal year 2008. The General Fund unreserved balance on a budgetary basis decreased by $442.7 million, or 28.8 percent, from fiscal year 2007 to fiscal year 2008 while reserved General Fund balances decreased by $292.6 million or 20.6 percent over fiscal year 2007. Total revenues and total expenditures increased by 1.3 percent and 6.6 percent, respectively. Transfers to the General Fund increased by 3.8 percent while transfers out decreased by 2.2 percent. Transfers to and from Component Units in fiscal year 2008 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2009. Based on the *General Fund Preliminary (unaudited) Annual Report* issued by the Department of Accounts for the fiscal year ended June 30, 2009, General Fund revenues and other sources were less than expenditures and other uses by $1.4 billion in fiscal year 2009. The General Fund unreserved balance on a budgetary basis decreased by $930.9 million, or 85.3 percent, from fiscal year 2008 to fiscal year 2009 while reserved General Fund balances decreased by $465.4 million or 41.3 percent during the same period. Total revenues and total expenditures decreased by 9.0 percent and 3.8 percent, respectively. Transfers to the General Fund increased by 4.8 percent while transfers out decreased by 19.8 percent. Transfers to and from Component Units in fiscal year 2009 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

Nongeneral Fund Revenues

Nongeneral fund revenues consist of all revenues not accounted for in the General Fund. Included in this category are special taxes and user charges earmarked for specific purposes, the majority of institutional revenues and revenues from the sale of property and commodities, and receipts from the federal government.

Approximately 50 percent of the nongeneral revenues are accounted for by grants and donations from the federal government, motor vehicle taxes and institutional revenues. Institutional revenues consist primarily of fees and charges collected by institutions of higher education, medical and mental hospitals and correctional institutions. Motor vehicle related taxes include the motor vehicle fuel tax, motor vehicle sales and use tax, oil excise tax, driver's license fee, title registration fee, motor vehicle registration fee and other miscellaneous revenues.

Below is a summary of revenues and expenditures for the largest of the Commonwealth's Special Revenue Funds, the Commonwealth Transportation Fund, prepared according to generally accepted accounting principles.

COMMONWEALTH TRANSPORTATION FUND
(in thousands)

	Fiscal Year Ended June 30,				
	2004	2005	2006	2007	2008
Total revenues	$ 3,115,669	$ 3,070,632	$3,290,146	$3,401,633	$3,739,225
Total expenditures	2,919,919	3,135,973	3,102,005	3,173,935	3,913,037
Revenues over (under) expenditures	195,750	(65,341)	188,141	227,698	(173,812)
Other sources (uses) net	(128,058)	117,060	281,493	(106,244)	64,576
Revenue and other sources (uses) over (under) expenditures	67,692	51,719	469,634	121,454	(109,236)
Beginning fund balance (adjusted)	1,252,937	1,310,025	1,361,744	1,831,378	1,952,832
Ending fund balance	$ 1,320,629	$ 1,361,744	$ 1,831,378	$ 1,952,832	$ 1,843,596

Notes: Included in the Commonwealth Transportation Fund (formerly Highway Maintenance and Construction Fund) is the activity of the Highway Maintenance and Operating Fund and the Transportation Trust Fund. The Transportation Trust Fund was created in September 1986 during a special session of the Virginia General Assembly.

Source: *Reports of the Comptroller, 2004-2008.*

The 2008 Appropriation Act

On December 17, 2007, Governor Kaine presented the 2008 Budget Bill (House Bill 30/Senate Bill 30) (the "2008 Budget Bill") for the 2008-2010 biennium. The 2008 Budget Bill was developed with the following four main objectives in mind:

- Maintain the Commonwealth's financial stability for the long term;
- Make targeted investments that will pay measurable returns in the future;
- Meet the Commonwealth's ongoing commitment to fund core services; and
- Use program performance, financial incentives, and operational streamlining to promote better government.

The 2008 Budget Bill included $36,174.3 million from the general fund in base spending, and total general fund resources of $36,197.7 million. Recommendations for new spending totaled $2,213.6 million, including $54.0 million for capital outlay funding. General fund budget savings of $463.6 million were also recommended.

Major items in the 2008 Budget Bill recommended to meet the Commonwealth's commitment to fund core services included $890.3 million for the estimated state cost of the technical re-benchmarking of the Standards of Quality for elementary and secondary schools and $254.7 million for a proposed salary increase for state and state-supported local employees, teachers and teaching and research faculty at higher education institutions.

Other proposed spending items included $29.2 million to expand the existing Virginia Preschool Initiative serving at- risk-students; $14.6 million to increase community services board emergency services capacity; $4.9 million in improvements aimed at offender reentry; $38.1 million in semiconductor manufacturing performance grants; and $15.1 million in the Governor's Development Opportunity Fund. A Revenue Stabilization Fund deposit of $21.3 million in fiscal year 2009 based on actual tax revenues for fiscal year 2007 was included.

The Virginia General Assembly sent an amended budget to the Governor on March 13, 2008. The budget retained many of the items the Governor introduced. Highlights of the House and Senate conference report included: the funding for certain capital projects from Virginia Public Building Authority/Virginia College Building Authority debt; 2 percent salary increase in both years for state employees and state-supported local employees; 2 percent salary increase for teachers on July 1, 2009; $22 million to increase the per pupil amount for the preschool initiative for disadvantaged four-year olds; $41.6 million for 600 new Mental Retardation waivers in FY 2009; almost $11.1 million per year for base adequacy for institutions of higher education; retaining $15.1 million for the Governor's Opportunity Fund; and providing $30 million in bond funding to be used for acquisition of open space lands, historic sites, and civil war battlefield preservation.

The Governor returned the budget bill requesting 41 amendments, primarily technical in nature. The General Assembly accepted 34 of these amendments. On May 23, 2008 the Governor signed the Budget Bill with one veto, and the Budget Bill was enacted as Chapter 879 of the 2008 Virginia Acts of Assembly. The bill became effective July 1, 2008 (the "2008 Appropriation Act").

The table below summarizes the 2008 Appropriation Act.

2008 Appropriation Act (Chapter 879, 2008 General Assembly)

	FY 2009	FY 2010	Total
GENERAL FUND			
Revenue			
Estimated Balance June 30, 2008	$ 312,822,904	$ -	$ 312,822,904
Additions to balance	247,536,232	451,766	247,987,998
Official revenue estimate	16,089,898,276	17,190,053,876	33,279,952,152
Lottery Proceeds Fund	461,000,000	461,000,000	922,000,000
Transfers	384,786,174	387,464,871	772,251,045
Total general fund revenue available for appropriation	$17,496,043,586	$18,038,970,513	$35,535,014,099
Appropriations			
Legislative	$ 69,083,464	$ 69,083,464	$ 138,166,928
Judicial	403,917,361	406,524,841	810,442,202
Executive Department	16,492,050,605	17,012,730,431	33,504,781,036
Independent Agencies	325,464	325,464	650,928
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	16,965,376,894	17,488,664,200	34,454,041,094
Capital Outlay	5,000,000	100,300,000	105,300,000
Total appropriations	$16,970,376,894	$17,588,964,200	$34,559,341,094
NONGENERAL FUNDS			
Revenue			
Estimated Balance June 30, 2008	$ 2,988,476,436	$ -	$ 2,988,476,436
Official revenue estimate	19,943,213,693	20,317,611,219	40,260,824,912
Bond proceeds	1,343,293,373	240,000,000	1,583,293,373
Total nongeneral fund revenue available for appropriation	$24,274,983,502	$20,557,611,219	$44,832,594,721
Appropriations			
Legislative	$ 3,988,634	$ 3,988,634	$ 7,977,268
Judicial	34,190,881	33,948,151	68,139,032
Executive Department	20,227,378,843	20,376,506,894	40,603,885,737
Independent Agencies	403,176,633	418,569,819	821,746,452
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	20,668,734,991	20,833,013,498	41,501,748,489
Capital Outlay	1,448,360,373	262,801,000	1,711,161,373
Total appropriations	$22,117,095,364	$21,095,814,498	$43,212,909,862

The 2009 Amendments to the 2008 Appropriation Act

On December 17, 2008, Governor Kaine presented his proposed amendments to Chapter 879, the 2008 Virginia Acts of Assembly (House Bill 1600/Senate Bill 850) (the "2009 Budget Bill") affecting the remainder of the 2008-2010 biennium. The Governor's objectives were developed with the following goals in mind: maintain the Commonwealth's financial stability for the long term; make targeted investments that will enhance Virginia's ability to compete in a global economy; and meet the Commonwealth's ongoing commitment to fund core services.

The 2009 Budget Bill included the most recent rounds of executive branch cuts to balance the $2.9 billion revenue shortfall from the budget bill approved during the 2008 Session. Governor Kaine revealed his reduction plan in October for the remainder of fiscal year 2009 and proposed his reductions for fiscal year 2010 on December 17, 2008. The 2009 Budget Bill proposed a withdrawal of $490 million from the Revenue Stabilization Fund to balance the budget for fiscal year 2009. The 2009 Budget Bill did not rely on the Revenue Stabilization Fund to balance fiscal year 2010, so it remains available in 2010 if there is any further slowing in the economy.

There were several spending initiatives proposed in the budget. These included: $25.9 million in additional funding for undergraduate financial aid in fiscal year 2010; $3.1 million for increased inmate medical costs; $3.0 million in additional funding for the existing pretrial services program; $5.0 million in additional funding for the Governor's Development Opportunity Fund; $10.0 million to provide funding to support agricultural best management practices; $5.8 million to the Department of Taxation to implement an enhanced compliance initiative; $2.5 million in funding for staffing new and expanded jails; and $10.8 million is additional funding for the Criminal Fund.

The 2009 Budget Bill was considered by the 2009 General Assembly, which convened on January 14, 2009 and adjourned on February 28, 2009. The 2009 Budget Bill, as amended by the General Assembly, was submitted to the Governor for his approval and reflects the Governor's revised general fund revenue forecast by reducing revenues by an additional $821.5 million, bringing the total downward revenue revision for the biennium to $3.7 billion. The 2009 Budget Bill provides a total of $14.3 billion for direct aid to public education over the 2008-2010 biennium; includes $10.0 million for a system-wide 8.5 percent increase in student financial aid; includes $183.3 million over the introduced budget for increased enrollment in and utilization of Medicaid due to the economic downturn; adds $.5 million in fiscal year 2010 to partially restore reductions to Virginia state parks; and adds $6.6 million in fiscal year 2010 to fund aid to localities for state support for local police departments required under House Bill 599.

The Governor signed the amended bill and returned it to the General Assembly with three item vetoes for action at its one-day reconvened session held April 8, 2009. The General Assembly upheld all of the Governor's budget item vetoes. The 2009 Budget Bill became law on April 8, 2009, as Chapter 781 of the 2009 Virginia Acts of Assembly (the "2009 Appropriation Act").

The following table summarizes the 2009 Appropriation Act.

2009 Appropriation Act (Chapter 781, 2009 General Assembly)

	FY 2009	FY 2010	Total
GENERAL FUND			
Revenue			
Unreserved Balance June 30, 2008	$ 1,091,882,000	$ -	$ 1,091,882,000
Additions to balance	(520,929,566)	51,596,043	(469,333,523)
Official revenue estimate	14,613,939,287	15,261,984,687	29,875,923,974
Revenue Stabilization Fund	490,000,000	-	490,000,000
Transfers	406,689,844	441,825,286	848,515,130
Total general fund resources available for appropriation [1]	$ 16,081,581,565	$ 15,755,406,016	$ 31,836,987,581
Appropriations			
Legislative	$ 68,357,414	$ 68,309,414	$ 136,666,828
Judicial	407,925,587	407,012,317	814,937,904
Executive	15,715,910,870	15,367,635,003	31,083,545,873
Independent Agencies	275,464	275,464	550,928
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	16,192,469,335	15,843,232,198	32,035,701,533
Capital Outlay	(249,450,000)	800,000	(248,650,000)
Total appropriations	$ 15,943,019,335	$ 15,844,032,198	$ 31,787,051,533
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2008	$ 5,285,343,724	$ -	$ 5,285,343,724
Official revenue estimate	20,534,761,089	21,061,960,368	41,596,721,457
Lottery Proceeds Fund	430,500,000	430,200,000	860,700,000
Bond proceeds	1,438,201,373	621,145,000	2,059,346,373
Total nongeneral fund revenue available for appropriation	$ 27,688,806,186	$ 22,113,305,368	$ 49,802,111,554
Appropriations			
Legislative	$ 3,988,634	$ 3,988,634	$ 7,977,268
Judicial	34,190,881	34,052,431	68,243,312
Executive Department	20,429,625,839	21,546,152,131	41,975,777,970
Independent Agencies	396,932,974	423,163,374	820,096,348
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	20,864,738,328	22,007,356,570	42,872,094,898
Capital Outlay	1,756,864,373	702,909,350	2,459,773,723
Total appropriations	$ 22,621,602,701	$ 22,710,265,920	$ 45,331,868,621

[1] 2009 Appropriation Act (Chapter 781, 2009 General Assembly) contains printing error in which FY 2009 Transfers available for appropriation is shown as $406,889,844. The correct amount of $406,689,844 is shown above.

Source: Department of Planning and Budget.

INDEBTEDNESS OF THE COMMONWEALTH

The Constitution of Virginia, in Section 9 of Article X, provides for the issuance of debt by or on behalf of the Commonwealth. Sections 9(a), (b) and (c) provide for the issuance of debt to which the Commonwealth's full faith and credit is pledged and Section 9(d) provides for the issuance of debt not secured by the full faith and credit of the Commonwealth, but which may be supported by and paid from Commonwealth tax collections subject to appropriations by the General Assembly. The Commonwealth may also enter into leases and contracts that are classified on its financial statements as long-term indebtedness. Certain authorities and institutions of the Commonwealth may also issue debt. This section discusses the provisions for and limitations on the issuance of general obligation debt and other types of debt of the Commonwealth and its authorities and institutions.

Section 9(a) Debt

Section 9(a) of Article X provides that the General Assembly may contract general obligation debt: (1) to meet certain types of emergencies, (2) subject to limitations on amount and duration, to meet casual deficits in the revenue or in anticipation of the collection of revenues of the Commonwealth and (3) to redeem a previous debt obligation of the Commonwealth. Total indebtedness issued pursuant to Section 9(a) (2) shall not exceed 30 percent of an amount equal to 1.15 times the annual tax revenues "derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the preceding fiscal year."

Section 9(b) Debt

Section 9(b) of Article X provides that the General Assembly may authorize the creation of general obligation debt for capital projects. Such debt is required to be authorized by an affirmative vote of a majority of the members elected to each house of the General Assembly and approved in a statewide referendum. The outstanding amount of such debt is limited in the aggregate to an amount equal to 1.15 times the average annual tax revenues "derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts," for the three immediately preceding fiscal years ("9(b) Debt Limit"). Thus, the amount of such debt that can be issued is the 9(b) Debt Limit less the total amount of such debt outstanding ("Debt Margin"). An additional 9(b) debt authorization restriction is calculated in order to determine the amount of such debt that the General Assembly may authorize for the current fiscal year. The additional borrowing authorization restriction is limited to 25% of the 9(b) Debt Limit less 9(b) debt authorized in the current and prior three fiscal years.

The phrase "taxes on income and retail sales" is not defined in the Constitution or by statute. The record made in the process of adopting the Constitution, however, suggests an intention to include only income taxes payable by individuals, fiduciaries and corporations and the state sales and use tax.

Section 9(c) Debt

Section 9(c) of Article X provides that the General Assembly may authorize the creation of general obligation debt for revenue producing capital projects for executive branch agencies and institutions of higher learning. Such debt is required to be authorized by an affirmative vote of two-thirds of the members elected to each house of the General Assembly and approved by the Governor. The Governor must certify before the enactment of the bond legislation and again before the issuance of the bonds that the net revenues pledged are expected to be sufficient to pay principal and interest on the bonds issued to finance the projects.

The outstanding amount of Section 9(c) debt is limited in the aggregate to an amount equal to 1.15 times the average annual tax revenues "derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts," for the three immediately preceding fiscal years (“9(c) Debt Limit”). While the debt limits under Sections 9(b) and 9(c) are each calculated as the same percentage of the same average tax revenues, these debt limits are separately computed and apply separately to each type of debt.

Effect of Refunding Debt

In general, when the Commonwealth issues bonds to refund outstanding bonds issued pursuant to Section 9(b) or 9(c) of Article X of the Constitution, the refunded bonds are considered paid for purposes of the constitutional limitations upon debt incurrence and issuance and the refunding bonds are counted in the computations of such limitations. Section 9(a)(3) provides that in the case of the refunding of debt incurred in accordance with Section 9(c) of Article X, the debt evidenced by the refunding bonds will be counted against the 9(c) Debt Limit unless the Governor does not provide the net revenue sufficiency certification, in which case the debt evidenced by the refunding bonds will be counted against the 9(b) Debt Limit.

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General Obligation Debt Limit and Debt Margin

Using individual and fiduciary income, corporate income and the state sales and use tax revenues, as of June 30, 2009, the debt limits pursuant to Article X, Section 9 of the Constitution of Virginia are as follows:

COMPUTATION OF LEGAL DEBT LIMITS
(in thousands)

	Fiscal Year Ended June 30,		
Taxes	**2007**	**2008**	**2009***
Individual and Fiduciary Income [1]	$ 9,787,592	$10,114,833	$ 9,481,109
Corporation Income [2]	879,575	807,852	648,033
State Sales and Use [3]	3,274,286	3,302,181	3,116,831
Total	$13,941,453	$14,224,866	$13,245,973
Average tax revenues for the three fiscal years			$13,804,097
Section 9(a)(2) General Obligation Debt Issuance Limit and Margin [4]:			
Debt Issuance Limit:			
30% of 1.15 times annual tax revenues for fiscal year 2009*			$4,569,861
Less 9(a)(2) Bonds Outstanding at June 30, 2009*:			0
Debt Margin for Section 9(a)(2) General Obligation Bonds			$4,569,861
Section 9(b) General Obligation Debt Issuance Limit and Margin:			
Debt Issuance Limit:			
1.15 times the average tax revenues for three fiscal years as calculated above			$15,874,712
Less 9(b) Bonds Outstanding at June 30, 2009*:			
Public Facilities Bonds [6]		1,028,094	
Transportation Facilities Refunding Bonds [5] [6]		12,696	
Bond Anticipation Notes		0	
Total 9(b) Bonds Outstanding at June 30, 2009*			1,040,790
Debt Margin for Section 9(b) General Obligation Bonds			$14,833,922
Debt Authorization Limit:			
25% of 1.15 times average tax revenues for three fiscal years as calculated above			$3,968,678
Less 9(b) debt authorized during the three prior fiscal years			0
Maximum additional 9(b) debt that may be authorized by the General Assembly (subject to referendum):			$3,968,678
Section 9(c) General Obligation Debt Issuance Limit and Margin:			
Debt Issuance Limit:			
1.15 times the average tax revenues for three fiscal years as calculated above			$15,874,712
Less 9(c) Bonds Outstanding at June 30, 2009*:			
Parking Facilities [6]		6,527	
Transportation Facilities [6]		30,358	
Higher Educational Institutions [6]		573,550	
Bond Anticipation Notes		0	
Total 9(c) Bonds Outstanding at June 30, 2009*			610,435
Debt Margin for Section 9(c) General Obligation Bonds			$15,264,277

[1] Includes taxes imposed pursuant to Articles 2 and 9 of Chapter 3, Title 58.1 of the Code of Virginia.
[2] Includes taxes imposed pursuant to Article 10 of Chapter 3, Title 58.1 of the Code of Virginia.
[3] Includes taxes imposed pursuant to Chapter 6, Title 58.1 of the Code of Virginia, less taxes identified in Sections 58.1-605 and 58.1-638.
[4] Debt limit applies only to debt authorized pursuant to Article X, Section 9(a) (2) of the Constitution of Virginia.
[5] These bonds refunded certain Section 9(c) debt and because the Governor did not certify the feasibility of the refinanced project, they must be applied against the Section 9(b) Debt Limit.
[6] Net of unamortized premium, discount and deferral on debt defeasance.
*Preliminary and Unaudited

Source: Department of Accounts, Department of the Treasury.

Tax-Supported Debt – General Obligation

Tax-supported debt of the Commonwealth includes both general obligation debt and debt of agencies, institutions, boards and authorities for which debt service is expected to be made in whole or in part from appropriations of tax revenues.

Outstanding Section 9(b) debt as of June 30, 2009 includes the unamortized portion of (a) $613 million of general obligation bonds authorized and approved by the voters in November 1992, (b) $1,019.5 million in general obligation bonds authorized and approved by the voters in November 2002, and (c) various series of refunding bonds issued to advance refund certain series of bonds. Outstanding Section 9(c) debt as of June 30, 2009 includes various series of Higher Educational Institutions Bonds (including refunding bonds) issued from 1979 to 2009, six series of Transportation Facilities Bonds (including refunding bonds) issued from 1989 to 2009, and four series of Parking Facilities Bonds (including refunding bonds) issued between 2002 and 2009. Outstanding general obligation debt does not include 9(b) and 9(c) advance refunded bonds for which funds have been deposited in irrevocable escrow accounts in amounts sufficient to meet all required future debt service.

Other Tax-Supported Debt

Section 9(d) of Article X provides that the restrictions of Section 9 are not applicable to any obligation incurred by the Commonwealth or any of its institutions, agencies or authorities if the full faith and credit of the Commonwealth is not pledged or committed to the payment of such obligation.

There are currently outstanding various types of 9(d) revenue bonds issued by authorities, political subdivisions and agencies for which the Commonwealth's full faith and credit is not pledged. Certain of these bonds, however, are paid in part or in whole from revenues received as appropriations by the General Assembly from general tax revenues, while others are paid solely from revenues derived from enterprises related to the operation of the financed capital projects.

The debt repayments of the Virginia Public Building Authority, the Virginia College Building Authority 21st Century College and Equipment Programs, The Innovative Technology Authority, the Virginia Biotechnology Research Park Authority and several other long-term capital leases or notes have been supported all or in large part by General Fund appropriations.

The Commonwealth Transportation Board ("CTB") has issued various series of bonds authorized under the State Revenue Bond Act. These bonds are secured by and payable from funds appropriated by the General Assembly from the Transportation Trust Fund for such purpose. The Transportation Trust Fund was established by the General Assembly in 1986 as a special non-reverting fund administered and allocated by the Transportation Board for the purpose of increased funding for construction, capital and other needs of state highways, airports, mass transportation and ports. As of June 30, 2007, $987.6 million in CTB bonds were outstanding. During 2007, the CTB was authorized by the General Assembly to issue up to $3.0 billion in Capital Projects Revenue Bonds. In 2008, an additional $180 million was authorized. As of June 30, 2009, no bonds have been issued under this authorization.

The Virginia Port Authority ("VPA") has $201 million of bonds outstanding at June 30, 2009 which are payable from a portion of the Transportation Trust Fund. In 2008, the Authority was authorized to issue an additional $155 million in Commonwealth Port Fund Revenue Bonds. No bonds have been issued from that authorization.

Leases and Contracts

Capital Leases. The Commonwealth is involved in numerous agreements to lease buildings and equipment. For a detailed description, see "Notes to the Financial Statements" included in the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008. These lease agreements are for various terms, and each lease contains a nonappropriation clause indicating that continuation of the lease is subject to funding by the General Assembly. The principal balance of all tax-supported capital leases outstanding was $250.3 million as of June 30, 2008.

Installment Purchases. The Commonwealth also finances the acquisition of certain personal property and equipment through installment purchase agreements. The length of the agreements and the interest rates charged vary. In most cases, the agreements are collateralized by the personal property and equipment acquired. Installment purchase agreements contain nonappropriation clauses indicating that continuation of the installment purchase is subject to funding by the General Assembly. The principal balance of tax-supported installment purchase obligations outstanding was $173.6 million as of June 30, 2008.

Outstanding Tax-Supported Debt

The following table summarizes for the past five fiscal years the outstanding indebtedness of the Commonwealth, its agencies, institutions and authorities for which appropriated tax revenues are required to pay debt service. In certain instances, debt service may be paid with or payable from other non-tax sources (e.g., toll revenues, port revenues and user fees), but the underlying security remains the appropriation of tax revenues by the Commonwealth.

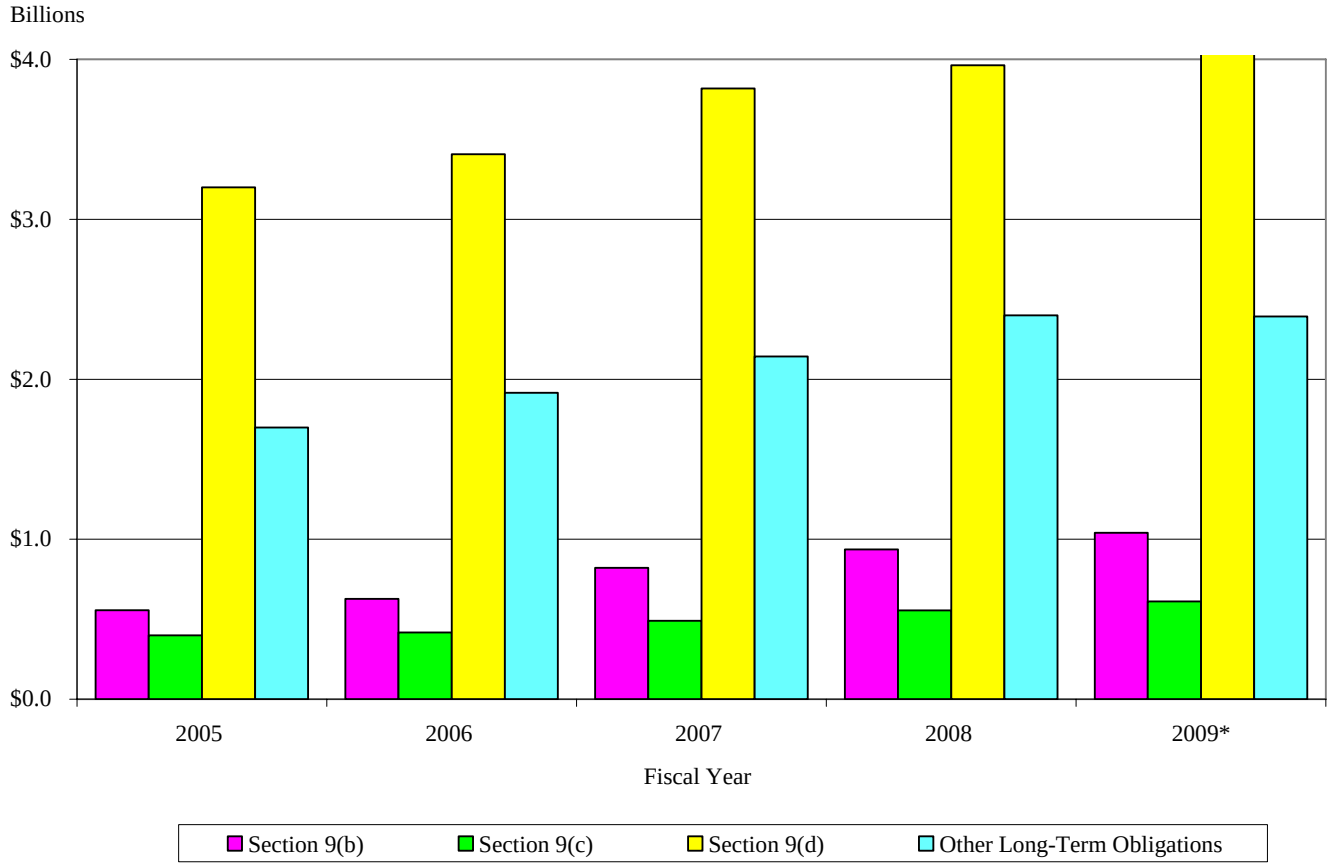
OUTSTANDING TAX-SUPPORTED DEBT
(in thousands)

	Fiscal Year Ended June 30,				
	2005	2006	2007	2008	2009*
General Obligation Debt:					
Section 9(a)	-	-	-	-	-
Section 9(b) [1]	$ 555,447	$ 626,124	$ 821,563	$ 935,105	$ 1,040,790
Section 9(c)					
Higher Educational Institutions [1]	296,963	325,969	411,842	487,296	573,550
Transportation Facilities [1]	90,545	80,435	69,962	59,294	30,358
Parking Facilities [1]	11,040	9,939	8,804	7,590	6,527
Sub-Total Section 9(c)	398,548	416,343	490,608	554,180	610,435
Total General Obligation Debt	953,995	1,042,467	1,312,171	1,489,285	1,651,224
Section 9(d) Debt:					
Transportation [1]	1,041,397	1,021,172	987,550	948,507	935,082
Virginia Public Building Authority [1]	1,142,070	1,292,251	1,575,187	1,719,455	2,092,662
Virginia Port Authority [1]	265,518	251,219	236,300	218,596	201,438
Virginia College Building Authority-Equipment Leases	-	-	-	-	-
Virginia College Building Authority 21st Century/Equipment [1]	641,450	641,954	828,488	899,572	1,203,701
Innovative Technology Authority	8,635	7,935	7,145	6,270	5,415
Newport News Industrial Development Authority	27,100	23,160	19,010	14,640	10,025
Virginia Biotechnology Research Park Authority [1]	54,605	52,452	50,200	47,852	45,465
Virginia Public Broadcasting Board	15,775	13,485	11,070	8,520	5,830
Virginia Aviation Board	3,055	2,768	2,482	2,195	1,909
Fairfax County Economic Development Authority	-	100,592	100,387	96,992	93,442
Total Section 9(d) Debt	3,199,605	3,406,988	3,817,819	3,962,599	4,594,968
Other Long-Term Obligations:**					
Transportation Notes Payable	12,325	12,325	12,325	12,325	8,000
Capital Leases	180,071	186,147	249,771	250,250	250,250 [2]
Installment Purchase Obligations	109,661	188,273	186,329	173,572	173,572 [2]
Compensated Absences	501,385	527,926	560,895	575,271	575,271 [2]
Regional Jail Financing Program	15,030	13,375	11,693	9,980	8,231
Pension Liability	860,432	969,574	1,105,031	1,237,460	1,237,460 [2]
Other Liabilities and Notes Payable	18,761	18,114	16,472	20,203	20,203 [2]
OPEB Liability	-	-	-	119,658	119,658
Total Other Long-Term Obligations	1,697,665	1,915,734	2,142,516	2,398,719	2,392,645
Total Tax-Supported Debt [3]	$ 5,851,265	$ 6,365,189	$ 7,272,506	$ 7,850,603	$ 8,638,836

[1] Net of deferral on debt defeasance, unamortized discounts and/or premiums.
[2] Represents fiscal year 2008 ending balance. Amount for fiscal year 2008 not yet available.
[3] Numbers may not add to totals due to rounding.
*Preliminary and Unaudited
**Other Long-Term Obligations reflect 2008 balances until 2009 balances are available.

Source: Department of the Treasury; Department of Accounts.

OUTSTANDING TAX-SUPPORTED DEBT
As of June 30, 2005-2009



*Preliminary and Unaudited

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Outstanding Tax-Supported Debt Service

The following table summarizes annual debt service on outstanding tax-supported debt as of June 30, 2009. The table does not include debt service requirements for capital lease and installment purchase obligations payable from the General Fund of the Commonwealth.

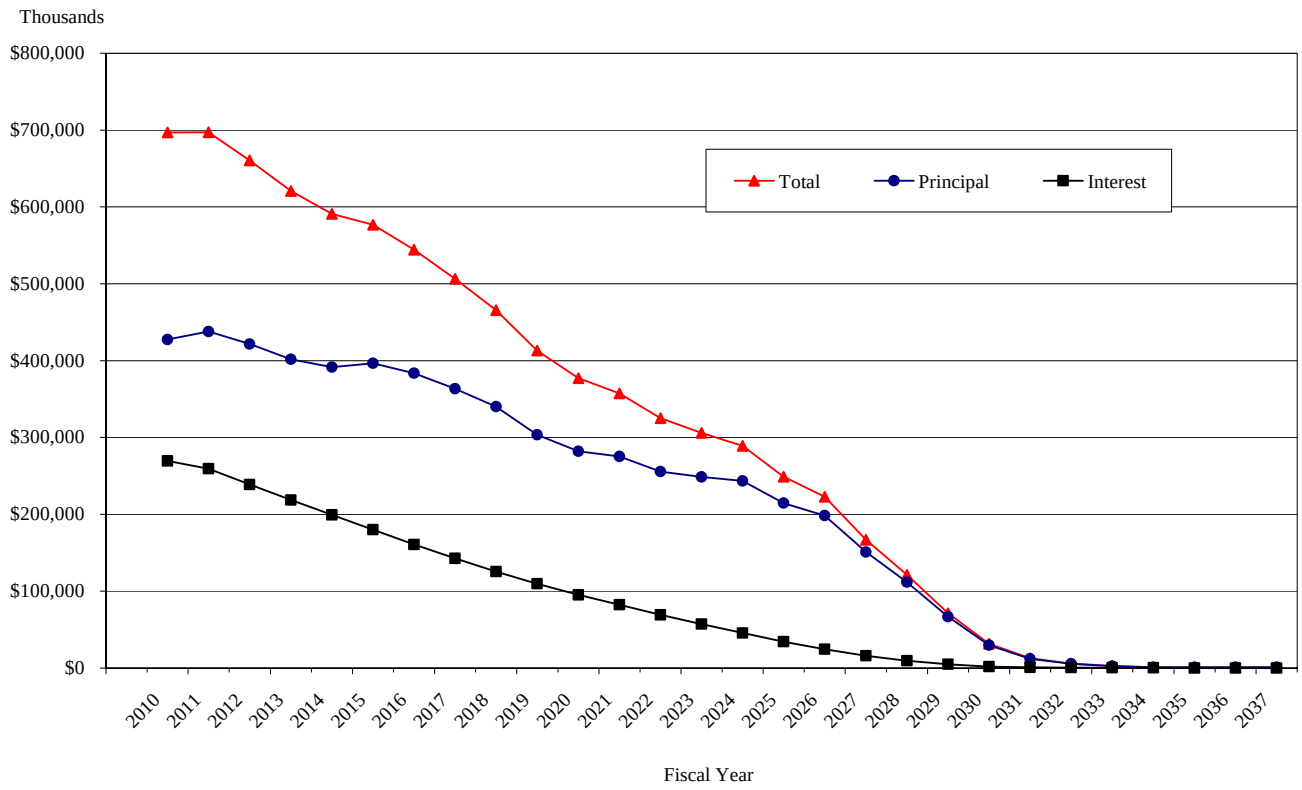
ANNUAL DEBT SERVICE REQUIREMENTS [1]
Tax-Supported Debt Outstanding at June 30, 2009*
($ in thousands)

Fiscal Year Ending June 30	General Obligation Debt Sections 9(a), 9(b) and 9(c)			Other Tax-Supported Debt Section 9(d) [1] [2]			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2010	$ 125,435	$ 74,648	$ 200,083	$ 301,921	$ 194,774	$ 496,695	$ 427,356	$ 269,422	$ 696,778
2011	123,742	69,375	193,117	314,111	190,015	504,126	437,853	259,389	697,243
2012	113,520	63,540	177,060	308,086	175,302	483,389	421,606	238,843	660,449
2013	114,110	58,028	172,138	287,711	160,657	448,368	401,821	218,685	620,506
2014	104,375	52,579	156,954	287,239	146,800	434,039	391,614	199,379	590,994
2015	100,655	47,507	148,162	295,892	132,607	428,500	396,547	180,114	576,662
2016	92,740	42,569	135,309	290,787	118,265	409,052	383,527	160,834	544,362
2017	83,935	38,114	122,049	279,599	104,659	384,259	363,534	142,773	506,307
2018	77,370	34,023	111,393	262,775	91,471	354,246	340,145	125,494	465,639
2019	76,065	30,543	106,608	227,405	79,019	306,425	303,470	109,562	413,033
2020	75,230	27,100	102,330	206,673	68,185	274,858	281,903	95,285	377,188
2021	76,855	23,638	100,493	198,281	58,602	256,883	275,136	82,240	357,375
2022	71,665	20,066	91,731	184,130	49,230	233,360	255,795	69,296	325,091
2023	71,335	16,657	87,992	177,205	40,581	217,786	248,540	57,238	305,779
2024	69,940	13,415	83,355	173,466	32,288	205,753	243,406	45,703	289,108
2025	60,625	10,193	70,818	153,944	24,013	177,957	214,569	34,206	248,775
2026	54,045	7,431	61,476	144,259	16,999	161,259	198,304	24,431	222,735
2027	44,345	4,960	49,305	106,571	11,040	117,611	150,916	16,000	166,916
2028	27,710	2,889	30,599	84,093	6,652	90,744	111,803	9,540	121,343
2029	11,305	1,604	12,909	55,334	3,157	58,491	66,639	4,761	71,399
2030	7,630	1,094	8,724	22,145	793	22,938	29,775	1,887	31,662
2031	6,135	749	6,884	5,897	204	6,101	12,032	953	12,985
2032	3,660	469	4,129	1,724	0	1,724	5,384	469	5,853
2033	2,595	293	2,888	0	0	0	2,595	293	2,888
2034	815	166	981	0	0	0	815	166	981
2035	855	128	983	0	0	0	855	128	983
2036	895	87	982	0	0	0	895	87	982
2037	935	44	979	0	0	0	935	44	979
Subtotal	1,598,522	641,909	2,240,431	4,369,253	1,705,313	6,074,566	5,967,775	2,347,223	8,314,997
Add Unamortized Premium & Accretion on Capital Appreciation Bonds	68,651	-	68,651	266,941	-	266,941	335,592	-	335,592
Less Unamortized Discount & Deferral on Debt Defeasance	(15,948)	-	(15,948)	(33,225)	-	(33,225)	(49,173)	-	(49,173)
TOTAL	$ 1,651,225	$ 641,909	$ 2,293,134	$ 4,602,968	$ 1,705,313	$ 6,308,281	$ 6,254,193	$ 2,347,223	$ 8,601,415

[1] Includes Virginia Biotechnology Research Park Authority, Fairfax County Economic Development Authority (Va. Dept. of Transportation Camp 30 Project), Innovative Technology Authority, Newport News Industrial Development Authority (VASIC Project) , Virginia Public Broadcasting Board, Virginia Aviation Board and Transportation Notes Payable. Does not include other capital leases, installment purchase obligations, regional jail reimbursement payments, compensated absences, pension liability or uninsured employer's fund.
[2] Includes notes payable of $8,000 (dollars in thousands) for the primary government.

Source: Department of the Treasury; Department of Accounts.
*Preliminary and Unaudited

ANNUAL DEBT SERVICE REQUIREMENTS
TAX-SUPPORTED DEBT OUTSTANDING AT JUNE 30, 2009*
(in thousands)



*Preliminary and Unaudited

RATIOS OF OUTSTANDING TAX-SUPPORTED DEBT TO POPULATION AND PERSONAL INCOME

Fiscal Year	Population [1]	Personal Income [2] (000's)	Outstanding Debt (000's)	Tax-Supported Debt/Capita	Debt/Income
2004	7,464,033	267,520,630	5,272,439	706.38	2.0%
2005	7,557,588	286,946,610	5,851,265	774.22	2.0%
2006	7,640,249	302,098,188	6,365,189	833.11	2.1%
2007	7,712,091	318,872,687	7,272,505	943.00	2.3%
2008	7,769,089	335,626,000	7,850,602	1,010.49	2.3%

Sources: [1] U.S. Census Bureau.
[2] U. S. Department of Commerce, Bureau of Economic Analysis.

Authorized and Unissued Tax-Supported Debt

As of June 30, 2009*, the following tax-supported debt had been authorized by the General Assembly and remained unissued:

Section 9(b) Debt:	
Higher Educational Institutions Bonds	$ 30,803,135
Park and Recreational Facilities Bonds	22,770,358
Subtotal 9(b) Debt:	$ 53,573,493
Section 9(c) Debt:	
Higher Educational Institutions Bonds	$ 546,746,554
Parking Facility Bonds	16,000,000
Subtotal 9(c) Debt:	$ 562,746,554
Section 9(d) Debt :	
Transportation Capital Projects Revenue Bonds	$ 3,180,000,000
Northern Virginia Transportation District Program	97,100,000
Virginia Public Building Authority -- Projects	1,069,878,340
Virginia Public Building Authority -- Jails	134,905,343
Virginia Public Building Authority -- Juvenile Detention Facilities	0
Virginia College Building Authority -- 21st Century Projects	1,481,006,508
Virginia College Building Authority -- 21st Century Equipment	116,798,956
Virginia Port Authority	155,000,000
Capital Lease Revenue Financings	
Subtotal 9(d) Debt:	$ 6,234,689,147
Total	$ 6,851,009,193

*Preliminary and Unaudited
Source: Department of the Treasury; Department of Accounts.

Moral Obligation Debt

Bonds issued by the Virginia Housing Development Authority, the Virginia Resources Authority and the Virginia Public School Authority are designed to be self-supporting from their individual loan programs. However, certain of their bonds are secured in part by a moral obligation of the Commonwealth. The Commonwealth may fund deficiencies that may occur in debt service reserves for moral obligation debt. By the terms of the applicable statutes, the Governor is obligated to include in his annual budget submitted to the General Assembly the amount necessary to restore any such reported deficiency, but the General Assembly is not legally required to make any appropriation for such purpose. To date, these authorities have not reported to the Commonwealth that any such reserve deficiencies exist. The table below summarizes the Commonwealth's outstanding moral obligation indebtedness for the past five fiscal years.

OUTSTANDING MORAL OBLIGATION DEBT
(in thousands)

	Fiscal Year Ended June 30,				
	2005	2006	2007	2008	2009*
Virginia Housing Development Authority [1]	$ 623,790	$ 498,314	$ 449,350	$391,691	$ --
Virginia Resources Authority [1]	695,099	704,477	678,600	681,886	726,416
Virginia Public School Authority [1]	--	--	--	--	--
Total	$ 1,318,889	$ 1,202,791	$1,127,950	$1,073,577	$726,416

[1] Net of unamortized discounts, premiums, deferral on debt defeasance and issuance costs.

Source: Department of the Treasury, Department of Accounts

*Preliminary and Unaudited

Other Debt

There are several authorities and institutions of the Commonwealth that issue debt for which debt service is not paid through appropriations of state tax revenues and for which there is no moral obligation pledge to consider funding debt service or reserve fund deficiencies. A portion of the debt shown is additionally secured by a biennial contingent appropriation in the event available funds are less than the amount required to pay debt service. The following table summarizes for the past five fiscal years outstanding indebtedness of authorities and institutions whose debt falls into these categories.

OUTSTANDING OTHER DEBT
(in thousands)

	Fiscal Year Ended June 30,*			
	2005	2006	2007	2008
Institutions of Higher Education [1]	$ 546,062	$ 840,779	$ 815,247	$ 1,147,172
Virginia College Building Authority Public Higher Education Financing Program	622,889	724,640	850,870	1,037,650
Virginia College Building Authority Private College Program	390,620	385,105	471,750	455,295
Virginia Housing Development Authority [1]	4,003,396	4,656,701	5,548,833	6,487,296
Virginia Public School Authority [1]	2,449,447	2,689,512	2,860,310	3,030,087
Virginia Port Authority	142,650	141,118	230,817	292,982
Commonwealth Transportation Board Federal Highway Reimbursement Anticipation Notes [1]	746,877	918,494	800,538	677,297
Hampton Roads Sanitation District	138,509	144,450	143,658	359,904
Virginia Equine Center	15,540	15,320	--	--
Pocahontas Parkway Association	463,357	--	--	--
Total	$ 9,519,347	$10,516,119	$11,722,023	$13,487,683

[1] Net of unamortized discounts, premiums, deferral on debt defeasance and issuance costs.
* Fiscal year 2009 data not yet available.

Source: Department of the Treasury.

Commonwealth Debt Management

Debt Capacity Advisory Committee

The Debt Capacity Advisory Committee (the "Committee") is charged by statute with annually estimating the amount of tax-supported debt, which may prudently be authorized, consistent with the financial goals, capital needs and policies of the Commonwealth. Such estimate is provided to the Governor and General Assembly. The Committee is also required to review annually the amount and condition of bonds, notes and other security obligations of the Commonwealth's agencies, institutions, boards and authorities which are either secured by a moral obligation pledge to replenish reserve fund deficiencies or for which the Commonwealth has a contingent or limited liability. The Committee provides its recommendations on the prudent use of such obligations to the Governor and the General Assembly.

The Committee also reviews the amounts and provisions of bonds, notes and other security obligations of the Commonwealth's agencies, institutions, boards and authorities which are neither tax-supported debt or obligations secured by a moral obligation pledge to replenish reserve fund deficiencies. The Committee may recommend limits, when appropriate, on these other obligations.

Capital Outlay Plan

The Department of Planning and Budget has prepared a Six-Year Capital Outlay Plan (the "Plan") for the Commonwealth. The Plan lists proposed capital projects, and it recommends how the proposed projects should be financed. More specifically, the Plan distinguishes between immediate demands and longer-term needs, assesses the state's ability to meet its highest priority needs, and outlines an approach for addressing priorities in terms of costs, benefits and financing mechanisms. The 2002 General Assembly set out new requirements for the funding of capital projects at a level not less than 2 percent of the General Fund revenues for the biennium, and the portion of that amount that may be recommended for bonded indebtedness.

RETIREMENT PLANS

The Commonwealth contributes to four defined benefit pension plans each of which is administered by the Virginia Retirement System ("System"). The System acts as a common investment and administrative agent for the Commonwealth, local school boards and political subdivisions in Virginia. The plans administered by the System consist of the Virginia Retirement System ("VRS"), the State Police Officers Retirement System ("SPORS"), the Virginia Law Officer's Retirement System ("VaLORS") and the Judicial Retirement System ("JRS"). Membership in the VRS consists of Commonwealth employees, public school teachers and employees of political subdivisions that have voluntarily joined the system. Membership in SPORS consists of Commonwealth state police officers. Membership in VaLORS consists of law enforcement and corrections officers of the Commonwealth other than state police officers, and membership in JRS consists of judges in the Commonwealth's Circuit Courts, General District Courts, Court of Appeals and Supreme Court. Membership in the applicable retirement plans is mandatory for all eligible employees. VRS is the largest of four systems covering 334,673 active Commonwealth employees, school teachers and covered employees of local governments as of June 30, 2009, as compared with 12,256 active members of SPORS, VaLORS, and JRS combined. In addition, the four plans combined had approximately 33,567 inactive vested members who are no longer contributing but have not withdrawn previous contributions and may be eligible for a retirement benefit in the future.

ACTIVE MEMBER DISTRIBUTION OF PENSION AND RETIREMENT PLANS

	Fiscal Year Ended June 30	
	2008	**2009**
State Employees (VRS)	81,206	80,808
Teachers (VRS)	147,149	148,461
Employees of Political Subdivisions (VRS)	104,803	105,404
State Police Officers (SPORS)	1,840	1,826
Virginia Law Officers (VaLORS)	10,330	10,014
Judges (JRS)	409	416

Source: Virginia Retirement System.

The System's Board of Trustees administers all four plans pursuant to statute. Each plan provides retirement, disability and death benefits. In addition, most members of all four plans are covered by group term life insurance.

Members of VRS and JRS attain service retirement at age 65, or age 50 with 30 years of service, with the right to elect a reduced retirement at age 55 after five years of creditable service. Normal and early retirement ages for SPORS and VaLORS are generally five years lower. An optional reduced retirement benefit is available to members of VRS, SPORS, and VaLORS at age 50 with ten years of creditable service. Members of all four plans, except Commonwealth employees covered by the Virginia Sickness and Disability Program ("VSDP"), may qualify for disability retirement at any age prior to the normal retirement age. Members covered under VSDP would receive disability benefits under that program. Subject to statutory variations, minimum retirement guarantees and maximum retirement limitations, a member's normal service retirement allowance is the number of years of such member's creditable service multiplied by 1.7 percent of the member's average final compensation ("AFC"). Effective July 1, 2007, the multiplier was increased from 1.7 percent to 1.85 percent for members of SPORS and sheriffs. Political subdivisions covered under VRS may also elect the higher multiplier for their employees in hazardous duty positions. AFC is based on the highest consecutive 36 months of pay. Adjustments to the benefits of retired members are made annually to reflect increases in the Consumer Price Index, reflecting the full amount of any such increase up to 3 percent and one-half of any additional increase up to 7 percent, with the maximum annual benefit increase being limited to 5 percent.

Unless the member has otherwise elected, each member or beneficiary is entitled on retirement, death or termination to receive the full amount of the member's contributions plus interest (currently at the rate of 4 percent per year) as a minimum benefit.

Following is a summary of additions and deductions of the four retirement plans, including additions and deductions attributable to VRS members who are employees of local school boards and political subdivisions. The political subdivisions have voluntarily joined the VRS, and the Commonwealth is responsible only for administration of the programs.

RETIREMENT SYSTEMS
ADDITIONS AND DEDUCTIONS
(in thousands)

	Fiscal Year Ended June 30,				
	2005	**2006**	**2007**	**2008**	**2009**
Additions:					
Member Contributions	$ 64,856	$ 39,771	$ 30,165	$ 25,304	$ 20,543
Employer Contributions	1,403,405	1,526,908	1,913,605	2,122,864	2,076,860
Net Investment Income (net of expenses)	666,193	822,534	1,156,556	981,838	752,986
Other	743	440	509	584	9,324
Total Additions	2,135,197	2,389,653	3,100,835	3,130,590	2,859,713
Deductions:					
Benefits	1,945,471	2,101,785	2,313,489	2,536,268	2,733,223
Refunds	84,731	91,230	95,765	102,935	91,348
Administrative Expenses	18,706	20,348	24,521	25,522	31,701
Other	-	258	178	298	668
Total Deductions	2,048,908	2,213,621	2,433,953	2,665,023	2,856,940
Excess of Additions over Deductions [before net appreciation (depreciation) in fair value of investments]	86,289	176,032	666,882	465,567	2,773
Net appreciation (depreciation) in fair value of investments	3,934,527	4,390,789	8,596,608	(3,756,138)	(12,253,992)
Net Assets Held in Trust at the End of the Year	$ 43,059,892	$ 47,626,713	$ 56,890,203	$ 53,599,632	$ 41,348,413

Source: Virginia Retirement System.

Each employer contributes an amount for any period equal to the sum of the normal cost and amortization of the unfunded actuarial accrued liability, if any. The Commonwealth's liability is determined, at a minimum, every two years by the System's Board of Trustees on the basis of studies by the consulting actuary. With respect to teachers, the Commonwealth pays a share of the employer contributions on the compensation of teachers who are employees of local school boards with the Commonwealth's portion determined by a formula that uses the student/teacher ratio, average teachers' salaries and the source of revenue used for salary. Employees contribute 5 percent of their creditable compensation unless the contribution is assumed by the employer as in the case of Commonwealth employees, judges, state police officers, and state law enforcement and correctional officers other than state police officers.

Employer contributions are calculated under an entry age normal cost method, and the unfunded actuarial accrued liability is amortized as a level percentage of payroll within 30 years or less. The entry age normal cost method is designed to produce level normal costs over the working lifetime of the participating employees and to permit the amortization of any unfunded liability over a period of years. The unfunded liability arises because normal costs based on the current benefit provisions have not been in effect throughout the working lifetime of current employees and because of actuarial losses. Post-retirement benefit adjustments are pre-funded during the employees' working lifetime.

The Commonwealth's contribution rate for the 2009 fiscal year was determined in accordance with the actuarial valuation as of June 30, 2007. In calculating the Commonwealth's contribution rate for the 2009 fiscal year, the actuary assumed a 7.5 percent net investment yield compounded annually, a 2.5 percent inflation allowance in the salary scale, a 20-year amortization period for the Unfunded Actuarial Accrued Liability (UAAL) and valued the assets using a modified market basis.

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The normal contribution and accrued liability cost rates (expressed as percentages of covered compensation) recommended by the actuaries are as follows:

RETIREMENT SYSTEMS CONTRIBUTIONS, ACCRUED LIABILITY AND SUPPLEMENTARY COSTS
(1997-1998 biennium through 2009 fiscal year) [1]

	State Employees	School Teachers	State Police	Virginia Law Officers' [2]	Judges
Normal contribution rate:					
1997-98	2.73	3.51	9.39	-	15.12
1998-99	3.56	4.54	8.72	-	17.34
1999-00	4.18	5.09	10.52	4.18	18.74
2000-01	4.24	5.83	8.92	8.92	27.85
2001-02	4.00	6.03	7.45	7.91	26.11
2002-03	4.00	6.03	7.99	8.51	22.27
2003-04	4.00	6.03	7.99	8.51	22.27
2004-05	4.00	6.03	7.99	8.51	22.19
2005-06	4.00	6.03	7.99	8.51	22.19
2006-07	2.80	4.45	7.47	8.06	24.49
2007-08	2.80	4.45	8.35	8.06	24.49
2008-09	2.93	4.71	8.84	8.24	25.13
Accrued liability rate:					
1997-98	2.08	3.77	3.99	-	13.98
1998-99	2.28	3.95	8.12	-	14.34
1999-00	1.85	3.95	8.68	1.85	15.51
2000-01	0.98	1.71	16.08	7.23	17.15
2001-02	0.24	(1.79)	17.55	17.09	18.89
2002-03	0.24	(1.79)	17.01	16.49	22.73
2003-04	0.24	(1.79)	17.01	16.49	22.73
2004-05	(0.11)	2.07	17.01	16.49	22.81
2005-06	(0.11)	2.07	17.01	16.49	22.81
2006-07	4.53	6.73	12.35	9.33	15.59
2007-08	4.53	6.73	14.34	9.33	15.59
2008-09	5.09	7.13	15.25	8.54	12.91
Total contribution rate:					
1997-98	4.81	7.28	13.38	-	29.10
1998-99	5.84	8.49	16.84	-	31.68
1999-00	6.03	9.04	19.20	6.03	34.25
2000-01	5.22	7.54	25.00	16.15	45.00
2001-02 [3]	4.24	4.24	25.00	25.00	45.00
2002-03 [4]	4.24	4.24	25.00	25.00	45.00
2003-04 [5]	4.24	4.24	25.00	25.00	45.00
2004-05 [6]	3.89	8.10	25.00	25.00	45.00
2005-06 [7]	3.89	8.10	25.00	25.00	45.00
2006-07 [8]	7.33	11.18	19.82	17.39	40.08
2007-08 [9]	7.33	11.18	22.69	17.39	40.08
2008-09 [10]	8.02	11.84	24.09	16.78	38.04

Source: Virginia Retirement System

[1] Rates for FY 2000 reflect "carve out" of a portion of the retirement rate for the Virginia Sickness and Disability Program.

[2] The Virginia Law Officers' Retirement System was established October 1, 1999.

[3] Contributions actually paid in FY 2002 were 2.12%, 3.60%, 12.50%, 8.07% and 22.50% for State, School Teachers, State Police, VaLORS and Judges, respectively.

[4] Contributions actually paid in FY 2003 were 0.00%, 3.77%, 11.05%, 12.00% and 29.00% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[5] Contributions actually paid in FY 2004 were 3.77%, 3.77%, 12.79%, 13.95% and 32.03% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[6] Contributions actually paid in FY 2005 were 3.91%, 6.03%, 16.49%, 16.99% and 30.55% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[7] Contributions actually paid in FY 2006 were 3.91%, 6.62%, 16.49%, 16.99% and 30.55% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[8] Contributions actually paid in FY 2007 were 5.74%, 9.20%, 16.71%, 14.96% and 36.47% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[9] Contributions actually paid in FY 2008 were 6.15%, 10.30%, 20.76%, 15.86% and 38.01% for State, School Teachers, State Police, VaLORS, and Judges, respectively. State Police computed and paid rates reflect an increase of 2.87% resulting from and increase in the multiplier from 1.70% to 1.85%, effective July 1, 2007.

[10] Contributions actually paid in FY 2009 were 6.23%, 8.81%, 20.05%, 14.23% and 34.51% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

Effective October 1, 1983, the Commonwealth assumed the 5 percent employee contribution made by members of the VRS, SPORS, VaLORS and JRS. The total contribution rate being paid by the Commonwealth for Commonwealth employees, police, other law enforcement and corrections officers, and judges is, therefore, higher by that amount than is shown above in the summary. The above table reflects the plan as still described in the statutes.

The most recent actuarial valuation review of the Commonwealth's liability under the VRS, SPORS, VaLORS and JRS was performed by Cavanaugh Macdonald Consulting, LLC as of June 30, 2008. Below is the schedule of Funding Progress for the various pension plans. For further discussion of the funding status of the pension programs, see "Retirement and Pension Systems" in The Report of the Comptroller for the Fiscal Year Ended June 30, 2008.

SCHEDULE OF FUNDING PROGRESS
(dollars in millions)

Biennial Actuarial Valuation Date 6/30		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
Virginia Retirement System							
2008		$52,548	$62,554	$10,006	84.0%	$14,559	68.7%
2007		47,815	58,116	10,301	82.3%	13,834	74.5%
2006		42,669	52,822	10,153	80.8%	13,002	78.1%
2005	[1]	40,372	49,628	9,256	81.3%	12,212	75.8%
2004		39,691	43,958	4,267	90.3%	11,510	37.1%
2003		39,243	40,698	1,455	96.4%	10,885	13.4%
2002		38,957	38,265	(692)	101.8%	10,669	(6.5%)
State Police Officers Retirement System (SPORS)							
2008		$646	$844	$198	76.6%	$103	192.3%
2007		595	806	211	73.8%	101	209.4%
2006		539	730	191	73.8%	94	204.1%
2005	[1]	514	673	159	76.4%	91	174.8%
2004		510	656	146	77.8%	82	178.0%
2003		509	616	107	82.6%	79	135.4%
2002		508	595	87	85.4%	81	107.4%
Virginia Law Officer's Retirement System (VaLORS)							
2008		$873	$1,281	$408	68.2%	$368	110.8%
2007		766	1,166	400	65.7%	341	117.2%
2006		656	1,096	440	59.9%	321	137.0%
2005	[1]	575	980	405	58.7%	307	132.0%
2004		509	927	418	54.9%	298	140.3%
2003		458	854	396	53.6%	292	135.6%
2002		418	806	388	51.9%	306	126.8%
Judicial Retirement System (JRS)							
2008		$374	$495	$121	75.6%	$61	199.9%
2007		340	442	102	76.9%	58	177.3%
2006		302	424	122	71.3%	54	224.1%
2005	[1]	288	402	114	71.5%	52	220.7%
2004		285	366	81	78.0%	48	168.8%
2003		282	348	66	81.1%	48	137.5%
2002		281	352	71	79.8%	48	147.9%

[1] Revised economic and demographic assumptions due to experience study.
Source: Virginia Retirement System.

In addition to the defined benefit programs described above, the Commonwealth also makes contributions to a defined contribution retirement plan for political appointees. Contributions for this plan are based on 10.4% of each appointee's salary. At June 30, 2009, this plan covered 226 political appointees and had total assets of approximately $5,012,922.

OTHER LONG-TERM LIABILITIES

Employee Benefits Other than Pension Benefits

Employees of the Commonwealth accrue annual leave at a rate of four to nine hours semi-monthly, depending on their length of service. The maximum accumulation is dependent on years of service, but in no case may it exceed 42 days. All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program ("VSDP"). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the calendar year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the original sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the original sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave State service after a minimum of five years employment receive the lesser of 25 percent of the value of their disability credits or accumulated sick leave at the current earnings rate or $5,000. All employees leaving State service are paid for accrued annual leave up to the maximum calendar year limit at their current earnings rate.

The VSDP was established for all full-time, classified state employees, including state police officers, and other state law enforcement and correctional officers. Part-time, classified state employees who work at least 20 hours a week on a salaried basis and who accrue leave are also covered. After a seven calendar-day waiting period following the first incident of disability, the VSDP provides short-term disability benefits from 60% to 100% of compensation up to a maximum of 125 work days. After a 180 calendar day waiting period, eligible employees receive long-term disability benefits equal to 60% of compensation until they return to work, until age 65 (age 60 for state police officers and other state law enforcement and correctional officers), or until death.

In addition to providing pension benefits, the Commonwealth provides life insurance for active and retired employees and a retiree health insurance credit to offset a portion of the cost of health insurance premiums for qualifying state retirees under VRS, SPORS, JRS and VaLORS. The estimated costs of these benefits are funded over the working lives of the employees through employer contributions and investment income.

Self-Insurance

The Commonwealth provides several types of self-insurance for the benefit of state agencies and institutions. The Department of the Treasury, Division of Risk Management, administers self-insurance programs for general (tort) liability, medical malpractice and automobile liability. The Department of Human Resource Management administers the state employee health care self-insurance fund. At June 30, 2008, $473.2 million was reported as the combined estimated claims payable for self-insurance.

Medicaid Payable

The Department of Medical Assistance Services estimates, based on past experience, the total amount of claims that will be paid from the Medicaid program in the future which relate to services provided before year end. At June 30, 2008, the estimated liability related to normal operations totaled $423.8 million. Of this amount, $213.5 million is reflected in the General Fund and $210.3 million in the Federal Trust Special Revenue Fund.

For a more detailed explanation of Other Long-Term Liabilities, see "Notes to the Financial Statements" in The Report of the Comptroller for the Fiscal Year Ended June 30, 2008.

Other Post Employment Benefits (OPEB) – Financial Statement Reporting

The Commonwealth currently has five postemployment benefit programs other than the retirement plans described above ("OPEB Programs"). They are: Retiree Health Insurance Credit, Group Life Insurance, Virginia Sickness and Disability Plan, Pre-Medicare Retiree Health Insurance Program and Line of Duty Death and Health Insurance Benefit.

The Governmental Accounting Standards Board (GASB) issued accounting and reporting standards for other postemployment benefits. The VRS implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan*, in their published financial statements for the fiscal year ended June 30, 2007. The Commonwealth, as an employer, implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the fiscal year ended June 30, 2008.

The Commonwealth's OPEB programs promise benefits to individuals who perform services for government today to be paid following the conclusion of their service. Historically, the Commonwealth and most other government employers financed other post employment benefit programs on a pay-as-you-go basis. The new reporting standards require expenses associated with these programs to be calculated and reported on an actuarial basis even though payment is deferred until after an individuals' service ends. As of June 30, 2008, the Commonwealth's estimated annual required OPEB contribution is $345.0 million and the estimated unfunded actuarial liabilities are $3.6 billion.

LABOR RELATIONS

It is against public policy for Commonwealth or local officials to recognize any labor union as a representative of public employees or to engage in collective bargaining with any labor union. Public employees of the Commonwealth do not have a legal right to strike, and no strike by employees of the Commonwealth has ever taken place. Any such employee who engages in any organized strike or willfully refuses to perform his duties shall, according to state law, be deemed to have terminated his employment. The General Assembly has rejected several recent legislative proposals to authorize public employees to engage in collective bargaining.

LITIGATION

The Commonwealth, its officials and employees are named as defendants in legal proceedings which occur in the normal course of governmental operations, some involving claims for substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Commonwealth with respect to these lawsuits. However, any ultimate liability resulting from these suits is not expected to have a material adverse effect on the financial condition of the Commonwealth.

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TOBACCO SETTLEMENT

The Commonwealth is a party to the national tobacco settlement (the "Settlement") between leading United States tobacco product manufacturers, 45 other states, the District of Columbia and 5 territories. The Settlement provides that tobacco companies pay a total of $206 billion to the participating states by the year 2025; significantly curb their advertising; and disband industry trade groups. The Commonwealth's share of the total amount to be paid to states through 2025 would be approximately $4.1 billion. The exact dollar amount is contingent upon certain adjustments as set forth in the Settlement. Under the Settlement, the tobacco companies will make three types of payments. Tobacco companies made five "initial payments" totaling approximately $13 billion over the six year period ending in January 2003. In addition, the tobacco companies make "annual payments" that began on April 15, 2000. Such payments will be paid annually into perpetuity and will be adjusted annually based on inflation and volume adjustments as determined by future sales of cigarettes. Approximately $8.6 billion of the Settlement will be deposited into a strategic contribution fund and allocated based on the states' contribution toward resolving the Settlement. The "strategic contribution payments" will be made in equal installments over a 10-year period beginning in 2008.

The Commonwealth created the Tobacco Indemnification and Community Revitalization Commission and Fund (the "TICR Commission" and "TICR Fund," respectively). Fifty percent of the annual amount received by the Commonwealth from the Settlement (the "TICR Commission Allocation") has been deposited into the TICR Fund. The TICR Commission distributes moneys in the TICR Fund to (i) provide payments to tobacco farmers as compensation for the elimination or decline in tobacco quotas and (ii) promote economic growth and development in tobacco dependent communities.

In 2002, the General Assembly authorized the securitization of the TICR Commission Allocation and created the Tobacco Settlement Financing Corporation (the "Corporation"). The Corporation was established to carry out the financing, purchasing, owning and managing of the portion of the TICR Commission Allocation that may be sold by the Commonwealth from time to time. On May 16, 2005, the Corporation issued $448,260,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2005 (the "Series 2005 Bonds") backed by 25% of the annual amount of Settlement payments to be received by the Commonwealth. Net proceeds of the sale were deposited to the Tobacco Indemnification and Community Revitalization Endowment established pursuant to Section 3.1-1109.1 of the Code of Virginia to fund economic development projects throughout Southside and Southwest Virginia. On May 3, 2007, the Corporation issued $1,149,273,283 of its Tobacco Settlement Asset-Backed Bonds, Series 2007 (the "Series 2007 Bonds"). A portion of the proceeds of the Series 2007 Bonds were used to defease and refund the outstanding Series 2005 Bonds. The Series 2007 Bonds are backed solely by 50% of the annual amount of Settlement payments to be received by the Commonwealth. Tobacco Bonds issued by the Corporation are not obligations of the Commonwealth or any instrumentality other than the Corporation.

The Commonwealth also created the Virginia Tobacco Settlement Foundation ("the Foundation") to coordinate and finance efforts to restrict the use of tobacco products by minors through such means as educational and awareness programs on the health effects of tobacco use on minors and laws restricting the distribution of tobacco products to minors. Ten percent of the annual amount received by the Commonwealth from the Settlement is allocated to the Foundation (the "Foundation Allocation"). Chapter 345 of the 2007 Virginia Acts of Assembly, which became effective on July 1, 2007, authorizes the securitization of the Foundation Allocation, however no securitization of the Foundation Allocation has occurred. The remaining forty percent of unallocated Settlement payments are deposited to the General Fund.

The allocation and expenditures of the annual amounts received by the Commonwealth from the settlement are subject to appropriation by the General Assembly.

APPENDIX C

COMMONWEALTH OF VIRGINIA

DEMOGRAPHIC AND ECONOMIC INFORMATION

APPENDIX C
TABLE OF CONTENTS

INTRODUCTION 1
DEMOGRAPHIC CHARACTERISTICS 1
General 1
Population Trends 1
ECONOMIC FACTORS 4
Taxable Retail Sales 4
Personal Income 4
Residential Construction 8
Assessed Value of Locally Taxed Property 8
Employment 9
Largest Employers 12
Unemployment 13
Other Economic Factors 14

INTRODUCTION

The following demographic and economic information is provided by the Commonwealth of Virginia, its agencies, institutions and authorities (the "Commonwealth"). The data were compiled by the Department of the Treasury and were not independently verified; however, the Department of the Treasury has no reason to believe that such material is not true and correct.

DEMOGRAPHIC CHARACTERISTICS

General

The Commonwealth is divided into five distinct regions -- a coastal plain cut into peninsulas by four large tidal rivers, a piedmont plateau of rolling farms and woodlands, the Blue Ridge Mountains, the fertile Shenandoah Valley and the Appalachian plateau region extending over the southwest corner of the Commonwealth. Approximately one-third of all land in Virginia is used for farming and other agricultural services. This variety of terrain, the location of the Commonwealth on the Atlantic Seaboard at the southern extremity of the northeast population corridor and its close proximity to the nation's capital have had a significant influence on the development of the present economic structure of the Commonwealth.

The Commonwealth's 2008 population of 7,769,089 was 2.6 percent of the United States' total. Among the 50 states, it ranked twelfth in population. With 39,594 square miles of land area, its 2008 population density was persons 196.2 per square mile, compared with 95.66 persons per square mile for the United States.

Population Trends

From 1998 to 2008, Virginia's population increased 12.6 percent versus 10.2 percent for the nation. Population trends since 1998 for the Commonwealth and the United States are shown in the following table:

POPULATION TREND

	Virginia		United States	
Year	Population	Increase Over Preceding Year	Population	Increase Over Preceding Year
1998	6,900,918	-	275,854,104	-
1999	7,000,174	1.4%	281,424,602	2.0%
2000	7,104,992	1.5	282,194,308	0.3
2001	7,190,468	1.2	285,112,030	1.0
2002	7,281,659	1.3	287,888,021	1.0
2003	7,370,557	1.2	290,447,644	0.9
2004	7,464,033	1.3	293,191,511	0.9
2005	7,557,588	1.3	295,895,897	0.9
2006	7,640,249	1.1	298,754,819	1.0
2007	7,712,091	0.9	301,621,157	1.0
2008	7,769,089*	0.7	304,059,724	0.8

Source: U.S. Department of Commerce, Bureau of the Census.
* 2008 Data as of July 2009

AGE DISTRIBUTION OF POPULATION

Compared to the nation, a higher proportion of the Commonwealth's population is in the adult/working ages of 18 through 64. A lower proportion of Virginia's population is comprised of persons 65 and older and of persons age 5 through 17. In 2008 the population of the Commonwealth and of the United States was distributed by age as follows:

AGE DISTRIBUTION
2008

Age	Virginia	United States
Under 5 years	6.7%	6.9%
5 through 17 years	17.3%	17.4%
18 through 44 years	38.3%	37.2%
45 through 64 years	26.2%	25.7%
65 years and older	11.5%	12.8%
	100.0%	100.0%

Source: U.S. Department of Commerce, Bureau of the Census.

Note: Based on figures currently available.

GEOGRAPHIC DISTRIBUTION OF POPULATION

Like the nation as a whole, the Commonwealth has a high percentage of its citizens living in urban areas. Virtually all of the Commonwealth's population growth between 1950 and 1970 occurred in these areas. During the 1970s, however, non-metropolitan areas grew at a slightly faster rate than metropolitan areas. Since 1980, this trend has reversed with the metropolitan areas growing at three times the rate of the rest of the Commonwealth. Of the Commonwealth's population, 85.6 percent resides in eleven metropolitan statistical areas (MSAs).

The largest metropolitan area is the Northern Virginia portion of the Washington-Arlington-Alexandria MSA. This is the fastest growing metropolitan area in the Commonwealth and had a 2008 population of 5,358,130 (including Washington and Maryland's population of 1,768,234). Northern Virginia has long been characterized by the large number of people employed in both civilian and military work with the federal government. It is also one of the nation's leading high-technology centers for computer software and telecommunications.

Spanning Hampton Roads is the Virginia Beach-Norfolk-Newport News MSA, which has large military installations and major port facilities. It had a 2008 population of 1,658,292 and is an important center of manufacturing and tourism. The Richmond MSA is the third largest metropolitan area with a 2008 population of 1,225,626. The Richmond MSA is a leading center of diversified manufacturing activity including chemicals, tobacco, printing, paper, metals and machinery. Richmond is also the capital of the Commonwealth and its financial center which includes the Fifth District Federal Reserve Bank. The Roanoke MSA is the manufacturing, trade and transportation center for the western part of the Commonwealth. It had a 2008 population of 298,108. Also in the western part of the Commonwealth are the Lynchburg and Kingsport-Bristol-Bristol MSAs, which are both manufacturing centers, and had 2008 populations of 245,809 and 304,689, respectively. Located at the foot of the Blue Ridge Mountains is the Charlottesville MSA, a community with a 2008 population of 194,391 and home of The University of Virginia and significant manufacturing industries. The Danville MSA is located on the North Carolina border and had a 2008 population of 105,783.

In 2003, the federal Office of Management & Budget recognized three new Virginia MSAs -- Winchester, Harrisonburg and Blacksburg-Christiansburg-Radford. The Winchester MSA is located at the northernmost tip of Virginia and had a 2008 population of 122,369. This fast-growing community has become increasingly attractive for both business and residential development due to its location bordering the Washington-Arlington-Alexandria MSA.

The Harrisonburg MSA, a community with a 2008 population of 118,409, is located in west central Virginia. It is a major retail, service and manufacturing center in the Shenandoah Valley. With a 2008 population of 158,328, the Blacksburg-Christiansburg-Radford MSA is located in the New River Valley in southwestern Virginia. The town of Blacksburg is the home of Virginia Polytechnic Institute & State University, Virginia's largest university and one of the nation's leading research institutions.

2008 population figures for all eleven Commonwealth MSAs are shown below:

METROPOLITAN STATISTICAL AREA
POPULATION AND PER CAPITA INCOME

MSA	2008 Population	2008 Per Capita Income
Blacksburg-Christiansburg-Radford	158,328	26,569
Charlottesville	194,391	42,343
Danville	105,783	27,733
Harrisonburg	118,409	29,372
Kingsport-Bristol-Bristol	304,689	30,691
Lynchburg	245,809	31,862
Richmond	1,225,626	41,021
Roanoke	298,108	35,531
Virginia Beach-Norfolk-Newport News	1,658,292	38,112
Washington-Arlington-Alexandria*	5,358,130	56,510
Winchester	122,369	32,677
Commonwealth of Virginia	7,769,089	$42,876

Source: US Dept of Commerce, Bureau of Economic Analysis.
* Washington-Arlington-Alexandria MSA includes Washington, DC and Maryland.

Distributed throughout Virginia are smaller urban areas, most of which historically have been trade centers for the surrounding areas and continue to be so today. These communities have attracted many of the new manufacturing facilities locating in the Commonwealth in recent years. The remainder of the Commonwealth's population lives in rural areas, including most of the towns and the remaining smaller cities.

ECONOMIC FACTORS

Taxable Retail Sales

Over the past ten years, taxable retail sales in Virginia increased by over $30.0 billion, or 49.9 percent. This growth is much higher for the same period than the rate of inflation, which was 37 percent. The following table illustrates the changes in taxable retail sales for calendar years 1998 through 2008:

Calendar Year	Taxable Retail Sales	% Change
1998	$60,113,811,363	-
1999	64,068,575,397	6.6%
2000	68,661,581,258	7.2%
2001	68,725,289,188	0.1%
2002	70,645,312,671	2.8%
2003	74,973,561,726	6.1%
2004	81,291,117,472	8.4%
2005	77,290,441,767	-4.9%
2006	89,478,625,283	15.8%
2007	92,043,248,947	2.9%
2008	90,106,122,080	-2.1%

Source: Department of Taxation.

Personal Income

According to the U.S. Department of Commerce, Virginians received over $333.1 billion in estimated personal income in 2008. In 2008, the Commonwealth had per capita income of $42,876, the highest of the Southeast region and greater than the national average of $39,751.

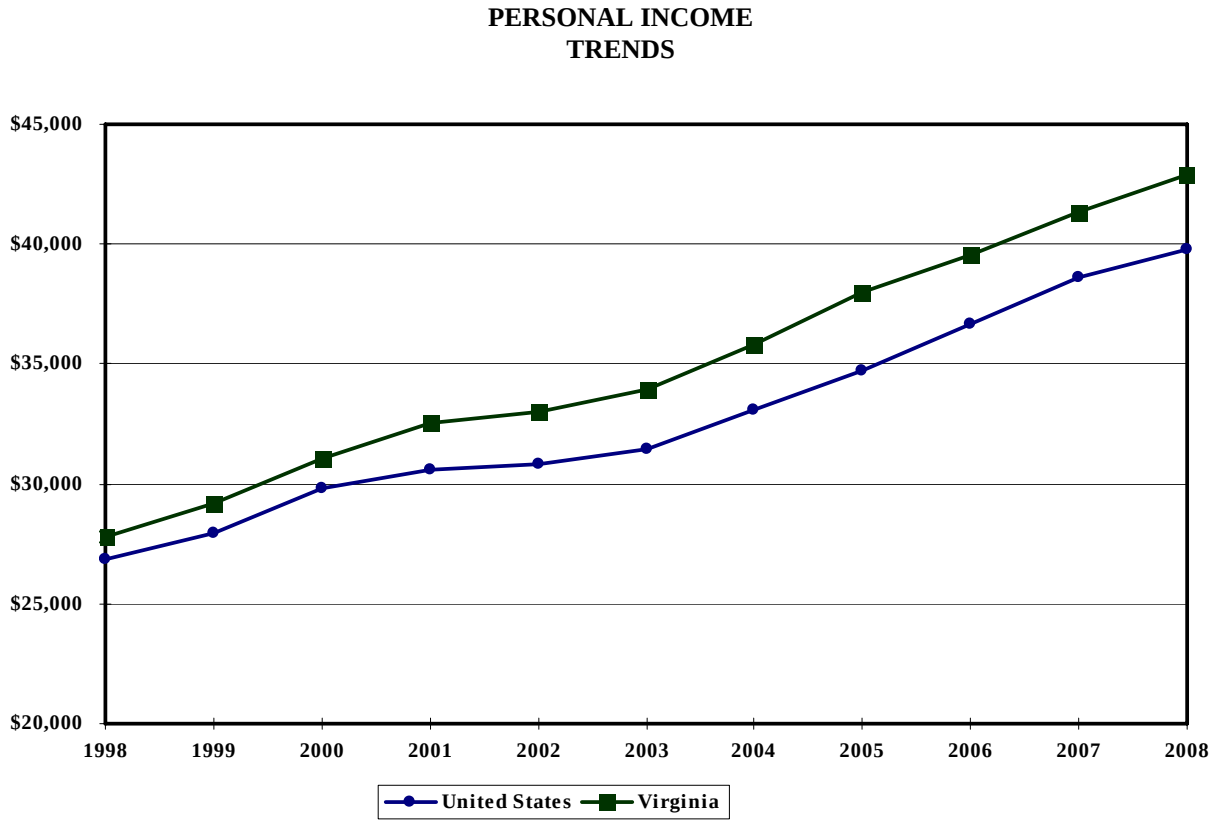
From 1998 to 2008, the Commonwealth's 4.4 percent average annual rate of growth in personal per capita income was more than the national average rate of growth of 4.0 percent. Virginia and United States per capita personal income are shown in the following table:

PERSONAL INCOME TRENDS

	Virginia		United States	
Year	Per Capita Personal Income	Increase Over Preceding Year	Per Capita Personal Income	Increase Over Preceding Year
1998	$27,780	-	$26,883	-
1999	29,226	5.2%	27,939	3.9%
2000	31,085	6.4%	29,843	6.8%
2001	32,501	4.6%	30,562	2.4%
2002	33,014	1.6%	30,795	0.8%
2003	33,976	2.9%	31,466	2.2%
2004	35,836	5.5%	33,072	5.1%
2005	37,974	6.0%	34,685	4.9%
2006	39,564	4.2%	36,629	5.6%
2007	41,347	4.5%	38,611	5.4%
2008	42,876	3.7%	39,751	3.0%

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Virginia and United States per capita personal income are shown in the following graph:



In 2008, the sources of personal income in the Commonwealth and the comparable sources of personal income for the United States are shown in the table and pie chart:

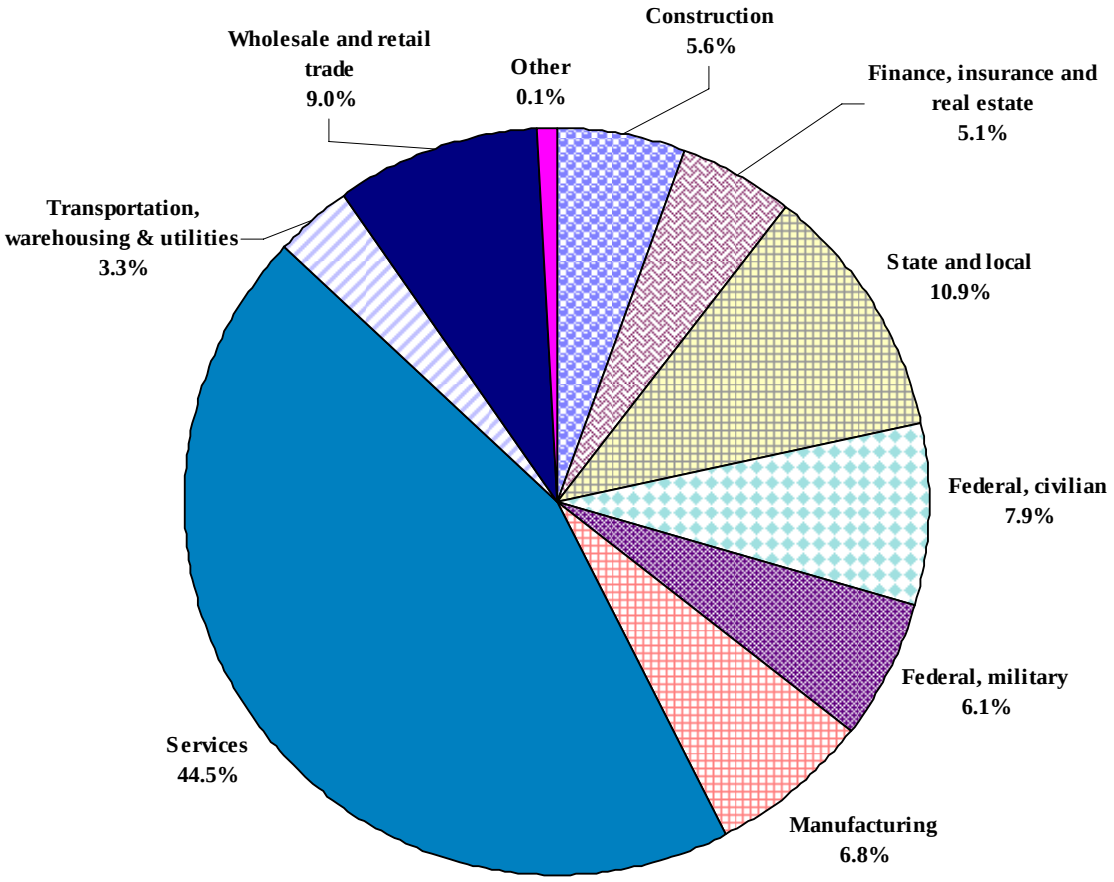
SOURCES OF PERSONAL INCOME
2008

	Virginia (in Millions)	Percentage of Personal Income Before Residence Adjustment	
		Virginia	United States
Forestry, fisheries, related activities and other	$323	0.1%	0.3%
Construction	14,606	5.6%	5.9%
Farming	328	0.1%	0.6%
Finance, insurance and real estate	13,176	5.1%	8.0%
Government:		0.0%	0.0%
State and local	28,429	10.9%	12.3%
Federal, civilian	20,583	7.9%	3.3%
Federal, military	15,778	6.1%	1.8%
Manufacturing	17,679	6.8%	12.1%
Mining	1,493	0.6%	1.6%
Services	115,731	44.5%	38.9%
Transportation, warehousing & utilities	8,580	3.3%	3.3%
Wholesale and retail trade	23,419	9.0%	11.7%
Subtotal	260,125	100.0%	100.0%
Less:			
Contributions for government social insurance	(28,379)		
Plus:			
Dividends, interest and rent	52,432		
Transfer payments	39,292		
Personal income before residence adjustment	$323,470		
Residence adjustment (1)	9,641		
Total Personal Income	$333,111		

(1) Total personal income is reported by place of residence. However, income by industry is shown by place of work. Thus, this adjustment was necessary to account for income earned by Virginia residents who worked outside the Commonwealth. These were primarily federal government employees who lived in Northern Virginia but worked in Washington, D.C.

Source: Bureau of Economic Analysis as of March 23, 2009

NONAGRICULTURAL SOURCES OF GROSS PERSONAL INCOME BY MAJOR INDUSTRY
2008



Residential Construction

Residential construction was concentrated in three of the state's eleven MSAs. The Virginia portions of the Washington-Arlington-Alexandria MSA, the Virginia Beach-Norfolk-Newport News MSA, and the Richmond MSA accounted for approximately 68.7 percent of the state total.

AGGREGATE VALUE OF AND BUILDING PERMITS ISSUED FOR RESIDENTIAL CONSTRUCTION IN VIRGINIA [1]

Year	Value of Construction in Current Dollars (in millions)	Percent Change from Preceding Year	Number of Permits Issued	Percent Change from Preceding Year
1998	$4,774.30	-	50,204	-
1999	5,142.20	7.7%	53,151	5.87%
2000	4,929.10	-4.1%	48,678	-8.42%
2001	5,739.70	16.4%	53,475	9.85%
2002	6,589.30	14.8%	59,445	11.16%
2003	6,863.50	4.2%	55,996	-5.80%
2004	8,050.30	17.3%	62,579	11.76%
2005	9,261.00	15.0%	62,765	0.30%
2006	7,266.80	-21.5%	45,360	-27.73%
2007	6,330.12	-12.9%	38,319	-15.52%
2008	4,106.78	-35.1%	27,704	-27.70%

[1] Value of construction excludes mobile homes.

Source: *Annual Residential Building Permits.* University of Virginia, Weldon Cooper Center for Public Service.

Assessed Value of Locally Taxed Property

The Constitution of Virginia provides that real estate, coal and other mineral lands and tangible personal property, except the rolling stock of public service corporations, are reserved for taxation by cities, counties, towns and other local government entities. Shown below is the assessed value of real estate and personal property as determined by the various taxing jurisdictions and the combined value of real estate and personal property for public utilities as determined by the State Corporation Commission. Cities and counties are required by law to assess real estate at 100 percent of market value.

ASSESSED VALUES OF REAL ESTATE AND TANGIBLE PERSONAL PROPERTY

Tax Year Ended 31-Dec	Real Estate	Public Service Corporation	Personal Property	Total
1998	$357,933,576,243	$24,278,814,303	$44,192,544,427	$426,404,934,973
1999	377,609,745,833	25,459,493,264	47,746,947,423	450,816,186,520
2000	404,571,768,890	27,194,732,245	52,842,420,797	484,608,921,932
2001	441,708,209,690	26,999,337,787	55,202,531,447	523,910,078,924
2002	495,156,975,902	29,239,165,763	57,949,553,914	582,345,695,579
2003	551,789,426,873	27,101,230,213	59,935,871,109	638,826,528,195
2004	617,559,007,920	27,379,304,201	61,349,533,127	706,287,845,248
2005	727,049,755,759	29,539,242,718	66,156,293,731	822,745,292,208
2006	899,309,993,628	28,846,374,447	69,815,543,837	997,971,911,912
2007	983,783,727,842	29,048,712,683	70,939,288,961	1,083,771,729,486

Source: Department of Taxation.

Note: Based on figures currently available from Taxation 2008 Annual Report.

Employment

As of June 2008, more than 4.0 million residents of the Commonwealth were in the civilian labor force, which includes agricultural and nonagricultural employment, the unemployed, the self-employed and residents who commute to jobs in other states.

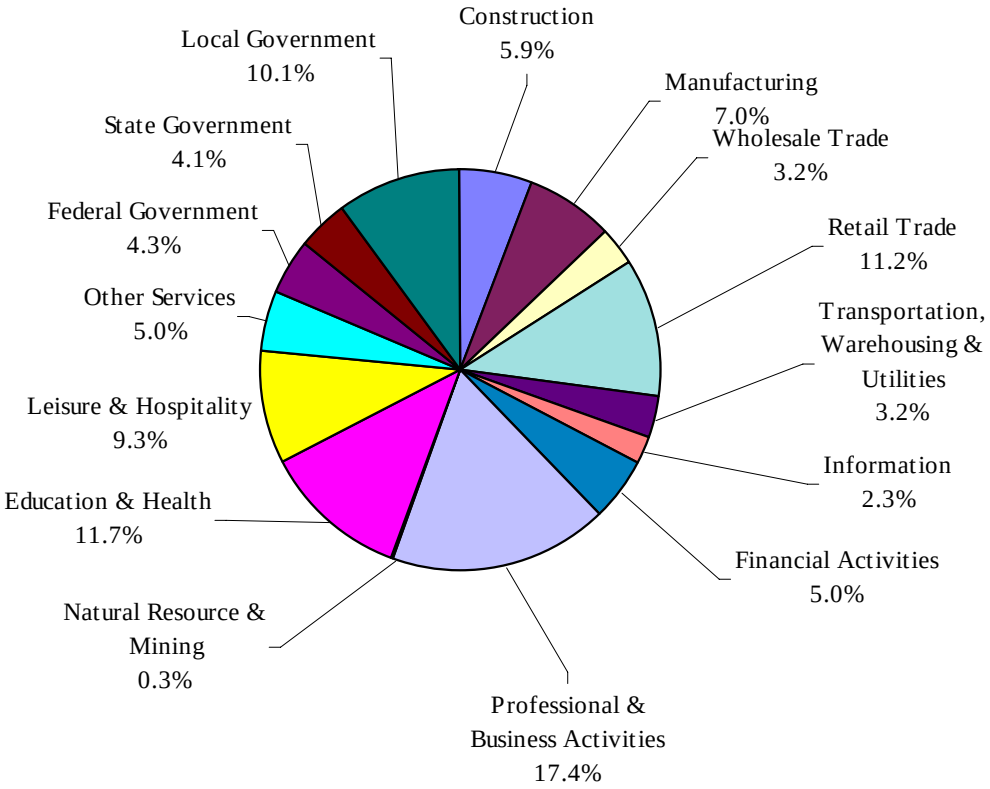
The following table indicates the distribution by category of nonagricultural employment in the Commonwealth and the comparative distribution in the United States for 2008.

DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT
2008

	Virginia	United States
Natural Resource & Mining	0.3%	0.6%
Construction	5.9%	5.3%
Manufacturing	7.0%	9.8%
Wholesale Trade	3.2%	4.8%
Retail Trade	11.2%	11.2%
Transportation, Warehousing & Utilities	3.2%	3.3%
Information	2.3%	2.2%
Financial Activities	5.0%	5.9%
Professional & Business Activities	17.4%	13.0%
Education & Health	11.7%	13.8%
Leisure & Hospitality	9.3%	9.8%
Other Services	5.0%	4.0%
Public Administration		
Federal Government	4.3%	2.0%
State Government	4.1%	3.8%
Local Government	10.1%	10.6%
	100.0%	100.0%

Source: U.S. Department of Labor, Bureau of Labor Statistics and Virginia Employment Commission.

DISTRIBUTION OF VIRGINIA NONAGRICULTURAL EMPLOYMENT BY MAJOR INDUSTRY
2008



Source: U.S. Department of Labor, Bureau of Labor Statistics and Virginia Employment Commission.

NONAGRICULTURAL EMPLOYMENT

	2003	2004	2005	2006	2007	2008	% Change 2003-2008
Natural Resource & Mining	10,100	10,300	10,700	11,300	10,900	11,100	**9.9%**
Construction	217,500	230,900	243,600	249,400	239,900	222,200	**2.2%**
Manufacturing	304,900	298,700	295,800	288,700	277,800	264,500	**-13.3%**
Wholesale Trade	113,200	114,600	117,200	119,500	120,900	119,000	**5.1%**
Retail Trade	403,100	412,700	418,500	423,700	427,500	420,200	**4.2%**
Transportation & Warehousing	118,800	119,100	121,400	119,800	119,700	119,000	**0.2%**
Information	101,400	98,300	92,700	92,000	90,400	87,600	**-13.6%**
Financial Activities	186,400	189,000	192,500	195,700	193,700	188,800	**1.3%**
Professional & Business Activities	549,300	578,500	606,100	627,400	646,300	655,100	**19.3%**
Education & Health	370,000	381,300	393,500	404,700	420,500	438,200	**18.4%**
Leisure & Hospitality	308,500	320,100	329,400	338,100	345,300	348,500	**13.0%**
Other Services	176,600	179,400	181,000	181,600	185,500	188,700	**6.9%**
Public Administration							
Federal Government	147,700	151,700	151,800	153,600	156,600	160,100	**8.4%**
State Government	142,900	145,700	149,400	152,800	153,000	154,500	**8.1%**
Local Government	346,900	353,600	360,700	367,800	373,400	380,000	**9.5%**
Total	**3,497,300**	**3,583,900**	**3,664,300**	**3,726,100**	**3,761,400**	**3,757,500**	**7.6%**

Source: Virginia Employment Commission.

Employment in the **Information Services** sector decreased from 90,400 to 87,600 jobs. This is due in part to the intense telecommunications competition. The **Professional and Business Services** sector added 8,800 or 1.4 percent in 2008. Growth in this sector was mainly concentrated in Northern Virginia, the state's largest metropolitan area, but this industry also saw gains in most of the state's other metropolitan areas. The private **Education and Health** sector continued to add jobs in 2008, and increased 18.4 percent over the five year period. Similarly, the **Leisure and Hospitality** sector showed growth by 13% over the same period.

The **Financial Activities** employment of 188,800 was 4,900 or 2.6 percent below its June 2007 level. Problems in the mortgage banking, credit, and brokerage subsectors contributed to the decrease in job totals.

Construction employment decreased to 222,200 or 7.4 percent below the 2007 average of 239,900. The slump in home building was a significant factor in the reduction.

Total Government employment increased by 11,600 workers or 1.7 percent in 2008. **Wholesale and retail trade** had a decrease of 1,900 jobs in 2008, a 1.55 percent decrease from 2007. **Natural Resources and Mining employment** in Virginia had a slight increase by 200 jobs in 2008, to 11,100.

Manufacturing employment decreased by 13,300 jobs or 4.8 percent. The loss was mostly in the durable goods subsection where employment was down 9,500, or 5.8 percent. Employment in the non durable goods subsection was down 3,600 or 3.1 percent.

Largest Employers

The ten largest private and public sector employers in the Commonwealth, each of which employed 1,000 or more persons, are shown below.

TOP TEN PRIVATE SECTOR EMPLOYERS
2008

Rank	Name	Industry
1	Wal-Mart Associates, Inc.	Retail Trade-General Merchandise
2	Newport News Ship Building	Manufacturing-Transportation Equipment
3	Food Lion, LLC	Retail Trade-Food & Beverage
4	Sentara Healthcare	Health Care & Social Assistance-Hospital
5	Inova Health System	Health Care & Social Assistance-Hospital
6	Booz, Allen and Hamilton	Professional & Technical Services
7	Target Corporation	Retail Trade-General Merchandise
8	Science Applications International Corp	Professional & Technical Services
9	Lowe's Home Centers, Inc	Building Material and Garden Supply Stores
10	United Parcel Service	Postal Shipping

Source: Virginia Employment Commission.

TOP TEN PUBLIC SECTOR EMPLOYERS
2008

Rank	Name	Industry
1	Department of Defense	Public Administration-Federal
2	Fairfax County Public Schools	Educational Services-Local
3	U.S. Postal Service	Transportation & Warehousing
4	County of Fairfax	Public Administration-Local
5	Virginia Beach City School Board	Educational Services-Local
6	Prince William County School Board	Educational Services-Local
7	University of Virginia Health Services	Educational Services-State
8	Loudoun County Public Schools	Educational Services-Local
9	Department Homeland Security	Public Administration-Federal
10	Department of Commerce	Public Administration-Federal

Source: Virginia Employment Commission.

Unemployment

The Commonwealth is one of 22 states with a Right-to-Work Law and has a record of good labor-management relations. The Commonwealth's favorable business climate is reflected in the relatively small number of strikes and other work stoppages it experiences.

The Commonwealth is one of the least unionized of the more industrialized states. Three major reasons for this situation are the Right-to-Work Law; the importance of manufacturing industries such as textiles, apparel, electric and electronic equipment and lumber which are not highly unionized in the Commonwealth; and the importance of federal civilian and military employment. Typically the percentage of nonagricultural employees belonging to unions in the Commonwealth has been approximately half the U.S. average.

During 2008, the Virginia job growth rate of 0.2 faired better than the national average which showed no job growth from calendar year 2007 to 2008.

The following table shows the size of the Commonwealth's total civilian labor force from 1998 through 2008, the percentage unemployed during this period and the comparable national unemployment rate.

UNEMPLOYMENT TRENDS

Year	Virginia's Civilian Labor Force(1)	Unemployment in Virginia	Unemployment in United States
1998	3,483,900	2.80%	4.50%
1999	3,536,409	2.70%	4.20%
2000	3,603,771	2.30%	4.00%
2001	3,641,231	3.20%	4.70%
2002	3,744,023	4.20%	5.80%
2003	3,805,178	4.10%	6.00%
2004	3,854,728	3.70%	5.50%
2005	3,933,949	3.50%	5.10%
2006	3,998,569	3.00%	4.60%
2007	4,059,170	3.20%	4.80%
2008	4,124,766	4.00%	5.80%

(1) Components of labor force are by place of residence.

Source: U.S. Department of Labor, Bureau of Labor Statistics and Virginia Employment Commission

Other Economic Factors

Utilities: Adequate electric power is available throughout the Commonwealth mainly through the investor-owned utilities of Dominion Virginia Power (Dominion), Appalachian Power (APCO), Allegheny Power, and Kentucky Utilities. In addition, 13 electric cooperatives distribute power in rural districts and 16 municipalities have their own distribution systems with power purchased primarily from the previously mentioned companies. The electric utilities serving the Commonwealth are interconnected with neighboring utilities, both within and outside of the Commonwealth, for reliability of service.

Dominion has begun construction of a $1.8 billion clean-coal power station in Wise County, Virginia. The 585-megawatt Virginia City Hybrid Energy Center will use advanced technology designed to reduce emissions and protect the environment. If plans proceed as scheduled, the plant will be operational by 2012. As of June 2009, work on Dominion's Virginia City Hybrid Energy Center was roughly 30 percent complete.

Dominion is also taking steps toward constructing a third nuclear reactor at its North Anna Power Station in Louisa County. Dominion's application is currently under review by the Nuclear Regulatory Commission and if plans proceed as scheduled, the new unit would begin operating in 2015. Dominion has partnered with GE Hitachi Nuclear Energy and Bechtel Corporation on the 1,520-megawatt project, which could generate enough electricity for 375,000 homes at peak demand in Virginia. The company has not committed to build the new unit, but wants to maintain the option to do so to meet projected skyrocketing demand for electricity in Virginia in the next decade.

In 2007 the General Assembly passed legislation to return Virginia to a cost-of-service regulation overseen by the SCC. These actions reduce the possibility of "rate shock" by limiting the fuel adjustment to no more than 4 percent in residential rates. With few modifications, the SCC will have the powers it historically exercised before the deregulation process began. Virginia has also published The Virginia Energy Plan under which the Governor has appointed an "Energy Czar" to coordinate conservation, new sources, and alternative energy development and research.

In addition to available electric power, the Commonwealth is also served by four major interstate natural gas transmission companies: Columbia Gas of Virginia, Dominion Transmission, Transcontinental Gas Pipe Line Corporation (Transco), and Eastern Tennessee Natural Gas.

With few exceptions, municipalities and several highly urbanized counties own their own waterworks systems. In some instances, the system of a municipality serves nearby communities and suburban areas. Some federal installations and many industrial plants have their own water supplies.

Larger municipalities usually depend on surface water supplemented by groundwater. There are approximately 1,240 public community water systems in Virginia, serving more than 80 percent of the Commonwealth's population. In addition, an estimated 5.8 million Virginians benefit from fluoridated drinking water, which represents 95 percent of the population of the population served by public water systems.

All cities, many towns, and some counties have their own sewage collection systems. Existing or planned facilities provide wastewater treatment which meets or will meet established federal and state water quality standards.

Transportation: There are more than 70,000 miles of interstate, primary, and secondary roads, including six major interstate routes: I-95, I-85, I-81, I-77, I-66, and I-64. A major transportation initiative approved by the 2007 Virginia General Assembly provides additional funding (approximately $3 billion) for new transportation projects and maintenance of existing infrastructure. More than a dozen railroad companies and services, including nine freight railroads, operate over 3,400 miles of railway in Virginia. The Commonwealth is a junction point between major north-south and east-west rail lines. CSX Corporation Railroad has offices in Richmond and Norfolk Southern Corporation is headquartered in Norfolk. Rail freight service is provided by these two Class I railroads, along with five local railroads, and two switching companies.

Virginia is served by 14 commercial airports (including those just across the state line at Bluefield, West Virginia; Blountville, Tennessee; as well as Greensboro and Raleigh-Durham, North Carolina; and Baltimore, Maryland). Scheduled commercial airline service is provided to over 130 non-stop destinations around the world. Dulles International and Ronald Reagan Washington National Airports offer daily international non-stop flights to 43 destinations. The commercial airports are supplemented by 58 general aviation airports licensed for public use. Over the past five years, Washington Dulles International has been one of the fastest growing airports in the country. Ronald Reagan Washington National Airport, located in Arlington, historically has been one of the world's busiest airports.

The Commonwealth's port complex includes one of the largest natural harbors in the world, which is responsible for the Commonwealth's strong ties with international commerce. The Port of Virginia consists of three general cargo terminals - Newport News Marine Terminal, Norfolk International Terminal and Portsmouth Marine Terminal. Additionally, the Virginia Inland Port in Front Royal serves as an intermodal collection point for containers from West Virginia, Ohio, Pennsylvania, Northern Virginia, and elsewhere. The Port of Virginia offers world-class shipping facilities and a schedule of over 2,000 sailings annually to places anywhere in the world. It also offers one of the largest intermodal networks on the East Coast with 50-foot-deep channels - the deepest of any U. S. East Coast port.

A monumental expansion project that will increase the cargo capacity in Virginia is the dredged material placement site, Craney Island, which will become the Virginia Port Authority's fourth marine terminal. The first phase of Craney Island will be a 600-acre state-of-the-art terminal that is expected to be complete by 2020 with a capacity of 1.5 million Twenty Foot Equivalent Units ("TEU"). The full build-out of the terminal will be constructed as needed to accommodate demand. This will give Virginia another 5 million TEU capacity for a port-wide capacity of 10 million TEUs. No other port on the US East Coast has land available to expand as well as authorization from the Army Corps of Engineers. On May 20, 2009, the White House approved $28.5 million in the federal budget to fund the Craney Island project this coming fiscal year. The Virginia Port Authority will match the federal dollars to make a total of $57 million dedicated to the expansion of the Port of Virginia, which will keep this project on track.

In 2008, the Port of Virginia handled over 2 million TEUs without congestion problems. This was accomplished while terminal expansion construction was underway at both Portsmouth Marine Terminal and Norfolk International Terminal. When planned renovation to the current terminals is complete in 2011, the Virginia Port Authority will have engineered a 30% capacity improvement. In August 2007, the A.P. Moller-Maerisk Group (APM) opened the first phase of a 285-acre terminal in Portsmouth. This terminal introduced an additional 1 million TEU capacity. Upon completion of the second phase, this terminal will boast a capacity of 2.1 million TEUs. These projects increase terminal capacity at the Port of Virginia to 5 million TEUs. There are three inland river ports at Alexandria on the Potomac, and Hopewell and Richmond on the James.

Telecommunications: Virginia is one of the most connected states in the country with approximately 18.62 million access lines, over 6.2 million wireless telephone subscribers and more than 3.5 million high-speed lines. Telecommunications services are provided to the Commonwealth's communities by more than 60 local exchange carriers with the choice of over a variety of long-distance plans. The largest exchange carrier in Virginia is Verizon. More than 96 percent of households in the Commonwealth have landline telephone service. There are a multitude of competitive providers with large scale national and international backbone networks in operation in the Commonwealth, including Level (3), AT&T, Qwest, Verizon Business, Sprint, COX Business Services and many regional network providers.

Customers in the Commonwealth have access to a full range of high quality, technologically advanced communication services. Virtually all major cities and towns are linked by fiber optic lines crisscrossing the Commonwealth, which, in turn, are tied into recently constructed national fiber optic networks.

Nationally renowned as a model for rural economic development, the Mid-Atlantic Broadband Cooperative Regional Backbone Initiative (RBI) was completed in 2006 and is already expanding. Through this initiative, 700 route miles of new 144 strand advanced fiber optic cable have been installed in Southside Virginia that has connected 4 cities, 20 counties, 60 industrial parks and is providing opportunities for the region to connect directly with major Tier 1 peering and carrier collocation centers. The Mid-Atlantic Broadband Cooperative, backed by money from the U.S.

Department of Commerce's Economic Development Administration and $48 million from the Virginia Tobacco Indemnification and Community Revitalization Commission, will continually expand as other communities want to be included and as funds are available to fulfill the requests. Phase III is currently underway to connect Emporia to Wallops Island on the Eastern Shore.

Southwest Virginia will soon have the technological capabilities to be a key competitor in the high-tech economy. The Virginia Tobacco Indemnification and Community Revitalization Commission has funded more than $53 million since 2003 toward projects to establish backbone and last mile infrastructure in the Lenowisco and Cumberland Plateau Planning Districts and part of the Mt. Rogers and New River Planning Districts. The network, also funded by the U.S. Department of Commerce's Economic Development Administration, connects to the previously mentioned fiber-optic network in Southside Virginia. The backbone projects are ongoing in the majority of the counties in Southwest Virginia and most of the remaining work will focus on the completion of the last mile infrastructure. The network provides open access, affordable, high-speed, redundant connectivity to "long haul" national (and global) networks, in order to help attract technology-based companies and help existing companies grow.

Research and Development: The Commonwealth is home to many internationally recognized research and development (R&D) facilities. Federally funded R&D facilities, coupled with the research from Virginia universities, provide Virginia businesses access to leading researchers and technologies. Virginia is home to more than 210 private sector R&D operations and 29 federal R&D facilities, including 15 Department of Defense research centers, the new Homeland Security Institute, NASA Langley Research Center, and Department of Energy's Thomas Jefferson National Accelerator Facility. Eight unique university research parks across the state offer private companies opportunities for co-location and cooperative relationships with Virginia universities, federal labs and other research consortia.

In 2006, the renowned private, non-profit Howard Hughes Medical Institute opened the Janelia Farm Research Campus in Loudoun County. The collaborative, interdisciplinary culture in this research community fosters scientific interaction so researchers can focus on creatively and intellectually probing fundamental biomedical questions.

Philip Morris completed a research and development center in the spring of 2007 at the Virginia Biotechnology Park in downtown Richmond. The new Phillip Morris Research and Technology center is now two-thirds developed. The Park features more than 1.2 million square feet of space in nine buildings, and employs more than 2,000 scientists, researchers, engineers and technicians in fields that include drug development, medical diagnostics, biomedical engineering, forensics and environmental analysis.

The NASA Langley Research Center and the National Institute of Aerospace Associates (NIAA) have joined forces to create the National Institute of Aerospace (NIA) for cutting-edge aerospace and atmospheric sciences research and graduate education. The NIA facility is housed on a new five building research and education campus in Hampton and operates through a consortium of research universities including Virginia Tech, University of Virginia, Old Dominion University, The College of William and Mary, Georgia Tech, University of Maryland and North Carolina State University.

In 2006, SRI International, a world-class, nonprofit research institute based in Menlo Park, California, announced the location of its new Center for Advanced Drug Research in the Shenandoah Valley. The Center is partnering with James Madison University and other Virginia universities to focus on advancing state-of-the-art drug research. SRI plans to add programs in areas such as homeland security, engineering, nanotechnology, energy, IT and education at this site.

Business Climate: Virginia is currently ranked #1 in three of the most comprehensive and impartial independent studies to date evaluating America's top states for business: Forbes.com, CNBC, and Pollina Corporate Real Estate.

According to the 2008 ranking of the *"Best States for Business"* by Forbes.com, Virginia has the best business climate in the country. 2008 is the third consecutive year Virginia has been top ranked. To compile the listing, Forbes.com considers states' business costs, labor issues, regulatory climate, economic climate, growth prospects, and quality of life. The Commonwealth took the lead in the regulatory environment ranking, took sixth place in the quality

of life and economic climate rankings, and ranked seventh in labor issues. Virginia's business costs ranked 20th and growth prospects were ranked at 26.

In 2009, Pollina Corporate Real Estate, a full-service brokerage and consulting firm representing corporations in real estate matters on a national and international basis designated Virginia as America's most business-friendly state in their annual independent study titled, *Pollina Corporate Top 10 Pro-Business States for 2009: Rebuilding Americans' Economic Power*. The study evaluates and ranks states based on 33 factors including taxes, human resources, right-to-work legislation, energy costs, infrastructure spending, workers compensation laws, economic incentive programs and state economic development efforts. Virginia did well in the Labor, Taxes, and Other Factors categories, and placed fourth overall. Strengths in college completion, low unemployment, right-to-work status, workers compensation rates, low corporate taxes, and low sales and gross receipts taxes, Virginia's corporate litigation environment, and low crime rates also attributed to this ranking. This leading label marks Virginia's third No. 1 ranking by Pollina. The Commonwealth held the top spot in 2003 and 2007, ranked second in the Pollina study from 2004 to 2006 and dropped to third place last year.

Also in 2009, CNBC, a worldwide leader in business news, designated Virginia as its "Top State for Business." The network evaluated each state on 40 different measures of competitiveness in 10 categories: workforce, education, economy, business, quality of life, technology and innovation, cost of doing business, cost of living, transportation and infrastructure, and access to capital. According to CNBC, Virginia has the 7th best economy nationally in 2009, up from 17th in 2008. Virginia's reasonable sales, personal income and corporate tax rates were also noted as key contributors to Virginia's designation.

Local Government: As of June 30, 2008, local government was comprised of 95 counties, 39 incorporated cities and 36 incorporated towns. Cities and counties are units of general government that have traditionally provided all services not provided by the Commonwealth. The Commonwealth is unique in that cities and counties are independent and their land areas do not overlap. Cities and counties each levy and collect their own taxes and provide their own services. Towns, on the other hand, are units of local government are a part of the counties in which they are located. Towns levy and collect taxes for town purposes, but their residents are also subject to county taxes.

The largest expenditure by local governments in the Commonwealth is for public elementary and secondary education. Each county and city in the Commonwealth, with few exceptions, constitutes a separate school district. Counties, cities and towns typically also provide such services as police and fire protection, water and sewer services and recreational facilities.

According to figures prepared by the Auditor of Public Accounts of Virginia, the total outstanding debt of counties in the Commonwealth was approximately $13.3 billion as of June 30, 2008; over 50 percent was borrowed for public school construction. The outstanding debt for cities at that date was computed by the Auditor of Public Accounts to be approximately $7.8 billion. The outstanding debt for towns, as of June 30, 2008, was calculated by the Auditor of Public Accounts to be approximately $529.6 million.

Education: The Constitution of Virginia vests the supervision of public elementary and secondary schools in local school boards. The State Board of Education is, however, required to prescribe standards of quality and has prescribed minimum competency tests for high school graduation.

The costs of elementary and secondary education are apportioned between the Commonwealth and the localities in the manner prescribed by the General Assembly. In the fiscal year ended June 30, 2008, the Commonwealth paid $5.8 billion of the approximately $13.2 billion cost of operating local schools. Of the remainder, $857.3 million was paid by the federal government and $6.6 billion was paid from local sources.

In the 2007-08 academic year, approximately 370,598 students enrolled in the Commonwealth's 39 public colleges, community colleges and universities. Approximately 167,012 of these students attended 23 community colleges on 40 campuses within the Virginia Community College System. A total of 1,232,436 students attended public elementary, secondary schools and post-secondary institutions of education. The following table illustrates enrollment levels for all educational levels for the last 10 academic years.

ENROLLMENT FOR PUBLIC AND PRIVATE INSTITUTIONS OF HIGHER EDUCATION AND PUBLIC PRIMARY AND SECONDARY SCHOOLS

Academic	Higher Education			Public
Year	Public	Private*	Total	Primary and Secondary
1998-99	305,455	50,179	355,634	1,124,022
1999-00	311,536	50,161	361,697	1,133,994
2000-01	313,781	49,951	363,732	1,144,913
2001-02	326,759	49,900	376,659	1,163,094
2002-03	337,302	52,522	389,824	1,176,128
2003-04	342,151	53,557	395,708	1,190,742
2004-05	343,550	58,395	401,945	1,203,697
2005-06	349,377	65,951	415,328	1,213,767
2006-07	357,857	70,785	428,642	1,221,939
2007-08	370,598	79,073	449,671	1,232,436

Source: State Council for Higher Education in Virginia, Virginia Department of Education.

Natural Resources: Virginia's five physiographic provinces are underlaid by rocks of different ages, kinds, and character. Consequently, the state has a wide variety of mineral resources. Today, the value of mineral production in Virginia is nearly $3.3 billion. In terms of value, the most important commodity is bituminous coal. Seven counties in the Appalachian Plateau region constitute the Southwest Virginia Coal Field. According to *Virginia Economic Indicators* published by the Virginia Employment Commission (Vol. 40, No. 4), the mining industry is expected to follow energy markets. It is predicted that utilities will use more coal when oil prices are up.

Forestry and the wood products industry in the Commonwealth generate more than $23.4 billion in total industrial output annually and provide employment for more than 144,000 Virginians, according to a 2008 study by the Weldon Cooper Center for Public Service at the University of Virginia.

Virginia's geographic location contributes to its seafood industry's success. Its ports are rarely, if ever, closed in the winter. Its catch is widely diversified, preventing dependence on any one species. Among the 50 commercially valuable seafood species harvested from some 620,000 acres of water are sea scallops, clams, blue crabs, summer flounder, striped bass, croaker and spot. The Virginia Institute of Marine Science has reported the annual economic impact of Virginia's seafood industry to be over one half of a billion dollars. Dockside value to watermen in 2008 was $95 million. Virginia is the nation's fourth largest marine products producer with a total of 354.2 million pounds in 2008 and is the largest such producer on America's Atlantic coast.

Agriculture: The Agricultural industry has an economic impact of $55 billion annually and provides more than 357,000 jobs in the Commonwealth. Every job in agriculture and forestry supports 1.5 jobs elsewhere in the Virginia economy.

Production agriculture employs nearly 60,000 farmers and workers in Virginia and generates approximately $2.9 billion in total output. Value-added industries, those that depend on farm commodities, employ an additional 76,000 workers and generate $26 billion in total industrial output. Agriculture-related industries contribute an additional 221,000 jobs and nearly $26 billion in total output.

Tourism: Another of Virginia's most important economic assets is the travel and tourism industry. Tourism's economic contribution to Virginia in 2007 reached $18.7 billion. Approximately 210,000 Virginia jobs were directly supported by travel spending in 2007, including employment in such travel-related businesses as lodging establishments, restaurants, museums, amusement parks, retail stores and gasoline service stations. Tourism is also a significant source of government revenues and was responsible for $1.2 billion in combined state and local tax revenues in 2007.

APPENDIX D

FORMS OF BOND COUNSEL OPINIONS

APPENDIX D

Table of Contents

	Page
Proposed Form of Bond Counsel Opinion - Tax-Exempt Bonds	D-1
Proposed Form of Bond Counsel Opinion - Build America Bonds	D-3

PROPOSED FORM OF BOND COUNSEL OPINION – TAX EXEMPT BONDS
Set forth below is the proposed form of the opinion of Troutman Sanders LLP, Bond Counsel.
It is preliminary and subject to change prior to the delivery of the Bonds.
It shall not apply to 2009A-2 issued as Build America Bonds.

November __, 2009

Commonwealth Transportation Board
1401 East Broad Street
Richmond, Virginia 23219

U.S. Bank National Association, as Trustee
1021 East Cary Street, Suite 1850
Richmond, Virginia 23219

Commonwealth Transportation Board

$_____ Commonwealth of Virginia Transportation Revenue Bonds,
Series 2009A-__ (Northern Virginia Transportation District Program)

Ladies and Gentlemen:

As bond counsel to the Commonwealth Transportation Board (the "Board") we have examined applicable law, including the State Revenue Bond Act, Sections 33.1-267 et seq. of the Code of Virginia of 1950, as amended; Chapter 391 of the Acts of Assembly of 1993, as amended and reenacted by Chapters 470 and 597 of the Acts of Assembly of 1994, by Chapters 740 and 761 of the Acts of Assembly of 1998, by Chapter 538 of the Acts of Assembly of 1999, by Chapter 799 of the Acts of Assembly of 2002 and by Chapter 621 of the Acts of Assembly of 2005. We also have examined certified copies of proceedings and documents relating to the issuance and sale by the Board of its $_____ Commonwealth of Virginia Transportation Revenue Bonds, Series 2009A-___ (Northern Virginia Transportation District Program) (the "Bonds"). Reference is made to the form of the Bonds for certain information concerning their details, including payment and redemption provisions, their purpose and the proceedings pursuant to which they are issued.

The Bonds are issued under and are equally and ratably secured by a Master Agreement of Trust (the "NVTD Master Trust Agreement"), dated as of August 15, 1993, between the Board and First Union National Bank (predecessor in interest to U.S. Bank National Association), as trustee, as previously amended and supplemented, and by an Eleventh Supplemental Agreement of Trust (the "Eleventh Supplemental Trust Agreement"), dated as of November 1, 2009 (collectively, with the NVTD Master Trust Agreement as previously amended and supplemented, the "NVTD Trust Agreement"), between the Board and U.S. Bank National Association, as trustee (the "Trustee"), on parity with certain bonds previously or hereafter issued under the NVTD Master Trust Agreement.

The Second Supplemental Payment Agreement, dated as of November 1, 1996, as amended by the Amended Payment Agreement dated as of November 15, 1999 (collectively, the "NVTD Payment Agreement"), each between the Board, the Treasury Board of the Commonwealth of Virginia (the "Treasury Board"), and the Secretary of Finance of the Commonwealth of Virginia (the "Secretary of Finance"), provides, among other things, for the procedures for requesting appropriations of funds by the General Assembly of Virginia (the "General Assembly") sufficient to pay debt service on the Bonds and paying such debt service to the Trustee.

Without undertaking to verify the same by independent investigation, we have relied on certifications by representatives of the Board and the Commonwealth of Virginia (the "Commonwealth") as to certain facts relevant to both our opinion and requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Board has covenanted to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts

with respect to the Bonds, all as set forth in the proceedings and documents relating to the issuance of and security for the Bonds (the "Covenants").

Based on the foregoing we are of the opinion that:

1. The Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the Commonwealth and constitute valid and binding limited obligations of the Board payable as to principal and interest solely from the revenues, receipts and funds appropriated by the General Assembly therefor and paid to the Trustee in accordance with the NVTD Payment Agreement and certain funds held under the NVTD Trust Agreement, all as provided in the NVTD Trust Agreement.

2. The obligations to make payments of principal of and interest on the Bonds are subject to and dependent on appropriations by the General Assembly, which is not obligated to make such appropriations. The Bonds and the interest thereon do not constitute a debt or pledge of the faith and credit of the Commonwealth or of any political subdivision thereof.

3. The NVTD Trust Agreement has been duly authorized, executed and delivered by the Board, and assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and binding obligation of the Board enforceable against the Board in accordance with its terms. The Eleventh Supplemental Trust Agreement complies in all material respects with the requirements of the NVTD Master Trust Agreement.

4. The NVTD Payment Agreement has been duly authorized, executed and delivered by the Board, and constitutes a valid and binding obligation of the Board, enforceable in accordance with its terms.

5. The rights of the holders of the Bonds and the enforceability of such rights, including the enforcement of the obligations of the parties under the documents described above, may be limited or otherwise affected by (a) bankruptcy, insolvency, reorganization, moratorium and other laws affecting the rights of creditors generally and (b) principles of equity, whether considered in an action at law or in equity.

6. Under existing law, interest on the Bonds (a) is not included in gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations. Failure of the Board to comply with the Covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue. We express no opinion regarding other federal tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

7. Under existing law, interest on the Bonds, is exempt from income taxation by the Commonwealth.

Our services as bond counsel to the Board have been limited to issuing the foregoing opinion based on our review of such proceedings and documents as we deem necessary to opine as to the validity of the Bonds and the tax-exempt status of the interest thereon. We express no opinion herein as to the financial resources of the Board or the Commonwealth, their ability to provide for payment of the Bonds or the accuracy or completeness of any information, including the Board's Preliminary Official Statement dated October __, 2009, and its Official Statement dated October __, 2009, that may have been relied upon by anyone in making the decision to purchase Bonds.

Very truly yours,

PROPOSED FORM OF BOND COUNSEL OPINION – BUILD AMERICA BONDS
Set forth below is the proposed form of the opinion of Troutman Sanders LLP, Bond Counsel, with respect to 2009A-2 Bonds issued as Build America Bonds.
It is preliminary and subject to change prior to the delivery of the Build America Bonds.

November __, 2009

Commonwealth Transportation Board
1401 East Broad Street
Richmond, Virginia 23219

U.S. Bank National Association, as Trustee
1021 East Cary Street, Suite 1850
Richmond, Virginia 23219

Commonwealth Transportation Board

$_____ Commonwealth of Virginia Transportation Revenue Bonds,
Series 2009A-2 (Northern Virginia Transportation District Program)

Ladies and Gentlemen:

As bond counsel to the Commonwealth Transportation Board (the "Board") we have examined applicable law, including the State Revenue Bond Act, Sections 33.1-267 et seq. of the Code of Virginia of 1950, as amended; Chapter 391 of the Acts of Assembly of 1993, as amended and reenacted by Chapters 470 and 597 of the Acts of Assembly of 1994, by Chapters 740 and 761 of the Acts of Assembly of 1998, by Chapter 538 of the Acts of Assembly of 1999, by Chapter 799 of the Acts of Assembly of 2002 and by Chapter 621 of the Acts of Assembly of 2005. We also have examined certified copies of proceedings and documents relating to the issuance and sale by the Board of its $_____ Commonwealth of Virginia Transportation Revenue Bonds, Series 2009A-2 (Northern Virginia Transportation District Program) (the "Bonds"). Reference is made to the form of the Bonds for certain information concerning their details, including payment and redemption provisions, their purpose and the proceedings pursuant to which they are issued.

The Bonds are issued under and are equally and ratably secured by a Master Agreement of Trust (the "NVTD Master Trust Agreement"), dated as of August 15, 1993, between the Board and First Union National Bank (predecessor in interest to U.S. Bank National Association), as trustee, as previously amended and supplemented, and by an Eleventh Supplemental Agreement of Trust (the "Eleventh Supplemental Trust Agreement"), dated as of November 1, 2009 (collectively, with the NVTD Master Trust Agreement as previously amended and supplemented, the "NVTD Trust Agreement"), between the Board and U.S. Bank National Association, as trustee (the "Trustee"), on parity with certain bonds previously or hereafter issued under the NVTD Master Trust Agreement.

The Second Supplemental Payment Agreement, dated as of November 1, 1996, as amended by the Amended Payment Agreement dated as of November 15, 1999 (collectively, the "NVTD Payment Agreement"), each between the Board, the Treasury Board of the Commonwealth of Virginia (the "Treasury Board"), and the Secretary of Finance of the Commonwealth of Virginia (the "Secretary of Finance"), provides, among other things, for the procedures for requesting appropriations of funds by the General Assembly of Virginia (the "General Assembly") sufficient to pay debt service on the Bonds and paying such debt service to the Trustee.

Without undertaking to verify the same by independent investigation, we have relied on certifications by representatives of the Board and the Commonwealth of Virginia (the "Commonwealth") as to certain facts relevant to our opinion.

Based on the foregoing we are of the opinion that:

1. The Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the Commonwealth and constitute valid and binding limited obligations of the Board payable as to principal and interest solely from the revenues, receipts and funds appropriated by the General Assembly therefor and paid to the Trustee in accordance with the NVTD Payment Agreement and certain funds held under the NVTD Trust Agreement, all as provided in the NVTD Trust Agreement.

2. The obligations to make payments of principal of and interest on the Bonds are subject to and dependent on appropriations by the General Assembly, which is not obligated to make such appropriations. The Bonds and the interest thereon do not constitute a debt or pledge of the faith and credit of the Commonwealth or of any political subdivision thereof.

3. The NVTD Trust Agreement has been duly authorized, executed and delivered by the Board, and assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and binding obligation of the Board enforceable against the Board in accordance with its terms. The Eleventh Supplemental Trust Agreement complies in all material respects with the requirements of the NVTD Master Trust Agreement.

4. The NVTD Payment Agreement has been duly authorized, executed and delivered by the Board, and constitutes a valid and binding obligation of the Board, enforceable in accordance with its terms.

5. The rights of the holders of the Bonds and the enforceability of such rights, including the enforcement of the obligations of the parties under the documents described above, may be limited or otherwise affected by (a) bankruptcy, insolvency, reorganization, moratorium and other laws affecting the rights of creditors generally and (b) principles of equity, whether considered in an action at law or in equity.

6. Under existing law, interest on the Bonds is includable in gross income for federal income tax purposes. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

7. Under existing law, interest on the Bonds is exempt from income taxation by the Commonwealth.

Our services as bond counsel to the Board have been limited to issuing the foregoing opinion based on our review of such proceedings and documents as we deem necessary to opine as to the validity of the Bonds and the tax status of the interest thereon. We express no opinion herein as to the financial resources of the Board or the Commonwealth, their ability to provide for payment of the Bonds or the accuracy or completeness of any information, including the Board's Preliminary Official Statement dated October __, 2009, and its Official Statement dated October __, 2009, that may have been relied upon by anyone in making the decision to purchase Bonds.

Very truly yours,

APPENDIX E

CONTINUING DISCLOSURE UNDERTAKINGS OF THE COMMONWEALTH TRANSPORTATION BOARD AND THE COMMONWEALTH OF VIRGINIA

APPENDIX E

TABLE OF CONTENTS

PAGE

FORM OF CONTINUING DISCLOSURE UNDERTAKING -
COMMONWEALTH TRANSPORTATION BOARD E-1

FORM OF CONTINUING DISCLOSURE UNDERTAKING -
COMMONWEALTH OF VIRGINIA..... E-6

Commonwealth of Virginia
Commonwealth Transportation Board

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Commonwealth Transportation Board (the "Board") of the Commonwealth of Virginia (the "Commonwealth") in connection with the issuance by the Board of $_____ aggregate principal amount of the Commonwealth of Virginia Transportation Revenue Bonds, Series 2009A-1 (Northern Virginia Transportation District Program), and Commonwealth of Virginia Transportation Revenue Bonds, Series 2009A-2 (Northern Virginia Transportation District Program) (collectively, the "Bonds") pursuant to the provisions of the Master Agreement of Trust dated as of August 15, 1993, entered into between the Board and First Union National Bank, as predecessor in interest to U.S. Bank National Association, as trustee (the "Trustee") as supplemented by a First Supplemental Agreement of Trust dated as of August 15, 1993, a Second Supplemental Agreement of Trust dated as of January 15, 1995, a Third Supplemental Agreement of Trust dated as of November 1, 1996, a Fourth Supplemental Agreement of Trust dated as of October 1, 1997, a Fifth Supplemental Agreement of Trust dated as of November 15, 1999, a Sixth Supplemental Agreement of Trust dated as of September 1, 2001, a Seventh Supplemental Agreement of Trust dated as of November 1, 2002, an Eighth Supplemental Agreement of Trust dated as of November 1, 2004, a Ninth Supplemental Agreement of Trust dated as of May 1, 2006, a Tenth Supplemental Agreement of Trust dated as of October 1, 2007, and an Eleventh Supplemental Agreement of Trust dated as of November 1, 2009 (collectively, the "Indenture"). The proceeds of the Bonds are being used by the Board to fund the NVTD Program (as defined in the Indenture) (the "NVTD Program") and pay the costs of issuing the Bonds. The Board represents that it is in compliance with its undertakings regarding the Rule (as defined below).

The Board hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Board for the benefit of the holders and in order to assist the Participating Underwriters (as defined below) in complying with the Rule. The Board acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Disclosure Agreement.

Section 2. Definitions. In addition to the definitions used for purposes of the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"**Annual Report**" shall mean any Annual Report provided by the Board pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"**Dissemination Agent**" shall mean the Board, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Board and which has filed with the Board a written acceptance of such designation.

"**EMMA**" means the Electronic Municipal Market Access system, described in 1934 Act Release No. 59062 and maintained by the Municipal Securities Rulemaking Board for purposes of the Rule.

"**Fiscal Year**" shall mean the twelve-month period, at the end of which the financial position of the Board and results of its operations for such period are determined. Currently, the Board's Fiscal Year begins July 1 and continues through June 30 of the next year.

"**holder**" shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a Bond.

"**Rule**" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"**State Repository**" shall mean any public or private depository or entity designated by the Commonwealth as a state depository for purposes of the Rule.

"**Participating Underwriters**" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of such Bonds.

Section 3. Provision of Annual Reports: Audited Financial Statements.

(a) Not later than 10 months following the end of each Fiscal Year of the Board, commencing with the Fiscal Year ending June 30, 2009, the Board shall, or shall cause the Dissemination Agent (if different from the Board) to, provide to the Municipal Securities Rulemaking Board via EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than 10 days prior to said date, the Board shall provide the Annual Report to the Dissemination Agent (if applicable). In each case, the Annual Report (i) may be submitted as a single document or as separate documents comprising a package, (ii) may cross-reference other information as provided in Section 4 of this Disclosure Agreement, and (iii) shall include such financial statements, as, when and if available, in accordance with the Rule.

(b) If the Board fails to provide an Annual Report to the Municipal Securities Rulemaking Board via EMMA by the date required in subsection (a) hereof, the Board shall send an appropriate notice to the Municipal Securities Rulemaking Board via EMMA and any State Repository in substantially the form attached hereto as Exhibit A.

Section 4. Content of Annual Reports. Each Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, the following information, all with a view toward assisting the Participating Underwriters in complying with the Rule:

(a) updated information regarding the Programs as set forth under the section "Northern Virginia Transportation District Program" in the Official Statement, including bond authorization for projects in the NVTD Program; and

(b) updated information regarding (1) the Northern Virginia Transportation District Fund, the Transportation Trust Fund and State Recordation Tax Collections, all as set forth in sections bearing such headings in the Official Statement, and (2) any other funds appropriated by the Virginia General Assembly, including funds appropriated and allocated to the Northern Virginia Highway Construction District for purposes of the NVTD Program, or with respect to the Bonds or the NVTD Program, each as of the end of the preceding Fiscal Year.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements or debt issues of the Board or the Commonwealth, which have been filed with the Municipal Securities Rulemaking Board or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Board shall clearly identify each such other document so incorporated by reference.

Section 5. Event Notices. The Board will provide, or cause the Dissemination Agent (if different from the Board) to provide, in a timely manner, to the Municipal Securities Rulemaking Board via EMMA, notice of the occurrence of any of the following events (listed in subsection (b)(5)(i)(c) of the Rule) with respect to the Bonds to which the Board has actual knowledge, if material:

(1) Principal and interest payment delinquencies;
(2) Non-payment related defaults;
(3) Unscheduled draws on debt service reserves reflecting financial difficulties;
(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers, or their failure to perform;
(6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
(7) Modifications to rights of holders of the Bonds;
(8) Bond calls;

(9) Defeasances;
(10) Release, substitution, or sale of property securing repayment of the Bonds; and
(11) Rating changes.

The Board does not undertake to provide the above-described notice in the event of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of redemption are set forth in detail in the Official Statement for the Bonds, (ii) the only open issue is when Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the bondholders under the terms of the Indenture, and (iv) public notice of the redemption is given pursuant to 1934 Act Release No. 23856 of the Securities and Exchange Commission, even if the originally scheduled amounts may be reduced by prior optional redemption or Bond purchases.

Section 6. Termination of Reporting Obligation. The obligations of the Board under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of the Bonds.

Section 7. Dissemination Agent. The Board may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Board shall be the Dissemination Agent.

Section 8. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the Board may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws to the effect that such amendment is permitted or required by the Rule.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Board from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice described in Section 5 above, in addition to that which is required by this Disclosure Agreement. If the Board chooses to include any information in any Annual Report or notice described in Section 5 above, in addition to that which is specifically required by this Disclosure Agreement, the Board shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice.

Section 10. Default. Any person referred to in Section 11 (other than the Board) may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligation of the Board to file its Annual Report or to give notice as described in Section 5 hereinabove. In addition, holders of not less than a majority in aggregate principal amount of either series of Bonds outstanding may take such actions as may be permitted by law to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the Board hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under any applicable resolution or other debt authorization of the Board, and the sole remedy under this Disclosure Agreement in the event of any failure of the Board to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

Section 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Board, the Participating Underwriters, and holders from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 12. Obligated Person. The Board has determined that the Commonwealth is an "obligated person", within the meaning of the Rule, that is or may be material to the Bonds. The Commonwealth has concurred in such determination and has covenanted and agreed to provide its Annual Reports, annual financial statements and notice of any changes in the ratings of the Commonwealth's general obligation bonds, as required by the Rule.

Section 13. EMMA. All filings under this Disclosure Agreement shall be made solely by transmitting such filings to the Municipal Securities Rulemaking Board via EMMA, as described in 1934 Act Release No. 59062. Should the Securities and Exchange Commission approve any additional or subsequent internet-based electronic filing system for satisfying the continuing disclosure filing requirements of the Rule, any filings required

under this Disclosure Agreement may be made by transmitting such filing to such system, as described in the applicable Securities and Exchange Commission regulation or release approving such filing system.

Dated: _____, 2009.

COMMONWEALTH TRANSPORTATION BOARD

By:_____
Chairman

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT
[AUDITED ANNUAL FINANCIAL STATEMENTS]

COMMONWEALTH TRANSPORTATION BOARD

in connection with

Commonwealth Transportation Board
Transportation Revenue Bonds, Series 2009A-1
(Northern Virginia Transportation District Program)

Commonwealth Transportation Board
Transportation Revenue Bonds, Series 2009A-2
(Northern Virginia Transportation District Program)

CUSIP Numbers:
927793 ___ to ___

Dated: _____, 2009

NOTICE IS HEREBY GIVEN that the Commonwealth Transportation Board (the "Board") has not provided an Annual Report [Audited Annual Financial Statements] as required by Section 3 of the Continuing Disclosure Agreement, which was entered into in connection with the above-named bonds issued pursuant to the Eleventh Supplemental Agreement of Trust, dated as of November 1, 2009, between the Board and U.S. Bank National Association, as trustee. The Board anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by_____.

Dated: _____, 20__.

COMMONWEALTH TRANSPORTATION BOARD

By:_____
Its:

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the **Commonwealth of Virginia** (the "Commonwealth") in connection with the issuance by the Commonwealth Transportation Board (the "Board") of $_____ aggregate principal amount of the Commonwealth of Virginia Transportation Revenue Bonds, Series 2009A (Northern Virginia Transportation District Program) (the "Bonds") pursuant to the provisions of the Master Agreement of Trust dated as of August 15, 1993, entered into between the Board and First Union National Bank, as predecessor in interest to U.S. Bank National Association, as trustee (the "Trustee") as supplemented by a First Supplemental Agreement of Trust dated as of August 15, 1993, a Second Supplemental Agreement of Trust dated as of January 15, 1995, a Third Supplemental Agreement of Trust dated as of November 1, 1996, a Fourth Supplemental Agreement of Trust dated as of October 1, 1997, a Fifth Supplemental Agreement of Trust dated as of November 15, 1999, a Sixth Supplemental Agreement of Trust dated as of September 1, 2001, a Seventh Supplemental Agreement of Trust dated as of November 1, 2002, an Eighth Supplemental Agreement of Trust dated as of November 1, 2004, a Ninth Supplemental Agreement of Trust dated as of May 1, 2006, a Tenth Supplemental Agreement of Trust dated as of October 1, 2007, and an Eleventh Supplemental Agreement of Trust dated as of October 1, 2009 (collectively, the "Indenture"). The proceeds of the Bonds are being used by the Board to fund the NVTD Program (as defined in the Indenture) (the "NVTD Program") and pay the costs of issuing the Bonds. The Board has advised the Commonwealth that it has determined that the Commonwealth constitutes an "obligated person" within the meaning of the Rule in respect of the Bonds and the Commonwealth concurs in such determination. The Commonwealth represents that it is in compliance with its undertakings regarding the Rule. The Commonwealth hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Commonwealth for the benefit of the holders and in order to assist the Participating Underwriters (as defined below) in complying with the Rule. The Commonwealth acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Disclosure Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the Supplemental Agreements, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Commonwealth pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Dissemination Agent" shall mean the Commonwealth, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Commonwealth and which has filed with the Commonwealth a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access System, described in Securities Exchange Act of 1934 Release No. 59062 and maintained by the Municipal Securities Rulemaking Board for purposes of the Rule.

"Fiscal Year" shall mean the twelve-month period, at the end of which the financial position of the Commonwealth and results of its operations for such period are determined. Currently, the Commonwealth's Fiscal Year begins July 1 and continues through June 30 of the next year.

"holder" shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a Note.

"Listed Events" shall mean any of the events listed in subsection (b)(5)(i)(C) of the Rule which are as follows:

(1) principal and interest payment delinquencies
(2) non-payment related defaults
(3) unscheduled draws on debt service reserves reflecting financial difficulties
(4) unscheduled draws on credit enhancements reflecting financial difficulties
(5) substitution of credit or liquidity providers, or their failure to perform
(6) adverse tax opinions or events affecting the tax-exempt status of the Bonds
(7) modifications to rights of holders of the Bonds
(8) bond calls
(9) defeasances
(10) release, substitution, or sale of property securing repayment of the Bonds
(11) rating changes

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of such Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" shall mean any public or private depository or entity designated by the Commonwealth as a state depository for the purpose of the Rule.

SECTION 3. Provision of Annual Reports; Audited Financial Statements.

(a) Not later than seven months following the end of each Fiscal Year of the Commonwealth, commencing with the Fiscal Year ending June 30, 2009, the Commonwealth shall, or shall cause the Dissemination Agent (if different from the Commonwealth) to, provide to the Municipal Securities Rulemaking Board via EMMA and to any State Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than 10 days prior to said date, the Commonwealth shall provide the Annual Report to the Dissemination Agent (if applicable). In each case, the Annual Report (i) may be submitted as a single document or as separate documents comprising a package, (ii) may cross-reference other information as provided in Section 4 of this Disclosure Agreement, and (iii) shall include such financial statements as may be required by the Rule.

(b) The annual financial statements of the Commonwealth shall be prepared on the basis of generally accepted accounting principles and will be audited. Copies of the audited annual financial statements, which may be filed separately from the Annual Report, will be filed with the Municipal Securities Rulemaking Board via EMMA and any State Repository when they become publicly available.

(c) If the Commonwealth fails to provide an Annual Report by the date required in subsection (a) hereof, or to file its audited annual financial statements with the Repositories when they become publicly available, the Commonwealth shall send an appropriate notice to the Municipal Securities Rulemaking Board via EMMA and any State Repository in substantially the form attached hereto as Exhibit A.

SECTION 4. Content of Annual Reports. Each Annual Report required to be filed hereunder shall include, at a minimum, the information referred to in Exhibit B as it relates to the Commonwealth, all with a view toward assisting Participating Underwriters in complying with the Rule. Any or all of such information may be incorporated by reference from other documents, including official statements containing information with respect to the Commonwealth, which have been filed with each of the Municipal Securities Rulemaking Board, any State Repository or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Commonwealth shall clearly identify each such other document so incorporated by reference.

SECTION 5. Notice of Rating Changes. The Commonwealth will provide in a timely manner to the Board notice of any changes in the ratings of the Commonwealth's general obligation bonds by the rating agencies requested by the Commonwealth to rate such bonds.

SECTION 6. Reporting of Listed Events. The Commonwealth will provide in a timely manner to the Municipal Securities Rulemaking Board via EMMA and to any State Repository notice of any of the Listed Events with respect to the Bonds, if material. The Commonwealth does not undertake to provide the above-described notice in the event of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of redemption are set forth in detail in the Official Statement, (ii) the only open issue is which Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Bondholders as required under the terms of the Supplemental Indentures, and (iv) public notice of the redemption is given pursuant to 1934 Exchange Act Release No. 23856 of the SEC, dated December 3, 1986, even if the originally scheduled amounts may be reduced by prior optional redemptions or Bond purchases.

SECTION 7. Termination of Reporting Obligation. The obligations of the Commonwealth under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of the Bonds, and the Board shall notify the Commonwealth promptly upon the occurrence of either such event.

SECTION 8. Dissemination Agent. The Commonwealth may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Commonwealth shall be the Dissemination Agent.

SECTION 9. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the Commonwealth may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws to the effect that such amendment is permitted or required by the Rule.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Commonwealth from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice described in Section 6 above, in addition to that which is required by this Disclosure Agreement. If the Commonwealth chooses to include any information in any Annual Report or notice described in Section 6 above, in addition to that which is specifically required by this Disclosure Agreement, the Commonwealth shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice.

SECTION 11. Default. Any person referred to in Section 13 (other than the Commonwealth) may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligation of the Commonwealth to file its Annual Report or to give notice as described in Section 6 hereinabove. In addition, holders of not less than a majority in aggregate principal amount of Bonds outstanding may take such actions as may be permitted by law to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the Commonwealth hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under any applicable resolution or other debt authorization of the Commonwealth, and the sole remedy under this Disclosure Agreement in the event of any failure of the Commonwealth to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

SECTION 12. Compliance with Prior Undertakings. The Commonwealth represents that, as of the date of this Disclosure Agreement, it is in compliance with its undertakings regarding the Rule.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Commonwealth, the Board, the Participating Underwriters, and holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. EMMA. All filings made pursuant to the Rule under this Disclosure Agreement shall be made solely by transmitting such filings to the Municipal Securities Rulemaking Board via EMMA, as described in Securities Exchange Act of 1934 Release No. 59062. Should the Securities and Exchange Commission approve any additional or subsequent internet-based electronic filing system for satisfying the continuing disclosure filing requirements of the

Rule, any filings required under this Disclosure Agreement may be made by transmitting such filing to such system, as described in the applicable Securities and Exchange Commission regulation or release approving such filing system.

Date: _____, 2009

COMMONWEALTH OF VIRGINIA

By: _____
State Treasurer

AGREED TO & ACKNOWLEDGED:

COMMONWEALTH TRANSPORTATION BOARD

By: _____
Chairman

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT
[AUDITED ANNUAL FINANCIAL STATEMENT]

COMMONWEALTH OF VIRGINIA

in connection with

$_____
Commonwealth Transportation Board
Transportation Revenue Bonds, Series 2009A
(Northern Virginia Transportation District Program)

CUSIP Numbers:
Series 2009A - 927793 ____ to ____

Dated: _____

NOTICE IS HEREBY GIVEN that the Commonwealth of Virginia has not provided an Annual Report [Audited Annual Financial Statements] as required by Section 3 of the Continuing Disclosure Agreement, which was entered into in connection with the above-named Bonds issued pursuant to the pursuant to the Eleventh Supplemental Agreement of Trust, dated as of October 1, 2009, between the Board and U.S. Bank National Association, as trustee. The Commonwealth anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by _____.

Dated:_____

COMMONWEALTH OF VIRGINIA

By: _____
State Treasurer

EXHIBIT B

CONTENT OF ANNUAL REPORT

General Fund. Information concerning revenues, sources of revenues, expenditures, categories of expenditures and balances of the General Fund of the Commonwealth for the preceding fiscal year.

Appropriation Act. A summary of the material budgetary aspects of the Appropriation Act for the current biennium.

Debt. Updated information respecting tax-supported and other outstanding debt of the Commonwealth including a historical summary of outstanding tax-supported debt; a summary of authorized but unissued tax-supported debt and a summary of annual debt service on outstanding tax-supported debt.

Retirement Plans. Updated information (to the extent not shown in the latest audited annual financial statements) respecting pension and retirement plans administered by the Commonwealth including a summary of membership, revenues, expenses and actuarial valuation(s) of such plans.

Litigation. A summary of material litigation pending against the Commonwealth.

Demographic Information. Updated demographic information respecting the Commonwealth such as its population and tax base.

Economic Information. Updated economic information respecting the Commonwealth such as income, employment, industry and infrastructure data.

In general, the foregoing will include information as of the end of the most recent fiscal year or as of the most recent practicable date. Where information for the fiscal year just ended is provided, it may be preliminary and unaudited. Where information has historically been provided for more than a single period, comparable information will in general be provided for the same number of periods where valid and available. Where comparative demographic or economic information for the Commonwealth and the United States as a whole is contemporaneously available and, in the judgment of the Commonwealth, informative, such information may be included. Where, in the judgment of the Commonwealth, an accompanying narrative is required to make data presented not misleading, such narrative will be provided.

NOTICES OF SALE

APPENDIX F

Table of Contents

	Page
Notice of Sale – 2009A-1 Bonds	F-1
Notice of Sale – 2009 A-2 Bonds (Federally Taxable Build America Bonds (Direct Payment) or Tax-Exempt Bonds)	F-8

NOTICE OF SALE
Commonwealth Transportation Board
$11,005,000*
Commonwealth of Virginia
Transportation Revenue Bonds, Series 2009A-1
(Northern Virginia Transportation District Program)

Electronic bids, via BiDCOMP/Parity Competitive Bidding System (BiDCOMP/Parity) for the purchase of all, and not less than all, of the $11,005,000* preliminary aggregate principal amount of Commonwealth of Virginia Transportation Revenue Bonds, Series 2009A-1 (Northern Virginia Transportation District Program) (the "2009A-1 Bonds") will be received by the Commonwealth Transportation Board (the "Transportation Board") until 11:30 a.m., Richmond time, on October 21, 2009 (unless changed as described herein).

Description of Bonds; Interest Payment Dates

The 2009A-1 Bonds will be dated their date of delivery, and will be issued as fully registered bonds in book-entry form only. Interest on the 2009A-1 Bonds will be calculated on a 30/360 basis and will be payable semiannually on May 15 and November 15, commencing May 15, 2010.

Principal Amortization

Principal on the Bonds will be paid (subject to prior redemption) through serial maturities and/or term maturities with annual sinking fund redemptions on the following dates and in the following amounts:

May 15*	Principal Amounts*
2010	$3,000,000
2011	1,875,000
2012	1,950,000
2013	2,050,000
2014	2,130,000

* Preliminary, subject to adjustment both before and after award of the 2009A-1 Bonds as described herein under "Adjustment to Principal Amount".

Optional Redemption

The 2009A-1 Bonds are not subject to redemption prior to maturity.

Serial Bonds, Term Bonds and Mandatory Sinking Fund Redemption

The successful bidder may provide in the bid form for all of the 2009A-1 Bonds to be issued as serial bonds or may designate consecutive annual principal amounts of the 2009A-1 Bonds to be combined into term bonds. Each such term bond shall be subject to mandatory sinking fund redemption commencing on May 15 of the first year which has been combined to form such term bond and continuing on May 15 in each year thereafter until the stated maturity date of that term bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth in the appropriate amortization schedule, as adjusted in accordance with the provisions described above under the caption "Adjustments to Principal Amount." Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from among the 2009A-1 Bonds of the same maturity.

Selection of Bonds for Redemption

If less than all of the 2009A-1 Bonds are called for redemption, the maturities of the 2009A-1 Bonds to be redeemed will be called in such order as the Transportation Board may determine. If less than all of the 2009A-1 Bonds of any maturity are called for redemption, the 2009A-1 Bonds to be redeemed will be selected by The Depository Trust Company, New York, New York ("DTC") or any successor securities depository pursuant to its rules and procedures or, if the book-entry system is discontinued, will be selected by the Trustee by lot in such manner as the Trustee in its discretion may determine.

* *Preliminary, subject to change.*

Notice of Redemption

Notice of redemption will be given by the Paying Agent by registered or certified mail not less than 30 nor more than 60 days before the redemption date to DTC, or, if DTC is no longer serving as securities depository for the 2009A-1 Bonds, to the substitute securities depository, or if none, to the registered owners of the 2009A-1 Bonds to be redeemed at their addresses shown on the registration books maintained by the Paying Agent. Such notice of redemption also will be given to certain securities depositories and certain national information services which disseminate such redemption notices. During the period that DTC or its nominee, or any substitute securities depository or its nominee, is the registered owner of the 2009A-1 Bonds, the Paying Agent will not be responsible for mailing notices of redemption to the Beneficial Owners.

Book-Entry Only

Initially, one bond certificate for each maturity will be issued to DTC or its nominee, which will be designated as the securities depository for the 2009A-1 Bonds. So long as DTC is acting as securities depository for the 2009A-1 Bonds, a book-entry system will be employed, evidencing ownership of the 2009A-1 Bonds in principal amounts of $5,000 and multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Principal of, redemption premium, if any, and interest on the 2009A-1 Bonds will be payable to DTC or its nominee as registered owner of the 2009A-1 Bonds. Principal of, redemption premium, if any, and interest on the 2009A-1 Bonds will be payable in lawful money of the United States of America by the Paying Agent.

Transfer of principal, redemption premium, if any, and interest payments to beneficial owners (the "Beneficial Owners") will be the responsibility of such participants and other nominees of the Beneficial Owners. The Transportation Board will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

In the event that (a) DTC determines not to continue to act as securities depository for the 2009A-1 Bonds, or (b) the Transportation Board in its sole discretion determines (1) that Beneficial Owners will be able to obtain certificated bonds or (2) to select a new securities depository, the Transportation Board will discontinue the book-entry system with DTC. If the Transportation Board fails to identify another qualified securities depository to replace DTC, the Transportation Board will cause the execution and delivery of replacement bonds in the form of fully registered certificates.

Authorization and Security

The 2009A-1 Bonds are limited obligations of the Commonwealth and the Transportation Board secured by and payable from the revenues, receipts and funds appropriated for such purpose by the General Assembly of the Commonwealth of Virginia (the "General Assembly"), or allocated by the Transportation Board for such purpose from the revenues, receipts and funds appropriated to it by the General Assembly, and do not create or constitute a debt or a pledge of the full faith and credit of the Commonwealth or of any of its political subdivisions.

The2009A-1 Bonds. The issuance of the 2009A-1 Bonds has been authorized by the provisions of the Revenue Bond Act, Sections 33.1-267 et seq. of the Code of Virginia of 1950, as amended (the "Revenue Bond Act"), and Chapter 391 of the Acts of the General Assembly of Virginia, 1993 General Session as amended by Chapters 470 and 597 of the Acts of the General Assembly of Virginia, 1994 General Session, Chapters 740 and 761 of the Acts of the General Assembly of Virginia, 1998 General Session, Chapter 538 of the Acts of the General Assembly of Virginia, 1999 General Session, Chapter 799 of the Acts of the General Assembly, 2002 General Session, and Chapter 621 of the Acts of the General Assembly, 2005 General Session, (the "NVTD Bond Legislation"); and a resolution adopted by the Transportation Board on July 16, 2009 (the "Resolution"). The 2009A-1 Bonds are being issued pursuant to a Master Agreement of Trust dated as of August 15, 1993 (the "NVTD Master Trust Agreement"), as previously supplemented and amended and as further supplemented by an Eleventh Supplemental Agreement of Trust dated as of November 1, 2009 (the "Eleventh Supplemental Trust Agreement" and collectively, with the NVTD Master Trust Agreement, the "NVTD Trust Agreement"), each between the Transportation Board and U.S. Bank National Association, (as successor in interest to First Union National Bank), as trustee (the "Trustee").

The 2009A-1 Bonds will be equally and ratably secured by and payable from revenues, receipts and funds appropriated by the General Assembly for payment thereof, or allocated by the Transportation Board for such purpose from revenues, receipts and funds appropriated to it by the General Assembly, from (1) the Northern Virginia Transportation District Fund, (2) to the extent required, funds appropriated and allocated, pursuant to the highway allocation formula as provided by law, to the Northern Virginia Highway Construction District or the city or county in which the project or projects are located, (3) to the extent required, legally available revenues of the Transportation Trust Fund, and (4) such other funds which may be appropriated by the General Assembly, and from moneys in certain funds established under the NVTD Trust Agreement.

Capitalized terms not defined herein shall have the meanings prescribed to them in the Preliminary Official Statement dated the date hereof.

Bid Specifications

Each proposal for the 2009A-1 Bonds must specify the amount bid for such Bonds not less than 100% of the par value of the aggregate principal amount of the 2009A-1 Bonds based on the Revised Amounts as described below. Bidders are invited to name the rate or rates of interest that the 2009A-1 Bonds are to bear, in multiples of 1/8 or 1/20 of one percent. Any number of rates may be named, provided that for the 2009A-1 Bonds (a) the difference between the highest interest rate and the lowest interest rate in each series of bonds shall not exceed 300 basis points and (b) no interest rate may exceed 5.00%. Each bidder must specify in its bid a single rate for each maturity of the 2009A-1 Bonds. No bond of any maturity may be reoffered at a price less than 95% of the principal amount of such bond. No bid for other than all of the 2009A-1 Bonds will be considered. All bids must be unconditional.

Electronic Bidding and Bidding Procedures

Registration to Bid. All prospective electronic bidders must be contracted customers of i-Deal LLC's BiDCOMP/Parity. If you do not have a contract with BiDCOMP/Parity, call (212) 849-5021 to become a customer. By submitting a bid for the 2009A-1 Bonds, a prospective bidder represents and warrants to the Transportation Board that such bidder's bid for the purchase of the 2009A-1 Bonds (if a bid is submitted in connection with the sale) is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the 2009A-1 Bonds.

If any provisions of this Notice of Sale shall conflict with earlier information provided by BiDCOMP/Parity as approved provider of electronic bidding services, this Notice of Sale shall control. Further information about BiDCOMP/Parity, including any fee charged, may be obtained from BiDCOMP/Parity at (212) 849-5021.

Disclaimer. Each prospective bidder shall be solely responsible to register to bid via BiDCOMP/Parity. Each prospective bidder shall be solely responsible to make necessary arrangements to access BiDCOMP/Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Notice of Sale. Neither the Transportation Board nor BiDCOMP/Parity shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any prospective bidder, and neither the Transportation Board nor BiDCOMP/Parity shall be responsible for a bidder's failure to register to bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by BiDCOMP/Parity. The Transportation Board is using BiDCOMP/Parity as a communication mechanism, and not as the Transportation Board's agent, to conduct the electronic bidding for the 2009A-1 Bonds. The Transportation Board is not bound by any advice and determination of BiDCOMP/Parity to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bid Specifications" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via BiDCOMP/Parity are the sole responsibility of the bidders; and the Transportation Board is not responsible, directly or indirectly, for any such costs or expenses. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the 2009A-1 Bonds, it should telephone BiDCOMP/Parity and notify the Chief Financial Officer at the Virginia Department of Transportation by facsimile at (804) 786-2940.

Bidding Procedures. Bids submitted electronically for the purchase of the 2009A-1 Bonds (all or none) must be by means of the Commonwealth Transportation Board Bid Form (the "Bid Form") via BiDCOMP/Parity by 11:30 a.m., Richmond time, on October 21, 2009 unless changed as described herein (see "Change of Date and Time for Receipt of Bids"). Prior to that time, a prospective bidder may input and save proposed terms of its bid in BiDCOMP/Parity. Once the final bid has been saved in BiDCOMP/Parity, the bidder may select the final bid button in BiDCOMP/Parity to submit the bid to BiDCOMP/Parity. Once the bids are communicated electronically via BiDCOMP/Parity to the Transportation Board, each bid will constitute an irrevocable offer to purchase the 2009A-1 Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on BiDCOMP/Parity shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the Transportation Board, as described under "Basis of Award" below, represented by the rate or rates of interest and the bid price specified in their respective bids.

No bids will be accepted in written form, by facsimile transmission or in any other medium or on any system other than by means of the Bid Form via BiDCOMP/Parity. No bid will be received after the time for receiving such bids specified above.

Good Faith Deposit

A good faith deposit in the amount of $110,000* (the "Deposit") is required in connection with the sale and bid for the 2009A-1 Bonds. The Deposit may be provided for by (i) a certified check, bank cashier's, treasurer's or official check drawn upon or certified by a responsible banking institution and made payable to the order of the Commonwealth Transportation Board delivered at or prior to the time of bid, (ii) a Financial Surety Bond delivered at or prior to the time of bid as set forth below under "Financial Surety Bonds" or (iii) a federal funds wire transfer to be submitted to the Transportation Board by the successful bidder not later than 4:00 p.m. (Richmond Time) on the date of sale (the "Wire Transfer Deadline") as set forth below under "Wire Transfers". The Deposit of the successful bidder will be collected and the proceeds thereof retained by the Transportation Board to be applied in partial payment for the 2009A-1 Bonds and no interest will be allowed or paid upon the amount thereof, but in the event the successful bidder shall fail to comply with the terms of the respective bid, the proceeds thereof will be retained as and for full liquidated damages. Checks of unsuccessful bidders will be returned promptly after the bonds are awarded.

Wire Transfers. If the successful bidder chooses to deliver its good faith deposit by federal funds wire transfer, the Transportation Board will distribute wiring instructions for the Deposit to the successful bidder upon verification of the bids submitted by the bidders and prior to the Wire Transfer Deadline. If the Deposit is not received by the Wire Transfer Deadline, the award of the sale of the 2009A-1 Bonds to the successful bidder may be cancelled by the Transportation Board in its discretion without any financial liability of the Transportation Board to the successful bidder or any limitation whatsoever on the Transportation Board's right to sell the 2009A-1 Bonds to a different purchaser upon such terms and conditions as the Transportation Board shall deem appropriate.

Financial Surety Bonds. If a bidder chooses to deliver a Financial Surety Bond to satisfy the good faith deposit requirement, such Financial Surety Bond must be from an insurance company acceptable to the Transportation Board and licensed to issue such a bond in the Commonwealth of Virginia. Such Financial Surety Bond must be submitted to the Transportation Board no later than 5:00 P.M. Richmond Time, on the day prior to the sale and must be in the form and substance acceptable to the Transportation Board. In addition, the proposed form of any Financial Surety Bond, including the identity of the insurance company must be provided to the Office of Finance of the Commonwealth at the address indicated below not later than 5:00 P.M. on the day prior to the sale. The Financial Surety Bond must identify the bidder whose Deposit is guaranteed by such Financial Surety Bond.

If the 2009A-1 Bonds are awarded to a bidder utilizing a Financial Surety Bond, then such successful bidder is required to submit its Good Faith Deposit to the Transportation Board in the form of a wire transfer not later than 4:00 P.M. (Richmond Time) on the date of sale. If such Good Faith Deposit is not received by that time, the Financial Surety Bond may be drawn by the Transportation Board to satisfy the Good Faith Deposit requirement.

Adjustments to Principal Amount

Changes Prior to Bidding. The preliminary aggregate principal amount of the 2009A-1 Bonds and the preliminary annual principal amounts as set forth in this Notice of Sale (the "Preliminary Aggregate Principal Amount" and the "Preliminary Annual Principal Amounts," respectively; collectively, the "Preliminary Amounts") may be revised before the opening of sealed bids for the purchase of the 2009A-1 Bonds. Any such revisions (the "Revised Aggregate Principal Amount" and the "Revised Annual Principal Amounts," respectively; collectively, the "Revised Amounts") WILL BE ANNOUNCED ON THOMSON MUNICIPAL MARKET MONITOR ("TM3") (www.tm3.com) NOT LATER THAN 9:30 A.M. (RICHMOND TIME) ON ANY ANNOUNCED DATE FOR RECEIPT OF BIDS. In the event that no such revisions are made, the Preliminary Amounts will constitute the Revised Amounts. BIDDERS SHALL SUBMIT BIDS BASED ON THE REVISED AMOUNTS.

Changes to the Winning Bid. After selecting the winning bid, the Transportation Board will determine the final aggregate principal amount of the 2009A-1 Bonds and each final annual principal amount (the "Final Aggregate Principal Amount" and the "Final Annual Principal Amounts," respectively; collectively, the "Final Amounts"). In determining the Final Amounts, the Transportation Board will not reduce or increase the Revised Aggregate Principal Amount by more than 10% of such amount. THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES (AS HEREIN DEFINED) AS A RESULT OF ANY CHANGES MADE TO THE REVISED AMOUNTS WITHIN THESE LIMITS.

The dollar amount bid by the successful bidder will be adjusted to reflect any adjustments in the aggregate principal amount of the 2009A-1 Bonds. Such adjusted bid price will reflect changes in the dollar amount of the underwriters discount and original issue discount/premium, if any, but will not change the selling compensation per $1,000 of par amount of Bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the Initial Reoffering Prices. The interest rate specified by the successful bidder for each maturity as the Initial Reoffering Prices will not change. The Final Amounts and the adjusted bid price will be communicated to the successful bidder by 10:00 a.m. (Richmond time) on the business day following the sale.

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* *Preliminary, subject to change.*

Basis of Award

ALL BIDS SHALL REMAIN FIRM UNTIL 4:00 P.M. (RICHMOND TIME) ON THE DATE OF THE SALE. An award of the 2009A-1 Bonds, if made, will be made by the Transportation Board within such four and half hour period of time. Unless all bids are rejected, the 2009A-1 Bonds will be awarded to the bidder whose bid results in the lowest true interest cost to the Transportation Board for the 2009A-1 Bonds, based on the Revised Amounts described above. The true interest cost (expressed as an annual interest rate) will be determined as being twice that factor or discount rate, compounded semi-annually, which, when applied against each combined semi-annual debt service payment (interest, or principal and interest, as due, including any mandatory sinking fund payment) for the 2009A-1 Bonds, will equate such discounted semi-annual payments to the total purchase price. The true interest cost shall be calculated from the dated date of the 2009A-1 Bonds. In case of a tie, the Transportation Board, at its sole discretion, may select the successful bidder. THE TRANSPORTATION BOARD RESERVES THE RIGHT TO WAIVE IRREGULARITIES IN ANY BID AND TO REJECT ANY OR ALL BIDS.

Undertakings of the Successful Bidder

The successful bidder shall make a bona fide public offering of the 2009A-1 Bonds and shall, within 30 minutes after being notified of the award of the 2009A-1 Bonds, advise the Transportation Board in writing (via facsimile transmission) of the initial public offering prices of the 2009A-1 Bonds (the "Initial Reoffering Prices"). The successful bidder must, by facsimile transmission or delivery received by the Transportation Board within 24 hours after notification of the Final Amounts, furnish the following information to the Transportation Board to complete the Official Statement in final form, as described below:

A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields at which the successful bidder advised the Transportation Board that the 2009A-1 Bonds were initially offered to the public).
B. The identity of the other underwriters if the successful bidder is part of a group or syndicate.
C. Any other material information that the Transportation Board determines is necessary to complete the Official Statement in final form.

After the award of the 2009A-1 Bonds, the Transportation Board will prepare copies of the Final Official Statement and will include therein such additional information concerning the reoffering of the 2009A-1 Bonds as the successful bidder may reasonably request; provided, however, that the Transportation Board will not include in the Final Official Statement a “NRO” (“not reoffered”) designation with respect to any maturity of the 2009A-1 Bonds. The successful bidder will be responsible to the Transportation Board in all aspects for the accuracy and completeness of information provided by such successful bidder with respect to such reoffering.

Prior to the delivery of the 2009A-1 Bonds, the successful bidder shall furnish to the Transportation Board a "Certificate Regarding Issue Price," substantially in a form acceptable to Bond Counsel, establishing that the successful bidder has made a bona fide public offering of the 2009A-1 Bonds at the Initial Reoffering Prices set forth in such certificate and that a substantial amount of the 2009A-1 Bonds of each maturity was sold or reasonably expected to be sold to the public (excluding bond houses, brokers and other intermediaries) at such Initial Reoffering Prices..

The Transportation Board expects the successful bidder to deliver copies of such Official Statement in final form (the “Final Official Statement”) to persons to whom such bidder initially sells the 2009A-1 Bonds and the Municipal Securities Rulemaking Board (“MSRB”) via the MSRB’s Electronic Municipal Market Access system (“EMMA”). The successful bidder will be required to acknowledge receipt of such Final Official Statement, to certify that it has made delivery of the Final Official Statement to such repositories, to acknowledge that the Transportation Board expects the successful bidder to deliver copies of such Final Official Statement to persons to whom such bidder initially sells the 2009A-1 Bonds and to certify that the 2009A-1 Bonds will only be offered pursuant to the Final Official Statement and only in states where the offer is legal.

In the event that the successful bidder has on its own obtained a commitment for a municipal bond insurance policy or other credit enhancement, the Transportation Board shall indicate in the Final Official Statement those maturities that the successful bidder has informed the Transportation Board for which credit enhancement is being sought. The Transportation Board will also indicate within the Final Official Statement that further information concerning such potential credit enhancement may be obtained through the successful bidder. The Transportation Board will not include the identity of the potential credit enhancer or other information with respect to the potential credit enhancer in the Final Official Statement. In addition, the Transportation Board will not place a statement of insurance on the 2009A-1 Bonds or provide such documentation, or make such covenants or arrangements, as would customarily be provided, made or arranged if the Transportation Board were to obtain a commitment for municipal bond insurance or other credit enhancement on its own.

If the successful bidder obtains a municipal bond insurance policy or other form of credit enhancement, at the same time it provides the initial reoffering prices and yields it shall advise the Transportation Board of the cost of such credit enhancement and whether it will provide to the Transportation Board, at or before the closing of the 2009A-1 Bonds, a certificate certifying that (i) the present value of the fees paid for such credit enhancement are less than the present value of the interest reasonably expected to be saved as a result of obtaining such credit enhancement, using the yield on the 2009A-1 Bonds (determined with regard to the payments for such credit enhancement) as the discount factor for this purpose, and (ii) to the best of its knowledge, such fees were obtained in arm's length negotiations and do not exceed a reasonable charge for the transfer of credit risk. In addition, the successful bidder will cooperate with the Transportation Board to obtain the necessary certifications from the credit enhancement provider. Failure of the 2009A-1 Bonds to be so insured or of any such policy to be issued shall not in any manner relieve the successful bidder of its contractual obligations arising from the acceptance of its bid for the purchase of the 2009A-1 Bonds.

It is the policy of the Commonwealth of Virginia pursuant to Executive Order 33 to ensure that small businesses and businesses owned by women and minorities receive every opportunity to compete for the Commonwealth's business. Following award of the 2009A-1 Bonds, the Transportation Board requires that the winning bidder provide a listing of syndicate members noting any minority, women or disadvantaged business enterprises participating in the syndicate.

Delivery of Bonds

The 2009A-1 Bonds are expected to be delivered on or about November 4, 2009 (UNLESS A NOTICE OF A CHANGE IN THE DELIVERY DATE IS ANNOUNCED ON TM3 NOT LATER THAN 9:30 A.M. (RICHMOND TIME) ON ANY ANNOUNCED DATE FOR RECEIPT OF BIDS) through the facilities of DTC, New York, New York, against payment of the purchase price therefor (less the amount of the good faith deposit) in Federal Funds.

There will also be furnished the usual closing papers, including a certificate by the officials who signed the 2009A-1 Bonds (1) stating that no litigation of any kind is now pending or, to their information, knowledge or belief, threatened to restrain or enjoin the issuance or delivery of the 2009A-1 Bonds or in any manner questioning the proceedings and authority under which the 2009A-1 Bonds are issued, or affecting the validity of the 2009A-1 Bonds and (2) relating to the Final Official Statement, as described in the Preliminary Official Statement under the section entitled "Certificate Concerning Official Statement".

Legal Opinion

The approving opinion of Troutman Sanders LLP, Richmond, Virginia, Bond Counsel, in substantially the form set forth in an appendix to the Preliminary Official Statement, will be furnished at no expense to the successful bidder. The Preliminary Official Statement contains a discussion of the effect of the Internal Revenue Code of 1986, as amended, on the excludability from gross income of interest on the 2009A-1 Bonds and a discussion of Bond Counsel's opinion insofar as it concerns such exclusion.

CUSIP Numbers

CUSIP numbers will be applied for by the successful bidder with respect to the 2009A-1 Bonds, but the Transportation Board will assume no obligation for the assignment or printing of such numbers on the 2009A-1 Bonds or for the correctness of such numbers, and neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and make payment for the 2009A-1 Bonds.

Official Statement

The Preliminary Official Statement dated the date hereof and the information contained therein have been deemed final by the Transportation Board as of its date within the meaning of the Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the Official Statement in final form (the "Final Official Statement").

The Transportation Board, at its expense, will make available to the successful bidder a reasonable number of Final Official Statements, for delivery to each potential investor requesting a copy of the Final Official Statement and to each person to whom such bidder and members of its bidding group initially sell the 2009A-1 Bonds, within seven business days of the award of the 2009A-1 Bonds, provided that the successful bidder cooperates in a timely manner in providing the information required to complete the Final Official Statement.

The successful bidder shall comply with the requirements of Rule 15c2-12 and the rules of the MSRB, including an obligation, if any, to update the Final Official Statement.

Continuing Disclosure

In order to assist bidders in complying with Rule 15c2-12(b)(5), the Transportation Board will undertake, pursuant to a Continuing Disclosure Agreement, to provide certain annual financial information and operating data and notices of the occurrence of certain events, if material. A description of the undertakings is set forth in the Preliminary Official Statement and also will be set forth in the Final Official Statement.

Change of Date and Time for Receipts of Bids

The Transportation Board expects to take bids on the 2009A-1 Bonds on October 21, 2009. However, the Transportation Board reserves the right to change the date and time established for the receipt of bids, and will undertake to notify potential bidders of such changes in the date or time for the receipt of bids. Prospective bidders may request notification by facsimile transmission of any such change by so advising, and furnishing their telecopier numbers to, Public Resources Advisory Group, Inc. at 212-566-7816 by Noon, Richmond time, two days prior to the date fixed for the receipt of bids.

A change of the bid date will be announced via TM3 not later than 9:30 a.m. Richmond time, on any announced date for receipt of bids, and an alternative sale date and time will be announced via TM3 at least 20 hours prior to such alternative date and time for receipt of bids.

On any such alternative sale date and time, the Transportation Board will accept bids for the purchase of the 2009A-1 Bonds, such bids to conform in all respects to the provisions of this Notice of Sale, except for the changes in the date and time of sale and any other changes announced by TM3 at the time the sale date and time are announced. In addition, the Transportation Board reserves the right to make changes to this Notice of Sale. Such changes will be announced on TM3.

Additional Information

For further information relating to the 2009A-1 Bonds, reference is made to the Preliminary Official Statement, dated the date hereof, prepared for and authorized by the Transportation Board. The Preliminary Official Statement may be obtained from the undersigned at the Commonwealth Transportation Board, 1401 East Broad Street, Richmond, VA 23219 (telephone 804-786-5128; telecopy 804-786-2940) or from the financial advisor Public Resources Advisory Group, Inc., 40 Rector Street, Suite 1600, New York, NY 10006 (telephone 212-566-7800; telecopy 212-566-7816).

Dated: October 14, 2009

Commonwealth Transportation Board
By: Pierce R. Homer, Chairman

NOTICE OF SALE
Commonwealth Transportation Board
$61,280,000*
Commonwealth of Virginia
Transportation Revenue Bonds, Series 2009A-2
(Northern Virginia Transportation District Program)

Electronic bids, via BiDCOMP/Parity Competitive Bidding System (BiDCOMP/Parity) for the purchase of all, and not less than all, of the $61,280,000* preliminary aggregate principal amount of Commonwealth of Virginia Transportation Revenue Bonds, Series 2009A-2 (Northern Virginia Transportation District Program) (the "2009A-2 Bonds") will be received by the Commonwealth Transportation Board (the "Transportation Board") until 12:00 p.m., Richmond time, on October 21, 2009 (unless changed as described herein). Bidders will designate, through the submission of their bid, all of the 2009A-2 Bonds as either tax-exempt bonds (the "Tax-Exempt Bonds") or as federally taxable Build America Bonds (the "Taxable Bonds").

Tax-Exempt Bonds. Interest on Tax-Exempt Bonds is excluded from gross income for Federal income tax purposes and is not an item of tax preference for individuals and corporations and is not included in adjusted current earnings of corporations for Federal income alternative minimum tax purposes.

Taxable Bonds. Interest on Taxable Bonds is included in gross income for federal income tax purposes. The Taxable Bonds will be qualified as Build America Bonds, and the Transportation Board will elect to receive from the United States Treasury on each interest payment date a direct payment in the amount of 35 percent of the interest payable by the Transportation Board, which direct payment has not been pledged to the payment of the Taxable Bonds. Although the Taxable Bonds will be qualified as Build America Bonds, the tax credit will be allowed to the Transportation Board and not to the taxpayers holding the Taxable Bonds.

Description of Bonds; Interest Payment Dates

The 2009A-2 Bonds will be dated their date of delivery, and will be issued as fully registered bonds in book-entry form only. Interest on the 2009A-2 Bonds will be calculated on a 30/360 basis and will be payable semiannually on May 15 and November 15, commencing May 15, 2010.

Principal Amortization

Principal on the 2009A-2 Bonds will be paid (subject to prior redemption) through serial maturities and/or term maturities with annual sinking fund redemptions on the following dates and in the following amounts:

May 15*	Principal Amounts*	May 15*	Principal Amounts*
2015	$ 2,235,000	2025	3,015,000
2016	2,285,000	2026	3,130,000
2017	2,345,000	2027	3,245,000
2018	2,415,000	2028	3,370,000
2019	2,485,000	2029	3,505,000
2020	2,555,000	2030	3,630,000
2021	2,640,000	2031	3,770,000
2022	2,730,000	2032	3,915,000
2023	2,820,000	2033	4,060,000
2024	2,915,000	2034	4,215,000

* Preliminary, subject to adjustment both before and after award of the 2009A-2 Bonds as described herein under "Adjustment to Principal Amount".

Optional Redemption

The 2009A-2 Bonds are subject to redemption at any time prior to maturity at the option of the Transportation Board on and after May 15, 2019*, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, at a redemption price equal to the principal amount thereof to be redeemed plus interest accrued thereon to the date fixed for redemption.

Serial Bonds, Term Bonds and Mandatory Sinking Fund Redemption

The successful bidder may provide in the bid form for all of the 2009A-2 Bonds to be issued as serial bonds or may designate consecutive annual principal amounts of the 2009A-2 Bonds to be combined into term bonds. Each such term bond shall be subject to mandatory sinking fund redemption commencing on May 15 of the first year which has been combined to form such term bond and continuing on May 15 in each year thereafter until the stated maturity date of that term bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth in the appropriate amortization schedule, as adjusted in accordance with the provisions described above under the caption "Adjustments to Principal Amount." Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from among the 2009A-2 Bonds of the same maturity.

Extraordinary Optional Redemption for the Taxable Bonds.

Before May 15, 2019*, the 2009A-2 Bonds sold and issued as Build America Bonds will be subject to redemption, in whole or in part at any time, in any order of maturities, at the option of the Transportation Board, on at least 30 days notice, upon the occurrence of an Extraordinary Event, as defined below, at a redemption price equal to the greater of:

(1) 100% of the principal amount of such 2009A-2 Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such 2009A-2 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2009A-2 Bonds are to be redeemed, discounted to the date on which such 2009A2 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, described below, plus 100 basis points;

plus, in each case, accrued interest on such 2009A-2 Bonds to be redeemed to the redemption date.

An “Extraordinary Event” will have occurred if the Transportation Board determines that a material adverse change has occurred to Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the Recovery Act, pertaining to “Build America Bonds”) or there is any guidance published by the Internal Revenue Service or the United States Department of the Treasury with respect to such Sections or any other determination by the Internal Revenue Service or the United States Department of the Treasury, which determination is not the result of any act or omission by the Transportation Board to satisfy the requirements to qualify to receive the 35% cash subsidy payment from the United States Department of the Treasury, pursuant to which the Transportation Board’s 35% cash subsidy payment from the United States Department of the Treasury is reduced or eliminated.

“Treasury Rate” means, with respect to any redemption date for a particular 2009A-2 Bond, the yield to maturity as of such redemption date of United State Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Releases H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the 2009A-2 Bond to be redeemed; provided, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United State Treasury securities adjusted to a constant maturity of one year will be used.

Selection of Bonds for Redemption

If less than all of the 2009A-2 Bonds are called for optional redemption, the maturities of the 2009A-2 Bonds to be redeemed will be called in such order as the Transportation Board may determine. For the 2009A-2 Bonds sold and issued as tax-exempt bonds, if less than all of the 2009A-2 Bonds of any maturity are called for optional or mandatory redemption, the 2009A-2 Bonds to be redeemed will be selected by The Depository Trust Company, New York, New York (“DTC”) or any successor securities depository pursuant to its rules and procedures or, if the book-entry system is discontinued, will be selected by the Trustee by lot in such manner as the Trustee in its discretion may determine.

For 2009A-2 Bonds issued as Taxable Bonds, if less than all of any maturity of such 2009A-2 Bonds will be called for redemption, the particular 2009A-2 Bond to be redeemed will be selected on a pro-rata basis. With respect to such 2009A-2 Bonds sold, “pro rata” is determined, in connection with any mandatory sinking fund redemption or any optional redemption in part, by multiplying the principal amount of the 2009A-2 Bonds of such maturity to be redeemed on the applicable redemption date by a fraction, the numerator of which is equal to the principal amount of the 2009A-2 Bond of such maturity owned by the registered owner, and the denominator of which is equal to the total amount of the 2009A-2 Bonds of such maturity then outstanding immediately prior to such redemption date, and then rounding the product down to the next lower integral multiple of $5,000; provided that the portion of any such 2009A-2 Bonds to be redeemed are required to be in authorized denominations and all such 2009A-2 Bonds of a maturity to remain outstanding following any redemption are required to be in authorized denominations.

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* *Preliminary, subject to change.*

If the 2009A-2 Bonds are in book–entry form at the time of such redemption, the Trustee will instruct DTC to instruct the DTC participants to select the specific 2009A-2 Bonds for redemption on a pro rata basis among Beneficial Owners, and neither the Transportation Board nor the Trustee shall not have any responsibility to ensure that DTC or the DTC participants properly select such 2009A-2 Bonds for redemption.

Notice of Redemption

Notice of redemption will be given by the Paying Agent by registered or certified mail not less than 30 nor more than 60 days before the redemption date to DTC, or, if DTC is no longer serving as securities depository for the 2009A-2 Bonds, to the substitute securities depository, or if none, to the registered owners of the 2009A-2 Bonds to be redeemed at their addresses shown on the registration books maintained by the Paying Agent. Such notice of redemption also will be given to certain securities depositories and certain national information services which disseminate such redemption notices. During the period that DTC or its nominee, or any substitute securities depository or its nominee, is the registered owner of the 2009A-2 Bonds, the Paying Agent will not be responsible for mailing notices of redemption to the Beneficial Owners.

Book-Entry Only

Initially, one bond certificate for each maturity will be issued to DTC or its nominee, which will be designated as the securities depository for the 2009A-2 Bonds. So long as DTC is acting as securities depository for the 2009A-2 Bonds, a book-entry system will be employed, evidencing ownership of the 2009A-2 Bonds in principal amounts of $5,000 and multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Principal of, redemption premium, if any, and interest on the 2009A-2 Bonds will be payable to DTC or its nominee as registered owner of the 2009A-2 Bonds. Principal of, redemption premium, if any, and interest on the 2009A-2 Bonds will be payable in lawful money of the United States of America by the Paying Agent.

Transfer of principal, redemption premium, if any, and interest payments to beneficial owners (the "Beneficial Owners") will be the responsibility of such participants and other nominees of the Beneficial Owners. The Transportation Board will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

In the event that (a) DTC determines not to continue to act as securities depository for the 2009A-2 Bonds, or (b) the Transportation Board in its sole discretion determines (1) that Beneficial Owners will be able to obtain certificated bonds or (2) to select a new securities depository, the Transportation Board will discontinue the book-entry system with DTC. If the Transportation Board fails to identify another qualified securities depository to replace DTC, the Transportation Board will cause the execution and delivery of replacement bonds in the form of fully registered certificates.

Authorization and Security

The 2009A-2 Bonds are limited obligations of the Commonwealth and the Transportation Board secured by and payable from the revenues, receipts and funds appropriated for such purpose by the General Assembly of the Commonwealth of Virginia (the "General Assembly"), or allocated by the Transportation Board for such purpose from the revenues, receipts and funds appropriated to it by the General Assembly, and do not create or constitute a debt or a pledge of the full faith and credit of the Commonwealth or of any of its political subdivisions.

The 2009A-2 Bonds. The issuance of the 2009A-2 Bonds has been authorized by the provisions of the Revenue Bond Act, Sections 33.1-267 et seq. of the Code of Virginia of 1950, as amended (the "Revenue Bond Act"), and Chapter 391 of the Acts of the General Assembly of Virginia, 1993 General Session as amended by Chapters 470 and 597 of the Acts of the General Assembly of Virginia, 1994 General Session, Chapters 740 and 761 of the Acts of the General Assembly of Virginia, 1998 General Session, Chapter 538 of the Acts of the General Assembly of Virginia, 1999 General Session, Chapter 799 of the Acts of the General Assembly, 2002 General Session, and Chapter 621 of the Acts of the General Assembly, 2005 General Session, (the "NVTD Bond Legislation"); and a resolution adopted by the Transportation Board on July 16, 2009 (the "Resolution"). The 2009A-2 Bonds are being issued pursuant to a Master Agreement of Trust dated as of August 15, 1993 (the "NVTD Master Trust Agreement"), as previously supplemented and amended and as further supplemented by an Eleventh Supplemental Agreement of Trust dated as of November 1, 2009 (the "Eleventh Supplemental Trust Agreement" and collectively, with the NVTD Master Trust Agreement, the "NVTD Trust Agreement"), each between the Transportation Board and U.S. Bank National Association, (as successor in interest to First Union National Bank), as trustee (the " Trustee").

The 2009A-2 Bonds will be equally and ratably secured by and payable from revenues, receipts and funds appropriated by the General Assembly for payment thereof, or allocated by the Transportation Board for such purpose from revenues, receipts and funds appropriated to it by the General Assembly, from (1) the Northern Virginia Transportation District Fund, (2) to the extent required,

funds appropriated and allocated, pursuant to the highway allocation formula as provided by law, to the Northern Virginia Highway Construction District or the city or county in which the project or projects are located, (3) to the extent required, legally available revenues of the Transportation Trust Fund, and (4) such other funds which may be appropriated by the General Assembly, and from moneys in certain funds established under the NVTD Trust Agreement.

Capitalized terms not defined herein shall have the meanings prescribed to them in the Preliminary Official Statement dated the date hereof.

Bid Specifications

No bid for other than all of the 2009A-2 Bonds will be considered. All bids must be unconditional. Each proposal for the 2009A-2 Bonds must specify the amount bid for such 2009A-2 Bonds not less than 100% of the par value of the aggregate principal amount of the 2009A-2 Bonds based on the Revised Amounts as described below. Bidders are invited to name the rate or rates of interest that the 2009A-2 Bonds are to bear, in multiples of 1/8 or 1/20 of one percent. Each bidder must specify in its bid a single rate for each maturity of the 2009A-2 Bonds. For Tax-Exempt Bonds (a) the difference between the highest interest rate and the lowest interest rate in each series of bonds shall not exceed 300 basis points, (b) no interest rate may exceed 5.00% and (c) no bond of any maturity may be reoffered at a price less than 95% of the principal amount of such bond. For Taxable Bonds, bidders must specify the expected reoffering price for such 2009A-2 Bonds, and such reoffering price cannot exceed the maximum reoffering price provided in the table below for the specified maturity. Such maximum reoffering price is the par amount of the maturity plus 0.25 percent multiplied by the number of whole years to the earlier of the maturity date or the first optional redemption date for the maturity of such 2009A-2 Bonds.

May 15*	**Maximum Reoffering Price***
2015	101.250%
2016	101.500
2017	101.750
2018	102.000
2019	102.250
2020 and thereafter	102.250

* *Preliminary, subject to change.*

Electronic Bidding and Bidding Procedures

Registration to Bid. All prospective electronic bidders must be contracted customers of i-Deal LLC's BiDCOMP/Parity. If you do not have a contract with BiDCOMP/Parity, call (212) 849-5021 to become a customer. By submitting a bid for the 2009A-2 Bonds, a prospective bidder represents and warrants to the Transportation Board that such bidder's bid for the purchase of the 2009A-2 Bonds (if a bid is submitted in connection with the sale) is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the 2009A-2 Bonds.

If any provisions of this Notice of Sale shall conflict with earlier information provided by BiDCOMP/Parity as approved provider of electronic bidding services, this Notice of Sale shall control. Further information about BiDCOMP/Parity, including any fee charged, may be obtained from BiDCOMP/Parity at (212) 849-5021.

Disclaimer. Each prospective bidder shall be solely responsible to register to bid via BiDCOMP/Parity. Each prospective bidder shall be solely responsible to make necessary arrangements to access BiDCOMP/Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Notice of Sale. Neither the Transportation Board nor BiDCOMP/Parity shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any prospective bidder, and neither the Transportation Board nor BiDCOMP/Parity shall be responsible for a bidder's failure to register to bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by BiDCOMP/Parity. The Transportation Board is using BiDCOMP/Parity as a communication mechanism, and not as the Transportation Board's agent, to conduct the electronic bidding for the 2009A-2 Bonds. The Transportation Board is not bound by any advice and determination of BiDCOMP/Parity to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bid Specifications" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via BiDCOMP/Parity are the sole responsibility of the bidders; and the Transportation Board is not responsible, directly or indirectly, for any such costs or expenses. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the 2009A-2 Bonds, it should telephone BiDCOMP/Parity and notify the Chief Financial Officer at the Virginia Department of Transportation by facsimile at (804) 786-2940.

Bidding Procedures. Bids submitted electronically for the purchase of the 2009A-2 Bonds (all or none) must be by means of the Commonwealth Transportation Board Bid Form (the "Bid Form") via BiDCOMP/Parity by 12:00 p.m., Richmond time, on October 21, 2009 unless changed as described herein (see "Change of Date and Time for Receipt of Bids"). Prior to that time, a prospective bidder may input and save proposed terms of its bid in BiDCOMP/Parity. Once the final bid has been saved in BiDCOMP/Parity, the bidder may select the final bid button in BiDCOMP/Parity to submit the bid to BiDCOMP/Parity. Once the bids are communicated electronically via BiDCOMP/Parity to the Transportation Board, each bid will constitute an irrevocable offer to purchase the 2009A-2 Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on BiDCOMP/Parity shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the Transportation Board, as described under "Basis of Award" below, represented by the rate or rates of interest and the bid price specified in their respective bids.

No bids will be accepted in written form, by facsimile transmission or in any other medium or on any system other than by means of the Bid Form via BiDCOMP/Parity. No bid will be received after the time for receiving such bids specified above.

Good Faith Deposit

A good faith deposit in the amount of $610,000* (the "Deposit") is required in connection with the sale and bid for the 2009A-2 Bonds. The Deposit may be provided for by (i) a certified check, bank cashier's, treasurer's or official check drawn upon or certified by a responsible banking institution and made payable to the order of the Commonwealth Transportation Board delivered at or prior to the time of bid, (ii) a Financial Surety Bond delivered at or prior to the time of bid as set forth below under "Financial Surety Bonds" or (iii) a federal funds wire transfer to be submitted to the Transportation Board by the successful bidder not later than 4:00 p.m. (Richmond Time) on the date of sale (the "Wire Transfer Deadline") as set forth below under "Wire Transfers". The Deposit of the successful bidder will be collected and the proceeds thereof retained by the Transportation Board to be applied in partial payment for the 2009A-2 Bonds and no interest will be allowed or paid upon the amount thereof, but in the event the successful bidder shall fail to comply with the terms of the respective bid, the proceeds thereof will be retained as and for full liquidated damages. Checks of unsuccessful bidders will be returned promptly after the bonds are awarded.

Wire Transfers. If the successful bidder chooses to deliver its good faith deposit by federal funds wire transfer, the Transportation Board will distribute wiring instructions for the Deposit to the successful bidder upon verification of the bids submitted by the bidders and prior to the Wire Transfer Deadline. If the Deposit is not received by the Wire Transfer Deadline, the award of the sale of the 2009A-2 Bonds to the successful bidder may be cancelled by the Transportation Board in its discretion without any financial liability of the Transportation Board to the successful bidder or any limitation whatsoever on the Transportation Board's right to sell the 2009A-2 Bonds to a different purchaser upon such terms and conditions as the Transportation Board shall deem appropriate.

Financial Surety Bonds. If a bidder chooses to deliver a Financial Surety Bond to satisfy the good faith deposit requirement, such Financial Surety Bond must be from an insurance company acceptable to the Transportation Board and licensed to issue such a bond in the Commonwealth of Virginia. Such Financial Surety Bond must be submitted to the Transportation Board no later than 5:00 P.M. Richmond Time, on the day prior to the sale and must be in the form and substance acceptable to the Transportation Board. In addition, the proposed form of any Financial Surety Bond, including the identity of the insurance company must be provided to the Office of Finance of the Commonwealth at the address indicated below not later than 5:00 P.M. on the day prior to the sale. The Financial Surety Bond must identify the bidder whose Deposit is guaranteed by such Financial Surety Bond.

If the 2009A-2 Bonds are awarded to a bidder utilizing a Financial Surety Bond, then such successful bidder is required to submit its Good Faith Deposit to the Transportation Board in the form of a wire transfer not later than 4:00 P.M. (Richmond Time) on the date of sale. If such Good Faith Deposit is not received by that time, the Financial Surety Bond may be drawn by the Transportation Board to satisfy the Good Faith Deposit requirement.

Adjustments to Principal Amount

Changes Prior to Bidding. The preliminary aggregate principal amount of the 2009A-2 Bonds and the preliminary annual principal amounts as set forth in this Notice of Sale (the "Preliminary Aggregate Principal Amount" and the "Preliminary Annual Principal Amounts," respectively; collectively, the "Preliminary Amounts") may be revised before the opening of sealed bids for the purchase of the 2009A-2 Bonds. Any such revisions (the "Revised Aggregate Principal Amount" and the "Revised Annual Principal Amounts," respectively; collectively, the "Revised Amounts") WILL BE ANNOUNCED ON THOMSON MUNICIPAL MARKET

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* Preliminary, subject to change.

MONITOR ("TM3") (www.tm3.com) NOT LATER THAN 9:30 A.M. (RICHMOND TIME) ON ANY ANNOUNCED DATE FOR RECEIPT OF BIDS. In the event that no such revisions are made, the Preliminary Amounts will constitute the Revised Amounts. BIDDERS SHALL SUBMIT BIDS BASED ON THE REVISED AMOUNTS.

Changes to the Winning Bid. After selecting the winning bid, the Transportation Board will determine the final aggregate principal amount of the 2009A-2 Bonds and each final annual principal amount (the "Final Aggregate Principal Amount" and the "Final Annual Principal Amounts," respectively; collectively, the "Final Amounts"). In determining the Final Amounts, the Transportation Board will not reduce or increase the Revised Aggregate Principal Amount by more than 10% of such amount. THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES (AS HEREIN DEFINED) AS A RESULT OF ANY CHANGES MADE TO THE REVISED AMOUNTS WITHIN THESE LIMITS.

The dollar amount bid by the successful bidder will be adjusted to reflect any adjustments in the aggregate principal amount of the 2009A-2 Bonds. Such adjusted bid price will reflect changes in the dollar amount of the underwriters discount and original issue discount/premium, if any, but will not change the selling compensation per $1,000 of par amount of Bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the Initial Reoffering Prices. The interest rate specified by the successful bidder for each maturity as the Initial Reoffering Prices will not change. The Final Amounts and the adjusted bid price will be communicated to the successful bidder by 10:00 a.m. (Richmond time) on the business day following the sale.

Basis of Award

ALL BIDS SHALL REMAIN FIRM UNTIL 4:00 P.M. (RICHMOND TIME) ON THE DATE OF THE SALE. An award of the 2009A-2 Bonds, if made, will be made by the Transportation Board within such four hour period of time. Unless all bids are rejected, the 2009A-2 Bonds will be awarded to the bidder whose bid results in the lowest true interest cost to the Transportation Board for the 2009A-2 Bonds, based on the Revised Amounts described above. For bids submitted as Taxable Bonds, the true interest cost on the Taxable Bonds will be determined after subtracting 35 percent of each interest payment (reflecting the tax credit that the Transportation Board will elect to receive as a result of the 2009A-2 Bonds being qualified Build America Bonds.) The true interest cost (expressed as an annual interest rate) will be determined as being twice that factor or discount rate, compounded semi-annually, which, when applied against each combined semi-annual debt service payment (interest, or principal and interest, as due, including any mandatory sinking fund payment) for the 2009A-2 Bonds, will equate such discounted semi-annual payments to the total purchase price. The true interest cost shall be calculated from the dated date of the 2009A-2 Bonds. In case of a tie, the Transportation Board, at its sole discretion, may select the successful bidder. THE TRANSPORTATION BOARD RESERVES THE RIGHT TO WAIVE IRREGULARITIES IN ANY BID AND TO REJECT ANY OR ALL BIDS.

Undertakings of the Successful Bidder

The successful bidder shall make a bona fide public offering of the 2009A-2 Bonds and shall, within 30 minutes after being notified of the award of the 2009A-2 Bonds, advise the Transportation Board in writing (via facsimile transmission) of the initial public offering prices of the 2009A-2 Bonds (the "Initial Reoffering Prices"). The successful bidder must, by facsimile transmission or delivery received by the Transportation Board within 24 hours after notification of the Final Amounts, furnish the following information to the Transportation Board to complete the Official Statement in final form, as described below:

A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields at which the successful bidder advised the Transportation Board that the 2009A-2 Bonds were initially offered to the public).
B. The identity of the other underwriters if the successful bidder is part of a group or syndicate.
C. Any other material information that the Transportation Board determines is necessary to complete the Official Statement in final form.

After the award of the 2009A-2 Bonds, the Transportation Board will prepare copies of the Final Official Statement and will include therein such additional information concerning the reoffering of the 2009A-2 Bonds as the successful bidder may reasonably request; provided, however, that the Transportation Board will not include in the Final Official Statement a "NRO" ("not reoffered") designation with respect to any maturity of the 2009A-2 Bonds. The successful bidder will be responsible to the Transportation Board in all aspects for the accuracy and completeness of information provided by such successful bidder with respect to such reoffering.

Prior to the delivery of the 2009A-2 Bonds, the successful bidder shall furnish to the Transportation Board a "Certificate Regarding Issue Price," substantially in a form acceptable to Bond Counsel, establishing that the successful bidder has made a bona fide public offering of the 2009A-2 Bonds at the Initial Reoffering Prices set forth in such certificate and that a substantial amount of the 2009A-2 Bonds of each maturity was sold or reasonably expected to be sold to the public (excluding bond houses, brokers and other intermediaries) at such Initial Reoffering Prices..

The Transportation Board expects the successful bidder to deliver copies of such Official Statement in final form (the "Final Official Statement") to persons to whom such bidder initially sells the 2009A-2 Bonds and the Municipal Securities Rulemaking Board ("MSRB") via the MSRB's Electronic Municipal Market Access system ("EMMA"). The successful bidder will be required to acknowledge receipt of such Final Official Statement, to certify that it has made delivery of the Final Official Statement to such repositories, to acknowledge that the Transportation Board expects the successful bidder to deliver copies of such Final Official Statement to persons to whom such bidder initially sells the 2009A-2 Bonds and to certify that the 2009A-2 Bonds will only be offered pursuant to the Final Official Statement and only in states where the offer is legal.

In the event that the successful bidder has on its own obtained a commitment for a municipal bond insurance policy or other credit enhancement, the Transportation Board shall indicate in the Final Official Statement those maturities that the successful bidder has informed the Transportation Board for which credit enhancement is being sought. The Transportation Board will also indicate within the Final Official Statement that further information concerning such potential credit enhancement may be obtained through the successful bidder. The Transportation Board will not include the identity of the potential credit enhancer or other information with respect to the potential credit enhancer in the Final Official Statement. In addition, the Transportation Board will not place a statement of insurance on the 2009A-2 Bonds or provide such documentation, or make such covenants or arrangements, as would customarily be provided, made or arranged if the Transportation Board were to obtain a commitment for municipal bond insurance or other credit enhancement on its own.

If the successful bidder obtains a municipal bond insurance policy or other form of credit enhancement, at the same time it provides the initial reoffering prices and yields it shall advise the Transportation Board of the cost of such credit enhancement and whether it will provide to the Transportation Board, at or before the closing of the 2009A-2 Bonds, a certificate certifying that (i) the present value of the fees paid for such credit enhancement are less than the present value of the interest reasonably expected to be saved as a result of obtaining such credit enhancement, using the yield on the 2009A-2 Bonds (determined with regard to the payments for such credit enhancement) as the discount factor for this purpose, and (ii) to the best of its knowledge, such fees were obtained in arm's length negotiations and do not exceed a reasonable charge for the transfer of credit risk. In addition, the successful bidder will cooperate with the Transportation Board to obtain the necessary certifications from the credit enhancement provider. Failure of the 2009A-2 Bonds to be so insured or of any such policy to be issued shall not in any manner relieve the successful bidder of its contractual obligations arising from the acceptance of its bid for the purchase of the 2009A-2 Bonds.

It is the policy of the Commonwealth of Virginia pursuant to Executive Order 33 to ensure that small businesses and businesses owned by women and minorities receive every opportunity to compete for the Commonwealth's business. Following award of the 2009A-2 Bonds, the Transportation Board requires that the winning bidder provide a listing of syndicate members noting any minority, women or disadvantaged business enterprises participating in the syndicate.

Delivery of Bonds

The 2009A-2 Bonds are expected to be delivered on or about November 4, 2009 (UNLESS A NOTICE OF A CHANGE IN THE DELIVERY DATE IS ANNOUNCED ON TM3 NOT LATER THAN 9:30 A.M. (RICHMOND TIME) ON ANY ANNOUNCED DATE FOR RECEIPT OF BIDS) through the facilities of DTC, New York, New York, against payment of the purchase price therefor (less the amount of the good faith deposit) in Federal Funds.

There will also be furnished the usual closing papers, including a certificate by the officials who signed the 2009A-2 Bonds (1) stating that no litigation of any kind is now pending or, to their information, knowledge or belief, threatened to restrain or enjoin the issuance or delivery of the 2009A-2 Bonds or in any manner questioning the proceedings and authority under which the 2009A-2 Bonds are issued, or affecting the validity of the 2009A-2 Bonds and (2) relating to the Final Official Statement, as described in the Preliminary Official Statement under the section entitled "Certificate Concerning Official Statement".

Legal Opinion

The approving opinion of Troutman Sanders LLP, Richmond, Virginia, Bond Counsel, in substantially the form set forth in an appendix to the Preliminary Official Statement, will be furnished at no expense to the successful bidder. The Preliminary Official Statement contains a discussion of the effect of the Internal Revenue Code of 1986, as amended, on (i) the excludability from gross income of interest on the 2009A-2 Bonds if such bonds are issued as Tax-Exempt Bonds and a discussion of Bond Counsel's opinion insofar as it concerns such exclusion and (ii) the inclusion in gross income for Federal income tax purposes interest on the 2009A-2 Bonds if such bonds are issued as Taxable Bonds and a discussion of Bond Counsel's opinion insofar as it concerns such tax treatment..

CUSIP Numbers

CUSIP numbers will be applied for by the successful bidder with respect to the 2009A-2 Bonds, but the Transportation Board will assume no obligation for the assignment or printing of such numbers on the 2009A-2 Bonds or for the correctness of such numbers, and neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and make payment for the 2009A-2 Bonds.

Official Statement

The Preliminary Official Statement dated the date hereof and the information contained therein have been deemed final by the Transportation Board as of its date within the meaning of the Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the Official Statement in final form (the "Final Official Statement").

The Transportation Board, at its expense, will make available to the successful bidder a reasonable number of Final Official Statements, for delivery to each potential investor requesting a copy of the Final Official Statement and to each person to whom such bidder and members of its bidding group initially sell the 2009A-2 Bonds, within seven business days of the award of the 2009A-2 Bonds, provided that the successful bidder cooperates in a timely manner in providing the information required to complete the Final Official Statement.

The successful bidder shall comply with the requirements of Rule 15c2-12 and the rules of the MSRB, including an obligation, if any, to update the Final Official Statement.

Continuing Disclosure

In order to assist bidders in complying with Rule 15c2-12(b)(5), the Transportation Board will undertake, pursuant to a Continuing Disclosure Agreement, to provide certain annual financial information and operating data and notices of the occurrence of certain events, if material. A description of the undertakings is set forth in the Preliminary Official Statement and also will be set forth in the Final Official Statement.

Change of Date and Time for Receipts of Bids

The Transportation Board expects to take bids on the 2009A-2 Bonds on October 21, 2009. However, the Transportation Board reserves the right to change the date and time established for the receipt of bids, and will undertake to notify potential bidders of such changes in the date or time for the receipt of bids. Prospective bidders may request notification by facsimile transmission of any such change by so advising, and furnishing their telecopier numbers to, Public Resources Advisory Group, Inc. at 212-566-7816 by Noon, Richmond time, two days prior to the date fixed for the receipt of bids.

A change of the bid date will be announced via TM3 not later than 9:30 a.m. Richmond time, on any announced date for receipt of bids, and an alternative sale date and time will be announced via TM3 at least 20 hours prior to such alternative date and time for receipt of bids.

On any such alternative sale date and time, the Transportation Board will accept bids for the purchase of the 2009A-2 Bonds, such bids to conform in all respects to the provisions of this Notice of Sale, except for the changes in the date and time of sale and any other changes announced by TM3 at the time the sale date and time are announced. In addition, the Transportation Board reserves the right to make changes to this Notice of Sale. Such changes will be announced on TM3.

Additional Information

For further information relating to the 2009A-2 Bonds, reference is made to the Preliminary Official Statement, dated the date hereof, prepared for and authorized by the Transportation Board. The Preliminary Official Statement may be obtained from the undersigned at the Commonwealth Transportation Board, 1401 East Broad Street, Richmond, VA 23219 (telephone 804-786-5128; telecopy 804-786-2940) or from the financial advisor Public Resources Advisory Group, Inc., 40 Rector Street, Suite 1600, New York, NY 10006 (telephone 212-566-7800; telecopy 212-566-7816).

Dated: October 14, 2009

Commonwealth Transportation Board
By: Pierce R. Homer, Chairman