This Preliminary Official Statement and the information contained herein are subject to change, 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 the Series 2009 C Bonds 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. The Authority has duly authorized the distribution of this Preliminary Official Statement. This Preliminary Official Statement has been deemed final as of its date by the Authority in accordance with the meaning and requirements of Rule 15c2-12 of the Securities Exchange Act of 1934, as amended, except for information permitted by such Rule to be omitted.

NEW ISSUE – FULL BOOK-ENTRY

Ratings: Fitch: AA+
Moody's: Aa1
Standard & Poor's: AA+
(See "Ratings" herein)

In the opinion of Bond Counsel, under existing law, interest on the Series 2009 D Bonds is not includable in gross income of the owners thereof for Federal income tax purposes and is exempt from Virginia income and other taxes to the extent described under "TAX MATTERS." Interest on the Series 2009 D Bonds will not be treated as an item of tax preference in calculating the Federal alternative minimum taxable income of individuals and corporations, and the interest thereon will not be includable in the computation of the alternative minimum tax on corporations imposed by the Code.

$11,265,000*
VIRGINIA PUBLIC SCHOOL AUTHORITY
School Financing Bonds (1997 Resolution)
Series 2009 D

Dated: December 1, 2009 **Due: August 1, as shown on the inside cover**

This Official Statement has been prepared by the Virginia Public School Authority to provide information on the Series 2009 D Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series 2009 D Bonds, a prospective investor should read this Official Statement in its entirety.

Purpose	Bond proceeds are being used to (i) purchase $11,265,000* general obligation school bonds issued by certain Virginia localities that are to use the proceeds for capital projects for their public schools and (ii) pay a portion of the issuance cost of the Bonds – see page 3, "SOURCES AND USES OF THE SERIES 2009 D BOND PROCEEDS."
Issued Pursuant to	1997 Resolution, adopted by the Authority on October 23, 1997, as amended and restated
Denomination	$5,000 or multiples thereof
Security	The Series 2009 D Bonds are secured by principal and interest payments on the general obligation school bonds issued by certain Virginia localities, held and pledged by the Authority to the payment of the Series 2009 D Bonds. The Series 2009 D Bonds do not constitute a debt or a pledge of the faith and credit of the Commonwealth of Virginia - see page 3, "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."
Redemption	The Series 2009 D Bonds are subject to redemption as described on the inside cover.
Interest Payment Dates	February 1 and August 1, beginning August 1, 2010 (8 months' interest) as shown on inside cover.
Registration	Fully registered book-entry only in the name of Cede & Co. (as nominee of The Depository Trust Company) – see page 9, "DESCRIPTION OF THE SERIES 2009 D Bonds – Book-Entry Only System."
Registrar/ Paying Agent	State Treasurer.
Financial Advisor	BB&T Capital Markets, Richmond, Virginia.
Bond Counsel	Sidley Austin LLP, New York, New York.
Issuer Contact	Director of Debt Management, Virginia Department of the Treasury, (804) 225-2142.
Delivery Date	On or about December 3, 2009

The Series 2009 D Bonds will be awarded pursuant to electronic competitive bidding to be held via PARITY on November 18, 2009, unless changed, as set forth in the Notice of Sale contained in Appendix H to this Official Statement.

Dated: November __, 2009

**Preliminary, subject to change.*

$11,265,000*
VIRGINIA PUBLIC SCHOOL AUTHORITY
School Financing Bonds (1997 Resolution)
Series 2009 D
(Base CUSIP Number 92817S)

Dated: December 1, 2009 **Due: August 1, as shown below**

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS OR PRICES*

Year of Maturity	Principal Amount	Interest Rate	Yield or Price	CUSIP Suffix
2010				
2011				
2012				
2013				
2014				
2015				
2016				
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				

(Accrued interest to be added)

OPTIONAL REDEMPTION

The Series 2009 D Bonds due after August 1, 2019 may be redeemed prior to their respective maturities at the option of the Authority, in whole or in part, on any date beginning August 1, 2019, at a redemption price of par, together with interest accrued to the date fixed for redemption.

[MANDATORY REDEMPTION

A table of Amortization Requirements will be completed and 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, but not more than one, term bond.

See "DESCRIPTION OF THE SERIES 2009 D BONDS – [Mandatory Sinking Fund Redemption]"]

See also "DESCRIPTION OF THE SERIES 2009 D BONDS – Notice of Redemption"

**Preliminary, subject to change.*

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SUPERINTENDENT
OF PUBLIC INSTRUCTION
PATRICIA I. WRIGHT

VIRGINIA PUBLIC SCHOOL AUTHORITY
MEMBERS

CHAIRMAN
JAMES M. HOLLAND

VICE-CHAIRMAN
WOODROW W. MULLINS, JR.

TREASURER & SECRETARY
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THE SERIES 2009 D BONDS ARE EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE SERIES 2009 D BONDS ARE ALSO EXEMPT FROM REGISTRATION UNDER THE SECURITIES LAWS OF THE COMMONWEALTH OF VIRGINIA

NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE AUTHORITY OR THE UNDERWRITERS. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY OFFER OR SOLICITATION OF SUCH OFFER OR SALE OF THE SERIES 2009 D BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT OR AGREEMENT BETWEEN THE AUTHORITY OR THE PURCHASERS OR HOLDERS OF ANY OF THE SERIES 2009 D BONDS.

CERTAIN STATEMENTS INCLUDED IN THIS OFFICIAL STATEMENT CONSTITUTE “FORWARD-LOOKING STATEMENTS” WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED SUCH AS “PLAN,” “PROJECT,” “EXPECT,” “ANTICIPATE,” “INTEND,” “BELIEVE,” “ESTIMATE,” “BUDGET” OR OTHER SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY RESULTS, PERFORMANCES OR ACHIEVEMENTS EXPRESS OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. EXCEPT AS SPECIFICALLY SET FORTH HEREIN, THE AUTHORITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS DUE TO CHANGES IN ITS EXPECTATIONS OR SUBSEQUENT EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED.

THE INFORMATION CONTAINED HEREIN IS SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE AUTHORITY SINCE THE DATE HEREOF.

IN ACCORDANCE WITH THEIR RESPONSIBILITIES UNDER THE FEDERAL SECURITIES LAWS, THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT BUT DO NOT GUARANTEE ITS ACCURACY OR COMPLETENESS.

THE UNDERWRITERS MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SERIES 2009 D BONDS, INCLUDING TRANSACTIONS TO (A) OVERALLOT IN ARRANGING THE SALES OF THE SERIES 2009 D BONDS AND (B) TO MAKE PURCHASES AND SALES OF BONDS, FOR LONG OR SHORT ACCOUNT, ON A WHEN-ISSUED BASIS OR OTHERWISE, AT SUCH PRICES, IN SUCH AMOUNTS AND IN SUCH MANNER AS THE UNDERWRITERS MAY DETERMINE.

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OFFICIAL STATEMENT

of the

VIRGINIA PUBLIC SCHOOL AUTHORITY

for its

$11,265,000*
School Financing Bonds (1997 Resolution)
Series 2009 D

INTRODUCTION

The purpose of this Official Statement is to provide certain information in connection with the issuance by the Virginia Public School Authority (the "Authority") of its $11,265,000* School Financing Bonds (1997 Resolution) Series 2009 D (the "Series 2009 D Bonds"). The Authority is an instrumentality of the Commonwealth of Virginia (the "Commonwealth"), created by Chapter 11, Title 22.1, Code of Virginia, 1950, as amended (the "Enabling Act"). See "THE AUTHORITY."

The Series 2009 D Bonds are being issued pursuant to the Enabling Act and a bond resolution adopted on October 23, 1997, as amended and restated, as supplemented (the "1997 Resolution"), by the Board of Commissioners of the Authority (the "Board"). The Authority's purpose in issuing the Series 2009 D Bonds is to provide funds for the purchase by the Authority of certain general obligation school bonds (the "2009 D Local School Bonds") to be issued by certain Virginia counties and cities (the "2009 D Local Issuers"). The 2009 D Local Issuers are to use the proceeds of their 2009 D Local School Bonds to finance capital projects for their public schools.

In this Official Statement:

- The Series 2009 D Bonds and the parity bonds heretofore and hereafter issued under the 1997 Resolution are called "Bonds".
- The 2009 D Local School Bonds and all other general obligation school bonds the principal, interest and redemption components of which have been, or will be, pledged to the Bonds are called collectively "Local School Bonds".
- Cities, counties and towns, including the 2009 D Local Issuers, are called "Local Issuers".

The Series 2009 D Bonds will be the thirty-fourth series of Bonds issued under the 1997 Resolution. As of November 1, 2009, $2,875,855,000 Bonds were outstanding. The 1997 Resolution permits the issuance of additional Bonds of the Authority:

- to purchase additional Local School Bonds; and
- to refund any outstanding obligation of the Authority.

All the Bonds, including the Series 2009 D Bonds, will be secured by and payable from principal and interest payable on all the Local School Bonds, including the 2009 D Local School Bonds. See "SCHEDULE OF INCOME AVAILABLE TO PAY DEBT SERVICE AND DEBT SERVICE REQUIREMENTS". The 1997 Resolution requires, in connection with the issuance of additional Bonds by the Authority, that the sum of the scheduled debt service on all Local School Bonds after the issuance of such additional Bonds at least equal the related scheduled debt service on all the Bonds on each debt service payment date on the Bonds. All Local School Bonds, including the 2009 D Local School Bonds, must be general obligations of Local Issuers for which their full faith and credit and taxing power are irrevocably pledged. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and "THE LOCAL SCHOOL BONDS."

**Preliminary, subject to change.*

The Authority has covenanted in the 1997 Resolution to seek in each biennium a sum sufficient appropriation of an amount at least equal to the difference between (A) debt service on the Bonds becoming due in the fiscal years covered by the biennial Budget Bill and (B) the amounts paid on the Local School Bonds credited to the 1997 Resolution Pledge Account or realized from the application of the State Aid Intercept Provision. The General Assembly has the power to make future sum sufficient appropriations with respect to debt service on the Series 2009 D Bonds, but the General Assembly is under no legal obligation to do so. **The Series 2009 D Bonds do not constitute a debt or pledge of the faith and credit of the Commonwealth.** See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Sum Sufficient Appropriation."

The issuance of additional Bonds, such as the Series 2009 D Bonds, is conditioned upon the certifications that:

(i) the scheduled debt service payments on the Local School Bonds are equal to or greater than the related scheduled debt service payments on the Bonds on each debt service payment date, and

(ii)(A) the current Appropriation Act and

(B) if and as applicable, either of

(I) the Governor's Budget Bill as introduced in the General Assembly for the next fiscal year or biennium or,

(II) if enacted, the Appropriation Act for the next fiscal year or biennium

contain a sum sufficient appropriation to pay the debt service on the Bonds not paid from payments on the Local School Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Additional Bonds" and "SUMMARY OF CERTAIN PROVISIONS OF THE 1997 RESOLUTION–General Authorization of Bonds."

The first debt service payment on the Series 2009 D Bonds is scheduled to become due in the fiscal year commencing July 1, 2010. In Virginia Acts of Assembly 2009, Chapter 781 (the "2009 Appropriation Act") the General Assembly made a "sum sufficient appropriation" to provide the difference, if any, between the income received on the Local School Bonds and the debt service on the Bonds for the 2008-2010 biennium. The General Assembly has made a similar sum sufficient appropriation during each biennium since the adoption of the 1997 Resolution. The General Assembly is scheduled to convene in January 2010 to consider the Commonwealth's budget for the biennium commencing July 1, 2010. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS- Sum Sufficient Appropriation".

The Authority has issued, and expects to issue in the future, bonds and other obligations ("Other Obligations") under other security instruments ("Other Resolutions"). Other Obligations have no claim to amounts payable on the Local School Bonds or to the sum sufficient appropriation made with respect to the Bonds in the 2009 Appropriation Act. The Bonds have no claim on the general obligation school bonds or other security pledged to the payment of the Other Obligations. See "THE AUTHORITY–Other Authority Financings" and "FUTURE FINANCINGS."

PLAN OF FINANCE

Purchase of 2009 D Local School Bonds

The proceeds of the Series 2009 D Bonds, together with other available funds, will be used to (i) purchase the 2009 D Local School Bonds and (ii) pay the issuance cost of the Series 2009 D Bonds. The 2009 D Local School Bonds will be credited to the 1997 Resolution Pledge Account in the General Pledge Fund created by the 1997 Resolution. The payments of principal and interest received on the 2009 D Local School Bonds will be used to pay a portion of the principal and interest on the Bonds of the Authority.

SOURCES AND USES OF THE SERIES 2009 D PROCEEDS

The proceeds of the Series 2009 D Bonds, including initial offering [premium/discount] but exclusive of accrued interest, are expected to be applied as follows:

SOURCES	
Par Amount of Series 2009 D Bonds	$
Net Original Issue [Premium/Discount]	
Total	$
USES	
Deposit to 1997 Resolution Purchase Fund	$
Underwriters' Discount	
Deposit to Authority's General Fund[1]	
Total	$

[1] To pay a portion of costs of issuance of the Authority.

In addition, the Authority's General Fund will provide up to $_____, representing an amount equal to (i) interest accruing on the Series 2009 D Bonds corresponding to the 2009 D Local School Bonds between the July 15, 2010 interest payment date on the 2009 D Local School Bonds and the August 1, 2010 interest payment date on the Authority's Series 2009 D Bonds, and (ii) a portion of the Authority's issuance expenses incurred in connection with the Series 2009 D Bonds (the "General Fund Contribution").

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Enabling Act

The Enabling Act authorizes the Authority to pay its bonds solely from funds of the Authority, including, among others, the following sources:

1. payments of principal of and interest on general obligation school bonds purchased by the Authority;

2. proceeds of the sale of any such general obligation school bonds; and

3. any funds appropriated by the General Assembly.

1997 Resolution Pledge

The two main sources of the funds pledged by the 1997 Resolution for the payment of debt service on the Bonds are:

1. payments received on the Local School Bonds and through enforcement of the State Aid Intercept Provision (See "Local School Bonds" and "State Aid Intercept"), and

2. appropriations for this purpose by the General Assembly (See "Sum Sufficient Appropriation").

The Bonds are not general obligations of the Authority and are not secured by any of the funds and accounts, assets or revenues pledged under Other Resolutions. The Enabling Act provides that the Bonds, the premium, if any, and the interest thereon will not constitute a debt or a pledge of the faith and credit of the Commonwealth. Neither the faith and credit nor the taxing power of the Commonwealth or of any of its political subdivisions is pledged to the payment of the principal of, premium, if any, or interest on the Bonds.

While the Bonds do not constitute a legally enforceable obligation of the Commonwealth nor create a debt on behalf of the Commonwealth, there is no constitutional bar to the General Assembly's making appropriations in future sessions to pay debt service on the Bonds.

Local School Bonds

The 2009 D Local School Bonds will be purchased from the 2009 D Local Issuers by the Authority with the proceeds of the Series 2009 D Bonds. The Authority will deposit all the 2009 D Local School Bonds in a special fund known as the "General Pledge Fund" under the 1997 Resolution and credit the principal, interest and redemption premium components of the 2009 D Local School Bonds to a special account known therein as the "1997 Resolution Pledge Account." Under the 1997 Resolution, the Authority grants to the Depository (as hereinafter defined) of the 1997 Resolution Pledge Account, for the benefit of the holders of the Bonds, including the Series 2009 D Bonds, security interests in the principal, interest and redemption premium components of the Local School Bonds, including the 2009 D Local School Bonds. Similarly, the Authority will deposit to the General Pledge Fund additional Local School Bonds acquired with the proceeds of additional Bonds and assign their principal, interest and redemption premium components to the 1997 Resolution Pledge Account, all subject to security interests in favor of the holders of the Bonds, including the Series 2009 D Bonds. Likewise, the Authority previously deposited Local School Bonds - either acquired with the proceeds of previous issues of Bonds or transferred in connection with the issuance of previous refunding Bonds - to the General Pledge Fund and has assigned such Local School Bonds' principal, interest and redemption premium components to the 1997 Resolution Pledge Account. See "THE LOCAL SCHOOL BONDS—Local School Bonds Pledged to the Bonds".

Payments of principal of and interest received on Local School Bonds will be deposited in the "1997 Income Fund," another special fund created by the 1997 Resolution. The Authority will use these payments to pay debt service on the Bonds.

Interest on the Local School Bonds is due generally on the January 15 and July 15 immediately preceding the corresponding interest payment dates of February 1 and August 1 on the Bonds. Similarly, principal on the Local School Bonds is payable on the July 15 immediately preceding the corresponding August 1 principal payment date of the Bonds.

See "SCHEDULE OF INCOME AVAILABLE TO PAY DEBT SERVICE AND DEBT SERVICE REQUIREMENTS" for a comparison between the scheduled income on the Local School Bonds in the 1997 Resolution Pledge Account and the 2009 D Local School Bonds, and the scheduled debt service on the outstanding Bonds and the Series 2009 D Bonds. See also "SOURCES AND USES OF THE SERIES 2009 D BOND PROCEEDS" for a description of the additional funds available to pay the interest accrued on the Series 2009 D Bonds from July 15, 2010 until August 1, 2010.

State Aid Intercept

A Virginia statute (Section 15.2-2659 of the Code of Virginia, 1950, as amended) (the "State Aid Intercept Provision") provides a mechanism for the application to overdue debt service on the Local School Bonds of appropriations by the General Assembly to the Local Issuers. The State Aid Intercept Provision requires the Governor of the Commonwealth, upon proof of default in the payment of debt service on any general obligation bond (such as a Local School Bond) by any local government (such as a Local Issuer), to direct the Comptroller of the Commonwealth to withhold certain payments to the local government until such default is cured. These payments include funds appropriated by the General Assembly to the local government for any and all purposes. For as long as the default continues, the State Aid Intercept Provision directs the Governor to require the Comptroller to pay from such appropriation to the holders of such general obligation bonds or their paying agent as much as is necessary to cover the principal and interest due on such general obligation bonds. The State Aid Intercept Provision further provides for notice of the default and of the availability of intercepted funds with the paying agent or with the Comptroller by publication and by mail to the registered owners of such general obligation bonds.

The State Aid Intercept Provision has never been utilized but it has been successfully tested in a hypothetical default on a local school bond. Based on the results of such test, the Authority expects that the

Comptroller would deliver such funds to the paying agent of the Authority within one business day of initial notification. The Authority further expects that, for as long as the default continued, the Comptroller would make subsequent transfers when debt service on the Local School Bond in default is due.

The State Aid Intercept Provision applies to all general obligation bonds of the Local Issuers including Local School Bonds. State aid that is payable to local governments and that is subject to interception pursuant to the State Aid Intercept Provision is derived primarily from the Commonwealth's General Fund, with the remaining aid being payable from the Highway Maintenance and Construction Fund of the Virginia Department of Transportation and certain other funds. The primary sources of revenue for the Commonwealth's General Fund are individual and corporate income tax revenues, sales and use tax revenues, other tax revenues, interest, dividends and rents. Although the State Aid Intercept Provision has not been tested in a Virginia court, the Attorney General of the Commonwealth has opined that funds appropriated and payable by the Commonwealth to local governments for any and all purposes are subject to the withholding of the State Aid Intercept Provision.

The Authority has covenanted in the 1997 Resolution that it will enforce the State Aid Intercept Provision to obtain payment of the principal of and interest due and unpaid on the Local School Bonds.

Sum Sufficient Appropriation

The 1997 Resolution contemplates that the General Assembly will biennially appropriate to the Authority a sum sufficient appropriation for each fiscal year of the biennium to pay any debt service coming due on Bonds during such fiscal year. Such appropriations would provide sufficient funds to the Authority to meet its debt service obligations in the event of a payment default on one or more Local School Bonds not timely cured by the implementation of the State Aid Intercept Provision. This type of appropriation is referred to in this Official Statement as a "sum sufficient appropriation". The General Assembly has included in each Appropriation Act subsequent to the adoption of the 1997 Resolution a "sum sufficient appropriation" to the Authority to provide for the difference, if any, between

(1) the scheduled debt service on Bonds and

(2) the sum of

(i) the debt service payments made on the Local School Bonds, and

(ii) the funds obtained from enforcement of the State Aid Intercept Provision.

Each Appropriation Act designates "available moneys" in the Literary Fund of the Commonwealth (See "THE LITERARY FUND") as the first source of funds for the appropriation and the General Fund of the Commonwealth as the secondary source. The first debt service payments on the Series 2009 D Bonds are scheduled to become due during the 2010-2012 biennium which commences July 1, 2010.

The Enabling Act requires that the Governor's budget submission or budget amendments each year shall contain a "sum sufficient appropriation". The Enabling Act also requires the Authority to submit to the Governor and the General Assembly an annual report detailing the amount of its outstanding Bonds with the benefit of the sum sufficient appropriation. The 2009 Appropriation Act, the Enabling Act and the 1997 Resolution do not place any limitation on the amount of Bonds that the Authority can issue with the benefit of the sum sufficient appropriation.

The Authority has covenanted in the 1997 Resolution that it will seek a sum sufficient appropriation which will cover

(i) the scheduled debt service on its outstanding Bonds during the fiscal year(s) covered by such Budget Bill(s), and

(ii) the estimated scheduled debt service on the additional Bonds the Authority projects that it will issue and have debt service coming due during the fiscal year(s) covered by such Budget Bill(s).

Specifically, the Authority has covenanted in the 1997 Resolution that it will cause its Chairman annually, on or before December 1, to:

(1) certify to the Governor and the Secretary of Finance of the Commonwealth an estimate of the total debt service coming due in each of the next two fiscal years on

(A) outstanding Bonds, and

(B) additional Bonds projected to be issued during such two fiscal years, each running from July 1 through the subsequent June 30, and

(2) request inclusion in the Governor's Budget Bill(s) to be presented at the next regular session of the General Assembly of an appropriation first from available moneys in the Literary Fund and then from the General Fund of the Commonwealth.

In the event of a default in payment on one or more Local School Bonds, there is a period of not less than 15 days before the principal and interest payments on the Authority's Bonds become due. Should there be any deficiency remaining in the Income Available to Pay Debt Service after receipt of funds derived from the immediate implementation of the State Aid Intercept Provision, the Authority will immediately notify the Governor and the Director of the Department of Planning and Budget and (assuming the General Assembly has made a sum sufficient appropriation) after issuance of a warrant by the Comptroller, the State Treasurer shall transfer to the Depository of the 1997 Sinking Fund an amount equal to any remaining deficiency.

The Authority believes that the implementation of the State Aid Intercept Provision and, if that does not cure the deficiency, the issuance of the necessary warrant and subsequent electronic transfer pursuant to the sum sufficient appropriation will not take more than three business days following a default on a Local School Bond. The Authority further believes that the determination of the availability of funds in the Literary Fund required by the 2009 Appropriation Act will not extend the process of accessing the sum sufficient appropriation.

Additional Bonds

The Authority may issue additional Bonds under the 1997 Resolution to purchase Local School Bonds and refund any indebtedness, including Other Obligations, provided that the Authority shall have received certificates of:

1. the State Treasurer to the effect that the Income Available to Pay Debt Service on each debt service payment date equals or exceeds the scheduled debt service on all Bonds to be outstanding immediately after the delivery of the additional Bonds, and

2. the Secretary of Finance that:

(A) the current Appropriation Act and any future Appropriation Act provision and

(B) if the date of the certificate is subsequent to December 20 of one year and prior to July 1 in the following calendar year, any Budget Bill

contain a sum sufficient appropriation from the Literary Fund and, to the extent that funds are not available therein for the purpose, from the General Fund of the Commonwealth, to pay the difference between debt service on the Bonds becoming due in such fiscal year(s) covered by such Appropriation Act Provision or Budget Bill and the amount available to pay such debt service.

The Authority may also issue additional Bonds under the 1997 Resolution to refund all or any of its outstanding Bonds or Other Obligations provided that, in either case, the coverage test for the issuance of additional Bonds to purchase additional Local School Bonds is satisfied. The Enabling Act requires that the Authority remit to the related Local Issuers, or in certain circumstances the Literary Fund, the net debt service savings resulting from any refunding of its Bonds or Other Obligations.

See “SUMMARY OF CERTAIN PROVISIONS OF THE 1997 RESOLUTION–General Authorization of Bonds.”

The additional Bonds will be equally and ratably secured with the Series 2009 D Bonds and other outstanding Bonds under the 1997 Resolution.

The Enabling Act imposes no limitation on the amount of Bonds that the Authority can issue under the 1997 Resolution.

Income Available to Pay Debt Service

The following table shows the scheduled debt service payments on the 2009 D Local School Bonds and other Local School Bonds and the corresponding scheduled principal and interest payments (exclusive of accrued interest and the Authority’s General Fund Contribution) due on the Series 2009 D Bonds and other outstanding Bonds.

SCHEDULE OF INCOME AVAILABLE TO PAY DEBT SERVICE AND DEBT SERVICE REQUIREMENTS[1]

	Income Available to Pay Debt Service[2]				Debt Service Requirements				
	Principal and Interest on Local School Bonds					Series 2009 D Bonds			
Year Ended August 1	In 1997 Resolution Pledge Account	2009 D LSBs to be Purchased Principal	2009 D LSBs to be Purchased Interest[3]	Total Income	Debt Service on Outstanding Bonds[4]	Principal	Interest[5]	Total	Total Debt Service
2010	$363,931,422	$320,000	$281,343	$364,532,765	$332,220,523	$320,000	$277,870 [6]	$597,870	$332,818,393
2011	344,556,076	390,000	443,273	345,389,349	340,170,157	390,000	437,800	827,800	340,997,957
2012	326,266,620	405,000	427,478	327,099,098	323,410,769	405,000	422,200	827,200	324,237,969
2013	310,499,266	420,000	411,075	311,330,341	306,876,113	420,000	406,000	826,000	307,702,113
2014	294,278,309	445,000	394,065	295,117,374	291,761,863	445,000	389,200	834,200	292,596,063
2015	283,733,925	460,000	376,043	284,569,968	281,275,401	460,000	371,400	831,400	282,106,801
2016	266,610,501	475,000	357,413	267,442,914	264,865,888	475,000	353,000	828,000	265,693,888
2017	250,961,263	500,000	338,175	251,799,438	249,469,688	500,000	334,000	834,000	250,303,688
2018	231,335,774	515,000	317,925	232,168,699	229,979,619	515,000	314,000	829,000	230,808,619
2019	217,570,199	540,000	297,068	218,407,267	216,424,454	540,000	293,400	833,400	217,257,854
2020	198,832,616	560,000	275,198	199,667,814	197,875,042	560,000	271,800	831,800	198,706,842
2021	182,371,451	585,000	252,518	183,208,969	181,549,767	585,000	249,400	834,400	182,384,167
2022	161,590,563	610,000	228,825	162,429,388	160,919,747	610,000	226,000	836,000	161,755,747
2023	143,378,012	635,000	204,120	144,217,132	142,835,702	635,000	201,600	836,600	143,672,302
2024	128,121,467	665,000	178,403	128,964,870	127,685,360	665,000	176,200	841,200	128,526,560
2025	115,397,439	685,000	151,470	116,233,909	115,071,208	685,000	149,600	834,600	115,905,808
2026	94,531,219	715,000	123,728	95,369,947	94,295,263	715,000	122,200	837,200	95,132,463
2027	68,986,472	750,000	94,770	69,831,242	68,832,976	750,000	93,600	843,600	69,676,576
2028	49,992,917	780,000	64,395	50,837,312	49,893,063	780,000	63,600	843,600	50,736,663
2029	31,899,902	810,000	32,805	32,742,707	31,839,300	810,000	32,400	842,400	32,681,700
2030	14,431,583	-	-	14,431,583	14,394,038	-	-	-	14,394,038
2031	12,365,384	-	-	12,365,384	12,340,519	-	-	-	12,340,519
2032	7,522,034	-	-	7,522,034	7,508,369	-	-	-	7,508,369
2033	3,737,390	-	-	3,737,390	3,730,600	-	-	-	3,730,600
2034	940,250	-	-	940,250	936,875	-	-	-	936,875
2035	944,140	-	-	944,140	941,550	-	-	-	941,550
2036	941,190	-	-	941,190	939,425	-	-	-	939,425
2037	946,630	-	-	946,630	945,725	-	-	-	945,725
Totals	$4,106,674,014	$11,265,000	$5,250,086	$4,123,189,100	$4,048,989,003	$11,265,000	$5,185,270	$16,450,270	$4,065,439,273

(1) Preliminary, subject to change. Numbers may not add to totals due to rounding.

(2) This term as defined in the 1997 Resolution includes the scheduled principal and interest payments on all Local School Bonds excluding any in default. Together, all payments due on the 2009 C Local School Bonds will be greater than or in excess of the interest due on the Series 2009 D Bonds on each February 1 and August 1 and the principal due on August 1.

(3) Computed using the assumed interest rates on the Series 2009 D Bonds plus 5 basis points (0.05%).

(4) Substantially all of the excess of the Total Income on the Local School Bonds in the 12-month period ending August 1, 2010 over the Total Debt Service on the Bonds for the same period will be returned to Local Issuers related to the Bonds refunded by the Series 2009 C Bonds. Were the Series 2009 C Bonds not to be issued for any reason, Total Income for each 12-month period in the table would exceed Total Debt Service for each such period.

(5) Computed using an approximate interest rate of 4.00% for the Series 2009 D Bonds.

(6) First year is net of Series 2009 D accrued interest payable from the Authority's General Fund.

DESCRIPTION OF THE SERIES 2009 D BONDS

General

The Series 2009 D Bonds will be dated December 1, 2009, will bear interest from their date payable semiannually on each February 1 and August 1, commencing on August 1, 2010 (8 months' interest), at the respective rates, and will mature, subject to prior redemption, on August 1, in each of the years, as set forth on the inside cover page of this Official Statement. The record date for the Series 2009 D Bonds will be the fifteenth day (whether or not a business day) of the calendar month next preceding the applicable interest payment date.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2009 D Bonds. The Series 2009 D 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 Series 2009 D Bonds and will be deposited with DTC.

DTC 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"). 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 Series 2009 D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009 D Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2009 D Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations 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 Series 2009 D 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 Series 2009 D Bonds, except in the event that use of the book-entry system for the Series 2009 D Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009 D 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 Series 2009 D 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 Series 2009 D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009 D 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.

Redemption notices shall be sent to DTC. If less than all of the Series 2009 D 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 Series 2009 D Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Series 2009 D Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Series 2009 D 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 Authority on the 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 nor its nominee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, 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.

DTC may discontinue providing its services as depository with respect to the Series 2009 D Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Series 2009 D Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the Series 2009 D Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

Optional Redemption

The Authority may, at its option, redeem certain of the Series 2009 D Bonds prior to maturity as described on the inside cover page of this Official Statement.

[Mandatory Sinking Fund Redemption]

[The Series 2009 D Bonds due August 1, _____ are term bonds subject to mandatory sinking fund redemption in accordance with the provisions of the 1997 Resolution on August 1 of the years in the principal amounts as described on the inside cover page of this Official Statement.

In the event of a partial optional redemption or purchase of such term bonds, the Authority will credit the principal amount of such term bonds so purchased or redeemed against the Amortization Requirements for the remaining term bonds outstanding in such amounts and in such years as it in its sole discretion shall determine.]

Notice of Redemption

Notice of redemption is to be given not more than 60 nor less than 30 days before the redemption date by first class mail to the registered owner or owners of the Series 2009 D Bonds or portions thereof to be redeemed; provided, however, that any defect in such notice or the failure so to mail any such notice to any owners of any Series 2009 D Bonds will not affect the validity of the proceedings for the redemption of any other Series 2009 D Bonds. **During the period that DTC or the DTC partnership nominee is the registered holder of the Series 2009 D Bonds, the Bond Registrar will not be responsible for mailing notices of redemption to the beneficial owners of the Series 2009 D Bonds. See "DESCRIPTION OF THE SERIES 2009 D Bonds–Book-Entry Only System" above.** Each such notice will set forth the Series 2009 D Bonds or portions thereof to be redeemed, the date fixed for redemption, the Redemption Price to be paid, and if less than all the Series 2009 D Bonds will be called for redemption, the maturities of the Series 2009 D Bonds to be redeemed and shall otherwise comply with Securities Exchange Act of 1934 Release No. 34-23856, dated December 3, 1986, including the requirement that notice be given to all organizations registered with the Securities and Exchange Commission as securities depositories, and to one or more information services of national recognition which disseminate redemption information with respect to tax-exempt securities. If any Series 2009 D Bond is to be redeemed in part only, the notice of redemption will state also that on or after the redemption date, upon surrender of such Series 2009 D Bond, a new Series 2009 D Bond of authorized denominations and in principal amount equal to the unredeemed portion of such Series 2009 D Bond will be issued.

Any notice of optional redemption of the Series 2009 D Bonds may state that it is conditioned upon there being available an amount of money sufficient to pay the Redemption Price, consisting of par plus interest accrued and unpaid to the redemption date, and any conditional notice so given may be rescinded at any time before the payment of the Redemption Price if any such condition so specified is not satisfied. If a redemption does not occur after a conditional notice is given due to an insufficient amount of funds on deposit by the State Treasurer, the corresponding notice of redemption shall be deemed to be revoked.

If the Authority gives an unconditional notice of redemption, then on the redemption date the Series 2009 D Bonds called for redemption will become due and payable. If the Authority gives a conditional notice of redemption, money to pay the Redemption Price of the affected Series 2009 D Bonds shall have been set aside in escrow with the State Treasurer or other Depository for the purpose of paying such Series 2009 D Bonds, then on the redemption date the Series 2009 D Bonds will become due and payable. In either case, if on the redemption date the State Treasurer holds money to pay the Series 2009 D Bonds called for redemption, thereafter, no interest will accrue on those Series 2009 D Bonds, and a Bondholder's right will be to receive payment of the Redemption Price upon surrender of those Series 2009 D Bonds.

THE AUTHORITY

Board of Commissioners

The Authority's Board of Commissioners consists of the State Treasurer, the State Comptroller, the Superintendent of Public Instruction and five additional members appointed by the Governor, subject to confirmation by the General Assembly, who serve at the pleasure of the Governor for terms of six years. The Governor appoints one of the appointed members of the Board as chairman, who serves as chief executive officer of the Authority. The Board elects, from its membership, a vice-chairman, treasurer and secretary.

The members of the Authority are:

JAMES M. HOLLAND, *Chairman*, President, Holland & Co. CPA, Richmond, Virginia; term as member expires June 30, 2014; residence: Chesterfield County, Virginia.

MANJU GANERIWALA, *Treasurer and Secretary*, member of the Authority by virtue of being the State Treasurer of Virginia; residence: Henrico County, Virginia.

HADY AMR, *Member*, Managing Director, Amr Group, Arlington, Virginia; term as a member expires June 30, 2010; residence: Arlington, Virginia.

WOODROW W. MULLINS, JR., *Member*, Retired, term as a member expires June 30, 2012; residence: Evington, Virginia.

BRENDA L. SKIDMORE, *Member*, Senior Vice President, SunTrust Bank, Richmond, Virginia, term as a member expires June 30, 2010; residence: Richmond, Virginia.

KANCHANA M. THAMODARAN, *Member*, Marketing Executive and Consultant, term as a member expires June 30, 2014; residence: Virginia Beach, Virginia.

DAVID A. VON MOLL, *Member* of the Authority by virtue of being the Comptroller of Virginia; residence: Chesterfield County, Virginia.

PATRICIA I. WRIGHT, *Member* of the Authority by virtue of being the Superintendent of Public Instruction of Virginia; residence: Chesterfield, Virginia.

The office of the State Treasurer provides staff and administrative support for the Authority. The Authority's mailing address is P.O. Box 1879, Richmond, Virginia 23218-1879. The telephone number of the office of the State Treasurer is (804) 225-2142.

Powers of the Authority

Under the provisions of the Enabling Act, the Authority is empowered, among other things, to (1) manage and administer all moneys and obligations that may be set aside and transferred to it by the General Assembly of Virginia from the principal of the Literary Fund for public school purposes, (2) purchase, with any of its funds available for such purpose, at public or private sale and for such price and on such terms as it shall determine, general obligation school bonds of cities, counties and towns in the Commonwealth, or to make loans or grants to local school boards, and (3) issue, for the purpose of providing funds for the purchase of general obligation school notes or the making of loans or grants to local school boards, its bonds or other obligations payable solely from its funds including, but without limitation, (a) payments of principal of and interest on the general obligation school bonds purchased by the Authority or such loans made by the Authority, (b) sale proceeds of such general obligation school bonds, (c) payments of principal of and interest on Literary Fund Obligations, (d) sale proceeds of such Literary Fund Obligations, (e) any moneys transferred to the Authority from the Literary Fund or appropriated to the Authority by the General Assembly and (f) one or more reserve funds to secure payment of principal and interest.

The validity of the original Enabling Act was upheld by the Supreme Court of Virginia in 1962 in *Button v. Day*, 203 Va. 689, 127 S.E.2d 122.

Financial Condition of Authority Funds

The Authority has caused an audit to be made of its books and accounts for the year ended June 30, 2008, which is contained in Appendix A. See "CONTINUING DISCLOSURE" and Appendix F - "CONTINUING DISCLOSURE UNDERTAKINGS–Virginia Public School Authority".

Other Authority Financings

The Authority expects that the 1997 Resolution will continue indefinitely to be the primary instrument under which it issues bonds to provide funds to purchase local school bonds and thereby promote the financing of capital projects for public schools across the Commonwealth. Historically, the Authority has issued bonds under a number of other comparable "pool" resolutions and resolutions pledging solely the local school bonds of a single local issuer ("Stand Alone Security Structure").

1991 Resolution Bonds. Under a bond resolution adopted by the Board on June 26, 1991, as amended and supplemented (the "1991 Resolution"), the Authority has issued $791,600,000 total principal amount of bonds in ten separate series (the "1991 Resolution Bonds"). The Authority used the proceeds of the 1991 Resolution Bonds in accordance with the Enabling Act to purchase general obligation school bonds issued by cities and counties in the Commonwealth of Virginia to finance capital projects for public schools and to provide funds for deposit to the 1991 Debt Service Reserve Account as described in the 1991 Resolution. With the issuance under the 1997 Resolution of the Authority's Series 2005 A bonds, which closed March 15, 2005, the Authority advance refunded all remaining outstanding bonds under the 1991 Resolution. The bonds were redeemed on August 1, 2007.

Special Obligation School Financing Bonds. Using a Stand Alone Security Structure, the Authority has issued several issues of special obligation school financing bonds that are secured separately from the Bonds. As of November 1, 2009, six issues of bonds issued under separate Stand Alone Security Structures were outstanding.

School Educational Technology Notes. The Authority has issued $55,255,000, $56,620,000, $56,765,000, $56,475,000 and $55,395,000 School Educational Technology Notes, Series V, VI, VII, VIII and IX, respectively (collectively, the "Notes"). Proceeds from the Notes were used primarily to make grants to establish a computer-based instructional and testing system for the Standards of Learning (SOL) and connecting high schools (and middle and elementary schools as appropriate), Best Practices Centers and the Central Office of the Department of Education. Four prior issues of School Educational Technology Notes have been retired.

The Notes are limited obligations of the Authority payable from appropriations by the Virginia General Assembly from the Literary Fund. The Notes have carried since their issuance the additional benefit of a sum sufficient appropriation from the General Fund of the Commonwealth. See Appendix E - "LITERARY FUND–Appropriations from the Literary Fund". See also "FUTURE FINANCINGS" and "LEGISLATION."

The following table is a summary of outstanding indebtedness of the Authority from the other financings listed above.

Virginia Public School Authority
Summary of Outstanding Indebtedness From Other Financings
As of November 1, 2009

Issue Category	Final Maturity Date	Principal Outstanding
County of Chesterfield School Financing Bonds[(1)]	January 15, 2025	$45,445,000
County of Henrico School Financing Bonds[(1)]	July 15, 2028	42,215,000
County of Fluvanna School Financing Bonds[(1)]	December 1, 2035	67,525,000
2005 School Educational Technology Notes	April 15, 2010	12,035,000
2006 School Educational Technology Notes	April 15, 2011	23,845,000
2007 School Educational Technology Notes	April 15, 2012	35,345,000
2008 School Educational Technology Notes	April 15, 2013	45,540,000
2009 School Educational Technology Notes	April 15, 2014	55,395,000
County of Northampton Special Obligation Bond[(1)] 1999	October 29, 2011	419,000
County of Northampton Special Obligation Bond[(1)] 2001	December 21, 2015	419,060
County of Accomack Special Obligation Bond[(1)] 2002	December 31, 2016	1,433,003
Total:		$331,297,063

[(1)] See *"Special Obligation School Financing Bonds"* above.

The holders of the Authority's Other Obligations issued under the Other Resolutions described above have no claim on the Local School Bonds or their principal, interest and redemption premium components or any other assets pledged to the Bonds, and holders of Bonds issued under the 1997 Resolution have no claim to the local school bonds or other assets pledged under such Other Resolutions for the payment of such Other Obligations.

Default Experience

The Authority has never defaulted in the payment of principal or interest on any of its indebtedness.

THE LOCAL SCHOOL BONDS

Requirements for the Local School Bonds

The 1997 Resolution requires that every Local School Bond purchased by the Authority must be a valid and binding general obligation of its respective Local Issuer for the payment of which its full faith and credit are pledged, that all taxable property within the boundaries of the Local Issuer must be subject to the levy of an *ad valorem* tax without limitation as to rate or amount, for payment of such Local School Bonds and the interest thereon, and that all Local School Bonds must be in, or convertible into, marketable form and must be accompanied by an approving opinion of a firm of recognized municipal bond attorneys acceptable to the Authority.

2009 D Local School Bonds

2009 D Local School Bonds and 2009 D Local Issuers. The following table lists the 2009 D Local Issuers and the principal amount of the 2009 D Local School Bonds to be issued by the 2009 D Local Issuers and to be purchased by the Authority with the proceeds of the Series 2009 D Bonds.

2009 D Local Issuers[1]	2009 D Local School Bonds Being Purchased[1]
Pulaski County	$ 7,500,000
York County	4,200,000

[1] Preliminary, subject to change

Details of the 2009 D Local School Bonds. Local Issuers are obligated to issue and sell to the Authority their 2009 D Local School Bonds with interest rates on principal installments 5 basis points (0.05%) above the rates on the corresponding maturities of the Series 2009 D Bonds. The debt service payments on the 2009 D Local School Bonds are due on January 15 and July 15, in advance of the corresponding February 1 and August 1 debt service payment dates on the Series 2009 D Bonds. The 2009 D Local School Bonds are not subject to redemption prior to their respective maturities without prior written consent of the Authority.

Delivery of the 2009 D Local School Bonds. The terms of the contracts between the Authority and each 2009 D Local Issuer whose 2009 D Local School Bonds the Authority has agreed to purchase with the proceeds of its Series 2009 D Bonds require that the 2009 D Local Issuer issue and deliver to the Authority its 2009 D Local School Bonds on the same date that the Authority issues and delivers its Series 2009 D Bonds to the purchasers thereof. In general, the Local Issuers deliver their Local School Bonds to the Authority on the same day that the Authority delivers its Bonds to the purchasers thereof. On occasion, there has been a delay in the delivery of a Local Issuer's Local School Bonds to the Authority, in which case the Local Issuer is required by the terms of its contract with the Authority to compensate the Authority for the delay in delivery by an amount equal to the difference, if any, between the income the Authority realizes on the investment of its Bond proceeds set aside to purchase the Local School Bonds and the income the Authority would have realized had the Local School Bonds been delivered on the same date that the Authority's Bonds were issued and delivered.

In the event that a 2009 D Local Issuer fails to deliver its 2009 D Local School Bonds to the Authority within 60 days of the date of delivery for the Series 2009 D Bonds, the Authority anticipates that it would apply the excess proceeds of the Series 2009 D Bonds, plus any additional moneys required, to fund an escrow consisting of Defeasance Obligations (see "SUMMARY OF CERTAIN PROVISIONS OF THE 1997 RESOLUTION – Investments") sufficient to redeem (in accordance with the optional redemption provisions of the 1997 Resolution), or to pay at their maturity, the Series 2009 D Bonds in the same principal amount as, and with maturities corresponding to the principal installments of, such 2009 D Local School Bonds and to pay interest on such Series 2009 D Bonds to the respective redemption or maturity dates. As an alternative to establishing such an escrow, the Authority may seek to loan a portion or all of such excess proceeds to another Local Issuer under the same terms and rates as would have applied to the 2009 D Local Issuer whose failed delivery of its 2009 D Local School Bonds resulted in excess Series 2009 D Bond proceeds. In no event would any failed delivery of 2009 D Local School Bonds result in an extraordinary redemption of Series 2009 D Bonds since the 1997 Resolution makes no provision for any such extraordinary redemption.

Local School Bonds Pledged to the Bonds

The following table lists the $2,891,559,591 aggregate principal amount of Local School Bonds of 111 Local Issuers held in the 1997 Resolution Pledge Account in the General Pledge Fund as of November 1, 2009. As of November 1, 2009, all Local School Bonds are current as to principal and interest.

Local Issuer	Amount Outstanding	Local Issuer	Amount Outstanding
Accomack County	$ 33,567,305	Lynchburg City	$ 12,545,492
Albemarle County	107,255,000	Madison County	588,068
Alleghany County	6,416,696	Manassas Park City	13,587,211
Amelia County	5,431,725	Martinsville City	1,840,897
Amherst County	15,281,497	Mathews County	3,220,000
Appomattox County	7,265,938	Mecklenberg County	9,099,354
Augusta County	63,065,277	Middlesex County	300,000
Bedford County	29,745,342	Montgomery County	15,034,926
Bland County	83,717	Nelson County	12,520,000
Botetourt County	18,055,656	New Kent County	14,832,419
Bristol City	180,000	Newport News City	6,105,937
Brunswick County	6,884,224	Northampton County	1,805,153
Buchanan County	7,910,940	Northumberland County	1,235,000
Buckingham County	9,308,518	Norton City	574,815
Campbell County	13,424,872	Nottoway County	3,101,375
Caroline County	27,269,352	Orange County	68,490,190
Carroll County	18,128,513	Page County	55,152,608
Charles City County	1,158,660	Patrick County	3,456,008
Charlotte County	1,345,795	Pittsylvania County	12,828,982
Chesapeake City	150,831,124	Poquoson City	335,000
Chesterfield County	29,585,000	Portsmouth City	7,346,766
Clarke County	30,615,000	Powhatan County	16,006,458
Craig County	3,502,424	Prince Edward County	3,222,394
Culpeper County	12,191,153	Prince George County	25,684,194
Cumberland County	10,708,680	Prince William County	460,984,758
Danville City	9,215,630	Pulaski County	12,632,063
Dinwiddie County	17,450,850	Radford City	13,512,509
Essex County	9,040,573	Rappahannock County	4,235,000
Falls Church City	2,425,000	Richmond City	1,916,098
Fauquier County	64,735,000	Richmond County	954,474
Floyd County	11,350,696	Roanoke City	51,264,399
Fluvanna County	6,806,876	Roanoke County	109,377,342
Franklin City	932,845	Rockbridge County	18,890,925
Franklin County	13,546,735	Rockingham County	102,628,369
Frederick County	106,628,560	Russell County	9,355,463
Fredericksburg City	42,665,000	Scott County	50,000
Giles County	10,949,622	Shenandoah County	25,819,876
Gloucester County	20,037,967	Smyth County	2,497,108
Goochland County	22,615,000	Southampton County	8,667,874
Grayson County	1,285,001	Spotsylvania County	59,809,163
Greene County	3,303,401	Stafford County	245,666,940
Greensville County	6,272,369	Staunton City	2,689,853
Halifax County	50,569,682	Suffolk City	297,755
Hanover County	51,868,562	Surry County	3,445,000
Harrisonburg City	41,580,000	Sussex County	3,700,000
Henrico County	36,915,000	Tazewell County	10,163,487
Henry County	10,426,920	Virginia Beach City	9,162,701
Highland County	808,810	Warren County	18,860,249
Hopewell City	4,528,744	Washington County	8,192,639
James City County	24,687,615	Waynesboro City	8,587,509
King & Queen County	1,059,776	West Point Town	351,978
King George County	11,396,764	Winchester City	120,000
King William County	14,438,031	Wise County	5,615,750
Loudoun County	106,410,000	Wythe County	14,980,107
Louisa County	24,135,000	York County	45,445,000
Lunenburg County	5,473,518		
		Total:	$2,891,559,591

Protection from Default in Payment of Local School Bonds

There has never been a payment default on any general obligation school bonds held by the Authority. The Authority has covenanted in the 1997 Resolution that it will take any and all action available to it under the laws of the Commonwealth, including the State Aid Intercept Provision, to secure payment of the principal of and the interest on the Local School Bonds held under the 1997 Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–State Aid Intercept" above.

State Non-Arbitrage Program

Since 1989, the Authority has required all issuers of local school bonds that it purchases to deposit and maintain the proceeds of their local school bonds in the Virginia State Non-Arbitrage Program® ("SNAP"). SNAP includes a professionally-managed money market mutual fund which provides such issuers with a convenient method of pooling bond proceeds for temporary investment pending their expenditure and with record keeping, depository and arbitrage rebate calculation services.

THE LITERARY FUND

General

The Literary Fund is a permanent and perpetual school fund created in 1810 and established by the Constitution of Virginia as a depository for moneys derived by the Commonwealth from criminal fines and forfeitures, escheated property and income from the investment of moneys on deposit in the Literary Fund. The moneys therein are held by the State Treasurer and administered by the State Board of Education "for public school purposes, including the teachers retirement fund."

Available Monies

Under the 2009 Appropriation Act, the sum sufficient appropriation to the Authority for debt service on Bonds for the biennium ending June 30, 2010 is payable first from "available monies" in the Literary Fund and then from the General Fund of the Commonwealth. The Authority anticipates that the determination of "available monies" at a point in time, assuming a Local Issuer has defaulted on its Local School Bond and implementation of the State Aid Intercept Provision has not cured the default, will be made by the Director of the Department of Planning and Budget taking into account the balance of cash and cash equivalents credited to the Literary Fund, on the one hand, and all appropriations and transfers from, and Literary Fund Loan commitments made by, the Literary Fund.

See Appendix E - "LITERARY FUND". See also - "FUTURE FINANCINGS" and "LEGISLATION".

THE GENERAL FUND OF THE COMMONWEALTH

The General Fund of the Commonwealth is comprised of such balances, public taxes, arrears of taxes, and monies derived from all other sources as are not by law segregated to other funds and accounts for transactions related to resources received and used for those services traditionally provided by a state government. Commonwealth General Fund revenues are principally composed of direct taxes to support a number of government functions, primarily education, individual and family services, public safety and general government, and are available for payment of debt service obligations of the Commonwealth. For the fiscal year ended June 30, 2009, Commonwealth General Fund revenue was $14,876,226,000 (unaudited) with expenditures of $16,375,490,000 (unaudited) and ending balance of $823,475,000 (cash basis, unaudited). See Appendix B - "COMMONWEALTH OF VIRGINIA FINANCIAL AND OTHER INFORMATION".

RECENT DEVELOPMENTS

The Commonwealth

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 reforecast 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.

Virginia Localities

The economic trends creating pressure on the Commonwealth's budget are also affecting Virginia's localities, including Local Issuers (collectively, "Localities"). Declining home values are placing stress on the primary source of revenue for Virginia Localities - real property tax levies. While the American Recovery and Reinvestment Act ("ARRA") might provide a beneficial amount of federal aid over the next two calendar years, Localities may be forced to make difficult decisions to balance their fiscal year 2010 budgets and may be required to implement painful cost-cutting measures, including service reductions and personnel furloughs and layoffs. In addition, Localities may be compelled to deal with lower revenues and lower transfers from the Commonwealth. The implementation of the spending provisions of the ARRA, however, might provide sufficient resources to balance potential revenue shortfalls. Virginia law requires Localities to balance their budgets. All the Local School Bonds are general obligations of their respective Local Issuers to which their full faith and credit are pledged.

SUMMARY OF CERTAIN PROVISIONS OF THE 1997 RESOLUTION

The following statements are brief summaries of certain provisions of the 1997 Resolution. Such statements do not purport to be complete and reference is made to the 1997 Resolution, copies of which are available for inspection upon request to the Secretary of the Authority.

Definitions of Certain Terms

The following are the definitions of certain terms contained in the 1997 Resolution and used in this Official Statement:

"Depository" means the State Treasurer or one or more banks or trust companies duly authorized to engage in the banking business and meeting the requirements of the 1997 Resolution and designated by resolution of the Authority or by the State Treasurer as a depository of moneys under the provisions of the Resolution.

"General Fund" means the Virginia Public School Authority General Fund, a special fund created by the 1997 Resolution.

"Income Available to Pay Debt Service" means as of any particular Payment Date,

(1) the amount of the principal and interest that is scheduled to become due and payable on the local school bonds credited to the 1997 Resolution Pledge Account during the Applicable Income Period,

plus (2) the amount, if any, of the principal and interest that is scheduled to become due and payable prior to the Applicable Income Period on the local school bonds credited to the 1997 Resolution Pledge Account that is designated by the Authority, in a certificate of its Treasurer or an Assistant Treasurer, for application to debt service on the Bonds in the Applicable Income Period,

less (3) the amount, if any described in (1) above that has been designated by the Authority, in a certificate of its Treasurer or an Assistant Treasurer, for application to debt service on the Bonds subsequent to the Applicable Income Period.

For the purposes of the definition of "Income Available to Pay Debt Service," "Applicable Income Period" shall mean the period beginning, with respect to each series of Bonds, on the later of their date of issue and the day after the previous Payment Date and ending on the date that is the applicable Payment Date or if such Date is not a Business Day, the Business Day next preceding such Payment Date.

Establishment of Funds and Accounts

The 1997 Resolution provides for the creation of the "Virginia Public School Authority 1997 Purchase Fund" (the "1997 Purchase Fund"); the "Virginia Public School Authority 1997 Income Fund" (the "1997 Income Fund"); the "Virginia Public School Authority 1997 Bond Interest and Sinking Fund" (the "1997 Sinking Fund"), and the "Virginia Public School Authority Reimbursement Fund" (the "Reimbursement Fund"). The 1997 Resolution further provides for the creation of a special fund designated the "Virginia Public School Authority General Pledge Fund" (the "General Pledge Fund"), including therein the "Virginia Public School Authority General Pledge Fund 1997 Resolution Account" (the "1997 Resolution Pledge Account").

Purchase Fund

To the extent provided in a series resolution, proceeds of Bonds issued under the 1997 Resolution shall be deposited in the Authority's General Fund for payment of expenses incurred in connection with the issuance of Bonds. The remaining proceeds of such Bonds (other than refunding Bonds and net of accrued interest) shall be deposited in the 1997 Purchase Fund.

The moneys in the 1997 Purchase Fund are to be applied by the Treasurer of the Authority to the purchase of Local School Bonds, subject to the provisions of the Enabling Act and the rules and regulations of the Authority. All Local School Bonds so purchased must constitute valid and binding general obligations of the Local Issuer for the payment of which its full faith and credit are pledged, and all taxable property within the boundaries of the Local Issuer must be subject to the levy of an *ad valorem* tax, without limitation on rate or amount, for the payment of such Local School Bonds and the interest thereon. The Local School Bonds must be accompanied by the approving opinion of a firm of recognized municipal bond attorneys acceptable to the Authority.

All Local School Bonds purchased with funds held in the 1997 Purchase Fund shall be held for the credit of the 1997 Resolution Pledge Account within the General Pledge Fund and pledged to the payment of the Bonds. The Board may authorize and direct the Treasurer of the Authority to sell (with or without consideration) or otherwise dispose of Local School Bonds purchased with the proceeds of Bonds issued under the 1997 Resolution; provided, however, no Local School Bonds may be sold unless the sale is required to make up a deficiency in the 1997 Sinking Fund or unless, following such sale or other disposition, the Income Available for Debt Service on each Payment Date is not less than the debt service on each such Date.

Any proceeds from such a sale or other disposition may be used for the lawful purposes of the Authority; any accrued interest realized in such a sale shall be deposited to the credit of the 1997 Income Fund.

The Board may from time to time authorize and direct the Treasurer of the Authority to transfer from the 1997 Purchase Fund to the 1997 Sinking Fund all or any portion of the moneys held in the 1997 Purchase Fund in order to pay interest on Bonds, to redeem Bonds or to make up any deficiency in the 1997 Sinking Fund.

Flow of Funds

The Treasurer of the Authority shall collect and deposit in the 1997 Income Fund the principal and interest payments on the Local School Bonds credited to the 1997 Resolution Pledge Account as the same become due and payable.

The Authority has covenanted that on or before the last Business Day preceding each Payment Date (or any other day designated in a series resolution) (a "Deposit Day"), the State Treasurer shall, if applicable, withdraw an amount of money from the 1997 Income Fund, and deposit such moneys in the following funds and accounts in the following order and in amounts sufficient in the aggregate to satisfy the following requirements:

(a) in the 1997 Sinking Fund such amount as may be required to make the amount in the 1997 Sinking Fund equal to the sum of (i) the interest next due on the Bonds and (ii) the principal next due on the Bonds; provided that in making such transfers, the Treasurer of the Authority may take into account any accrued interest deposited from Bond proceeds and any amounts specified in a certificate of the Treasurer of the Authority prior to such Deposit Day as credited to a special account in the 1997 Purchase Fund; and

(b) in the Reimbursement Fund, such amount of any balance remaining after making the deposits under clause (a) above, up to the entire balance if less than the required amount, as may be required by the resolutions of the Authority in connection with obligations to repay the Commonwealth for any appropriations to cure deficiencies in the amount required to be on deposit in the 1997 Sinking Fund or to make rebate payments to the United States.

The State Treasurer shall transfer from the 1997 Income Fund to the credit of the General Fund of the Authority following each Payment Date, as may be requested by the Treasurer of the Authority, the lesser of (i) the amount described in clause (1)(A) below and (ii) the amount, if any, by which

(1) the sum of (A) the amount then remaining to the credit of the 1997 Income Fund, **plus** (B) the amount of the principal and interest that is scheduled to become due and payable on the local school bonds (the issuer of which is not then, to the knowledge of the State Treasurer, in default in the payment of the principal of or interest on any general obligation bond) held to the credit of the 1997 Resolution Pledge Account and payable to the Authority prior to the next succeeding Deposit Day,

exceeds

(2) the sum of (A) the amount of the scheduled Principal and Interest Requirement on the Bonds for the next succeeding Payment Date, **plus** (B) the amount then remaining to the credit of the 1997 Income Fund that has been designated by the Authority in accordance with the provisions of the Resolution for

application to debt service on the Bonds on a future Payment Date subsequent to the next succeeding Payment Date.

1997 Sinking Fund

Moneys in the 1997 Sinking Fund shall be used for the payment of the principal of, premium, if any, and interest on the Bonds. The 1997 Resolution permits the State Treasurer to use moneys on deposit in the 1997 Sinking Fund to purchase Bonds coming due (or subject to mandatory redemption) on the next succeeding principal payment date at the most advantageous prices obtainable, but not in excess of the principal amount of such Bonds plus accrued interest, if any. Such purchases must be made no later than 45 days prior to an interest payment date on which Bonds are subject to redemption and must be made with moneys other than those set aside or deposited for the redemption of Bonds.

If Bonds are secured by a credit facility, moneys in the 1997 Sinking Fund may be used, as provided in a series resolution, to reimburse the credit provider for amounts drawn under the credit facility to pay the principal of, premium, if any, and interest on the Bonds.

General Fund

Moneys in the General Fund may be used to purchase Local School Bonds or for any other authorized purpose of the Authority and are not subject to a lien in favor of the holders of the Bonds.

General Pledge Fund

All local school bonds that are

(i) purchased from moneys held for the credit of the 1997 Purchase Fund, or

(ii) if so provided by resolution of the Authority,

(A) purchased from moneys held for the credit of the General Fund, or

(B) transferred from funds or accounts held under Other Resolutions,

shall be delivered to, and held in trust by, a Depository for the credit of the General Pledge Fund.

Unless otherwise provided by resolution of the Authority, all principal, interest and redemption premium components of the local school bonds that are purchased from moneys held for the credit of the 1997 Purchase Fund shall be credited, pledged and assigned to the 1997 Resolution Pledge Account in the General Pledge Fund. The Authority pursuant to the provisions of the 1997 Resolution grants security interests in favor of the holders from time to time of the Bonds issued and outstanding under the 1997 Resolution in such principal, interest and redemption premium components of such Local School Bonds, the receipts therefrom and the proceeds thereof. If so provided by resolution of the Authority, the Authority further grants and confirms security interests in favor of the holders from time to time of the Bonds issued and outstanding under the 1997 Resolution in the principal, interest and redemption premium components, the receipts and the proceeds of the local school bonds that are

(i) purchased from moneys held for the credit of the General Fund, or

(ii) transferred from funds or accounts held under Other Resolutions or from another special account within the General Pledge Fund

and credited, pledged and assigned to the 1997 Resolution Pledge Account.

The Authority may, by resolution, designate that all or a portion of all or a portion of the components of the local school bonds shall be credited, pledged and assigned to special subaccounts and may grant security interests in

such portion or portions, the receipts therefrom and the proceeds thereof for the benefit of certain but not all the holders of Bonds or series or maturities or Bonds within maturities thereof as shown on the records of the Depository having custody of the General Pledge Fund. Where all or any of the principal, interest and redemption premium components of a local school bond are credited to the 1997 Resolution Pledge Account, all or the appropriate portion of the related local school bond held in the General Pledge Fund shall also be deemed credited to the 1997 Resolution Pledge Account and subject to the security interests created therein, and the proceeds from the sale or other disposition pursuant to the provisions of the 1997 Resolution shall be allocated to the Bonds in proportion to their percentage of the value of the components credited to such Account, as determined by the Authority.

General Authorization of Bonds

The Authority may issue additional Bonds under the 1997 Resolution for the purpose of providing funds for the purchase of Local School Bonds, subject to receipt of the following documents by the Treasurer of the Authority:

(a) a copy, certified by the Secretary of the Authority, of the Series Resolution or applicable Resolutions;

(b) a copy, certified by the Secretary of the Authority, of the resolution adopted by the Board awarding such Bonds and directing the delivery of such Bonds;

(c) a certificate, signed by the State Treasurer, setting forth with reference to each Payment Date, to and including the last stated principal payment date on the Bonds then outstanding and the Bonds then to be issued,

(A) the Income Available to Pay Debt Service (excluding the principal and interest on the Local School Bonds the issuer of which is then, to the knowledge of the State Treasurer, in default in the payment of principal or interest on any general obligation bond);

(B) the sum of (i) the principal and interest requirements on account of the Bonds of each Series then outstanding under the 1997 Resolution and (ii) the principal and interest requirements for the Bonds then to be issued

and stating that the result of dividing the amount mentioned in paragraph (A) for each such Date by the sum set forth in paragraph (B) for the same Date is at least one hundred percent (100%) on each such Date;

(d) a certificate, signed by the Secretary of Finance of the Commonwealth that

(i) the current Appropriation Act Provision and any future Appropriation Act Provision, and

(ii) if the date of the certificate is subsequent to December 20 of one year and prior to July 1 in the following calendar year, any Budget Bill

contain a “sum sufficient appropriation” from the Literary Fund and, to extent that funds are not available therein for the purpose, from the general fund of the Commonwealth, to pay the difference between debt service on the bonds becoming due in such fiscal year(s) covered by such Appropriation Act Provision or Budget Bill and the amount available to pay such debt service.

For purposes of the foregoing certificate of the Secretary of Finance,

(i) “current Appropriation Act Provision” shall mean a sum sufficient appropriation contained in an Appropriation Act that has the force of law at the date of the certificate,

(ii) "future Appropriation Act Provision" shall mean a sum sufficient appropriation contained in an Appropriation Act that will have the force of law on a future date,

(iii) "Budget Bill" shall mean the bill or bills submitted by the Governor to the General Assembly (but not yet enacted into law) that would appropriate the public revenue of the Commonwealth for a biennium or amend provisions of the current Appropriation Act, as such bill or bills may exist on the date of the certificate, and

(iv) "sum sufficient appropriation" shall mean in case of any Appropriation Act or Budget Bill the appropriation of amounts sufficient, whether the amount is specified directly or indirectly or by formula or otherwise, that in the judgment of the Secretary of Finance are sufficient to cure any deficiency in the amounts received by the Authority from payments on the local school bonds and from the implementation of the State Aid Intercept provision, when compared to the scheduled debt service on the Bonds on any Payment Date, in each of the fiscal years covered by the Appropriation Act or Budget Bill.

(e) a certificate, signed by the Chairman of the Authority, stating that the Authority is not then in default in the performance of any of the covenants, conditions, agreements or provisions contained in the 1997 Resolution or in the Enabling Act; and

(f) an opinion of the Attorney General or an Assistant Attorney General of the Commonwealth of Virginia stating that the signer is of the opinion that the issuance of such additional Bonds has been duly authorized, that all conditions precedent to the delivery of such Bonds have been fulfilled, and that no legislation has been enacted that amends the provisions of the Enabling Act in a way that would adversely affect the power of the Authority to discharge its "Covenant to Request Sum Sufficient Appropriation."

Refunding of Bonds

Bonds may be issued under the 1997 Resolution for the purpose of providing funds to redeem or otherwise pay prior to their maturities, including the payment of any redemption premium thereon, all or part of the outstanding Bonds or any other indebtedness of the Authority (including Reimbursement Obligations), the interest thereon to the date fixed for their redemption or payment and any expenses incurred in connection with such refunding, provided that certain requirements of the 1997 Resolution, including the tests described in clauses (c) and (d) in "General Authorization of Bonds," are satisfied.

Provisions Applicable to All Bonds

Bonds may be issued in any form permitted by law, including current interest bonds, variable rate indebtedness, capital appreciation bonds, optional tender indebtedness, serial bonds, term bonds or any combination thereof. Except as to any credit facility that may be applicable to certain Bonds only and as to any differences in the maturities, rates of interest and the manner of payment thereof or in the provisions for redemption and purchase, all additional Bonds shall be entitled to the same benefit and security under the 1997 Resolution as all other Bonds. The 1997 Resolution provides that, for purposes of the revenue test applicable to the issuance of additional Bonds, the option of any owner of optional tender indebtedness to tender the same for payment prior to its stated maturity shall be ignored and the interest rate for variable rate indebtedness shall be assumed throughout the term of such indebtedness to be the greater of (a) the initial rate of interest of such variable rate indebtedness, and (b) the weighted average interest rate at which it is assumed that the Authority could reasonably expect to have borrowed on the date of issuance of such Bonds at a fixed interest rate.

Reports and Audits

The Authority covenants to keep accurate records and accounts of all moneys collected and the application of such moneys and to exert its best efforts to cause an audit of its books and accounts for each twelve-month period to be made by the State Auditor of Public Accounts or by an independent firm of certified public accountants of recognized ability and standing chosen by the Authority with the approval of the State Treasurer. The Authority

further covenants that, as often as may be requested, it will furnish to any Bondholder such other information concerning the Authority as such Bondholder may reasonably request.

Investments

Moneys held in the funds and accounts established by the 1997 Resolution shall be continuously invested and reinvested at the direction of the Authority in the following investments ("Investment Obligations"):

(a)(i) direct obligations of, or obligations the timely payment of the principal of and the interest on which is unconditionally guaranteed by, the United States of America, interest components of Resolution Funding Corporation bonds and, if permitted by law, evidences of indirect ownership of such obligations, (ii) obligations of state and local municipal bond issuers the payment of which shall be secured by non-callable obligations described in (i) above deposited with an escrow agent or trustee ("Defeasance Obligations"), and (iii) obligations issued by certain agencies controlled or supervised by the United States of America, and

(b) repurchase agreements for obligations described in (a) above, certificates of deposit, banker's acceptances, commercial paper, insured and uninsured obligations of state or local government municipal bond issuers satisfying the requirements of the 1997 Resolution and any other obligation constituting a legal investment for instrumentalities of the Commonwealth of Virginia.

Moneys in the 1997 Purchase Fund, the 1997 Income Fund, the 1997 Sinking Fund and the Reimbursement Fund shall, as nearly as may be practicable, be invested and reinvested in Investment Obligations that shall mature, or that shall be subject to redemption at the option of the holder thereof, not later than the respective dates when the moneys will be required. Moneys held for the credit of the General Fund shall be invested and reinvested in such Investment Obligations as the State Treasurer shall determine.

Investment Obligations so purchased shall be deemed at all times to be a part of the fund or account to which the money with which they were purchased was credited, and the interest accruing thereon and any profit realized or any loss resulting from the investment of money shall be credited to, or charged against, the respective fund or account. The State Treasurer and any bank in which funds or accounts are deposited (a "Depository") shall sell at the best price obtainable or present for redemption or payment any such Investment Obligations whenever it shall be necessary to do so in order to provide money to make any payment or transfer of money from any such fund or account. The State Treasurer and any Depository shall not be liable or responsible for any loss resulting from any such investment.

Whenever a payment or transfer of moneys between two or more of the funds or accounts established under the 1997 Resolution is permitted or required, such payment or transfer may be made in whole or in part by transfer of one or more Investment Obligations at a value determined in accordance with the provisions of the 1997 Resolution, provided that Investment Obligations are those in which moneys of the receiving fund or account could be invested at the date of such transfer.

For the purpose of determining the amount on deposit to the credit of any such fund or account, obligations in which money in such fund or account shall have been invested shall be valued at the market value or the amortized cost, whichever is lower.

Modification of the Resolution

The Authority, from time to time, and without the consent of Bondholders, may adopt supplemental resolutions for purposes set forth in the 1997 Resolution. Such purposes include curing ambiguities, formal defects and omissions in the 1997 Resolution and any other change that, in the opinion of the Authority, would not materially adversely affect the security for the Bonds.

The owners of not less than a majority in aggregate principal amount of the Bonds then outstanding may, from time to time, consent to resolutions supplemental to the 1997 Resolution for the purpose of modifying any of

the terms or provisions contained in the 1997 Resolution or in any series resolution or other supplemental resolution; provided, however, that nothing contained in the 1997 Resolution shall permit, or be construed as permitting, without the consent of Bondholders (a) an extension of the maturity of the principal of or the interest on any Bond, (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, (c) the creation of a lien upon or a pledge of funds other than the liens and pledges created or permitted by the 1997 Resolution, (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds of the same Series, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental resolution. The Secretary of the Authority shall cause notice of the proposed adoption of any such supplemental resolution to be mailed, postage prepaid, to all owners of Bonds at their addresses as they appear on the registration books. Such notice shall briefly set forth the nature of the proposed supplemental resolution and shall state that copies thereof are on file at the office of the State Treasurer for inspection by all Bondholders. The Authority shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail the notice, and any such failure shall not affect the validity of such supplemental resolution after it has been consented to and approved. No such supplemental resolution shall become effective unless the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding shall file with the Secretary of the Authority instruments consenting to and approving the adoption of the supplemental resolution in the form thereof referred to in the notice.

Remedies of Bondholders

The 1997 Resolution defines events of default to include failure to pay principal, redemption premium or any installment of interest on any of the Bonds, inability of the Authority to fulfill its obligations under the 1997 Resolution, the institution of proceedings with the consent or acquiescence of the Authority for the purpose of adjusting claims of creditors pursuant to any federal or state statute and failure after written notice by the holder of any of the Bonds then outstanding to perform any covenant contained in the 1997 Resolution.

Upon the happening and continuance of any event of default, any Bondholder may proceed to protect and enforce its rights and the rights of Bondholders under the laws of the Commonwealth of Virginia or the 1997 Resolution and may enforce and compel the performance of all duties required under the laws of the Commonwealth of Virginia or the 1997 Resolution to be performed.

Defeasance

When the principal of, premium, if any, and interest on the Bonds shall be paid or if the State Treasurer, the Bond Registrar or any Depository or Paying Agent shall hold in trust sufficient moneys or non-callable Defeasance Obligations the principal of and interest on which, when due and payable, will provide sufficient moneys to pay the principal of, redemption premium, if any, and interest on all Bonds then outstanding to the maturity date or dates of such Bonds or dates fixed for mandatory redemption of term Bonds or to the date or dates specified for the optional redemption of Bonds, and, if Bonds are to be called for redemption, irrevocable instructions to call the Bonds for redemption shall have been given by the Authority, and sufficient funds shall also have been provided or provision made for paying all other obligations payable hereunder by the Authority, then and in that case the right, title and interest of the Bondholders in the funds and accounts under the 1997 Resolution shall thereupon cease, determine and become void. Bonds paid or redeemed or delivered to or acquired by the Bond Registrar for cancellation and Bonds, or principal or interest components thereof, for which a Paying Agent or the Bond Registrar or any Depository or the State Treasurer shall hold sufficient moneys or non-callable Defeasance Obligations the principal of and the interest on which, when due and payable, will provide sufficient moneys to pay the principal of, redemption premium, if any, and the interest on such Bonds, or such principal or interest components, as the case may be, to their maturity date or dates or dates fixed for redemption are deemed no longer outstanding for purposes of the 1997 Resolution.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Bond Counsel (see Appendix G), under existing law, and subject to the other provisions of this section, interest on the Series 2009 D Bonds is not includable in gross income of the owners of the Series 2009 D Bonds for federal income tax purposes. In delivering this opinion, Bond Counsel is (a) relying on the opinions of other firms of municipal bond attorneys that interest on the Local School Bonds having principal, interest and redemption premium components credited to the 1997 Resolution Pledge Account is not includable in gross income for the purposes of federal income taxation and (b) assuming continuing compliance with the covenant by the Authority and each issuer of local school bonds providing security for the Series 2009 D Bonds and the school boards of these issuers to comply, subsequent to the issuance of the Series 2009 D Bonds, with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), so that interest on the Series 2009 D Bonds and the 2009 D Local School Bonds, respectively, will remain excludable from gross income for federal income tax purposes. Failure by the Authority or any Local Issuer or any school board of these issuers to comply, subsequent to the issuance of the Series 2009 D Bonds, with certain requirements of the Code regarding the use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States may cause interest on the Series 2009 D Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issue.

Interest on the Series 2009D Bonds will not be a specific preference item for purposes of the federal individual or corporate alternative minimum tax and is not included as an adjustment in calculating federal alternative minimum taxable income for purposes of determining a corporation's alternative minimum tax liability. The Code contains other provisions (some of which are noted below) that could result in tax consequences, as to which no opinion will be rendered by Bond Counsel, as a result of (i) ownership of the Series 2009D Bonds or (ii) the inclusion in certain computations of interest that is excluded from gross income.

Bond Counsel's opinion further states that the Series 2009 D Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, are exempt from taxation by the Commonwealth of Virginia and by any political subdivision thereof.

Original Issue Discount

The excess, if any, of the amount payable at maturity of any maturity of the Series 2009 D Bonds purchased as part of the initial public offering over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the Series 2009 D Bonds with original issue discount (a "Discount Bond") will be excluded from gross income for federal income tax purposes to the same extent as interest on the Series 2009 D Bonds. In general, the issue price of a maturity of the Series 2009 D Bonds is the first price at which a substantial amount of Series 2009 D Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and the amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. A purchaser's adjusted basis in a Discount Bond is to be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bonds for federal income tax purposes.

Original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed herein. Consequently, an owner of a Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of a Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of such Bonds is sold to the public may be determined according to rules that differ from those described above. An owner of a Discount Bond should consult his tax advisors with respect to the determination for federal income tax purposes

of the amount of original issue discount with respect to such Discount Bond and with respect to Commonwealth of Virginia and local tax consequences of owning and disposing of such Discount Bond.

Original Issue Premium

The excess, if any, of the tax basis of the Series 2009 D Bonds purchased as part of the initial public offering by a purchaser (other than a purchaser who holds such Series 2009 D Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is “Bond Premium.” Bond Premium is amortized over the term of such Series 2009 D Bonds for federal income tax purposes (or, in the case of a bond with Bond Premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). No deduction is allowed for such amortization of Bond Premium; however, Bond Premium is treated as an offset to qualified stated interest received on the Series 2009 D Bonds. An owner of such Series 2009 D Bonds is required to decrease his adjusted basis in such Series 2009 D Bonds by the amount of amortizable Bond Premium attributable to each taxable year such Series 2009 D Bonds are held. An owner of such Series 2009 D Bonds should consult his tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon sale, redemption or other disposition of such Series 2009 D Bonds and with respect to Commonwealth of Virginia and local income tax consequences of owning and disposing of such Series 2009 D Bonds.

Backup Withholding

Interest paid on the Series 2009 D Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. While this reporting requirement does not, by itself, affect the excludability of interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Series 2009 D Bonds to be subject to backup withholding if such interest is paid to beneficial owners that (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the IRS.

Collateral Tax Consequences

Prospective purchasers of the Series 2009 D Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income 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, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Prospective purchasers of the Series 2009 D Bonds should consult their tax advisors as to the applicability and impact of these consequences.

Future Developments

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Series 2009 D Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to State or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax-exempt status of such interest. Further, legislation or regulatory actions and proposals may affect the economic value of the federal or state tax exemption or the market value of the Series 2009 D Bonds. Prospective purchasers of the Series 2009 D Bonds should consult their own tax advisors regarding any pending or proposed federal or State tax legislation, regulations, rulings or litigation as to which Bond Counsel expresses no opinion.

RATINGS

As noted on the cover page of this Official Statement, Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, have given the Series 2009 D Bonds ratings of, "AA+", "Aa1" and "AA+" respectively.

Such ratings reflect only the respective views of such organizations and an explanation of the significance of such ratings may be obtained only from the respective rating agencies. The Authority furnished to such rating agencies certain information regarding its policies, practices and finances, including information that is not included in this Official Statement. There is no assurance that such policies, practices and finances or such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by any rating agency, if, in the judgment thereof, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market price of the Series 2009 D Bonds.

FUTURE FINANCINGS

The Authority does not anticipate issuing any new money additional bonds or other obligations under any of its pooled bond resolutions prior to March 1, 2010.

The Authority expects to issue bonds pursuant to the 1997 Resolution in the spring of 2010 additional Bonds pursuant to the 1997 Resolution to purchase Local School Bonds to fund public school projects. Subject to market conditions, however, the Authority may undertake at any time the refunding for debt service savings and other purposes of any if its outstanding obligations, including Bonds issued under the 1997 Resolution.

In addition, the Authority is expecting to issue $61,120,000 of its School Tax Credit Bonds (Qualified School Construction Bonds), Series 2009-1 (the "2009 VPSA Tax Credit Bonds") on or about November 13, 2009. The 2009 VPSA Tax Credit Bonds are secured separately from the Bonds and will be issued as "Qualified School Construction Bonds" for purposes of Section 54(F) of the Code. Subject to market and certain other conditions, the Authority may issue additional tax credit bonds prior to the Spring of 2010.

During the 2010 fiscal year, the Authority also expects to issue approximately $59.9 million of its School Educational Technology Notes Series IX (the "2010 Notes"). The 2010 Notes will be limited obligations of the Authority payable from appropriations to be made by the Virginia General Assembly from the Literary Fund and to the extent necessary from a "sum sufficient appropriation" from the General Fund of the Commonwealth in the event that "available moneys in the Literary Fund" are less than the appropriations for debt service due on the 2010 Notes.

LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Series 2009 D Bonds are subject to the approving opinion of Sidley Austin LLP, New York, New York, Bond Counsel. Such opinion, substantially in the form set forth in Appendix G to this Official Statement, will be furnished at no expense to the initial purchaser of the Series 2009 D Bonds upon delivery thereof.

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

LEGALITY FOR INVESTMENT

The Enabling Act provides that the Series 2009 D Bonds are securities in which all public officers and bodies of the Commonwealth, counties, cities, towns, municipal subdivisions, insurance companies and associations, savings banks and savings institutions, including savings and loan associations, trust companies, beneficial and

benevolent associations, administrators, guardians, executors, trustees and other fiduciaries in the Commonwealth may properly and legally invest funds under their control.

LITIGATION

The Authority is not party to any litigation. The Authority has no knowledge of any litigation, pending or threatened, to restrain or enjoin the issuance or delivery of the Series 2009 D Bonds or the entering by the Authority into the transactions contemplated by this Official Statement or wherein an unfavorable decision would have a material adverse impact upon the operations or financial condition of the Authority.

LEGISLATION

The 2009 Appropriation Act contains a "sum sufficient appropriation" that is applicable to all Bonds issued under the 1997 Resolution and that is not limited in terms of Bonds that may have the benefit thereof or in terms of maximum annual debt service.

The 2009 Appropriation Act also directs the Authority to issue the 2010 Notes during the fiscal year ending June 30, 2010 to continue the Board of Education's Six-Year Technology Plan. The 2009 Appropriation Act also includes sufficient appropriations from the Literary Fund to pay debt service coming due during the fiscal year ending June 30, 2010 on all of the Authority's outstanding Notes. See "THE AUTHORITY–Other Financings-*School Educational Technology Notes*" above and APPENDIX E – "Literary Fund".

FINANCIAL ADVISOR

BB&T Capital Markets, Richmond, Virginia, is serving as Financial Advisor to the Authority with respect to the sale of the Series 2009 D Bonds. The Financial Advisor assisted the Authority in the preparation of this Official Statement and provided other advice. The Financial Advisor is an investment banking firm which provides a full range of investment banking, financial advisory and consulting services. BB&T Capital Markets is a division of Scott & Stringfellow, LLC, a wholly-owned subsidiary of BB&T Corporation, a North Carolina financial holding company.

CONTINUING DISCLOSURE

On November 10, 1994, the Securities and Exchange Commission adopted in final form certain amendments to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"). In general, the Rule prohibits an underwriter from purchasing or selling municipal securities sold on or after July 3, 1995, such as the Series 2009 D Bonds, unless it has determined that the issuer of such securities and/or other persons deemed to be "obligated persons" have committed to provide (i) on an annual basis, certain financial information and operating data ("Annual Reports"), and, if available, audited financial statements, to each Nationally Recognized Municipal Securities Information Repository (a "NRMSIR") and the relevant state information depository (if any) and (ii) notice of various events described in the Amendments, if material ("Event Notices"), to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and to any such state information depository. On July 1, 2009, certain amendments to the Rule became effective which requires obligated persons to file Annual Reports and Event Notices with the MSRB, through its Electronic Municipal Market Access ("EMMA") system, in lieu of the traditional filings with the NRMSIRs, in an electronic format prescribed by the MSRB.

In the series resolution adopted September 11, 2009 (the "Series Resolution"), the Authority has covenanted, for the benefit of the holders of the Series 2009 D Bonds to provide to the MSRB and to any Virginia information depository that has been formed, annually, not later than 10 months after the end of each Fiscal Year, commencing with the Fiscal Year ended June 30, 2009, Annual Reports with respect to itself, as issuer. Similarly, the Authority will provide Event Notices with respect to the Series 2009 D Bonds to the MSRB and to any Virginia

information depository. As of the date of this Official Statement, the Authority has complied with its other undertakings regarding the Rule.

The Authority has determined that the Commonwealth is a material "obligated person" ("MOP") for purposes of the Amendments. The Commonwealth will covenant, by executing a Continuing Disclosure Agreement prior to issuance of the Series 2009 D Bonds, to provide to the MSRB and to any Virginia information depository that has been formed, annually, not later than January 31 of each year, commencing January 31, 2010, Annual Reports with respect to itself. Similarly, the Commonwealth will provide notice of any changes in the ratings of the Commonwealth's general obligation bonds to the MSRB and to any Virginia information depository. The Commonwealth will also represent that it has complied with its undertakings regarding the Rule.

The Authority has also determined that, with respect to Local Issuers, a MOP shall include any such Local Issuer that has local school bonds outstanding as of the end of a Fiscal Year (June 30), in an aggregate principal amount that exceeds 10% of the aggregate principal amount of all outstanding Bonds of the Authority. The Authority has covenanted in the Series Resolution to require each Local Issuer that is or may become a MOP to execute and deliver to the Authority an undertaking by which the Local Issuer will agree that if it becomes a MOP, it will, so long as it remains a MOP, file Annual Reports and provide Event Notices with respect to its Local School Bonds credited to the 1997 Resolution Pledge Account in the General Pledge Fund if material, as required by the Rule. Any such Annual Report of a Local Issuer will be filed with the MSRB and with any Virginia information depository that shall have been formed. Any Event Notices will be filed by such Local Issuer with each NRMSIR or the MSRB and with any such Virginia information depository.

For purposes of compliance with the secondary market disclosure requirements of the Rule, the Authority determines as of June 30 of each year whether one or more Local Issuers are MOPs. As of June 30, 2009, Prince William County constituted a MOP. If the determination of which Local Issuers constitute MOPs were made on the date of delivery of the Series 2009 D Bonds, and the list of 2009 D Local Issuers and 2009 D Local School Bonds as shown on page 16 did not change, Prince William County would constitute a MOP. The Authority cannot predict whether any particular Local Issuer will be as of June 30 of any particular subsequent year a MOP subject to the continuing disclosure undertaking under its Continuing Disclosure Agreement with the Authority. Prince William County will represent as of the date of delivery of the Series 2009 D Bonds that it has complied with its undertakings regarding the Rule. See "OTHER INFORMATION".

These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). (See APPENDIX F - "Continuing Disclosure Undertakings").

OTHER INFORMATION

Included as Appendices B, C and D are Financial and Other Information respecting the Commonwealth, Demographic and Economic Information relating to the Commonwealth, for its fiscal year ended June 30, 2009, and the audited financial statements of the Commonwealth for its fiscal year ended June 30, 2008, respectively.

Prince William County has filed with each of the NRMSIRs certain operating data and financial information, including its audited financial statements for the fiscal year ended June 30, 2008. Copies of such operating data and financial information, including such audited financial statements, are available from each of the NRMSIRs and, without charge, from the Authority, at 101 North 14th Street, 3rd Floor, Richmond, Virginia 23219, telephone: (804) 225-2142. Reference is made to the information and audited financial statements filed and to be filed by Prince William County with the NRMSIRs, which information and financials filed and to be filed are hereby included by specific reference in this Official Statement the same as if they were set out here in full.

Pursuant to the Rule, future filings made by the County will be made with the MSRB through its EMMA system in the format prescribed by the MSRB.

SALE BY COMPETITIVE BIDDING

The Series 2009 D Bonds will be awarded pursuant to electronic competitive bidding to be held via Parity on Wednesday, November 18, 2009 unless such date is changed as described in the Notice of Sale contained in Appendix H to this Official Statement. *This Preliminary Official Statement has been deemed final as of its date by the Authority in accordance with the meaning and requirements of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"). After the Bonds have been awarded, the Official Statement as 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 submitting the winning bid, the expected selling compensation to underwriters of the Series 2009 D Bonds and other information on the interest rates, CUSIPS and offering prices or yields of the Series 2009 D Bonds, as supplied by the winning bidder.

MISCELLANEOUS

The foregoing summaries of certain provisions of the Enabling Act and 1997 Resolution do not purport to be complete statements of such provisions and are made subject to the detailed provisions thereof to which reference is hereby made. Copies of the Enabling Act and the 1997 Resolution are available for inspection upon request to the Authority.

The Authority has furnished all information in this Official Statement relating to the Authority and has obtained all information relating to the Commonwealth and the Literary Fund from sources that it believes to be reliable. The financial statements of the Authority as of June 30, 2008, and of the Commonwealth of Virginia as of [June 30, 2008], in Appendices A and D, respectively, have been examined, to the extent set forth in its reports, by the Virginia Auditor of Public Accounts and are included in reliance upon the reports of such Auditor.

Any statements in this Official Statement involving matters of opinion whether or not expressly so stated are intended as such and not as representations of fact. Terms used in this Official Statement but not otherwise defined shall have the meanings assigned to them in the 1997 Resolution.

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

VIRGINIA PUBLIC SCHOOL AUTHORITY

By: , *Chairman*

, *Treasurer*

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APPENDIX A

VIRGINIA PUBLIC SCHOOL AUTHORITY

Richmond, Virginia

REPORT ON AUDIT
FOR THE YEAR ENDED JUNE 30, 2008

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VIRGINIA PUBLIC SCHOOL AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2008

VIRGINIA PUBLIC SCHOOL AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This section of the annual financial report of the Virginia Public School Authority (the "Authority") presents an analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2008. This information should be considered in conjunction with the information contained in the financial statements, which follow this section.

Authority Activities and Highlights

The Virginia Public School Authority, created by Chapter 11, Title 22.1, *Code of Virginia*, 1950, as amended, provides financing to localities under the pooled bond program through the sale of its bonds. With the proceeds of its bond issues, the Authority purchases a "pool" of general obligation bonds from localities (the "Local Issuers"). Each Local Issuer uses the proceeds for the purpose of financing capital projects for public schools.

The Authority currently has bonds outstanding under the 1997 Resolution. The 1997 Resolution, adopted on October 23, 1997, serves as the primary instrument under which the Authority issues bonds under its pooled bond program. The 1997 Resolution bonds are secured by general obligation local school bonds purchased; the State Aid Intercept Provision; and a sum sufficient appropriation, first from available Literary Fund monies and then from the Commonwealth's General Fund. During the fiscal year, the Authority issued $358,030,000 under its pooled bond program.

In addition to its pooled bond program, the Authority also issues special obligation bonds under its stand-alone program. Bonds issued under the stand-alone program are secured solely by the local school bonds purchased from one or more specific localities. The Authority acts as a conduit issuer under the stand-alone program. The Authority also issues obligations to finance technology equipment purchases for local public school systems within the Commonwealth. These obligations are payable from, or otherwise secured by, the assets and income of the Literary Fund and now benefit from a sum sufficient appropriation from the Commonwealth's General Fund. The Authority issued $56,475,000 under the educational technology equipment note program during the fiscal year, but did not issue any new special obligation bonds.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Authority's basic financial statements, which are comprised of two components: 1) fund financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements. The Authority is not required to present government-wide financial statements since all of its activity is reported in an enterprise fund, which would not change in measurement focus (economic resources) or basis of accounting (accrual) for government-wide statements.

The financial statements of the Authority offer short- and long-term financial information about its activities. The Statement of Net Assets provides information about the nature and amounts of the Authority's cash, investments, and receivables (assets) and its obligations to creditors

(liabilities). All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. This statement measures whether the Authority successfully recovered all its costs through investment earnings, bond proceeds, appropriations from the Commonwealth, and the collection of receivables. The Statement of Cash Flows provides information on the Authority's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financial activities.

Financial Analysis of the Authority

The Authority provides a vehicle for financing capital projects for primary and secondary public schools in the Commonwealth's counties, cities and towns. On local school bonds held by the Authority, localities pay interest 10 basis points (0.10%) above the rates paid by the Authority on corresponding maturities of its bonds. This revenue is deposited to the Authority's General Fund and used to pay the operating costs attributable to its financing programs, including costs of issuance and administration, such as rebate compliance expenses. The Department of the Treasury provides staff support for the Authority. The Authority owns no capital assets.

Virginia Public School Authority's Net Assets
(in millions)

	Enterprise Fund	
	2008	2007
Current assets	$ 16	$ 8
Noncurrent assets	3,330	3,170
Total Assets	3,346	3,178
Current Liabilities	390	373
Noncurrent liabilities	2,943	2,789
Total Liabilities	3,333	3,162
Net assets:		
Restricted for debt service	-	8
Unrestricted	13	8
Total net assets	$ 13	$ 16

Total assets increased during the year by $168 million, or five percent. This is primarily due to an increase in local school bonds outstanding ($169 million). Total liabilities increased by $171 million, or five percent, during the same period as a result of an increase in outstanding bonds and notes payable ($176 million) and small variances in several other items. Accordingly, a decrease of $3 million is reflected in net assets.

Virginia Public School Authority's Changes in Net Assets
(in millions)

	Enterprise Fund	
	2008	2007
Revenues:		
Operating revenues:		
Charges for Services	$ 151	$ 145
Non-operating revenues:		
Investment earnings	4	4
Total revenues	155	149
Expenses:		
Interest on long-term debt	154	147
Other	2	2
Total expenses	156	149
Transfers	(2)	8
Change in net assets	(3)	8
Net assets July 1	16	8
Net assets June 30	$ 13	$ 16

Debt Administration

As a financing entity, the whole business of the Authority is debt administration. The Authority issues bonds, pursuant to its pooled bond programs, to finance capital projects approved by the local governing bodies of counties, cities, and towns of the Commonwealth of Virginia. Such bonds are secured by general obligation bonds of the participating local issuers, which provide payment of principal and interest when due. Obligations issued pursuant to the technology notes programs, in conjunction with the Board of Education, are paid from, and secured by, appropriations made from the Literary Fund. The following table summarizes bond issuance activity during the year under each program:

Summary of Authority Bond Obligations
(in millions)

	Outstanding at 6/30/07 *	Issued During Year	Retired During Year	Outstanding at 6/30/08 *
Pooled Bond Programs	$ 2,793	$ 358	$ (186)	$ 2,965
Technology Notes Programs	172	56	(55)	173
Special Obligation Bonds	55	-	(3)	52
Total	$ 3,020	$ 414	$ (244)	$ 3,190

* Excludes deferral on debt defeasance.

The Authority obtains bond ratings from Moody's Investors Service (Moody's), Standard and Poor's Rating Service (S&P) and Fitch Ratings, Inc. (Fitch). The table below summarizes the ratings on outstanding Authority bonds.

Virginia Public School Authority Bond Ratings

	Moody's	S&P	Fitch
Pooled Bond Programs[1]	Aa1	AA+	AA+
School Educational Technology	Aa1	AA+	AA+

[1] 1997 Resolution Bonds

Since the Authority's bond programs are either backed by state appropriations (School Educational Technology Notes Program) or carry the credit support of the State Aid Intercept Provision (Pooled Bond Program), the bond ratings are a direct reflection of the Commonwealth's triple-A rating from each of the three rating agencies.

Future Impact to Financial Position

In July 2008, the Authority issued $44.4 million of Special Obligation School Financing Bonds, Henrico County Series 2008. In December 2008, the authority issued $67.5 million of Special Obligation School Financing Bonds, Fluvanna County Series 2008 and $118.9 million of School Financing bonds (1997 Resolution) Series 2008 B to purchase certain general obligation local school bonds to finance capital projects for public schools.

Financial Statements

VIRGINIA PUBLIC SCHOOL AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2008

ASSETS	
Current assets:	
Cash and cash equivalents (Note 2A)	$ 15,866,749
Interest receivable	1,009
Total current assets	15,867,758
Noncurrent assets:	
Restricted cash and cash equivalents (Note 2A)	80,085,459
Loans to localities:	
Local school bonds (Note 2B)	3,008,766,831
Interest receivable	68,681,493
Due from Literary Fund (Note 2D)	173,090,000
Total noncurrent assets	3,330,623,783
Total assets	3,346,491,541
LIABILITIES	
Current liabilities:	
Accounts payable	20,388
Current liabilities payable from restricted assets:	
Interest payable	63,686,491
Accrued interest sold	471,372
Due to localities (Note 2D)	65,821,149
Notes payable (Notes 2C and 2D)	56,325,000
Bonds payable (net of interest deferral) (Notes 2C and 2F)	198,884,500
Premium on bonds sold	5,382,023
Total current liabilities payable from restricted assets	390,570,535
Noncurrent liabilities payable from restricted assets:	
Notes payable (Notes 2C and 2D)	116,765,000
Bonds payable (net of interest deferral) (Notes 2C and 2F)	2,778,362,563
Premium on bonds sold	47,458,172
Total noncurrent liabilities payable from restricted assets	2,942,585,735
Total liabilities	3,333,176,658
NET ASSETS	
Unrestricted	13,314,883
Total net assets	$ 13,314,883

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

VIRGINIA PUBLIC SCHOOL AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
For the Year Ended June 30, 2008

Operating Revenues:	
Interest on:	
Local school bonds	$ 149,824,011
Cash equivalents	4,174,985
Premium on bonds sold	765,510
Net decrease in fair value of investments	(15,727)
Total Operating Revenues	154,748,779
Operating Expenses:	
Interest on bonds	154,062,566
Financial advisor fees	131,198
Legal fees	310,515
Bond rating fees	227,831
Printing and electronic distribution	17,621
Board expenses	1,599
Staffing expenses	145,078
Underwriters' discount	762,782
Rebate and penalty payments and calculation fees (Note 2H)	103,561
Other	50,937
Total Operating Expenses	155,813,688
Operating Loss	(1,064,909)
Nonoperating Transfers:	
Transfers to Literary Fund (Note 2G)	(1,928,718)
Transfer to the General Fund of the Commonwealth (Note 2G)	(170,221)
Total Nonoperating Transfers	(2,098,939)
Change in Net Assets	(3,163,848)
Net Assets, July 1, 2007	16,478,731
Net Assets, June 30, 2008	$ 13,314,883

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

VIRGINIA PUBLIC SCHOOL AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008

Cash flows from operating activities:		
Interest on cash equivalents	$	986,697
Purchase of local school bonds		(358,025,754)
Principal received on local school bonds		188,991,764
Interest received on local school bonds		140,509,934
Payments to vendors for goods and services		(920,971)
Payments received from the Literary Fund		63,637,703
Transfers to the Literary Fund		(9,791,421)
Net cash provided by operating activities		25,387,952
Cash flows from noncapital financial activities:		
Proceeds from the sale of bonds		414,505,000
Principal paid on VPSA bonds		(245,240,000)
Interest paid on VPSA bonds		(144,241,072)
Premium on bonds sold		4,116,050
Underwriters' discount		(898,322)
Rebate and penalty payments and calculation fees (Note 2H)		(125,006)
Accrued interest sold		88,409
Transfer to the General Fund of the Commonwealth (Note 2G)		(170,221)
Payments to localities (Education Technology Notes)		(61,957,334)
Net cash used by noncapital financing activites		(33,922,496)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments		3,288,151
Interest on investments		3,283,826
Accrued interest purchased		9,496
Net cash provided by investing activities		6,581,473
Net increase in cash and cash equivalents		(1,953,071)
Cash and cash equivalents, July 1, 2007		97,905,279
Cash and cash equivalents, June 30, 2008	$	95,952,208

Reconciliation of operating income to net cash provided by operating activities:

Operating loss	$	(1,064,909)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Increase in interest receivable		(3,869,755)
Decrease in accounts payable		(57,637)
Increase in interest payable		3,227,394
Payments from the Literary Fund		63,637,703
Principal received on local school bonds		188,991,764
Purchase of local school bonds		(358,025,754)
Rebate and penalty payments to the Internal Revenue Service		125,006
Transfers from the Literary Fund		(9,791,421)
Amortization of premium		(5,382,023)
Underwriters' discount		762,782
Premium on bonds sold		(765,510)
Amortization of interest deferral		6,594,101
Interest paid on VPSA bonds		144,241,072
Decrease in fair value of investments		15,727
Cash equivalent earnings applied to local school bond		33,238
Interest on investments		(3,283,826)
Total adjustments		26,452,861
Net cash provided by operating activities	$	25,387,952

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

Notes to the Financial Statements

VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Virginia Public School Authority (the "Authority" or "VPSA") was created by Chapter 11, Title 22.1, *Code of Virginia* 1950, as amended (the "Enabling Act"). The Authority provides financing to localities through the sale of its bonds. With the proceeds of its bonds, the Authority purchases a predetermined number of general obligation bonds issued by localities. The Enabling Act authorizes the Authority to purchase local school bonds issued by counties, cities, and towns under the provisions of Section 15.2-2600, et seq., *Code of Virginia* (the "Public Finance Act of 1991"). The Enabling Act further authorizes the Authority to issue bonds which are payable from the funds of the Authority including:

1) principal and interest received on local school bonds held by the Authority;
2) proceeds from the sale of such local school bonds;
3) any moneys transferred from the Literary Fund or funds appropriated from the General Assembly; and
4) a reserve fund(s) created from bond proceeds pledged to secure designated bonds.

Currently, the Authority has pooled bonds outstanding under its 1997 Resolution. Bonds issued under the 1997 Resolution are secured by local school bonds purchased and a "sum sufficient appropriation," first from available Literary Fund monies and then from the Commonwealth's General Fund.

In addition to its pooled bond program, the Authority also issues special obligation bonds under its stand-alone program. Bonds issued under the stand-alone program are secured solely by the local school bonds purchased from one or more specific localities. The Authority acts as a conduit issuer under the stand-alone program.

As directed by the General Assembly, the Authority has also issued obligations to finance technology equipment purchases for local public school systems within the Commonwealth. These obligations are payable from, or otherwise secured by, the assets and income of the Literary Fund.

A separate report is prepared for the Commonwealth of Virginia which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Authority is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The accounting and reporting policies of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB), the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Authority's significant policies.

B. Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting under which revenues are recognized when they are earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. The cash basis of accounting is used during the year. The financial statements are prepared on the accrual basis at the end of the fiscal year by the Authority.

C. Fund Accounting

The activities of the Authority are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate. All fund accounts of the Authority are presented in total on the financial statements.

D. Bond Issuance Costs, Discounts, and Premiums

Costs associated with issuing debt, which are either offset by fees collected over the life of the respective pooled bond issues from local issuers, reimbursed directly by localities participating in stand-alone issues, or paid from Literary Fund contributions, are expensed in the year incurred. The original issue discount or premium, for each bond issuance, is also expensed or recorded as revenue in the year incurred unless it exceeds 1% of the amount of bonds issued. In that case, the original issue discount or premium is deferred and amortized, on a straight-line basis, over the life of the outstanding debt.

2. DETAILED NOTES

A. Cash and Cash Equivalents (Unrestricted and Restricted)

Cash and cash equivalents of the Authority are held by the Treasurer of Virginia. Cash is defined as demand deposits, non-negotiable time deposits, and certificates of deposit in accordance with Section 2.2-4400 of the *Code of Virginia*. Cash equivalents are defined as investments with an original maturity of less than three months.

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"). Under the Act, banks holding public deposits in excess of the amount insured by the FDIC must pledge collateral that ranges in amounts from 50% to 100% of excess deposits in the case of a bank, and 100% to 110% for a savings institution to a collateral pool in the name of the Commonwealth of Virginia Treasury Board. Accordingly, all deposits are considered fully collateralized.

Section 2.2-4500 and Section 2.2-4501 of the *Code of Virginia* outline the instruments in which public sinking funds and other public funds may legally invest. The Authority adheres to these general guidelines unless bond resolutions require more restrictive investment policies. All investments of the Authority are held in the Authority's name. The Authority's investments are valued at fair value, which approximates market value. Details of cash and cash equivalents are presented below. Standard and Poor's ratings, where available, have also been presented below.

Summary of Cash and Cash Equivalents
As of June 30, 2008

	Fair Value	Rating
Non-Negotiable Certificates of Deposit	$ 1,992,277	Not Rated
Short Term Investment Fund [1]	19,419,904	AAAm
State Non-Arbitrage Program® [2]	74,540,027	AAAm
Total cash, cash equivalents, and investments	$ 95,952,208	

1 The Authority invests certain short-term cash balances held within its accounts in the JP Morgan US Govt Money Market Fund. This is a rated fund, which maintains a policy of investing all assets in U.S. Treasury obligations and repurchase agreements backed by those obligations.

2 The Virginia State Non-Arbitrage Program® ("SNAP®") offers a professionally-managed money market mutual fund, which provides issuers with a temporary pooled investment vehicle for proceeds pending expenditure, and with record keeping, depository and arbitrage rebate calculation services. SNAP® is an external investment pool registered under the Investment Company Act of 1940, as amended. Participants in the Authority's various bond programs are required to invest their bond proceeds in SNAP®.

The Authority does not limit the amount that may be invested in any one issuer. The Authority had investments of five percent or more in the State Non-Arbitrage Program® (77%) and the JP Morgan US Govt Money Market Fund (21%).

B. Local School Bonds

The Authority purchases bonds from (makes loans to) various localities throughout the Commonwealth, which are issued to finance the construction of local public school facilities. These bonds are recorded at purchase price that is equal to the face value of the bonds. Local school bonds purchased under the 1997 Resolution are held in a pledge account of the General Pledge Fund established under its bond resolution. Local school bonds purchased under the stand-alone program are deposited in separate purchase funds established for each issue. Assets of the Authority that are held or received in purchase funds, pledge funds, or debt service funds are classified as restricted assets because their use is limited to the purpose of the funds in which they reside, in accordance with applicable bond resolutions. The local school bonds are held and pledged to repay the Authority's bonds.

The interest rates on the local school bonds are determined by the Authority and fixed at the time of sale of the Authority bonds issued to fund the acquisition of the local school bonds. For pooled bond sales, the interest rate on each maturity of the local bonds is ten basis points (0.10%) higher than the interest rate paid by the Authority on the corresponding maturity on its bonds.

Shown below are the local school bonds held by the Authority as of June 30, 2008.

Local school bonds:	
Held in 1997 Pledge Account	$ 2,958,517,045
Held in 1999 Purchase Fund (Northampton County Qualified Zone Academy Bond)	700,000
Held in 2001 Purchase Fund (Northampton County Qualified Zone Academy Bond)	277,206
Held in 2002 Purchase Fund (Accomack County Qualified Zone Academy Bond)	982,580
Held in 2004 Purchase Fund (Chesterfield County Stand Alone)	48,290,000
Total local school bonds	$ 3,008,766,831

C. Long-Term Indebtedness

1. Changes in Long-Term Debt

The following is a summary of changes in long-term debt of the Authority for the year ended June 30, 2008.

	Current Liability	Long-Term Liability	Total
Balance July 1, 2007	$ 245,240,000	$ 2,775,432,063	$ 3,020,672,063
Issued during fiscal 2008	20,590,000	393,915,000	414,505,000
Retired during fiscal 2008	(245,240,000)	-	(245,240,000)
Maturing in fiscal 2009	240,680,000	(240,680,000)	-
Subtotal	261,270,000	2,928,667,063	3,189,937,063
Less: Deferral on debt defeasance	(6,060,500)	(33,539,500)	(39,600,000)
Balance June 30, 2008	$ 255,209,500	$ 2,895,127,563	$ 3,150,337,063

2. Annual Requirements to Amortize Bonds Payable and Notes Payable

The following schedule provides the annual funding requirements necessary to amortize long-term debt of the Authority outstanding at June 30, 2008.

Year Ending June 30	Principal	Interest	Total
2009	$ 261,270,000	$ 152,526,661	$ 413,796,661
2010	251,855,000	138,769,423	390,624,423
2011	235,525,000	126,284,482	361,809,482
2012	223,350,000	114,712,863	338,062,863
2013	197,690,000	103,835,635	301,525,635
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
Subtotal	3,189,937,063	1,264,628,708	4,454,565,771
Less: Deferral on debt defeasance	(39,600,000)	-	(39,600,000)
Total	$3,150,337,063	$1,264,628,708	$4,414,965,771

D. Equipments Notes

Periodically, the Authority issues Equipment Financing Notes, the proceeds of which are used to make grants to school divisions for the purchase of educational technology equipment. The proceeds are invested in the Virginia State Non-Arbitrage Program® until requisitioned by localities. The following schedule details the notes that have been issued which still have either bonds outstanding or funds remaining to be disbursed to localities as of June 30, 2008.

Educational Technology Notes

Issue	Description	Amount Issued	Outstanding Balance	Remaining Available for Disbursement
Ed Tech Series II	2002 Notes	$ 55,555,000	$ -	$ 107,657
Ed Tech Series III	2003 Notes	55,325,000	-	72,366
Ed Tech Series IV	2004 Notes	56,835,000	12,170,000	202,911
Ed Tech Series V	2005 Notes	55,255,000	23,495,000	187,383
Ed Tech Series VI	2006 Notes	56,620,000	34,920,000	461,191
Ed Tech Series VII	2007 Notes	56,765,000	46,030,000	18,224,868
Ed Tech Series VIII	2008 Notes	56,475,000	56,475,000	46,564,773
		$ 392,830,000	$ 173,090,000	$ 65,821,149

E. Qualified Zone Academy Bond

On October 29, 1999, the Authority issued $2,100,000 in Special Obligations School Financing Bond (County of Northampton Qualified Zone Academy Financing) Series of 1999 as a Qualified Zone Academy Bond ("QZAB"). On December 21, 2001, the Authority issued $419,060 in Special Obligations School Financing Bond (County of Northampton Qualified Zone Academy Financing) Series 2001 as a QZAB. Also, on December 31, 2002, the Authority issued $1,433,003 in Special Obligations School Financing Bond (County of Accomack Qualified Zone Academy Financing) Series 2002 as a QZAB. These bonds were issued pursuant to Section 1297E of the Internal Revenue Code of 1986, as amended, and the Authority purchased certain general obligation school bonds of Northampton County and Accomack County to finance capital projects for public schools.

The localities will make annual principal payments to the Authority on the anniversary date of each issuance. Such payments received by the Authority will be held in trust and invested in certificates of deposit maturing on the next anniversary date of each issuance in accordance with the funding agreements. The agreements provide that maturing certificate of deposit proceeds will be combined with the current annual payment and reinvested to the next anniversary date. The final annual principal payments on the 1999 QZAB, the 2001 QZAB and the 2002 QZAB are due October 29, 2011, December 21, 2015, and December 31, 2016, respectively, at which dates the QZABs will mature.

F. Defeasance of Debt

From time to time, when interest rates indicate that it would be favorable to do so, the Authority has issued refunding bonds to defease outstanding bonds. These refundings have placed the proceeds of the new bonds in irrevocable trusts with escrow agents to provide for all future debt service on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the Authority's financial statements.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," the difference between the reacquisition price and the net carrying amount of the bonds defeased with refunding debt is amortized as a component of Interest on Bonds over the remaining life of the refunded debt. Therefore, Bonds Payable has been reduced by $39,600,000 to reflect the remaining deferral on debt defeasance at June 30, 2008.

At June 30, 2008, $212,845,000 of bonds outstanding are considered defeased for financial reporting purposes.

G. Transfers

During the year, the Authority received $7,862,703 from the Literary Fund to pay interest on the various outstanding Educational Technology Notes. Pursuant to Section 3-3.01 of Chapter 847 of the 2008 Virginia Acts of Assembly, the Authority transferred $170,221 to the General Fund of the Commonwealth in April 2008 and $10,070,375 to the Literary Fund in May 2008.

Also, in December 2007, the Literary Fund transferred $278,954 to the Authority representing actual costs of issuance related to the VPSA Series 2007B, in accordance with the 2007 Appropriations Act, Item 135(c) 13.

H. Arbitrage Earnings

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. The Authority and the issuers of local school bonds purchased by the Authority must comply with the rebate regulations in order for the Authority's bonds to maintain a tax-exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with the 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 payments, if required, are due at least every five years over the life of the bonds. Some Authority bonds may be exempt from the rebate requirement if they meet statutory exceptions per the rebate regulations. The Authority may also elect, on or before the date of the bond issue, to pay a penalty in lieu of rebate if it does not meet certain expenditure schedules. If such an election is made and if the Authority (local issuer) meets the expenditure schedule, the Authority (local issuer) retains any arbitrage earnings. The Authority, to date, has not elected penalty in lieu of rebate due to the difficulty in estimating local issuer's expenditure schedules. Rebate and penalty payments are calculated and paid by the Authority as required by law on bond issues that do not meet the statutory exceptions. Rebate installments must be paid no later than 60 days after the computation date.

In most cases, rebate liability is payable by local issuers whose local school bonds were purchased by the Authority. During the year, the Authority's rebate calculation agent, or the locality's rebate calculation agent in the case of special obligation stand-alone bonds, calculate rebate liability or penalty in lieu of rebate if selected by a locality. The Authority paid liability, if applicable, on the following bond issues:

Bond Issue	Computation Initial 5-Year or Final	Computation Date	Liability
(91 Resolution) 1997 Series A	5 year	5/1/07	$ -
(97 Resolution) 2002 Series A	5 year	5/15/07	-
(97 Resolution) 1998 Series A	Final*	6/15/07	12,945
(97 Resolution) 1997 Series A	Final*	8/1/07	
(97 Resolution) 1997 Series I	5 year	11/1/07	21,865
(97 Resolution) 2002 Series B	5 year	11/1/07	-
Ed. Technology Notes Series III	Final*	4/15/08	30,596

* Reports prepared as of the final redemption of the bonds

The Authority paid $59,600 to its rebate calculation agent for services provided in connection with the above rebate calculations.

The Series 2003 A and B (1997 Resolution) had a first installment computation date of May 15, 2008 and no rebate was owed. The VPSA School Financing Bonds Series 2003 C (1997 Resolution), the VPSA Refunding Bonds Series 2003 D (1997 Resolution), the VPSA Stand-alone Chesterfield County Series 2004, the VPSA School Financing Bonds Series 2004 A (1997 Resolution), and the VPSA School Educational Technology Notes Series III, will require a rebate computation as of November 6, 2008, December 11, 2008, February 26, 2009, May 13, 2009, and April 15, 2009 respectively.

I. Subsequent Events

In July 2008, the Authority issued $44.4 million of Special Obligation School Financing Bonds, Henrico County Series 2008. In December 2008, the authority issued $67.5 million of Special Obligation School Financing Bonds, Fluvanna County Series 2008 and $118.9 million of School Financing bonds (1997 Resolution) Series 2008 B to purchase certain general obligation local school bonds to finance capital projects for public schools.

J. Risk Management

The Authority is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Department of the Treasury participates in insurance plans maintained by the Commonwealth of Virginia on behalf of the Authority. The risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The Department of the Treasury pays premiums to this Department for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

Supplementary Information

Virginia Public School Authority
Detail of Long-Term Indebtedness
June 30, 2008
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series

	Dated Date	Bond Resolution	True Interest Cost ("TIC")	Amount Issued (a)	Local School Bonds Purchased	Outstanding July 1, 2007	Issued (Retired) During Year	Outstanding June 30, 2008 (b)	Original Maturity
Series 1997 I	11/01/97	1997	4.92%	224,285	140,818	55,125	(11,795)	43,330	08/01/17
Series 1998 A	04/01/98	1997	4.71%	130,715	50,730	42,280	(7,440)	34,840	08/01/18
Series 1998 B	11/01/98	1997	4.56%	105,025	105,311	15,135	(5,105)	10,030	08/01/18
Series 1999 A	05/01/99	1997	4.60%	153,040	153,040	52,410	(7,340)	45,070	08/01/19
Series 1999 B	11/01/99	1997	5.54%	91,770	91,770	14,490	(4,800)	9,690	08/01/19
Series 1999 QZAB, Northampton County	10/29/99	Stand Alone	0.00%	2,100	2,100	2,100	-	2,100	10/29/11
Series 2000 A	05/01/00	1997	5.38%	100,175	100,175	24,865	(4,950)	19,915	08/01/20
Series 2000 B	11/01/00	1997	5.11%	106,200	106,197	78,645	(4,895)	73,750	08/01/20
Series 2001 A	05/01/01	1997	4.84%	153,940	153,940	117,295	(7,170)	110,125	08/01/21
Series 2001 B	11/01/01	1997	4.87%	142,400	142,400	108,025	(6,910)	101,115	08/01/21
Series 2001 C	11/01/01	1997	4.87%	41,500	41,500	38,215	(1,185)	37,030	08/01/26
Series 2001 QZAB, Northampton County	12/21/01	Stand Alone	0.00%	419	419	419	-	419	12/21/15
Series 2002 A	05/01/02	1997	4.70%	111,510	111,510	91,285	(5,185)	86,100	08/01/22
Series 2002 B	11/01/02	1997	4.12%	155,545	155,545	125,130	(7,920)	117,210	08/01/22
Series 2002 QZAB, Accomack County	12/31/02	Stand Alone	0.00%	1,433	1,433	1,433	-	1,433	12/31/16
Series 2003 A	05/01/03	1997	4.00%	113,155	113,155	96,590	(5,570)	91,020	08/01/28
Series 2003 Ed Tech Series III	05/01/03	Equip. Notes	1.92%	55,325	-	11,490	(11,490)	-	04/15/08
Series 2003 B	05/01/03	1997	2.93%	74,850	74,850	46,965	(7,775)	39,190	08/01/13
Series 2003 C	11/01/03	1997	4.39%	190,645	190,645	171,210	(6,930)	164,280	08/01/28
Series 2003 D	12/11/03	1997	3.23%	286,670	-	179,065	(32,405)	146,660	08/01/19
2004 Series Chesterfield County	02/15/04	Stand Alone	3.80%	56,825	56,825	51,135	(2,845)	48,290	01/15/25
Series 2004 A	05/01/04	1997	4.33%	123,585	123,585	114,515	(4,630)	109,885	08/01/29
Series 2004 Ed Tech Series IV	06/01/04	Equip. Notes	2.82%	56,835	-	23,870	(11,700)	12,170	04/15/09
Series 2004 B	11/01/04	1997	3.91%	145,340	145,337	132,835	(6,330)	126,505	08/01/29
Series 2004 C	12/08/04	1997	3.34%	156,125	-	134,975	(14,030)	120,945	08/01/16

(a) Includes refunding bonds issued.
(b) Excludes deferral on debt defeasance.

Virginia Public School Authority
Detail of Long-Term Indebtedness
June 30, 2008
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series (continued)

	Dated Date	Bond Resolution	True Interest Cost ("TIC")	Amount Issued (a)	Local School Bonds Purchased	Outstanding July 1, 2007	Issued (Retired) During Year	Outstanding June 30, 2008 (b)	Original Maturity
Series 2005 A	03/15/05	1997	3.64%	55,200	-	48,645	(4,260)	44,385	08/01/17
Series 2005 B	04/20/05	1997	4.07%	230,580	-	229,925	(150)	229,775	08/01/20
Series 2005 C	05/01/05	1997	4.13%	134,360	134,360	128,765	(5,660)	123,105	08/01/30
Series 2005 Ed Tech Series V	05/25/05	Equip. Notes	2.97%	55,255	-	34,410	(10,915)	23,495	04/15/10
Series 2005 D	11/01/05	1997	4.19%	199,345	199,341	191,440	(8,200)	183,240	08/01/30
Series 2006 A	05/01/06	1997	4.39%	202,175	202,175	202,175	(7,645)	194,530	08/01/31
Series 2006 Ed Tech Series VI	05/25/06	Equip. Notes	3.71%	56,620	-	45,855	(10,935)	34,920	04/15/11
Series 2006 B	11/01/06	1997	4.22%	240,955	240,954	240,955	(8,340)	232,615	08/01/32
Series 2007 A	05/01/07	1997	4.24%	112,235	112,235	112,235	-	112,235	08/01/32
Series 2007 Ed Tech Series VII	05/24/07	Equip. Notes	3.70%	56,765	-	56,765	(10,735)	46,030	04/15/12
Series 2007 B	11/01/07	1997	4.28%	223,080	223,076	-	223,080	223,080	08/01/32
Series 2008 A	05/01/08	1997	4.22%	134,950	134,950	-	134,950	134,950	08/01/37
Series 2008 Ed Tech Series VIII	05/22/08	Equip. Notes	2.88%	56,475	-	-	56,475	56,475	04/15/13
Total				$ 4,537,407	$ 3,308,376	$ 3,020,672	$ 169,265	$ 3,189,937	

Detail of Long-Term Indebtedness by Resolution

	Amount Issued (a)	Local School Bonds Purchased	Outstanding July 1, 2007	Issued (Retired) During Year	Outstanding June 30, 2008 (b)
1997 Resolution	$ 4,139,355	$ 3,247,599	$ 2,793,195	$ 171,410	$ 2,964,605
Stand Alone Issues	60,777	60,777	55,087	(2,845)	52,242
Equipment Notes	337,275	-	172,390	700	173,090
Total	$ 4,537,407	$ 3,308,376	$ 3,020,672	$ 169,265	$ 3,189,937

(a) Includes refunding bonds issued.
(b) Excludes deferral on debt defeasance.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

January 15, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Public School Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the **Virginia Public School Authority** (Authority), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages one through four is not a required part of the basic financial statements, but is supplementary information required by the 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 an opinion on the basic financial statements of the Authority. The Detail of Long-Term Indebtedness is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Detail of Long-Term Indebtedness has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 15, 2009 on our consideration of the Authority'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. 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.

AUDITOR OF PUBLIC ACCOUNTS

BEM/alh

VIRGINIA PUBLIC SCHOOL AUTHORITY
Richmond, Virginia

BOARD OF COMMISSIONERS
As of June 30, 2008

James J. Wheaton, Chairman

James M. Holland, Vice Chairman

Hady Amr

Woodrow W. Mullins, Jr.

Brenda L. Skidmore

EX OFFICIO

J. Braxton Powell, Secretary and Treasurer, State Treasurer

David Von Moll, State Comptroller

Billy K. Cannaday, Jr., Superintendent of Public Instruction

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APPENDIX B

COMMONWEALTH OF VIRGINIA

FINANCIAL AND OTHER INFORMATION

APPENDIX B
TABLE OF CONTENTS

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.

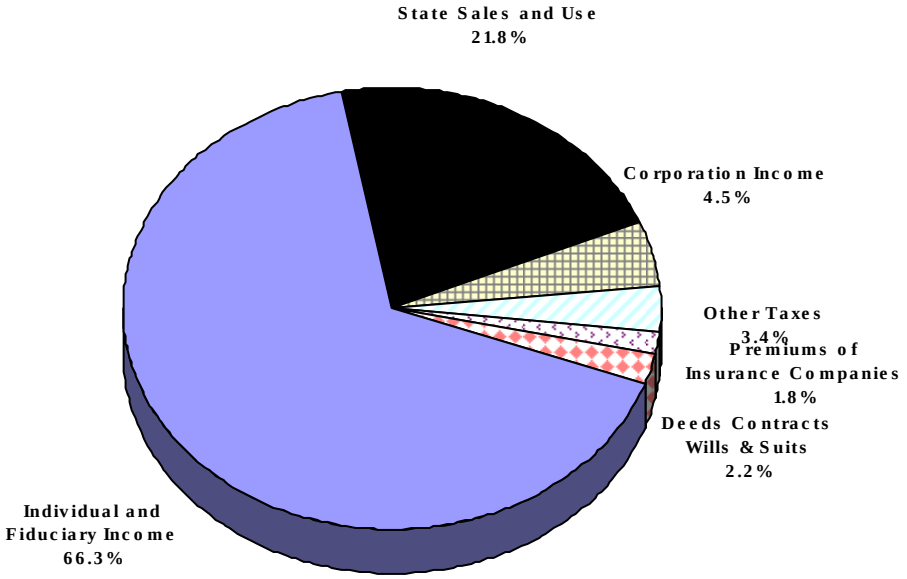
Taxes on Premiums of Insurance Companies: (1.8 percent of Total Taxes in fiscal year 2009) Insurance companies are required to pay an annual license tax measured by the gross premium income derived from business done in the Commonwealth. The rate of tax varies according to the type of company. Insurance 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.

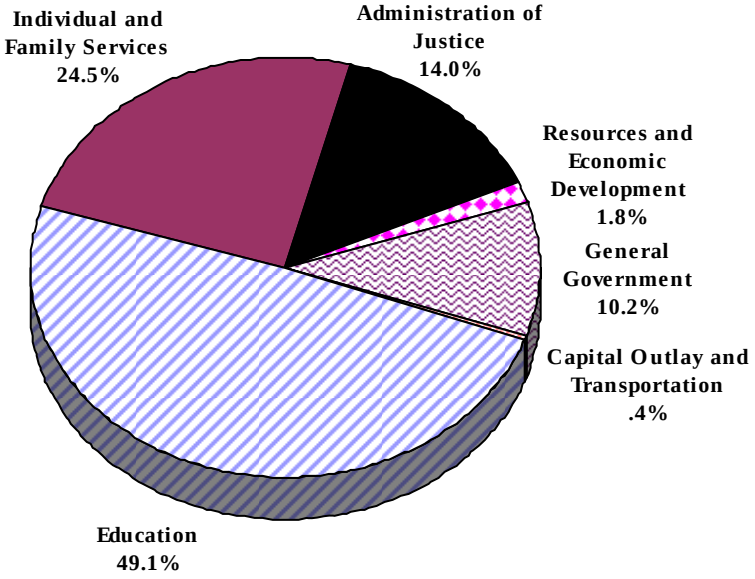
General Government: (10.2 percent of Total Expenditures in fiscal year 2009) General government expenditures support the general activities of state, regional and local levels of government. These activities include financial assistance to localities, enactment of legislative policy, intergovernmental 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.

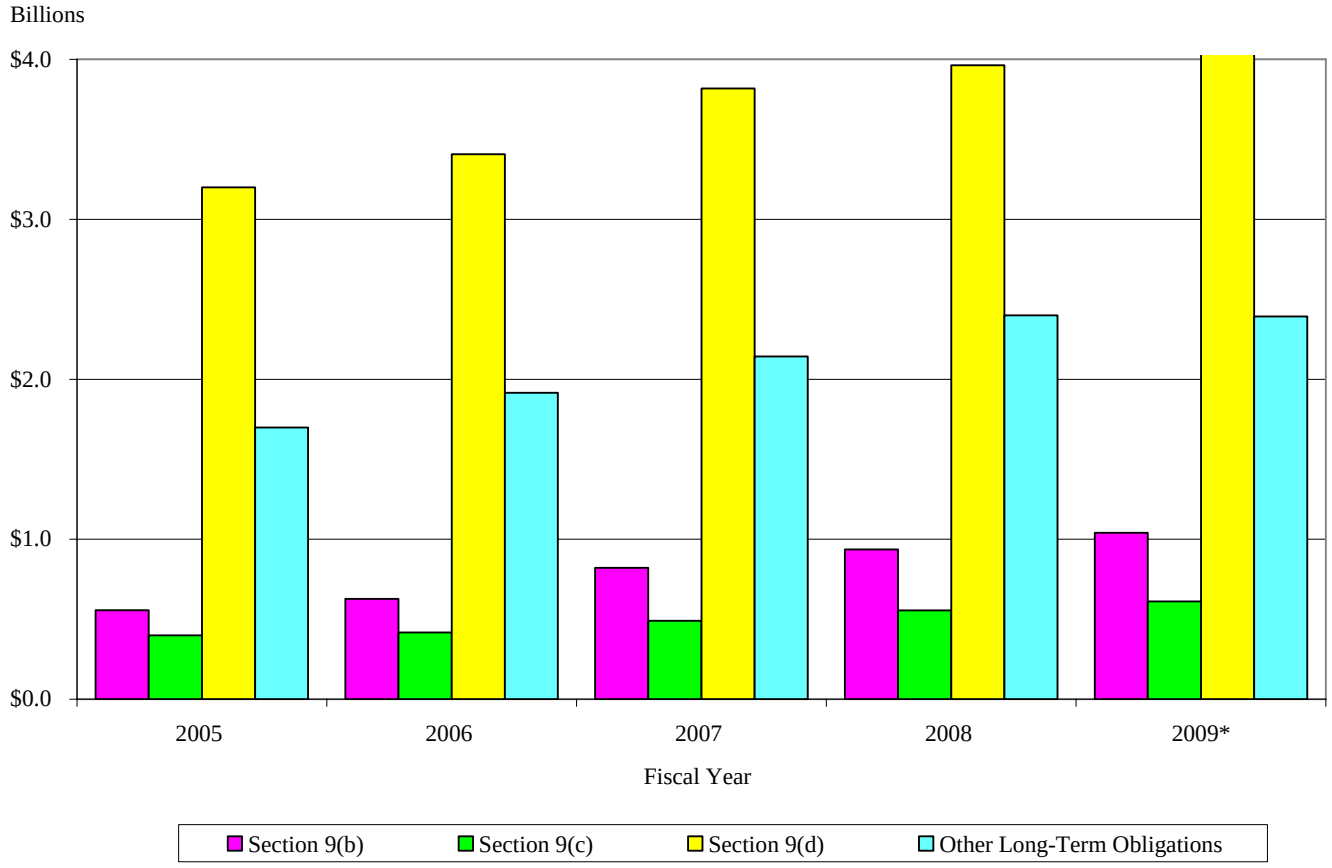
OUTSTANDING TAX-SUPPORTED DEBT
(in thousands)

	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.

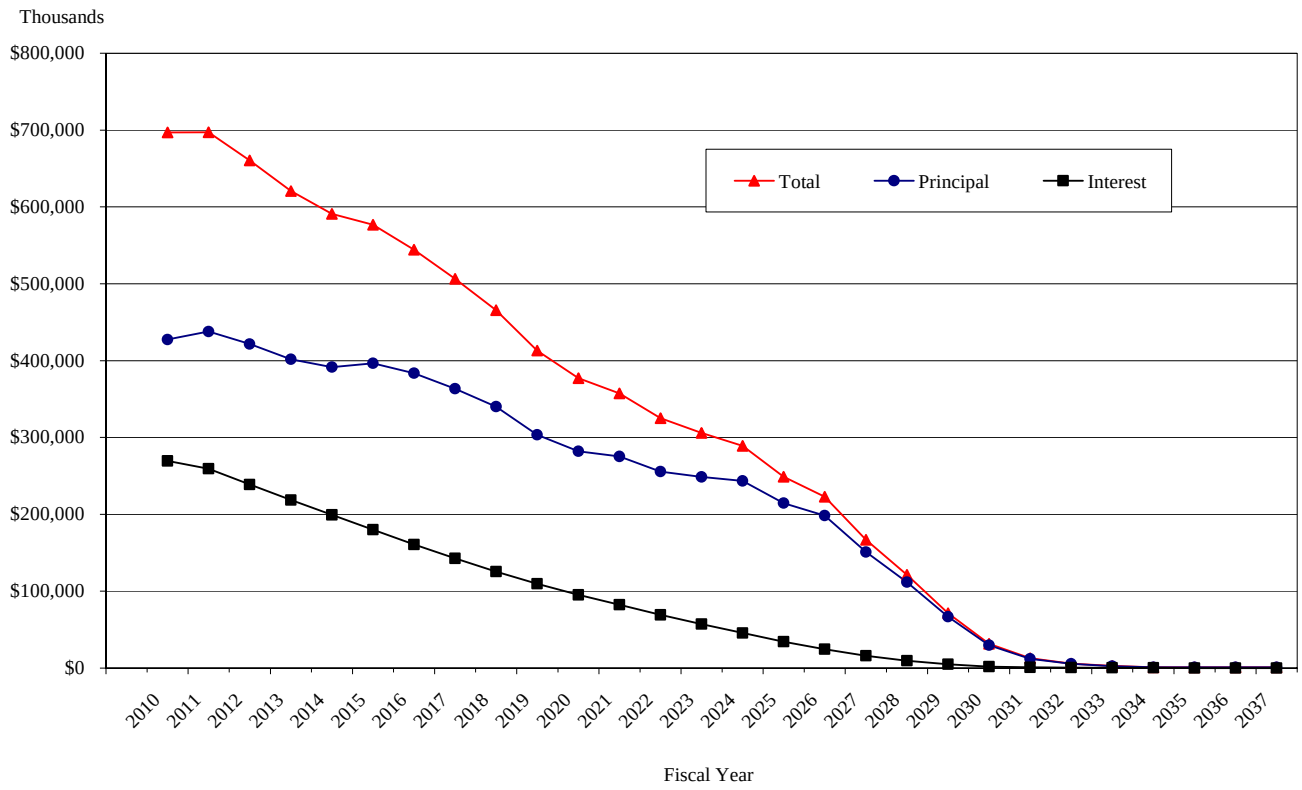
ANNUAL DEBT SERVICE REQUIREMENTS [1]
Tax-Supported Debt Outstanding at June 30, 2009*
($ in thousands)

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.

COMMONWEALTH OF VIRGINIA

DEMOGRAPHIC AND ECONOMIC INFORMATION

APPENDIX C
TABLE OF CONTENTS

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.

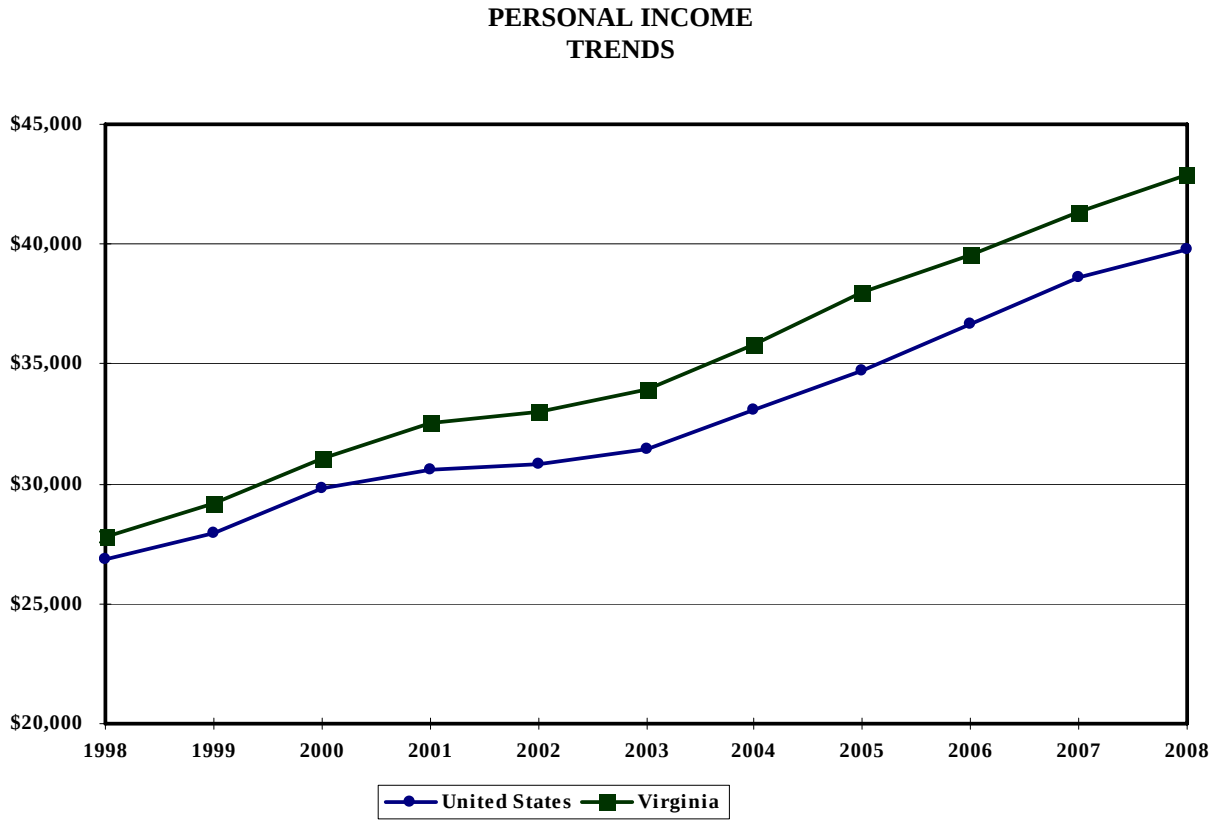
From 1998 to 2008, the Commonwealth's 4.4 percent average annual rate of growth in personal per capita income was more than the national average rate of growth of 4.0 percent. Virginia and United States per capita personal income are shown in the following table:

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:

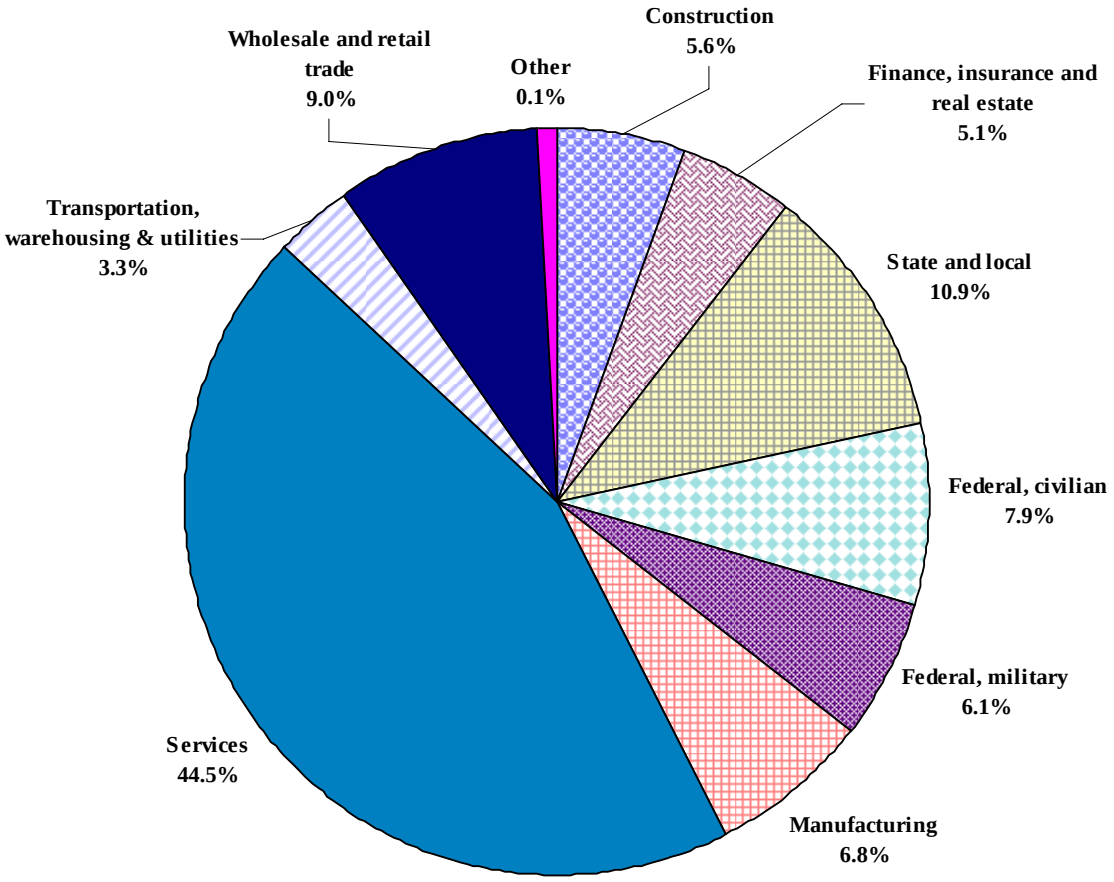
SOURCES OF PERSONAL INCOME
2008

	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.

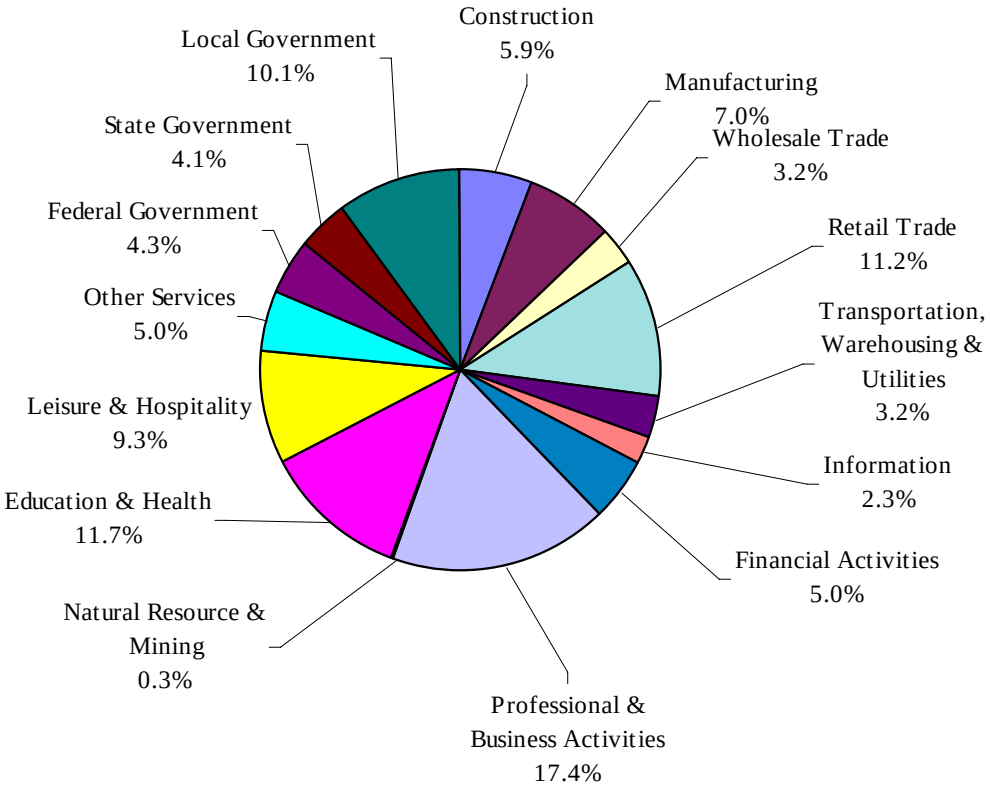
The following table indicates the distribution by category of nonagricultural employment in the Commonwealth and the comparative distribution in the United States for 2008.

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

COMMONWEALTH OF VIRGINIA

REPORT ON AUDIT
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).

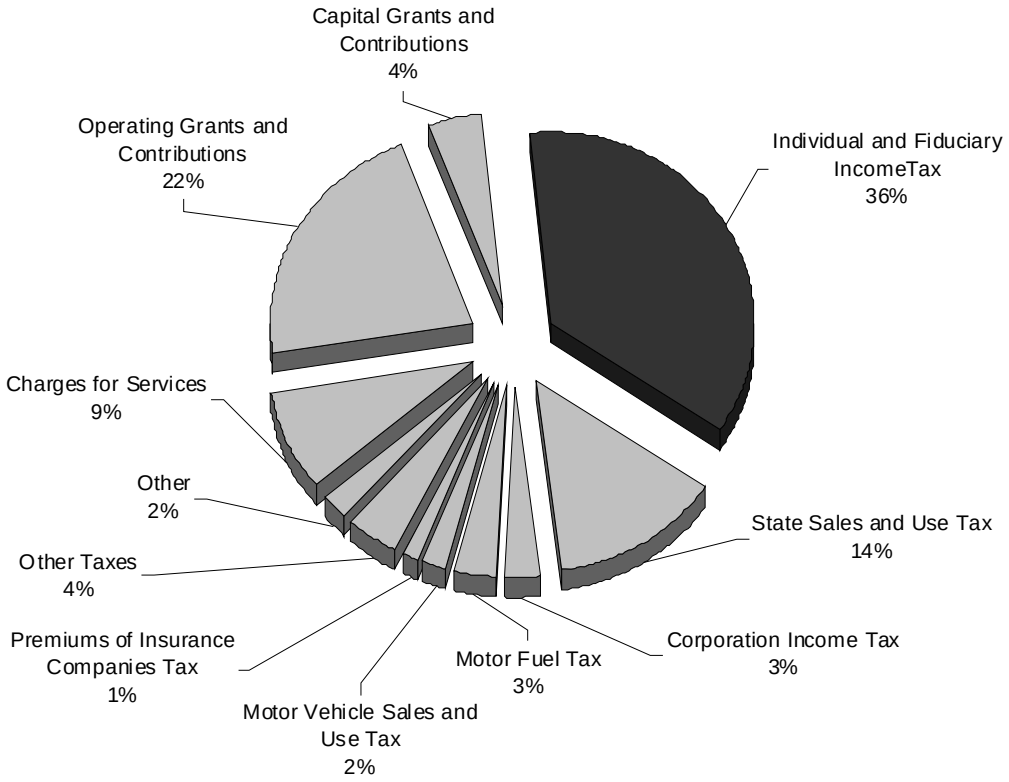
Figure 10
Changes in Net Assets for the Fiscal Years Ended June 30, 2008 and 2007
(Dollars in Thousands)

	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.

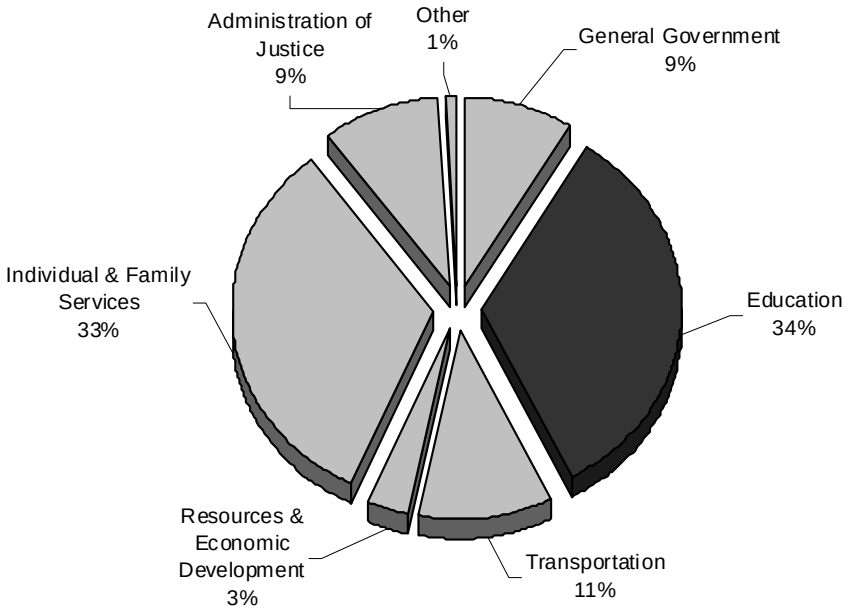
Figure 11
Revenues by Source – Governmental Activities
Fiscal Year 2008



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

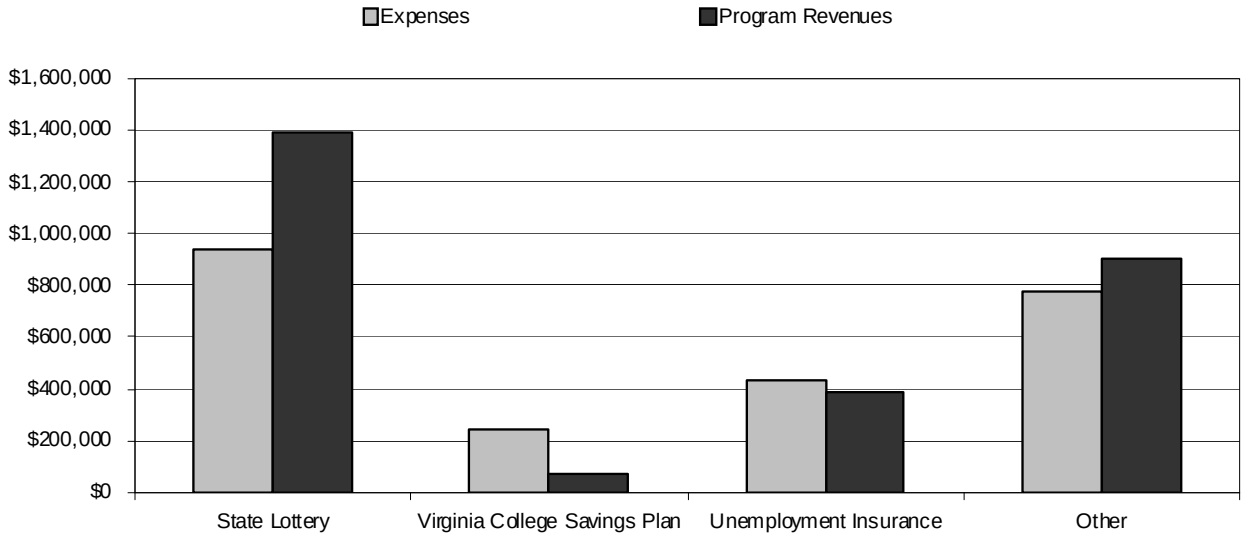
Net assets of business-type activities decreased by $213.1 million during the fiscal year. Highlights of the changes in net assets for the major enterprise funds were as follows:

- 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.

Total	Governmental Activities 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

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.

Notes for Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds

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 E

LITERARY FUND

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LITERARY FUND

General

The Literary Fund is a permanent and perpetual school fund created in 1810 and established by the Constitution of Virginia as a depository for moneys derived by the Commonwealth from criminal fines and forfeitures, escheated property and income from the investment of moneys on deposit in the Literary Fund. The moneys therein are held by the State Treasurer and administered by the State Board of Education "for public school purposes, including the teachers retirement fund."

Article VIII, Section 8 of the Constitution of Virginia, as amended, provides:

> The General Assembly shall set apart as a permanent and perpetual school fund the present Literary Fund; the proceeds of all public lands donated by Congress for free public school purposes, of all escheated property, of all waste and unappropriated lands, of all property accruing to the Commonwealth by forfeiture except as hereinafter provided, of all fines collected for offenses committed against the Commonwealth, and of the annual interest on the Literary Fund; and such other sums as the General Assembly may appropriate. But so long as the principal of the Fund totals as much as eighty million dollars, the General Assembly may set aside all or any part of additional moneys received into its principal for public school purposes, including the teachers retirement fund.
>
> The General Assembly may provide by general law an exception from this section for the proceeds from the sale of all property seized and forfeited to the Commonwealth for a violation of the criminal laws of this Commonwealth proscribing the manufacture, sale or distribution of a controlled substance or marijuana. Such proceeds shall be paid into the state treasury and shall be distributed by law for the purpose of promoting law enforcement.
>
> The Literary Fund shall be held and administered by the Board of Education in such manner as may be provided by law. The General Assembly may authorize the Board of Education to borrow other funds against assets of the Literary Fund as collateral, such borrowing not to involve the full faith and credit of the Commonwealth.
>
> The principal of the Fund shall include assets of the Fund in other funds or authorities which are repayable to the Fund.

Literary Fund Loans

Pursuant to Chapter 10, Title 22.1, Code of Virginia, 1950, as amended, the Board of Education is empowered to make Literary Fund loans to local school jurisdictions for the construction, renovation and expansion of school buildings. When construction or renovation is completed or the amount of the loan commitment is reached, the local school jurisdictions issue "Literary Fund Obligations" which, at the request of the Authority, are no longer automatically transferred to the Authority but remain available to the Authority as supplemental security for the 1991 Resolution bonds in the event of and to the extent of a projected investment income deficiency in the debt service reserve fund under the 1991 Resolution. There are currently no bonds outstanding under the 1991 Resolution. The annual income on the Literary Fund Obligations is available for all purposes of the Literary Fund.

Income

In fiscal year 2009, the Literary Fund had gross receipts of approximately $238 million and disbursements of approximately $335 million. In fiscal year 2008, the Literary Fund had gross receipts of approximately $230 million and disbursements of $237 million. In fiscal year 2007, the Literary Fund had gross receipts of approximately $221 million and disbursements of $220 million. In fiscal year 2006, the Literary Fund had gross receipts of approximately $219 million and disbursements of $235 million. In fiscal year 2005, the Literary Fund had gross receipts of approximately $216 million and disbursements of approximately $237 million.

Appropriations from the Literary Fund

By the terms of the constitutional provision creating the Literary Fund, the General Assembly may appropriate Literary Fund moneys for "public school purposes, including the teacher retirement fund". Although, prior to 1990, Literary Fund moneys had been used primarily to make Literary Fund loans, the General Assembly has since appropriated a substantial portion of moneys from the Literary Fund to supplement appropriations from the Commonwealth's General Fund for teacher retirement benefits and for other educational related purposes. The 2005 Appropriation Act provided appropriations from the Literary Fund of approximately $131.8 million and $125.9 million respectively in fiscal years 2005 and 2006 for teacher retirement benefits. The 2007 Appropriation Act as amended provided appropriations of $116.0 and $124.9 million for fiscal years 2007 and 2008, respectively. In addition, the 2009 Appropriation Act provides appropriations of $228.7 million and $123.0 million for fiscal years 2009 and 2010, respectively for teacher retirement and the Commonwealth's share local school boards' Social Security costs.

In May 2005, the Authority issued $55.26 million School Educational Technology Notes, Series V. In May 2006, the Authority issued $56.62 million School Educational Technology Notes, Series VI. In May 2007, the Authority issued $56.765 million School Educational Technology Notes, Series VII. In May 2008, the Authority issued $56.475 million School Educational Technology Notes, Series VIII. In May 2009, the Authority issued $55.395 million School Educational Technology Notes, Series IX. All five series of notes are payable from appropriations from the Literary Fund.

The 2009 Appropriation Act also directs the Authority to an additional $59,898,000 of notes in the 2010 fiscal year. The 2009 Appropriation Act includes sufficient appropriations from the Literary Fund to pay debt service coming due during the biennium on the Authority's Series V, VI, VII, VIII and IX Technology Notes. See "THE AUTHORITY – Other Authority Financings – *School Equipment Financing Notes*" in the front portion of this Official Statement.

The following table reflects the financial activity of the Literary Fund for the year ended June 30, 2009, including the balances in the Authority's 1987 Reserve Fund. On March 26, 2009, the Authority approved the transfer to the Literary Fund of $9,531,945 from the General Fund of the Authority representing the release of the 1991 Resolution Debt Service Reserve Income Account.

Literary Fund
Report of Receipts, Disbursements and Changes in Fund Balance (Cash Basis)
Years Ended June 30

	2009	2008	2007	2006	2005
Beginning Fund Balance:					
Cash and Investments	$151,091,810	$146,283,509	$119,513,647	$ 70,654,629	$ 56,315,116
Temporary Loans Receivable	3,907,075	7,080,353	-	12,253,719	21,162,333
Permanent Loans Receivable	305,754,973	313,838,007	346,801,400	368,010,701	0
Total Beginning Balance	460,753,858	467,201,869	466,315,047	450,919,049	77,477,449
Receipts:					
Revenues:					
Interest on Temporary Loans	42,218	9,989	-	34,637	-
Interest on Permanent Loans	8,473,315	8,788,605	9,838,857	11,164,263	11,648,080
Interest on Investments	5,289,342	9,327,656	8,569,241	7,208,009	4,310,968
Principal Payments on Perm Loans	30,203,982	31,165,917	32,963,392	33,569,763	35,558,433
Total Revenues	44,008,857	49,292,167	51,371,490	51,976,672	51,517,481
Transfers from VPSA 1987 Reserve	9,531,945	10,070,375	-	-	232,774
Transfer Perm. Loans From VPSA	-	-	-	-	-
Transfer from VPSA (1)	-	-	-	-	3,626,638
Increase in Temporary Loans Receivable	-	-	-	-	-
Other Transfers In:					
Unclaimed Property Act	100,000,000	85,000,000	85,000,000	85,000,000	85,000,000
Escheats	3,892	38,692	(4,082)	7,298	207,550
Unclaimed Lottery Prizes	13,300,053	10,478,578	10,747,271	13,241,969	9,310,667
Fines, Fees and Forfeitures (2)	71,546,697	75,310,348	73,508,246	69,230,315	65,972,147
Total Transfers In	194,382,587	180,897,993	169,251,435	167,479,582	164,349,776
Total Receipts	238,391,444	230,190,160	220,622,925	219,456,254	215,867,257
Disbursements:					
Interest Rate Subsidy Program	11,075,204	16,411,729	7,645,764	13,331,568	4,929,287
Investment Fees	175,151	209,338	190,152	167,760	146,510
Temporary Loan Disbursements	32,592,925	19,909,605	7,080,353	106,742	256,739
Decrease in Temporary Loans Receivable	3,907,075	3,173,278	(7,080,353)	12,253,719	9,658,484
Decrease in Permanent Loans Receivable	(6,296,019)	8,083,033	32,963,392	21,209,301	25,643,209
Subtotal	41,454,336	47,786,983	40,799,308	47,069,090	40,634,229
Transfer Perm. Loans to VPSA Reserve				-	-
Other Transfers Out:					
Appropriations to Dept. of Education (3)	228,691,828	124,934,530	116,003,959	125,854,700	131,854,700
Transfers to the General Fund	-	-	-	-	-
To VPSA; Equipment Issues (4)	64,469,470	63,916,657	62,932,836	61,749,983	64,340,508
To VPSA; Cost of Issuance	-	-	-	-	-
Total Transfers Out	293,161,298	188,851,187	178,936,795	187,604,683	196,195,208
Total Disbursements	334,615,634	236,638,170	219,736,103	234,673,773	236,829,437
Ending Fund Balance:					
Cash and Investments	52,478,676	151,091,810	146,283,509	119,513,647	70,654,629
Temporary Loans Receivable	0	3,907,075	7,080,353	-	11,503,849
Permanent Loans Receivable	312,050,993	305,754,974	313,838,007	346,801,400	(25,643,209)
Ending Fund Balance	364,529,669	460,753,859	467,201,869	466,315,047	56,515,269
Less Encumbered Funds (5)	(22,399,122)	(49,171,338)	(17,353,669)	(8,100,242)	(3,798,346)
Available Fund Balance	$ 342,130,547	$ 411,582,521	$ 449,848,200	$ 458,214,805	$ 52,716,923

(1) The 2005 amount represents $1.1 million in annual savings returned to the Literary Fund from the refunding of the subsidy component of the Authority's Series 1999 B Bonds and $2.5 million of unspent proceeds from the School Educational Technology Notes, Series VI being returned from SNAP.
(2) Includes interest on Unclaimed Property balances and interest on fines, fees and forfeitures.
(3) Represents appropriations for teacher retirement benefits and other educational related purposes.
(4) Represents funds transferred to the Authority to pay debt service and cost of issuance on the Authority's School Educational Technology notes.
(5) Represents funds restricted for payment to localities for approved Literary Fund Loans and Interest Rate Subsidy Program amounts.

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APPENDIX F

CONTINUING DISCLOSURE UNDERTAKINGS

APPENDIX F
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CONTINUING DISCLOSURE UNDERTAKING OF THE VIRGINIA PUBLIC SCHOOL AUTHORITY PURSUANT TO THE SERIES RESOLUTION ADOPTED SEPTEMBER 11, 2009

The following continuing disclosure undertaking was adopted by the Virginia Public School Authority in its Series Resolution adopted September 11, 2009. Defined terms used in such undertaking as contained in such Series Resolution have been changed to reflect the defined terms used this Official Statement.

Continuing Disclosure Undertaking

(a) **Purpose**. This continuing disclosure undertaking is being made by the Authority with respect to the Series 2009 D Bonds for the benefit of the holders and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). The Authority acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this undertaking.

(b) **Definitions**. In addition to the definitions elsewhere set forth in this Official Statement, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Authority pursuant to, and as described in, subsections (c) and (d) below.

"**Dissemination Agent**" shall mean the Authority, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by such Authority and which has filed with such Authority a written acceptance of such designation.

"**Fiscal Yea**r" shall mean the twelve-month period, at the end of which the Authority's financial position and the results of its operations for the preceding twelve months are determined. Currently the Authority's Fiscal Year begins July 1 and continues through June 30 of the next calendar year.

"[**H**]**older**" shall mean, for purposes of this undertaking, any person who is a record owner or beneficial owner of a Bond.

"**Listed Events**" shall mean any of the events listed in subsection (b)(5)(i)(C) of the Rule which are as follows:

principal and interest payment delinquencies

non-payment related defaults

unscheduled draws on debt service reserves reflecting financial difficulties

unscheduled draws on credit enhancements reflecting financial difficulties

substitution of credit or liquidity providers, or their failure to perform

adverse tax opinions or events affecting the tax-exempt status of the security

modifications to rights of security holders

bond calls

defeasances

release, substitution, or sale of property securing repayment of the securities

rating changes

"**MOP**" shall mean (i) a Local Issuer that has outstanding Local School Bonds held to the credit of the General Pledge Fund and the principal, interest and redemption premium components on which are credited to the 1997 Resolution Pledge Account in an aggregate principal amount that exceeds 10% of the aggregate principal amount of the Authority's outstanding Bonds and (ii) the Commonwealth.

"**MSRB**" shall mean the Municipal Securities Rulemaking Board, or any successor thereto or to the functions of the MSRB contemplated by this Undertaking.

"**Participating Underwriter**" shall mean any of the original underwriters of the Authority's Series 2009 D 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.

"Undertaking" shall mean the continuing disclosure undertaking assumed by the Authority in this undertaking.

(c) **Provision of Annual Reports; Audited Financial Statements.**

1. Not later than 10 months after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2010, the Authority shall, or shall cause the Dissemination Agent (if different from the Authority) to, provide to the MSRB, in the electronic format prescribed by the MSRB, an Annual Report which is consistent with the requirements of (d) of this undertaking. Not later than 10 days prior to said date, the Authority shall provide the Annual Report to the Dissemination Agent (if applicable). In each case, the Annual Report (A) may be submitted as a single document or as separate documents comprising a package, (B) may cross-reference other information as provided in (d) of this undertaking, and (C) shall include such financial statements as may be required by the Rule.

2. The annual financial statements of the Authority shall be prepared on the basis of generally accepted accounting principles and will be audited by either the Auditor of Public Accounts or a firm of independent certified public accountants. Copies of the audited annual financial statements, which may be filed separately from the Annual Report, will be filed with the MSRB when they become publicly available.

3. If the Authority fails to provide an Annual Report to the MSRB by the date required in clause (i), or to file its audited annual financial statements when available as described in clause (ii), the Authority shall send an appropriate notice to the MSRB in substantially the form attached hereto as Schedule 1.

(d) **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 Participating Underwriters in complying with the Rule.

1. Updated information showing the expected "Income Available to Pay Debt Service" as of the date of issuance of the most recent Series of Bonds issued during the period beginning July 1 and ending on the date of the Annual Report. In the event no Bonds were issued during the aforementioned time period, the updated information shall be as of the end of the preceding Fiscal Year.

2. Updated information showing the names of the Local Issuers and the principal amount of their Local School Bonds held in the General Pledge Fund and the principal, interest and redemption premium of which are credited to the 1997 Resolution Pledge Account and an updated list showing the names of the Local Issuers who are MOPs as of the end of the preceding Fiscal Year, who have ceased to be MOPs during the preceding Fiscal Year and who were MOPs as of the date of issuance of the most recent Series of Bonds issued during the period beginning July 1 and ending on the date of the Annual Report. In the event no Bonds were issued during the aforementioned time period, the updated information shall be as of the end of the preceding Fiscal Year.

3. A summary of receipts and disbursements for the Literary Fund for the preceding Fiscal Year.

4. A summary of information respecting appropriations made by the Virginia General Assembly from the Literary Fund for the current biennium.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Authority, which have been filed with the MSRB or the Securities and Exchange

Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Authority shall clearly identify each such other document so incorporated by reference.

(e) **Reporting of Listed Events.** The Authority will provide in a timely manner to the MSRB notice of any of the Listed Events with respect to the Series 2009 D Bonds, if material. The Authority 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 Series 2009 D 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 Bond Resolution, and (iv) public notice of the redemption is given pursuant to 1934 Act Release No. 23856 of the SEC, even if the originally scheduled amounts may be reduced by prior optional redemptions or Bond purchases.

(f) **Dissemination Agent**. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its undertaking 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 Authority shall be the Dissemination Agent.

(g) **Amendment**. Notwithstanding any other provision of the Bond Resolution, the Authority may amend its undertaking as set forth in this undertaking 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.

(h) **Additional Information**. Nothing in this undertaking shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this undertaking. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this undertaking, the Authority shall have no obligation under this undertaking to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

(i) **Default**. Any person referred to in section (j) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to file its Annual Report or to give notice of a Listed Event. In addition, holders of not less than a majority in aggregate principal amount of the Series 2009 D Bonds outstanding may take such actions as may be permitted by law to challenge the adequacy of any information provided pursuant to this Continuing Disclosure undertaking, or to enforce any other obligation of the Authority hereunder. A default under this undertaking shall not be deemed an event of default under the Bond Resolution or the Series 2009 D Bonds, and the sole remedy under this undertaking in the event of any failure of the Authority to comply with its undertaking 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.

(j) **Beneficiaries**. This undertaking shall inure solely to the benefit of the Authority, the Participating Underwriters, and holders from time to time of the Authority's Series 2009 D Bonds, and shall create no rights in any other person or entity.

(k) **Obligated Persons**. The Authority has determined that the Commonwealth is an "obligated person", within the meaning of the Rule, that is or may be material to the Series 2009 D Bonds, as evidenced by its inclusion in the definition of MOP. In addition, the Authority has established in the definition of a MOP the objective criteria that it will apply consistently, on a continuing basis, in determining whether a particular Local Issuer is an "obligated person", within the meaning of the Rule, that is or may be material to the Series 2009 D Bonds. The Authority covenants that it will require each Local Issuer that is or may become a MOP to execute and deliver to the Authority an undertaking by which the Local Issuer will agree that if it becomes a MOP, it will, so long as it remains a MOP, file annually the financial information, operating data, and financial statements, and provide notices of Listed Events with respect to its bonds held in the General Pledge Fund and credited to the 1997 Resolution Pledge Account if material, as required by the Rule.

(l) **Termination.** The obligations of the Authority pursuant to its undertaking with respect to the Series 2009 D Bonds shall terminate upon the earlier to occur of the legal defeasance or final retirement of the Series 2009 D Bonds.

SCHEDULE 1

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT
[AUDITED ANNUAL FINANCIAL STATEMENTS]

$___,___,___
VIRGINIA PUBLIC SCHOOL AUTHORITY
School Financing Bonds (1997 Resolution)
Series 2009 D

CUSIP Numbers: **92817S [__] – 92817S [__]**

Dated: December 1, 2009

NOTICE IS HEREBY GIVEN that the Virginia Public School Authority has not provided an Annual Report [Audited Annual Financial Statements] as required by Section 12 of the Series Resolution which was adopted on September 11, 2009, by the Board of Commissioners of the Virginia Public School Authority and which authorized the bonds described above. [The Authority anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by _____.]

Dated: _____

VIRGINIA PUBLIC SCHOOL AUTHORITY

By_____

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 Virginia Public School Authority (the "Authority") of $___,___,___ aggregate principal amount of its School Financing Bonds (1997 Resolution) Series 2009 D (the "Series 2009 D Bonds") pursuant to the provisions of a resolution adopted on September 11, 2009 (the "Series Resolution") by the Board of Commissioners of the Authority. Proceeds of the Series 2009 D Bonds are being used by the Authority to purchase general obligation bonds issued by local governments for capital school projects. The Authority 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 Series 2009 D Bonds and the Commonwealth concurs in such determination. The Commonwealth represents that it has complied 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 of the Bonds and in order to assist the Participating Underwriters 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 Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the 1997 Resolution, 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.

"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 Series 2009 D Bond.

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Agreement.

"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.

SECTION 3. Provision of Annual Reports.

(a) Not later than seven months following the end of each Fiscal Year of the Commonwealth, commencing with the Fiscal Year ending June 30, 2010, the Commonwealth shall, or shall cause the Dissemination Agent (if different from the Commonwealth) to, provide to the MSRB, in the electronic format prescribed by the MSRB, 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 MSRB when they become publicly available.

(c) If the Commonwealth fails to provide an Annual Report to the MSRB by the date required in subsection (a) hereof, or to file its audited financial statements with the MSRB when the become publicly available, the Commonwealth shall send appropriate notice to the MSRB in substantially the form attached hereto as Schedule 1.

SECTION 4. Content of Annual Reports. Each Annual Report required to be filed hereunder shall include, at a minimum, the information referred to in Schedule 2 as it relates to the Commonwealth, all with a view toward assisting Participating Underwriters in complying with the Rule. Any and 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 the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Commonwealth shall clearly identify each such other document so incorporated by reference.

SECTION 5. Notice of Ratings Changes. The Commonwealth will provide in a timely manner to the Virginia Public School Authority notice of any changes in the ratings of the Commonwealth's general obligation bonds by the ratings agencies requested by the Commonwealth to rate such bonds.

SECTION 6. 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 Series 2009 D Bonds, and the Authority shall notify the Commonwealth promptly of the occurrence of either such event.

SECTION 7. 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 8. 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 9. 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 5 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 5 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 10. Default. Any person referred to in Section 11 (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 5 hereinabove. In addition, Holders of not less than a majority in aggregate principal amount of the Series 2009 D 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 or regulations promulgated thereunder, or other applicable laws 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 Commonwealth, the Authority, the Participating Underwriters, and Holders from time to time of the Series 2009 D Bonds, and shall create no rights in any other person or entity.

SECTION 12. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: _____, 2009

COMMONWEALTH OF VIRGINIA

By_____

AGREED TO AND ACKNOWLEDGED:

VIRGINIA PUBLIC SCHOOL AUTHORITY

By: _____
Authorized Representative

SCHEDULE 1

NOTICE OF FAILURE TO FILE ANNUAL REPORT
[AUDITED ANNUAL FINANCIAL STATEMENTS]

COMMONWEALTH OF VIRGINIA

in connection with
$___,___,___
Virginia Public School Authority's
School Financing Bonds (1997 Resolution)
Series 2009 D

CUSIP Numbers: **92817S [__] – 92817S [__]**

Dated: December 1, 2009

NOTICE IS HEREBY GIVEN that the Commonwealth of Virginia has not provided an Annual Report as required by Section 3 of the Continuing Disclosure Agreement, which was entered into in connection with the above-named bonds issued pursuant to that certain Series Resolution adopted on September 11, 2009, by the Board of Commissioners of the Virginia Public School Authority. The Commonwealth anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by _____.

Dated: _____

COMMONWEALTH OF VIRGINIA

By_____
State Treasurer

SCHEDULE 2

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.

CONTINUING DISCLOSURE AGREEMENT

[This Continuing Disclosure Agreement will impose obligations on the Local Issuer if and only if the Local Issuer is or has become and remains a "Material Obligated Person", as defined below]

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the undersigned local issuer (the "Local Issuer") in connection with the issuance by the Virginia Public School Authority (the "Authority") of $ [principal amount] aggregate principal amount of its School Financing Bonds (1997 Resolution) Series [year][letter] (the "Series [year][letter] Bonds") pursuant to the provisions of a bond resolution [(the "1997 Resolution") adopted on October 23, 1997][2], as amended and restated. The Series [year][letter] Bonds and all other parity bonds heretofore or hereafter issued under the 1997 Resolution are collectively called the "Bonds". A portion of the proceeds of the Series [year][letter] Bonds is being used by the Authority to purchase general obligation school bonds (the "Local School Bonds") of the Local Issuer pursuant to a bond sale agreement between the Authority and the Local Issuer (the "Bond Sale Agreement"). Pursuant to Section [3] of the Bond Sale Agreement, the Local Issuer hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Local Issuer for the benefit of the holders of the Series [year][letter] Bonds and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). The Local Issuer acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the 1997 Resolution, 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 Local Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Dissemination Agent" shall mean the Local Issuer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by such Local Issuer and which has filed with such Local Issuer a written acceptance of such designation.

"Filing Date" shall have the meaning given to such term in Section 3(a) hereof.

"Fiscal Year" shall mean the twelve-month period at the end of which financial position and results of operations are determined. Currently, the Local Issuer's Fiscal Year begins July 1 and continues through June 30 of the next calendar year.

"holder" shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a Series [year][letter] Bond.

"Listed Events" shall mean any of the events listed in subsection 5(b)(5)(i)(C) of the Rule.

"local school bonds" shall mean any of the Local School Bonds and any other bonds of the Local Issuer pledged as security for Bonds issued under the Authority's 1997 Resolution.

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[1] This agreement, in substantially this form, has been executed by substantially every Local Issuer with Local School Bonds outstanding and pledged to Bonds issued under the 1997 Resolution.

[2] Alternatively, the agreement may refer to the Authority's 1991 Resolution if the Local School Bonds were acquired with the proceeds of 1991 Resolution bonds and transferred and pledged under the 1997 Resolution in connection with a refunding transaction under the 1997 Resolution.

"Material Obligated Person" (or "MOP") shall mean the Local Issuer if it has local school bonds outstanding in an aggregate principal amount that exceeds 10% of the aggregate principal amount of all outstanding Bonds of the Authority.

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Agreement.

"Participating Underwriter" shall mean any of the original underwriters of the Authority's Series [year][letter] 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.

SECTION 3. Provision of Annual Reports.

(a) The Local Issuer shall, or shall cause the Dissemination Agent to, provide to the MSRB, in the format prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Such Annual Report shall be filed on a date (the "Filing Date") that is not later than 12 months after the end of any Fiscal Year (commencing with its Fiscal Year ending June 30, [year]) as of the end of which such Local Issuer was a MOP, unless as of the Filing Date the Local Issuer is no longer a MOP[3]. Not later than ten (10) days prior to the Filing Date, the Local Issuer shall provide the Annual Report to the Dissemination Agent (if applicable) and shall provide copies to the Authority. 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 the Local Issuer's audited financial statements prepared in accordance with applicable State law or, if audited financial statements are not available, such unaudited financial statements as may be required by the Rule. In any event, audited financial statements of such Local Issuer must be submitted, if and when available, together with or separately from the Annual Report.

(b) If the Local Issuer is unable to provide an Annual Report to the MSRB by the date required in subsection (a), the Local Issuer shall send a notice to the MSRB in substantially the form attached hereto as Exhibit A.

SECTION 4. Content of Annual Reports. Except as otherwise agreed, any Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, annual financial information relating to the Local Issuer, including operating data,

(i) updating such information relating to the Local Issuer as shall have been included or cross-referenced in the final Official Statement of the Authority describing the Authority's Series [year][letter] Bonds or

(ii) if there is no such information described in clause (i), updating such information relating to the Local Issuer as shall have been included or cross-referenced in any comparable disclosure document of the Local Issuer relating to its tax-supported obligations or

(iii) if there is no such information described in clause (i) or (ii) above, initially setting forth and then updating the information referred to in Exhibit B as it relates to the Local Issuer, 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 of securities issues with respect to which the Local Issuer is an "obligated person" (within the meaning of the Rule), which have been filed with the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Local Issuer shall clearly identify each such other document so incorporated by reference.

[3] The Authority will advise the Local Issuer within 60 days after the end of each Fiscal Year if such Local Issuer was a Material Obligated Person as of the end of such Fiscal Year. Upon written request, the Authority will also advise the Local Issuer as to its status as a MOP as of any other date.

SECTION 5. Reporting of Listed Events. Whenever the Local Issuer is a Material Obligated Person required to file Annual Reports pursuant to Section 3(a) hereof and obtains knowledge of the occurrence of a Listed Event, and if such Local Issuer has determined that knowledge of the occurrence of a Listed Event with respect to its local school bonds would be material, such Local Issuer shall promptly file a notice of such occurrence with the MSRB, if any, with a copy to the Authority.

SECTION 6. Termination of Reporting Obligation. The Local Issuer's obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of all the Local School Bonds.

SECTION 7. Dissemination Agent. The Local Issuer 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. The Local Issuer shall advise the Authority of any such appointment or discharge. If at any time there is not any other designated Dissemination Agent, the Local Issuer shall be the Dissemination Agent. [The initial Dissemination Agent shall be _____.]

SECTION 8. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the Local Issuer may amend this Disclosure Agreement, if such amendment has been approved in writing by the Authority and is supported by an opinion of independent counsel, acceptable to the Authority, 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 Local Issuer 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 of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Local Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, such Local Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. Any person referred to in Section 11 (other than the Local Issuer) may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Local Issuer to file its Annual Report or to give notice of a Listed Event. The Authority may, and the holders of not less than a majority in aggregate principal amount of Bonds outstanding may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the Local Issuer hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the applicable resolution or bonds of the Local Issuer, and the sole remedy under this Disclosure Agreement in the event of any failure of the Local Issuer 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 Authority, the Local Issuer, the Participating Underwriters, and holders from time to time of the Authority's Bonds, and shall create no rights in any other person or entity.

SECTION 12. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: _____, [year]

[NAME OF LOCAL ISSUER]

By_____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT
[AUDITED FINANCIAL STATEMENTS]

Re: VIRGINIA PUBLIC SCHOOL AUTHORITY
SCHOOL FINANCING BONDS (1997 Resolution)
Series [year][letter]

CUSIP Numbers: 92817S ___ - 92817S ___

Dated: _____ [__], ____

Name of Local Issuer: [Name of Local Issuer]

NOTICE IS HEREBY GIVEN that the [Name of Local Issuer] has not provided an Annual Report as required by Section 3(a) of the Continuing Disclosure Agreement, which was entered into in connection with the above-named bonds issued pursuant to that certain Series Resolution adopted on September 11, 2009, by the Board of Commissioners of the Virginia Public School Authority, the proceeds of which were used to refund certain School Bonds of the [Local Issuer]. [The Local Issuer] anticipates that the Annual Report will be filed by _____.] The [Local Issuer] is a material "obligated person" within the meaning of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, with respect to the above-named bonds of the Authority.

Dated: _____

[Name of Local Issuer]

By_____

EXHIBIT B

CONTENT OF ANNUAL REPORT

Description of the Local Issuer. A description of the Local Issuer including a summary of its form of government, budgetary processes and its management and officers.

Debt. A description of the terms of the Local Issuer's outstanding tax-supported and other debt including a historical summary of outstanding tax-supported debt; a summary of authorized but unissued tax-supported debt; a summary of legal debt margin; a summary of overlapping debt; and a summary of annual debt service on outstanding tax-supported debt as of the end of the preceding fiscal year. The Annual Report should also include (to the extent not shown in the latest audited financial statements) a description of contingent obligations as well as pension plans administered by the Local Issuer and any unfunded pension liabilities.

Financial Data. Financial information respecting the Local Issuer including a description of revenues and expenditures for its major funds and a summary of its tax policy, structure and collections as of the end of the preceding fiscal year.

Capital Improvement Plan. A summary of the Local Issuer's capital improvement plan.

Demographic, Economic and Supplemental Information. A summary of the Local Issuer's demographic and economic characteristics such as population, income, employment, and public school enrollment and infrastructure data as of the end of the preceding fiscal year. The Annual Report should also include a description of material litigation pending against the Local Issuer.

APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL

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[Form of Opinion of Bond Counsel for the Series 2009 D Bonds]

December __, 2009

Virginia Public School Authority
Richmond, Virginia

We have examined Chapter 11, Title 22.1, Code of Virginia, 1950, as amended (the "Enabling Act"), and a certified copy of the bond resolution, adopted on October 23, 1997, as amended and restated on October 5, 1998, as supplemented (the "Resolution"), by the Board of Commissioners of the Virginia Public School Authority (the "Authority"), a public body corporate and an instrumentality of the Commonwealth of Virginia, authorizing the issuance, and other proofs submitted relative to the issuance and sale of

$_____
VIRGINIA PUBLIC SCHOOL AUTHORITY
School Financing Bonds (1997 Resolution)
Series 2009 D

Dated, maturing, subject to prior redemption, and bearing interest,
all as provided in the Resolution.

From such examination we are of the opinion that:

1. The Authority is a public body corporate and an instrumentality of the Commonwealth of Virginia duly created by and existing pursuant to the Enabling Act.

2. The Resolution has been duly adopted by the Authority and is a legal, valid and binding resolution of the Authority.

3. The above-described bonds (the "Series 2009 D Bonds") have been duly authorized and issued pursuant to the Resolution for the purpose of purchasing certain general obligation local school bonds.

4. The Series 2009 D Bonds are valid and binding obligations of the Authority in accordance with their terms.

5. The Series 2009 D Bonds, the outstanding bonds heretofore issued under the Resolution and any additional series of bonds that may be hereafter issued from time to time under the Resolution, under the conditions, limitations and restrictions set forth in the Resolution, for the purpose of providing funds for the purchase of local school bonds and for the purpose of refunding bonds issued under the provisions of the Resolution or other indebtedness of the Authority, are payable from certain funds of the Authority pledged to their payment, including (i) payments derived from local school bond principal, interest and redemption premium, if any, components ("Components") credited to the Virginia Public School Authority General Pledge Fund 1997 Resolution Account (the "1997 Resolution Pledge Account"), a special account established within the Virginia Public School Authority General Pledge Fund, a special fund established under the Resolution within which certain local school bonds are held (the "General Pledge Fund"), (ii) the proceeds of the sale of any such Components credited to the 1997 Resolution Pledge Account, (iii) payments of monies derived from operation of the "State Aid Intercept Provision" contained in Section 15.2-2659, Code of Virginia 1950, as amended, in the event of default in payment of debt service on local school bonds having Components credited to the 1997 Resolution Pledge Account, and (iv) appropriations by the General Assembly of the Commonwealth of Virginia to the Authority to make up deficiencies in debt service. The Resolution requires that if a payment default occurs on a local school bond and if the Authority has not received the defaulted payment from the implementation of the State Aid Intercept Provision, the Authority shall file a warrant with the State Treasurer requesting that an amount equal to the deficiency be made available to the Authority from moneys appropriated by the General Assembly. The Resolution requires the Chairman to notify the Governor on or before

December 1 of each year of his estimate of total debt service during each fiscal year of the biennium on bonds of the Authority issued and projected to be issued under the Resolution. The Enabling Act requires the Governor to include such appropriations for the payment of debt service in his budget submission to the General Assembly each year. The General Assembly has the power, but is not legally obligated, to make appropriations in respect of the payment of such debt service. The Series 2009 D Bonds do not constitute a debt of the Commonwealth of Virginia or pledge of the faith and credit of the Commonwealth of Virginia, and neither the faith and credit nor the taxing power of the Commonwealth of Virginia or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the Series 2009 D Bonds.

6. The interest on the Series 2009 D Bonds is not includable in gross income of the owners of the Series 2009 D Bonds for federal income tax purposes under existing law. In delivering this opinion, we have (i) relied on the opinions of other firms of municipal bond attorneys that interest on the local school bonds having Components credited to the 1997 Resolution Pledge Account is not includable in gross income for purposes of federal income taxation and (ii) assumed continuing compliance with the covenant by the Authority and each issuer of local school bonds providing security for the Series 2009 D Bonds and the school boards of these issuers (each, a "Local Issuer") to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), so that interest on the Series 2009 D Bonds and such local school bonds, respectively, will remain excludable from gross income for federal income tax purposes.

Failure by the Authority or by any Local Issuer to comply, subsequent to the issuance of the Series 2009 D Bonds, with certain requirements of the Code regarding the use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States may cause interest on the Series 2009 D Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issue. The Authority and each Local Issuer have covenanted to comply with the provisions of the Code so that interest on the Series 2009 D Bonds and its local school bonds, respectively, will remain excludable from gross income for federal income tax purposes.

Interest on the Series 2009 D Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In addition, pursuant to the American Recovery and Reinvestment Tax Act of 2009, which was signed into law on February 17, 2009, interest on the Series 2009 D Bonds is not included as an adjustment in calculating federal corporate alternative minimum taxable income for purposes of determining a corporation's alternative minimum tax liability.

The Code contains other provisions that could result in tax consequences, as to which we express no opinion, as a result of ownership of such Series 2009 D Bonds or the inclusion in certain computations (including without limitation those related to the corporate alternative minimum tax) of interest that is excluded from gross income.

7. The Series 2009 D Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, are exempt from taxation by the Commonwealth and by any political subdivision thereof.

Respectfully submitted,

[to be signed Sidley Austin LLP]

APPENDIX H

NOTICE OF SALE

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NOTICE OF SALE

$11,265,000*

Virginia Public School Authority

School Financing Bonds (1997 Resolution)
Series 2009 D

Electronic Bids, via PARITY Competitive Bidding System ("PARITY") only, for the purchase of all, and not less than all, of its $11,265,000* Virginia Public School Authority (the "Authority") School Financing Bonds (1997 Resolution) Series 2009 D (the "bonds" or "Series 2009 D Bonds") will be received until 11 a.m., RICHMOND, VIRGINIA TIME, on Wednesday, November 18, 2009 (unless such time or date is changed as described herein), by the Authority.

Preliminary Official Statement

The Authority has authorized the preparation and distribution of a Preliminary Official Statement dated November 10, 2009 (the "Preliminary Official Statement") containing information relating to the bonds. The Notice of Sale and the Preliminary Official Statement referred to above are available on the Internet at www.i-dealprospectus.com/. This Preliminary Official Statement in its entirety is available in physical form and may be obtained by contacting the Authority at (804) 225-2142.

The Series 2009 D Bonds

Authorization and Security

The bonds are being issued under the Bond Resolution duly adopted by the Authority on October 23, 1997, as amended and restated and supplemented (the "1997 Resolution"), to provide funds for the purchase of general obligation school bonds (the "2009 D Local School Bonds") of two counties in the Commonwealth of Virginia (the "2009 D Local Issuers"). Additional series of bonds may be issued from time to time, under the conditions, limitations and restrictions set forth in the 1997 Resolution, on a parity with the outstanding series of bonds issued under the 1997 Resolution, for the purpose of providing funds for the purchase of general obligation school bonds of cities, counties and towns in the Commonwealth of Virginia (the "Commonwealth") and for the purpose of refunding bonds issued under the provisions of the 1997 Resolution.

Bonds issued under the 1997 Resolution will be secured by principal and interest payments on the local school bonds held by the Authority and pledged to the payment of bonds issued under the 1997 Resolution. The local school bonds are general obligations of the respective local issuers, to the payment of which their full faith and credit and taxing power are irrevocably pledged. The Authority has covenanted in the 1997 Resolution to seek in each biennium a sum sufficient appropriation of an amount at least equal to scheduled debt service on the bonds during such biennium. The General Assembly has the power to make biennial appropriations with respect to the debt service on the bonds, but is under no legal obligation to do so. The bonds will not constitute a debt or a pledge of the faith and credit of the Commonwealth.

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* *Preliminary, subject to adjustment as provided herein*

Details of Bonds; Book-Entry Only

The bonds will be dated December 1, 2009. Interest on the bonds will be payable semiannually on February 1 and August 1, beginning August 1, 2010 (8 months' interest). The bonds will be issued as fully registered bonds only in book-entry form payable to a nominee of The Depository Trust Company, New York, New York ("DTC") as securities depository for the bonds. Reference is made to the Preliminary Official Statement relating to the bonds for the applicable provisions relating to the transfer of beneficial ownership, manner of redemption, the responsibilities of DTC participants and the right of the Authority to discontinue use of the book-entry only system.

Maturity Schedule

The principal of the bonds will be due (subject to the right of prior redemption as hereinafter set forth) on the 1st day of August in the following years and in the following amounts, respectively:

Preliminary Maturity Schedule*

Year of Maturity	Principal Amount	Year of Maturity	Principal Amount
2010	$320,000	2020	$560,000
2011	390,000	2021	585,000
2012	405,000	2022	610,000
2013	420,000	2023	635,000
2014	445,000	2024	665,000
2015	460,000	2025	685,000
2016	475,000	2026	715,000
2017	500,000	2027	750,000
2018	515,000	2028	780,000
2019	540,000	2029	810,000

**Preliminary, subject to adjustment as provided herein.*

Revised Maturity Schedule

The aggregate principal amount of the bonds (the "Preliminary Aggregate Principal Amount") and the annual principal amounts (the "Preliminary Annual Principal Amounts" and, collectively with reference to the Preliminary Aggregate Principal Amount, the "Preliminary Amounts") as set forth above in this Notice of Sale may be revised before the viewing of electronic bids for the purchase of the bonds. Any such revisions (the "Revised Aggregate Principal Amount", the "Revised Annual Principal Amounts" and the "Revised Amounts") WILL BE GIVEN BY NOTIFICATION PUBLISHED ON TM3 (www.tm3.com) NOT LATER THAN 4:00 P.M. RICHMOND, VIRGINIA TIME, ON THE DAY PRECEDING THE 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. Prospective bidders may request notification by facsimile transmission of any revisions in Preliminary Amounts by so advising and furnishing their telecopier numbers to BB&T Capital Markets at (804) 649-3982 by 12 Noon, RICHMOND, VIRGINIA TIME, at least one day prior to the date for receipt of bids.

Changes to Revised Maturity Schedule

The Authority further reserves the right to change the Revised Aggregate Principal Amount and the Revised Annual Principal Amounts after the determination of the winning bidder, by increasing or decreasing the principal amount of each maturity by not more than 20% of such amount for the bonds. Such changes, if any, will determine the "Final Annual Principal Amounts" and the "Final Aggregate Principal Amount". THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES (AS HEREINAFTER DEFINED) AS A RESULT OF ANY CHANGES MADE TO THE PRINCIPAL AMOUNTS WITHIN THESE LIMITS. The dollar amount bid by the successful bidder will be adjusted to reflect any adjustments in the Final Aggregate Principal Amount of the 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 rates specified by the successful bidder for the various maturities at the Initial Reoffering Prices will not change. The Authority anticipates that the Final Annual Principal Amounts and the Final Aggregate Principal Amount of the bonds will be communicated to the successful bidder within twenty-four hours of the Authority's receipt of the Initial Reoffering Prices and yields for the bonds.

Term Bond Option

The successful bidder may designate two or more of the consecutive serial maturities as one, but not more than one, term bond maturity equal in aggregate principal amount, and with amortization requirements corresponding, to such designated serial maturities.

Optional Redemption

The bonds which are stated to mature after August 1, 2019 may be redeemed prior to their respective maturities, at the option of the Authority, from any moneys that may be made available for such purpose, either in whole or in part, on any date beginning August 1, 2019 at a redemption price of par, together with the interest accrued thereon to the date fixed for redemption.

If less than all of the bonds of any one maturity shall be called for redemption, the particular bonds to be redeemed shall be selected by DTC and its participants by lot so long as a book-entry system with DTC is continued. Notice of redemption shall be given by certified or registered mail to DTC or its nominee as the registered owner of the bonds. Such notice shall be mailed not more than 60 or less than 30 days prior to the date fixed for redemption. The Authority will not be responsible for mailing notices of redemption to anyone other than DTC or its nominee.

Electronic Bidding and Bidding Procedures

Registration to Bid

All prospective bidders must be contracted customers of i-Deal LLC's BiDCOMP/Parity Competitive Bidding System. If you do not have a contract with BiDCOMP/Parity, call (212) 404-8102 to become a customer. By submitting a bid for the bonds, a prospective bidder represents and warrants to the Authority that such bidder's bid for the purchase of the 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 bonds. By contracting with Parity a prospective bidder is not obligated to submit a bid in connection with the sale.

IF ANY PROVISIONS OF THIS NOTICE OF SALE SHALL CONFLICT WITH INFORMATION PROVIDED BY BIDCOMP/PARITY AS APPROVED PROVIDER OF ELECTRONIC BIDDING SERVICES, THIS NOTICE OF SALE, AS IT MAY BE AMENDED BY THE AUTHORITY AS DESCRIBED WITHIN, SHALL CONTROL. Further information about BiDCOMP/Parity, including any fee charged, may be obtained from PARITY at (212) 849-5021.

Disclaimer

Each prospective bidder shall be solely responsible to register to bid via BiDCOMP/Parity. Each qualified 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 the Notice of Sale. Neither the Authority 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 qualified prospective bidder, and neither the Authority 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 Authority is using BiDCOMP/Parity as a communication mechanism, and not as the Authority's agent, to conduct the electronic bidding for the bonds. The Authority 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 Authority is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the bonds, it should telephone BiDCOMP/Parity and notify the Director of Debt Management of the Commonwealth by facsimile at (804) 225-3187. After receipt of bids is closed, the Authority through BiDCOMP/Parity will indicate the apparent successful bidder. Such message is a courtesy only for viewers, and does not constitute the award of the bonds. Each bid will remain subject to review by the Authority to determine its true interest cost rate and compliance with the terms of this Notice of Sale.

Bidding Procedures

Bids must be submitted electronically for the purchase of the bonds (all or none) by means of the Virginia Public School Authority AON Bid Form (the "Bid Form") via BiDCOMP/Parity. Bids must be communicated electronically to BiDCOMP/Parity by 11:00 a.m., Richmond, Virginia Time, on Wednesday, November 18, 2009 unless such time and/or date is changed as described herein (see "Changes to Bid Date, Closing Date"). Prior to that time, a prospective bidder may input and save the proposed terms of its bid in BiDCOMP. Once the final bid has been saved in BiDCOMP/Parity, the bidder may select the final bid button in BiDCOMP to submit the bid to BiDCOMP/Parity. Once the bids are communicated electronically via BiDCOMP/Parity to the State Treasurer, each bid will constitute an irrevocable offer to purchase the 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.

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. No bid will be received after the time for receiving such bids specified above.

Bid Specifications

Bidders are requested to name the interest rate or rates in multiples of 1/8 or 1/20 of 1%. Each bidder must specify in its bid the amount and the maturities of the bonds of each rate, and the bonds maturing on the same date must bear interest at the same rate. Any number of interest rates may be named, provided that (a) the difference between the highest interest rate and the lowest interest rate shall not exceed 300 basis points and (b) no interest rate may exceed 5.00%. No bid for less than all of the bonds offered or for a price less than par or greater than 110% of the aggregate principal amount of the bonds plus accrued interest will be entertained. The public offering price for any maturity of the bonds shall not be less than 100% of par value of such maturity.

Each bidder is required to transmit electronically by means of the Bid Form via PARITY an unconditional bid specifying the rate or rates of interest and the price at which the bidder will purchase the bonds.

Good Faith Deposit

After receipt of the bids is closed and prior to the award, the apparent successful bidder indicated on BIDCOMP/Parity must submit a good faith deposit (the "Deposit") for $110,000 to the Authority by wire transfer.

Wire instructions will be provided to the apparent successful bidder in a timely fashion after receipt of the bids is closed. The award to the apparent successful bidder is contingent upon receipt of the Deposit and the bonds will not be awarded to such bidder until the Authority has confirmation of receipt of the Deposit.

Award of the Bonds

Award or rejection of bids will be made by the Authority prior to 3:00 p.m. Richmond, Virginia Time on the date of receipt of bids. Upon such notice, such successful bidder shall advise the Authority of the Initial Reoffering Prices and yields to the public of the various maturities of the bonds as described below. Such information, among other things, will be used by the Authority to calculate the final principal amount of each maturity and the Final Aggregate Principal Amount of the bonds.

The proceeds of the Deposit will be held as security for the performance of the successful bidder's bid and applied to the purchase price of the bonds, but in the event the successful bidder shall fail to comply with the terms of its bid, the Deposit will be retained as and for full liquidated damages. No interest will be allowed thereon.

ALL BIDS SHALL REMAIN FIRM UNTIL 3:00 P.M., RICHMOND, VIRGINIA TIME, ON THE DATE OF RECEIPT OF BIDS. An award of the bonds, if made, will be made by the Authority within such four-hour period of time. Unless all bids are rejected, the bonds will be awarded to the bidder whose bid results in the lowest true interest cost to the Authority, 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 semi-annual debt service payment (interest, or principal and interest, as due, including any mandatory sinking fund payment) for the bonds, will equate the sum of such discounted semi-annual payments to the total purchase price (exclusive of accrued interest). The true interest cost shall be calculated from the dated date of the bonds. In case of a tie, the Authority may select the successful bidder. The Authority reserves the right to waive any irregularities in any bid and to reject any or all bids.

Changes to Bid Date, Closing Date

Amendments to the Notice of Sale

The Authority reserves the right to change the time and/or the date, from time to time, established for the receipt of bids and will undertake to notify registered prospective bidders via notification published on TM3 (www.tm3.com). Prospective bidders may request notification by facsimile transmission of any such changes in the date or time for the receipt of bids by so advising, and furnishing their telecopier numbers to BB&T Capital Markets at (804) 649-3982 by 12 Noon, Richmond, Virginia Time, on the day prior to the announced date for receipt of bids.

Any change to the time or date for receipt of bids will be announced via TM3 not later than 4:00 p.m., Richmond, Virginia Time, on the last business day prior to any announced date for receipt of bids, and an alternative sale date and time will be announced via TM3 by Noon, Richmond, Virginia Time, the business day prior to such alternative time for receipt of bids.

On any such alternative date and time for receipt of bids, the Authority will accept electronic bids for the purchase of the 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 for receipt of bids and any other changes announced via TM3 at the time the date and time for receipt of bids are announced.

The Authority may change the scheduled delivery date for the bonds by notice given in the same manner as that set forth for a change in the date for the receipt of bids.

Other Amendments

The Authority reserves the right to otherwise amend this Notice of Sale. The Authority expects that it would publish notification of any such amendment via TM3 not later than 4:00 p.m. Richmond, Virginia time on the last business day prior to any announced date for receipt of bids and would provide notification by facsimile

transmission to prospective bidders who have so requested such notification and provided their telecopier numbers to BB&T Capital Markets.

Closing; Miscellaneous

Undertakings of the Successful Bidder

The successful bidder shall make a bona fide public offering of all the bonds to the general public and shall, within 30 minutes after being notified that such bidder's bid appears to be the apparent winning bid, subject to verification, advise the Authority of the yields to the public and initial public offering prices of the bonds (the "Initial Reoffering Prices"). Prior to the delivery of the bonds, the successful bidder shall furnish a certificate acceptable to Bond Counsel as to the "issue price" of the bonds.

The bonds will be delivered on or about December 3, 2009 in New York, New York at DTC against payment of the purchase price therefor (less the amount of the good faith deposit) in Federal Reserve funds. The approving opinion of Sidley Austin LLP, New York, New York, Bond Counsel to the Authority, will be furnished without cost to the successful bidder. There will also be furnished the usual closing papers.

After the award of the bonds, the Authority will prepare copies of the final Official Statement and will include therein such additional information concerning the reoffering of the bonds as the successful bidder may reasonably request; provided, however, that the Authority will not include in the final Official Statement a "NRO" ("not reoffered") designation with respect to any maturity of the bonds. The successful bidder will be responsible to the Authority in all respects for the accuracy and completeness of information provided by such successful bidder with respect to such reoffering. Final Official Statements will be provided to the successful bidder within seven business days after the award of the bonds in such quantities as may be necessary for the successful bidder's regulatory compliance.

The Authority expects the successful bidder to deliver copies of the final Official Statement to persons to whom such bidder initially sells the bonds and the Municipal Securities Rulemaking Board (the "MSRB"). 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 Authority expects the successful bidder to deliver copies of such final Official Statement to persons to whom such bidder initially sells the bonds and to certify that the bonds will only be offered pursuant to the final Official Statement and only in states where the offer is legal.

To assist the successful bidder in complying with the requirements of Rule 15c2-12(b)(5) of the Securities Exchange Act of 1934, as amended, the MSRB will be provided annual information respecting the Authority, any local issuer designated as an obligated person and the Commonwealth, including audited financial statements. In addition, the Authority and any local issuer designated as an obligated person will provide to the MSRB notice of the occurrence of any events described in the Amendments if material and the Commonwealth will provide notice of any change in the ratings of its general obligation bonds.

It is the policy of the Commonwealth of Virginia pursuant to Executive Order 29 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 bonds the Authority requires that the winning bidder provide a listing of syndicate members noting any minority, women or disadvantaged business enterprises participating in the syndicate.

Conflict Waiver

Sidley Austin LLP is serving as Bond Counsel in connection with the issuance and sale of the bonds. By placing a bid, each bidder represents that it understands that Sidley Austin LLP, in its capacity as Bond Counsel, represents the Authority, and the successful bidder agrees to waive any conflict of interest that Sidley Austin LLP's involvement in connection with the issuance and sale of the bonds to such successful bidder presents.

Bond Insurance

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 Authority shall indicate in the final Official Statement those maturities that the successful bidder has informed the Authority for which credit enhancement is being sought. The Authority will also indicate within the final Official Statement that further information concerning such potential credit enhancement may be obtained through the successful bidder. The Authority 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 Authority will not place a statement of insurance on the bonds or provide such documentation, or make such covenants or arrangements, as would customarily be provided, made or arranged were the Authority 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 Authority of the cost of such credit enhancement and whether it will provide to the Authority, at or before the closing of the Series 2009 D Bonds, a certificate certifying that (i) the present value of the fees paid for such credit enhancement is 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 Series 2009 D 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 Authority to obtain the necessary certifications from the credit enhancement provider.

CUSIP Numbers

CUSIP numbers are to be applied for by the successful bidder with respect to the bonds, but the Authority will assume no obligation for the assignment or printing of such numbers on the bonds or for the correctness of such numbers, and neither the failure to print such numbers on any of the bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery or make payment for the bonds.

Additional Information

The Preliminary Official Statement at its date is "deemed final" by the Authority for purposes of SEC Rule 15c2-12. Copies of the Preliminary Official Statement in its entirety, including all appendices, are available from the Authority. A printed copy may be obtained by contacting the Authority at (804) 225-2142.

VIRGINIA PUBLIC SCHOOL AUTHORITY
By: JAMES M. HOLLAND, Chairman