This Preliminary Official Statement and the information contained herein are subject to completion and amendment. The 2011 Bonds may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. 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 2011 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.

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 27, 2011

NEW ISSUE – BOOK ENTRY ONLY

RATINGS: Fitch: _____
Moody's: _____
S&P: _____
(See "RATINGS" herein)

In the opinion of Bond Counsel, under existing law and subject to the conditions described in "TAX MATTERS," interest on the 2011A Bonds will not be included in the gross income of the owners thereof for federal income tax purposes and will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to certain corporations subject to the alternative minimum income tax, such interest is taken into account in determining adjusted current earnings for purposes of computing such tax. In the opinion of Bond Counsel, interest on the 2011B Bonds is includible in the gross income of the owners thereof for federal income tax purposes. Further, in the opinion of Bond Counsel, under existing laws of the Commonwealth of Virginia, interest on the 2011 Bonds is not subject to Virginia income taxation.

VIRGINIA PUBLIC BUILDING AUTHORITY

$280,000,000*
Public Facilities Revenue Bonds
Series 2011A

$18,500,000*
Public Facilities Revenue Bonds
Series 2011B (Federally Taxable)

Dated: Date of Delivery **Due: August 1, as shown on the inside cover**

This Official Statement has been prepared by the Virginia Public Building Authority to provide information on its Public Facilities Revenue Bonds, Series 2011A (the "2011A Bonds") and its Public Facilities Revenue Bonds, Series 2011B (Federally Taxable) (the "2011B Bonds"and together with the 2011A Bonds, the "2011 Bonds"). Selected information is presented on this cover page for the user's convenience. To make an informed decision regarding the 2011 Bonds, a prospective investor should read this Official Statement in its entirety.

Security	The 2011 Bonds are limited obligations of the Authority, anticipated to be payable solely from funds appropriated from time to time for such purpose by the General Assembly, which is under no legal obligation to make such appropriation. The 2011 Bonds are not a debt or a pledge of the faith and credit of the Commonwealth of Virginia. Neither the faith and credit nor the taxing power of the Commonwealth or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the 2011 Bonds. *See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS."*
Redemption	See inside cover and "*THE 2011 BONDS* - Redemption Provisions."
Issued Pursuant to	The 2011 Bonds are issued pursuant to a Master Indenture of Trust, dated as of April 15, 1997, as previously supplemented and amended, and as further supplemented by a Twenty-Ninth Supplemental Indenture of Trust, dated as of October 1, 2011.
Purpose	The Authority will use the proceeds of the 2011 Bonds to (i) finance the acquisition, construction, improvement, rehabilitation, furnishing and equipping of various public facilities for use by the Commonwealth and its agencies, (ii) finance the Commonwealth's share of the costs of certain grants and regional and local jail and juvenile detention facility projects, and (iii) pay costs of issuing the 2011 Bonds. *See "THE PROJECTS".*
Interest Rates/Yields	See inside cover.
Interest Payment Dates	February 1 and August 1, commencing February 1, 2012.
Denomination	$5,000 or integral multiples thereof.
Closing/Delivery Date	On or about October 19, 2011.*
Registration	Book-entry-only; The Depository Trust Company. *See "THE 2011 BONDS* - Book-Entry Only System."
Trustee/Paying Agent	The Bank of New York Mellon Trust Company, N.A., Richmond, Virginia.
Financial Advisor	Public Resources Advisory Group, New York, New York.
Bond Counsel	Christian & Barton, L.L.P., Richmond, Virginia.
Issuer Contact	Director of Debt Management, Virginia Department of the Treasury, (804) 225-2142.

The 2011 Bonds will be awarded pursuant to electronic competitive bidding to be held via PARITY® on October 5, 2011*, unless changed, as set forth in the respective Notices of Sale contained in Appendix F and Appendix G to this Official Statement and as described herein under "*SALE AT COMPETITIVE BIDDING*".

This Preliminary Official Statement in its entirety is available in physical form and may be obtained by contacting Public Resources Advisory Group at (212) 566-7800.

Dated: October __, 2011

* Preliminary, subject to change.

VIRGINIA PUBLIC BUILDING AUTHORITY

**$280,000,000*
Public Facilities Revenue Bonds
Series 2011A**

**$18,500,000*
Public Facilities Revenue Bonds
Series 2011B (Federally Taxable)**

(Base CUSIP Number 928172)†

Dated: Date of Delivery **Due: August 1, as shown below**

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS (OR PRICES)

Series 2011A

Year of Maturity*	Principal Amount*	Interest Rate	Yield/ Price	CUSIP Suffix
2012	8,695,000			
2013	8,940,000			
2014	9,260,000			
2015	9,685,000			
2016	10,180,000			
2017	10,705,000			
2018	11,255,000			
2019	11,835,000			
2020	12,440,000			
2021	13,075,000			
2022	13,745,000			
2023	14,450,000			
2024	15,190,000			
2025	15,975,000			
2026	16,790,000			
2027	17,650,000			
2028	18,555,000			
2029	19,510,000			
2030	20,505,000			
2031	21,560,000			

Series 2011B (Federally Taxable)

Year of Maturity*	Principal Amount*	Interest Rate	Yield/ Price	CUSIP Suffix
2012	720,000			
2013	725,000			
2014	735,000			
2015	745,000			
2016	760,000			
2017	775,000			
2018	795,000			
2019	815,000			
2020	840,000			
2021	865,000			
2022	895,000			
2023	925,000			
2024	960,000			
2025	995,000			
2026	1,035,000			
2027	1,080,000			
2028	1,130,000			
2029	1,180,000			
2030	1,235,000			
2031	1,290,000			

OPTIONAL REDEMPTION

The 2011 Bonds maturing on or before August 1, 2021 are not subject to redemption prior to maturity. The 2011 Bonds maturing on or after August 1, 2022 may be redeemed prior to their respective maturities at the sole option of the Authority on or after August 1, 2021, in whole or in part at any time, as described more fully in "*THE 2011 BONDS* – Redemption Provisions."

[MANDATORY REDEMPTION

Mandatory sinking fund redemption provisions will be included in the final Official Statement only if the successful bidder elects to combine, in accordance with the respective Notices of Sale, serial maturities into one or more term bonds. See "*THE 2011 BONDS* – Redemption Provisions."]

---

* Preliminary, subject to change.

† CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for the convenience of the holders of the 2011 Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the 2011 Bonds or as indicated above.

COMMONWEALTH OF VIRGINIA OFFICIALS

GOVERNOR
ROBERT F. McDONNELL

LIEUTENANT GOVERNOR
WILLIAM T. "BILL" BOLLING

ATTORNEY GENERAL
KENNETH T. CUCCINELLI, II

SECRETARY OF FINANCE
RICHARD D. BROWN

STATE TREASURER
MANJU S. GANERIWALA

STATE COMPTROLLER
DAVID A. VON MOLL

VIRGINIA PUBLIC BUILDING AUTHORITY

MEMBERS

CHAIRMAN
SARAH B. WILLIAMS

SECRETARY/TREASURER
MANJU S. GANERIWALA

JOHN A. MAHONE

VICE CHAIRMAN
JAMES H. FLINCHUM

F. DUDLEY FULTON

ROBERT C. MADDUX

DAVID A. VON MOLL

STAFF

VPBA ASSISTANT SECRETARY/TREASURER #1
Director of Debt Management
EVELYN R. WHITLEY

VPBA ASSISTANT SECRETARY/TREASURER #2
Public Finance Manager
TRACY L. CLEMONS, SR.

Senior Public Finance Analyst
SHERWANDA CAWTHORN

FINANCIAL ADVISOR
PUBLIC RESOURCES ADVISORY GROUP
New York, New York

BOND COUNSEL
CHRISTIAN & BARTON, L.L.P.
Richmond, Virginia

TRUSTEE AND PAYING AGENT
THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.
Richmond, Virginia

COUNSEL TO VPBA AND TREASURY BOARD
ATTORNEY GENERAL'S OFFICE
Richmond, Virginia

The 2011 Bonds are exempt from registration under the Securities Act of 1933, as amended. As obligations of the Commonwealth of Virginia, the 2011 Bonds are exempt from registration under the securities laws of the Commonwealth.

No dealer, broker, salesman or other person has been authorized by the Authority, the Commonwealth to give any information or to make any representation with respect to the 2011 Bonds other than those contained in this Official Statement. If given or made, such other information and/or representations must not be relied upon as having been authorized by the Authority or the Commonwealth. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the 2011 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 Commonwealth and the purchasers or owners of any of the 2011 Bonds.

The information and any expression of opinion herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder, under any circumstances, shall create any implication that there has been no change in the affairs of the Authority or the Commonwealth since the date hereof. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly stated, are intended as such and not as representations of fact. No representation is made that any such opinion or estimate will be realized.

TABLE OF CONTENTS

This Preliminary Official Statement in its entirety, including all appendices, is available electronically from the Authority by arrangement between the Authority and i-Deal Prospectus LLP via the Internet at www.iDealProspectus.com or in physical form by contacting Public Resources Advisory Group at (212) 566-7800.

OFFICIAL STATEMENT

VIRGINIA PUBLIC BUILDING AUTHORITY

$280,000,000*	**$18,500,000***
Public Facilities Revenue Bonds	**Public Facilities Revenue Bonds**
Series 2011A	**Series 2011B (Federally Taxable)**

INTRODUCTION

Purpose

The purpose of this Official Statement, including its cover and appendices, is to provide certain information relating to the Virginia Public Building Authority (the "Authority") and the issuance of its $280,000,000* Public Facilities Revenue Bonds, Series 2011A (the "2011A Bonds") and its $18,500,000* Public Facilities Revenue Bonds, Series 2011B (Federally Taxable) (the "2011B Bonds" and together with the 2011A Bonds, the "2011 Bonds"). The Authority is issuing the 2011 Bonds to (i) finance the acquisition, construction, improvement, rehabilitation, furnishing and equipping of various public facilities for use by the Commonwealth of Virginia (the "Commonwealth") and its agencies, (ii) finance the Commonwealth's share of the costs of certain grants and regional and local jail and juvenile detention facility projects, and (iii) pay costs of issuing the 2011 Bonds. See "*THE PROJECTS.*" The 2011 Bonds are expected to be offered for sale at competitive bidding on October 5, 2011.* See *"SALE AT COMPETITIVE BIDDING."*

This introduction contains certain summary information regarding the 2011 Bonds and is not a complete summary of the 2011 Bonds or the security therefor. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto. Investors should read this entire Official Statement to obtain information necessary to the making of an informed decision.

The Authority

The Authority is a political subdivision of the Commonwealth. The Authority is authorized to issue bonds or notes (i) to construct, improve, furnish, maintain, acquire, finance and refinance certain public facilities for the use of the Commonwealth, its agencies and instrumentalities, (ii) to finance capital projects that benefit the Commonwealth and any of its authorities, agencies, instrumentalities or regional or local authorities, and (iii) to finance reimbursements to localities or governmental entities of the Commonwealth's share of the capital costs for certain authorized projects. The Authority has no taxing power. The Authority is created under the Virginia Public Building Authority Act of 1981, Article 6, Chapter 22, Title 2.2, Code of Virginia of 1950, as amended (the "Act"). The Authority's offices are located at 101 North 14th Street, James Monroe Building, Third Floor, Richmond, Virginia 23219, its mailing address is P. O. Box 1879, Richmond, Virginia 23218-1879, and it may be reached by telephone at (804) 225-4929 and by facsimile at (804) 225-3187. See "*THE AUTHORITY.*"

Authorization

The 2011 Bonds will be issued pursuant to the Act, a resolution adopted by the Authority on September 14, 2011, and a resolution adopted by the Treasury Board of the Commonwealth (the "Treasury Board") on September 21, 2011.

The issuance of the 2011 Bonds is subject to the consent of the Governor of the Commonwealth, as required by the Act.

The 2011 Bonds will also be issued pursuant to a Master Indenture of Trust (the "Master Indenture") dated as of April 15, 1997, as previously supplemented and amended, and as further

* Preliminary, subject to change.

supplemented by a Twenty-Ninth Supplemental Indenture of Trust (the "Twenty-Ninth Supplemental Indenture"), dated as of September 1, 2011, between the Authority and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee") and paying agent (the "Paying Agent"). Together, the Master Indenture, the Twenty-Ninth Supplemental Indenture and any previous or further supplements are referred to in this Official Statement as the "Indenture." The bonds currently outstanding under the Indenture are collectively referred to as the "Prior Bonds." The 2011 Bonds will be the thirty-second and the thirty-third series, respectively, of parity bonds issued under the Indenture. The 2011 Bonds, the Prior Bonds, and all other parity or additional bonds hereafter issued from time to time under and secured equally and ratably by the Indenture (the "Additional Bonds") are collectively called the "Bonds."

The 2011 Bonds

The 2011A Bonds will be issued in the aggregate principal amount of $280,000,000* and the 2011B Bonds will be issued in the aggregate principal amount of $18,500,000*. The 2011 Bonds will be dated the date of their original issuance and delivery, and will mature on August 1 in the years and amounts set forth on the inside front cover page of this Official Statement. The 2011 Bonds will be issued in authorized denominations of $5,000 and integral multiples thereof and will be held through the facilities of The Depository Trust Company, New York, New York ("DTC") or by its nominee as securities depository with respect to the 2011 Bonds. See "*THE 2011 BONDS* - Book-Entry-Only System."

Interest on the 2011 Bonds will be payable on February 1 and August 1, commencing February 1, 2012, until the earlier of maturity or redemption. As long as the 2011 Bonds are held by DTC or its nominee, interest will be paid to Cede & Co., as nominee of DTC in same-day funds on each interest payment date.

Authority Financing Program

The Authority was initially created under the Act for the purpose of financing, refinancing, constructing, improving, furnishing, maintaining, acquiring and operating public buildings for the use of the Commonwealth and its agencies, instrumentalities and political subdivisions. The Authority issues revenue bonds under Article X, Section 9(d) of the Virginia Constitution, for projects that have been specifically authorized by the General Assembly. Since its inception in 1981, the Authority has issued 41 series of bonds, 10 of which were issued under the Authority's prior master indenture with Signet Trust Company (predecessor to The Bank of New York Mellon Trust Company, N.A.), as Trustee and Paying Agent, dated as of October 1, 1988, as supplemented and amended, under which the Authority took legal title to projects and leased them to the Commonwealth. The Commonwealth's lease payments under the leases, in turn, paid debt service on such bonds.

In 1996, the General Assembly authorized the Authority to finance or refinance all or any portion of the Commonwealth's share of the costs, including certain interest accrued during construction, of local or regional jail facilities that have been approved by the General Assembly, in addition to traditional Authority facilities approved by the General Assembly for the Commonwealth and its agencies. In 1998, the General Assembly authorized the Authority to refinance obligations issued by other state and local authorities or political subdivisions of the Commonwealth where such obligations are secured by a lease or other payment agreement with the Commonwealth and to refinance the Commonwealth's obligations under such leases or payment agreements. In 2002, the General Assembly further authorized the Authority to finance or refinance capital projects that benefit the Commonwealth, or its agencies, authorities or instrumentalities, and regional or local authorities, and also extended the Authority's finance powers to include the refinancing of reimbursements to governmental entities of the Commonwealth's share of the costs of capital projects authorized by applicable Virginia law. The authorized projects for Authority financing from time to time are referred to in this Official Statement as "Projects."

To simplify its financing structure and to finance the Commonwealth's share of regional and local jail costs and other capital facilities, the Authority authorized the issuance of bonds under a structure

* Preliminary, subject to change.

provided for by the Master Indenture. This structure utilizes a single payment agreement with the Treasury Board to provide for debt service payments on the Bonds. Payments under such payment agreement are subject to General Assembly appropriations therefor, as are the lease payments under the Commonwealth leases relating to the Authority's bonds outstanding under its prior master indenture. See "*THE MASTER INDENTURE*" and "*THE PAYMENT AGREEMENT.*"

Under this financing structure, the Authority generally finances the cost of authorized Projects as funding is needed on a "cash flow" basis. Anticipated costs to be incurred on Projects over a short-term period, usually less than one year, are included when determining the size of an issue. Bond proceeds are available to pay the costs of approved Projects. Accordingly, the Authority anticipates the issuance of Additional Bonds from time to time, although neither the size nor the timing of any additional series of Bonds is known at this time. Proceeds from such Additional Bonds will be used to pay the costs of Projects that require additional funding, as well as for additional Projects. See "*AUTHORITY DEBT SERVICE REQUIREMENTS*" for amounts outstanding under the Authority's respective master indenture.

See "*SOURCES OF PAYMENT AND SECURITY FOR THE BONDS* - Additional Bonds."

Security for the 2011 Bonds

The 2011 Bonds will be payable from and secured by funds, if any, appropriated from time to time for such purpose by the General Assembly. See "*SOURCES OF PAYMENT AND SECURITY FOR THE BONDS.*"

THE 2011 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE PRIMARILY FROM FUNDS TO BE APPROPRIATED FROM TIME TO TIME FOR SUCH PURPOSE BY THE GENERAL ASSEMBLY, WHICH IS UNDER NO LEGAL OBLIGATION TO MAKE SUCH APPROPRIATION. THE 2011 BONDS ARE NOT A DEBT OF THE COMMONWEALTH OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2011 BONDS. THE AUTHORITY HAS NO TAXING POWER.

Appendix A contains the financial statements of the Commonwealth for its fiscal year ending June 30, 2010. ***Appendices B*** and ***C*** contain, respectively, certain financial and demographic/economic information pertaining to the Commonwealth. See "*SOURCES OF PAYMENT AND SECURITY FOR THE BONDS* - Information Pertaining to the Commonwealth."

THE AUTHORITY

The Authority is governed by a seven-member board (the "Board"). Five members of the Board are appointed for five-year terms by the Governor of Virginia (the "Governor"), subject to General Assembly confirmation. The Governor designates one member of the Board as chairman. The State Treasurer and the State Comptroller serve as ex officio members of the Board.

The following sets forth the Board's current membership, the expiration dates of the members' terms and the business or government affiliations of such members:

Name	*Expiration of Term*	*Business Affiliation*
Sarah Bane Williams Chairman	June 30, 2012	Virginia Community Capital, Inc., Richmond, Virginia
Manju S. Ganeriwala Secretary/Treasurer	Ex officio	State Treasurer, Richmond, Virginia
James H. Flinchum Vice Chairman	June 30, 2013	Bay Capital Advisors, LLC, Virginia Beach, Virginia
Robert C. Maddux	June 30, 2014	University of Richmond, Richmond, Virginia
John A. Mahone	June 30, 2016	Commonwealth of Virginia, Retired
F. Dudley Fulton	June 30, 2015	USI Insurance Services, LLC, Virginia Beach, Virginia
David A. Von Moll	Ex officio	State Comptroller, Richmond, Virginia

Upon the issuance of the 2011 Bonds, there will be approximately $353,972,232 in authorized but unissued bonds for Projects authorized to be financed by the Authority. As of September 1, 2011, the Authority will have outstanding $2,151,545,000 principal amount of bonds. As of September 1, 2011, the maximum annual debt service on such outstanding bonds will be $272,248,200.** Debt service on the Authority's fixed rate bonds is payable on a semi-annual basis from Commonwealth appropriations; debt service on the Authority's variable rate bonds is also paid from Commonwealth appropriations but may be paid on a monthly or other basis. See "*SOURCES OF PAYMENT AND SECURITY FOR THE BONDS*."

The Bonds are limited obligations of the Authority, payable solely from the Trust Estate, as described in "*SOURCES OF PAYMENTS AND SECURITY FOR THE BONDS.*"

THE PROJECTS

General

The Authority currently intends to use the proceeds of the 2011 Bonds to finance portions of some or all of the various Projects described below. Portions of such Projects may have been financed in part with proceeds of previous Authority bond issues and, to the extent necessary, the Authority currently intends to finance additional portions of such Projects, as well as additional projects authorized for Authority financing, from time to time, with Additional Bonds.

Prior General Assembly Authorizations

In previous years, the Virginia General Assembly has authorized the Authority to issue bonds for financing, refinancing, constructing, improving, furnishing, maintaining, acquiring and renovating certain specified projects for the use of the Commonwealth and its agencies, instrumentalities and political subdivisions, as follows:

** *The maximum annual debt service includes debt service on the Authority's $50,000,000 Variable Rate Public Facilities Revenue Bonds, Series 2005D. This debt service is based on an assumed rate of interest of 4.00% for budgeting purposes and does not reflect current rates as of any particular date. The maximum annual debt service is net of the 35% subsidy payment from the federal government on the Authority's $256,710,000 Public Facilities Revenue Bonds, Series 2010A-2 (Taxable Build America Bonds) and $195,310,000 Public Facilities Revenue Bonds, Series 2010B-2 (Federally Taxable Build America Bonds).*

Chapter Number	Acts of Assembly Year	Total Amount Authorized for Authority Financing
814	2002	$56,197,306
855 & 887	2002	$195,674,000
955	2003	$118,570,000
1042	2003	$156,262,144
4	2004 Special Session I	$261,714,000
943	2004	$6,617,000
897	2004	$12,408,000
951	2005	$53,503,000
245	2006	$201,900,000
847	2007	$99,000,000
847 & 879	2008	$354,032,000
1 & 2	2008 Special Session I	$454,783,000
781	2009	$373,103,992
874	2010	$146,049,000
890	2011	$12,620,679

The foregoing description does not include those particular local or regional jail facilities for which the General Assembly has authorized the Authority to finance the Commonwealth's obligated share of the costs thereof.

Subject to the foregoing, the Authority anticipates that the proceeds of the sale of the 2011 Bonds will be used for some or all of the following categories of projects, with the amounts listed below being the maximum amounts expected for such categories:

Type of Project	Maximum Amount*
General governmental facilities	$24,236,533.00
Conservation projects	7,315,997.00
Public safety facilities	118,201,387.00
Education and cultural facilities	29,466,934.00
Public/mental health projects	119,278,536.00**

* Preliminary, subject to change.
** It is anticipated that the 2011B Bonds will fund a portion of certain public/mental health projects.

SOURCES AND USES OF PROCEEDS

The following table sets forth estimates of the sources and uses of proceeds of the 2011 Bonds.

SOURCES

Par Amount of 2011A Bonds…………………………………………………………..	$
Net Original Issue Premium/Discount for 2011A Bonds……………………………	
Par Amount of 2011B Bonds…………………………………………………………..	
Net Original Issue Premium/Discount for 2011B Bonds……………………………	
Total Sources of Funds…………………………………………………….....	$

USES

Deposit to Construction Fund for 2011A Bonds…………………………………..	$
Deposit to Construction Fund for 2011B Bonds…………………………………..	
Costs of Issuance^………………………………………………………………...	
Total Uses of Funds………………………………………………………	$

^ Includes Underwriters' discount of $____________.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

THE 2011 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE PRIMARILY FROM FUNDS TO BE APPROPRIATED FROM TIME TO TIME FOR SUCH PURPOSE BY THE GENERAL ASSEMBLY, WHICH IS UNDER NO LEGAL OBLIGATION TO MAKE SUCH APPROPRIATION. THE 2011 BONDS ARE NOT A DEBT OF THE COMMONWEALTH OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2011 BONDS. THE AUTHORITY HAS NO TAXING POWER.

The revenues, receipts and funds pledged to the payment of the Bonds, including the 2011 Bonds, are as follows: (i) amounts on deposit from time to time in the Bond Fund created under the Master Indenture; (ii) amounts, if any, appropriated by the General Assembly to the Treasury Board and forwarded by the Treasury Board to the Authority, in accordance with the provisions of the Payment Agreement (as defined herein), for the payment of debt service on the Bonds; and (iii) other property of any kind from time to time pledged to the payment of the Bonds (together, the "Trust Estate"). The General Assembly has no legal obligation to make appropriations for the payment of debt service on the Bonds.

The 2011 Bonds are the thirty-second and thirty-third series, respectively, of Bonds issued under the Master Indenture. The Master Indenture authorizes the issuance of Additional Bonds upon the terms and conditions set forth in the Master Indenture. As to the security listed above, the 2011 Bonds will be secured equally and ratably with the Prior Bonds and any Additional Bonds. See "*THE MASTER INDENTURE*."

Although the Master Indenture permits any series of Bonds to be additionally secured by certain types of credit or liquidity support, **there is no credit or liquidity facility for the 2011 Bonds, nor is there a debt service reserve fund for the 2011 Bonds.**

Payment Agreement

The Authority has entered into a Payment Agreement, dated as of April 15, 1997 (the "Payment Agreement"), with the Treasury Board. The Payment Agreement provides, among other things, the procedures for specifying the amount of funds required to pay debt service due or expected to become due on the Bonds (including certain administrative and rebate expenses), requesting General Assembly appropriations of funds sufficient to pay such amounts, and for the payment of such amounts if any. The General Assembly is not required, and is under no legal obligation, to make an appropriation for any amount or payment under the Payment Agreement or otherwise in respect of any Bonds. The Payment Agreement requires the Authority and the Treasury Board to use their best efforts to have (i) the Governor include, among other things, the amount so specified in each biennial or any supplemental budget of the Commonwealth, and (ii) the General Assembly appropriate the amount requested by the Governor.

Once the amounts for debt service on the Bonds are appropriated by the General Assembly, the Payment Agreement requires the Authority and the Treasury Board to process the necessary requisitions and documents for payment to the Trustee of debt service on the Bonds and any other amounts required by the Indenture, including certain administrative amounts and rebate expenses. See "*THE PAYMENT AGREEMENT*."

Notwithstanding any failure to complete Projects partially funded with Bonds or to issue Additional Bonds therefor, the Commonwealth is obligated, subject to appropriations by the General Assembly, to make payments under the Payment Agreement in an amount sufficient, together with other available funds, to pay the principal of, premium, if any, and interest due on the Bonds.

The Commonwealth has never failed to perform its obligations to budget, appropriate and pay pursuant to the Payment Agreement or any similar agreement whereby the Commonwealth and its officers are bound to exercise their best efforts to budget and appropriate amounts sufficient to pay debt service when due.

Appropriation Procedures

The Payment Agreement requires the Treasury Board, acting as fiscal agent on behalf of the Authority (the "Fiscal Agent"), to submit annually by December 1 to the Governor and the Director of the Department of Planning and Budget of the Commonwealth a statement setting forth the amount of debt service due or expected to become due on the Bonds for the next succeeding annual or biennial period. The Payment Agreement requires the Fiscal Agent to use its best efforts each legislative session during the term of the Payment Agreement to have (i) the Governor include the amount so certified in the biennial or any supplemental budget of the Commonwealth, and (ii) the General Assembly appropriate such amount.

The General Assembly's current practice is to make a single direct appropriation to the Treasury Board for certain Commonwealth-related debt service obligations, including the Commonwealth's general obligation bonds, all bonds issued by the Authority, and certain other obligations with respect to the Commonwealth. Although there is no legal requirement that debt service obligations on the Authority's bonds be included with other Commonwealth debt obligations in a single appropriation, the Authority currently anticipates that all debt service obligations for Authority bonds would be contained in the same appropriation. As Fiscal Agent for the Authority, the Treasury Board directly pays the Trustee that portion of any appropriation consisting of payments under the Payment Agreement for debt service on Bonds.

The General Assembly is not required, and is under no legal obligation, to make an appropriation for any amount or payment under the Payment Agreement or otherwise in respect of any Bonds. However, the General Assembly has never failed to make an appropriation to the Authority for payment of debt service on the Authority's bonds.

To the extent that the payments under the Payment Agreement included in the Commonwealth's budget are appropriated by the General Assembly and approved by the Governor, the Fiscal Agent is required under the Payment Agreement to pay amounts due under the Indenture to the Trustee.

Additional Bonds

The Authority intends to issue Additional Bonds to pay the costs of completing certain Projects initially funded with bonds previously issued by the Authority, including the Prior Bonds, and to undertake additional Projects. See "*INTRODUCTION* - Authority Financing Program." Any Additional Bonds issued by the Authority under the Indenture will be equally and ratably secured and payable pursuant to the Indenture with the 2011A Bonds, and the 2011B Bonds and the Prior Bonds. See "*THE MASTER INDENTURE* - Pledge of Revenues and Funds and Parity of Bonds." Except as set forth below, neither the size nor the timing of any series of Additional Bonds is known at this time.

Information Pertaining to the Commonwealth

Appendix A contains the comprehensive financial statements of the Commonwealth for its fiscal year ending June 30, 2010 and ***Appendices B*** and ***C*** contain, respectively, certain financial and demographic/economic information pertaining to the Commonwealth, including, as to ***Appendix B***, certain summary financial information pertaining to the Commonwealth as of June 30, 2011.

On July 19, 2011, Governor Bob McDonnell announced that the Commonwealth concluded its fiscal year ended June 30, 2011 with an approximately $311 million surplus from general fund revenue collections and transfers. Total revenue collections rose by 5.8% in the fiscal year ended June 30, 2011, more than was expected in the Commonwealth's revised revenue forecast of 3.5% growth. The main factors contributing to the larger than forecasted revenue increase were growth in individual income tax receipts from both payroll withholding and non-withholding, which are key economic indicators. The overwhelming majority of the surplus is obligated to predetermined areas of the state budget due to the Virginia Constitution and state law which govern revenue allocations in the event of a surplus. Approximately $146.6 million of the surplus is required to be deposited to the revenue stabilization fund during the Commonwealth's fiscal year ending June 30, 2012.

THE 2011 BONDS

General Terms

The 2011 Bonds will be issued in the principal amounts set forth on the inside front cover page of this Official Statement. The 2011 Bonds will be dated the date of their original issuance and delivery, will bear interest from such date at the rates set forth on the inside front cover page of this Official Statement, payable on each February 1 and August 1, commencing February 1, 2012, and will mature as set forth on the inside front cover page of this Official Statement. Interest on the 2011 Bonds will be calculated on a 30/360 day basis.

The 2011 Bonds will be issued only as fully registered bonds in book-entry only form, in denominations of $5,000 or any integral multiple thereof, and initially will be held by DTC or its nominee as securities depository for the 2011 Bonds.

Purchases and sales of the 2011 Bonds by Beneficial Owners, defined below, are to be made in book-entry only form only and purchasers will not receive certificates representing their interest in 2011 Bonds so purchased. See the subsection "*Book-Entry-Only System*" below. If the book-entry system is discontinued, bond certificates will be delivered as described in the Indenture, and Beneficial Owners will become the registered owners. Principal of, and premium, if any, on the 2011 Bonds will be payable at the corporate trust office of the Bond Registrar, initially, the Trustee, except that, for so long as Cede & Co. or such other nominee of DTC is the registered owner of all of the 2011 Bonds, principal of and premium, if any, and interest on the Bonds will be payable in accordance with certain procedures of DTC.

Redemption Provisions*

The 2011 Bonds are subject to redemption prior to maturity as described below.

2011A Bonds Optional Redemption. The 2011A Bonds maturing on or before August 1, 2021 are not subject to redemption prior to maturity. The 2011A Bonds maturing on or after August 1, 2022, may be redeemed in whole or in part prior to their respective maturities at the sole option of the Authority on or after August 1, 2021, from any money available for such purpose, in whole or in part (if in part, in multiples of $5,000), at any time upon payment of a redemption price equal to the principal amount of the 2011A Bonds to be redeemed, plus accrued interest to the redemption date.

2011B Bonds Optional Redemption. The 2011B Bonds maturing on or before August 1, 2021 are not subject to redemption prior to maturity. The 2011B Bonds maturing on or after August 1, 2022, may be redeemed in whole or in part prior to their respective maturities at the sole option of the Authority on or after August 1, 2021, from any money available for such purpose, in whole or in part (if in part, in multiples of $5,000), at any time upon payment of a redemption price equal to the principal amount of the 2011B Bonds to be redeemed, plus accrued interest to the redemption date.

[*Mandatory Sinking Fund Redemption. Mandatory redemption provisions will be included in the final Official Statement only if the successful bidder elects to combine, in accordance with the respective Notices of Sale, serial maturities into one or more term bonds.*

The 2011A Bonds or the 2011B Bonds maturing on August 1, 20__, are subject to mandatory sinking fund redemption on August 1 of the years and in the principal amounts plus accrued interest to the redemption date, without premium, as follows:

Year	Amount	Year	Amount

At its option, to be exercised on or before the seventieth day preceding any such mandatory redemption date, the Authority may:

---

* Preliminary, subject to change.

(1) deliver to the Trustee 2011A Bonds or the 2011B Bonds for cancellation; or

(2) receive a credit for any 2011A Bonds or any 2011B Bonds of such maturity which prior to such date have been redeemed (otherwise than by mandatory redemption) and cancelled by the Trustee and not therefore applied as credit against any mandatory redemption obligations. Each such 2011A Bond or 2011B Bond so delivered or previously redeemed will be credited by the Trustee at 100% of the principal amount thereof against the sinking fund requirement on such redemption date and any excess over such obligation will be credited against future mandatory redemption obligations in chronological order, unless the Authority instructs the Trustee otherwise, and the principal amount of 2011A Bonds or 2011B Bonds to be redeemed by mandatory redemption will be reduced accordingly.]

Manner of Redemption. Whenever 2011 Bonds are to be redeemed, the Authority shall cause notice of the call for redemption to be sent by the Trustee, by overnight delivery or registered or certified first class mail, not less than 30 nor more than 60 days before the redemption date, identifying the 2011 Bonds or portions thereof to be redeemed to DTC or its nominee as the registered owner thereof. Notice of redemption shall be mailed to the registered owners of the 2011 Bonds to be redeemed. If less than all of the 2011 Bonds are called for redemption, the maturities of the 2011 Bonds to be redeemed shall be selected in such manner as may be determined by the Authority to be in the best interest of the Authority. If less than all of the 2011 Bonds of a single maturity are called for redemption, the 2011 Bonds to be redeemed shall be selected by the Trustee by lot, or if a securities depository is the registered owner of the 2011 Bonds, by such securities depository in accordance with its customary procedures. **During the period that DTC or its nominee is registered owner of the 2011 Bonds, the Authority shall not be responsible for mailing notices of redemption to the Beneficial Owners, as defined herein. See the subsection "Book-Entry-Only System."**

Any notice of optional redemption of the 2011 Bonds may state that it is conditioned upon there being available an amount of money sufficient to pay the redemption price, as described above, 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 Authority, 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 2011 Bonds called for redemption will become due and payable. If the Authority gives a conditional notice of redemption, and if money to pay the redemption price of the affected 2011 Bonds shall have been set aside with the Trustee for the purpose of paying such 2011 Bonds, then on the redemption date the 2011 Bonds will become due and payable. In either case, if on the redemption date the Trustee holds money to pay the 2011 Bonds called for redemption, thereafter, no interest will accrue on those 2011 Bonds, and a bondholder's right will be to receive payment of the redemption price upon surrender of those 2011 Bonds.

Book-Entry-Only System

The description that follows of the procedures and recordkeeping with respect to beneficial ownership interests in the 2011 Bonds, payments of redemption proceeds, distributions, and dividend payments on the 2011 Bonds to DTC, New York, New York, its nominee, Direct and Indirect Participants (as defined below) or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the 2011 Bonds and other bond-related transactions by and between DTC, Direct and Indirect Participants and Beneficial Owners is based solely on information furnished by DTC. None of the Authority, the Commonwealth or the Trustee assumes any responsibility for the accuracy or adequacy of the information included in such description.

DTC will act as securities depository for the 2011 Bonds. The 2011 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 2011A Bond certificate and 2011B Bond certificate will be issued for each maturity of the 2011 Bonds, respectively, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2011 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2011A Bond and 2011B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmations from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2011 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 2011 Bonds, except in the event that use of the book-entry system for the 2011 Bonds is discontinued.

To facilitate subsequent transfers, all 2011 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 2011 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 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2011 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2011 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2011 Bonds, such as redemptions, tenders, defaults and proposed amendments to the 2011A Bond and the 2011B Bond documents. For example, Beneficial Owners of the 2011 Bonds may wish to ascertain that the nominee holding the 2011 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2011 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 2011 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 2011 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

BECAUSE DTC IS TREATED AS THE OWNER OF THE 2011A BONDS AND THE 2011B BONDS FOR SUBSTANTIALLY ALL PURPOSES UNDER THE INDENTURE, BENEFICIAL OWNERS MAY HAVE A RESTRICTED ABILITY TO INFLUENCE IN A TIMELY FASHION REMEDIAL ACTION OR THE GIVING OR WITHHOLDING OF REQUESTED CONSENTS OR OTHER DIRECTIONS. IN ADDITION, BECAUSE THE IDENTITY OF BENEFICIAL OWNERS IS UNKNOWN TO THE AUTHORITY, THE COMMONWEALTH OR DTC, IT MAY BE DIFFICULT TO TRANSMIT INFORMATION OF POTENTIAL INTEREST TO BENEFICIAL OWNERS IN AN EFFECTIVE AND TIMELY MANNER. BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS WITH THEIR BROKER OR DEALER REGARDING DISTRIBUTION OF INFORMATION REGARDING THE 2011 BONDS THAT MAY BE TRANSMITTED BY OR THROUGH DTC.

Redemption proceeds, distributions, and dividend payments on the 2011 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 or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners will be the responsibility of Direct and Indirect Participants. THE AUTHORITY AND THE COMMONWEALTH CAN GIVE NO ASSURANCES THAT DIRECT AND INDIRECT PARTICIPANTS WILL PROMPTLY TRANSFER PAYMENT TO BENEFICIAL OWNERS.

DTC may discontinue providing its services as depository with respect to the 2011 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2011A Bond certificates and 2011B certificates are required to be printed and delivered to DTC.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2011A Bond certificates and 2011B Bond certificates will be printed and delivered.

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

So long as Cede & Co., as nominee for DTC, is the sole bondholder, the Authority and the Trustee shall treat Cede & Co. as the only bondholder for all purposes under the Master Indenture, including receipt of all redemption proceeds, distributions, and dividend payments on the 2011 Bonds, receipt of notices, voting and requesting or directing the Authority and the Trustee to take or not to take, or consenting to, certain actions under the Master Indenture.

The Authority and the Trustee have no responsibility or obligation to the Direct and Indirect Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Direct and Indirect Participant; (b) the payment by any Direct or Indirect Participant of any amount due to any Beneficial Owner in respect of the redemption proceeds, distributions, and dividend payments on the 2011 Bonds in the sending of any transaction statements; (c) the delivery or timeliness of delivery by DTC or any participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Master Indenture to be given to Bondholders; (d) the selection of the Beneficial Owners to receive payments upon any partial redemption of 2011 Bonds, or (e) other action taken by DTC or Cede & Co. as Bondholder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.

The Authority or the Trustee may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the 2011 Bonds without the consent of Beneficial Owners or bondholders.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood while the 2011 Bonds are in the book-entry-only system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the 2011 Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry-only system, and (ii) except as described above, notices that are to be given to registered owners under the Indenture will be given only to DTC.

[PAGE LEFT INTENTIONALLY BLANK]

AUTHORITY DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for all Authority bonds that will be outstanding as of the issuance of the 2011 Bonds on a fiscal year basis through 2032.

Fiscal Year Ending June 30	Prior Bonds Outstanding (Principal & Interest)(1)	2011 Bonds (2) Principal	2011 Bonds (2) Interest	2011 Bonds (2) Total	Total Debt Service on Authority Bonds Outstanding (Principal & Interest)(3)
2012	272,248,200				
2013	266,016,345				
2014	248,637,817				
2015	244,274,112				
2016	233,067,390				
2017	210,090,662				
2018	185,842,137				
2019	163,295,116				
2020	157,844,552				
2021	145,901,359				
2022	137,356,581				
2023	135,428,278				
2024	132,092,816				
2025	132,234,812				
2026	120,808,017				
2027	105,336,654				
2028	85,420,745				
2029	70,728,884				
2030	58,776,383				
2031	42,076,266				
2032					
Total*	**$3,147,477,128**				

* Totals may not add due to rounding.

(1) Assumes an interest rate of 4.0% per annum on the Authority's Variable Rate Public Facilities Revenue Bonds, Series 2005D. This rate is an assumed rate of interest for budgeting purposes and does not reflect current rates as of any particular date. Debt service on the Authority's Public Facilities Revenue Bonds, Series 2010A-2 (Taxable Build America Bonds) and Public Facilities Revenue Bonds, Series 2010B-2 (Taxable Build America Bonds) is net of the expected federal debt service subsidy.

(2) To be completed upon the sale of the 2011 Bonds.

(3) The final debt service amounts will be in the final Official Statement.

THE PAYMENT AGREEMENT

In addition to the information presented in "*SOURCES OF PAYMENT AND SECURITY FOR THE BONDS*," the following summarizes certain provisions of the Payment Agreement. This summary does not purport to be comprehensive or definitive and is qualified by reference to the Payment Agreement in its entirety, copies of which may be obtained at the respective offices of the Treasury Board, the Trustee or the Authority.

The Payment Agreement requires the Treasury Board to submit annually by December 1 to the Governor and the Director of the Department of Planning and Budget of the Commonwealth a statement of the amount of principal and interest coming due or expected to be coming due on the Bonds and all other amounts required to be paid under the Indenture during the next succeeding fiscal or biennial period, as applicable, and to request that the Governor include in his budget to be delivered to the next session of the General Assembly a provision that there be appropriated such amount for such purpose from legally available funds.

The Authority will use its best efforts to have (i) the Governor include in each biennial or any supplemental budget he presents to the General Assembly the amounts so requested, and (ii) the General Assembly deposit, appropriate and reappropriate, as applicable, such amounts. The General Assembly is not required, and is under no legal obligation, to make an appropriation for any amount or payment under the Payment Agreement or otherwise in respect of any Bonds.

The Treasury Board will use its best efforts to have (i) the Governor include in each biennial or supplemental budget he presents to the General Assembly the amounts described above, and (ii) the General Assembly appropriate such amounts.

Under the Payment Agreement, both the Authority and the Treasury Board will notify the Trustee and the other party thereto promptly upon becoming aware of any failure by the General Assembly to appropriate, in the next succeeding fiscal or biannual period, all principal and interest coming due or expected to be coming due on the Bonds and all other amounts required to be paid under the Indenture.

The Authority will provide to the Treasury Board, by January 1 and July 1 of each year, all required requisitions and documents and take all actions necessary to have paid to the Treasury Board from legally available funds, all amounts due under the Payment Agreement for principal and interest payments due or expected to be coming due under the Indenture and all other amounts required to be paid under the Indenture, including certain administrative expenses and rebate amounts, and to request the Treasury Board to make such payment to the Trustee. The Authority will take all action necessary to have such payments, which are made from legally available funds charged against the proper appropriation made by the General Assembly.

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

The term of the Payment Agreement continues until the earlier of the date of payment in full of the Bonds or the date on which the Bonds are no longer outstanding.

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

THE MASTER INDENTURE

The 2011 Bonds are being issued pursuant to a Master Indenture of Trust, dated as of April 15, 1997, and a Twenty-Ninth Supplemental Indenture of Trust dated as of October 1, 2011, each between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Master Indenture of Trust as supplemented from time to time is hereinafter referred to as the "Indenture."

The following, in addition to the information presented in "*THE 2011 BONDS*" summarizes certain provisions of the Indenture. This summary does not purport to be comprehensive or definitive and is qualified by references to the Indenture, including all supplemental indentures thereto, in its entirety. All capitalized terms not otherwise defined herein shall have the same meaning as given to those terms in the Indenture, copies of which may be obtained at the offices of the Authority or the Trustee.

The 2011 Bonds will be the thirty-second and thirty-third series of bonds issued under the Master Indenture. The 2011 Bonds will be equally and ratably secured by the Indenture with the Prior Bonds and with any Additional Bonds (together, the "Bonds"), without preference, priority or distinction on account of the actual time or times of their authentication, delivery or maturity, except as noted in "*SOURCES OF PAYMENT AND SECURITY FOR THE BONDS.*"

The Bonds are limited obligations of the Authority. Principal, premium, if any, and interest on the 2011 Bonds are payable solely from and secured by appropriations anticipated to be made by the General Assembly and by the funds and accounts held by the Trustee pursuant to the Indenture. See "*SOURCES OF PAYMENT AND SECURITY FOR THE BONDS.*" **There is no Credit or Liquidity Facility (as defined below) in respect of the 2011 Bonds.**

Pledge of Revenues and Funds and Parity of Bonds

The Indenture constitutes a continuing, irrevocable pledge of the Trust Estate to secure payment of the principal of and premium, if any, and interest on all Bonds which may, from time to time, be executed, authenticated and delivered under the Indenture, subject only to the right of the Authority to make application thereof to other purposes as provided therein. All Bonds shall in all respects be equally and ratably secured under the Indenture without preference, priority or distinction on account of the actual time or times of their authentication, delivery or maturity, so that all Bonds at any time outstanding under the Indenture shall have the same right, lien and preference under and by virtue of the Indenture with like effect as if they had all been executed, authenticated and delivered simultaneously, except that a Credit or Liquidity Facility (as defined below) provided for one or more series of Bonds shall secure or provide liquidity only for the applicable series of Bonds.

The Trust Estate includes:

A. amounts on deposit from time to time in the funds and accounts created under the Indenture, including the earnings thereon, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein and excluding any amount on deposit in the Rebate Fund;

B. amounts constituting revenues (including all amounts receivable by the Authority in respect of a Project and all amounts receivable under the Payment Agreement);

C. amounts received from or on behalf of the providers of any Credit or Liquidity Facilities; and

D. any and all other property of any kind from time to time by delivery or by writing of any kind specifically conveyed, pledged, assigned or transferred, as and for any additional security for the Bonds, by the Authority or by anyone on its behalf or with its written consent in favor of the Trustee.

Establishment of Funds and Cash Flow

The Master Indenture establishes the following Funds:

(1) *Bond Fund*. The Trustee shall deposit in the Bond Fund any amounts transferred from the Construction Fund or the Costs of Issuance Fund, all payments or prepayments received by the Trustee from any appropriations made by the General Assembly (excluding the Trustee's fees and expenses), and any other amounts authorized to be deposited in the Bond Fund.

(2) *Construction Fund and Costs of Issuance Fund*. Moneys deposited in the Construction Fund or the Costs of Issuance Fund from the proceeds of the Bonds will be used to pay costs incurred with respect to the development or implementation of a Project or the costs incurred with respect to the issuance of the respective series of Bonds.

(3) *Other Funds and Accounts.* The Authority may establish other funds, accounts and subaccounts, as the Authority may deem desirable.

Credit and Liquidity Facilities

The Master Indenture permits any series of Bonds issued thereunder to be secured by a line of credit, a standby bond purchase agreement, a letter of credit, a reserve fund, a policy of bond insurance, a guaranty, a surety bond or any other similar type of credit or liquidity support issued for the benefit of the Authority or the Trustee to secure or to provide liquidity for one or more series of Bonds (a "Credit or Liquidity Facility"). Each Credit or Liquidity Facility will secure or provide liquidity only for that series of Bonds for which such Credit or Liquidity Facility was provided. **There is no Credit or Liquidity Facility for the 2011 Bonds. There is no debt service reserve fund for the 2011 Bonds**.

Events of Default and Remedies

The following are Events of Default under the Master Indenture:

(1) If payment by the Authority with respect to any installment of interest on any Bond is not made in full when the same becomes due and payable;

(2) If payment by the Authority with respect to the principal of any Bond is not made in full when the same becomes due and payable, whether at maturity or by proceedings for redemption or otherwise;

(3) If the Authority fails to observe or perform any covenant or agreement on its part under the Indenture for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, is given to the Authority by the Trustee, or to the Authority and the Trustee by the holders of at least 25% in aggregate principal amount of Bonds then Outstanding; provided, however, that if the breach of covenant or agreement is one that cannot be completely remedied within such 60-day period, it shall not be an Event of Default as long as the Authority has taken active steps within such 60-day period to remedy the failure and is diligently pursuing such remedy; and

(4) If the Authority institutes proceedings to be adjudicated as a bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency proceedings against it, or files a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other similar applicable federal or state law, or consents to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Authority or of any substantial part of its property, or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due.

If an event of default occurs and has not been remedied, the Trustee may, and if required by the holders of not less than 25% in aggregate principal amount of Bonds outstanding and if indemnified for expenses will declare the entire principal of and interest on the Bonds due and payable and take such action as the Trustee deems most effective to enforce any of its rights or to perform any of its duties under the Master Indenture.

Except to enforce certain rights set forth in the Master Indenture, no holder of any Bond will have any right to institute any action, suit or proceeding at law or in equity for the enforcement of the Master Indenture, unless (a) an event of default has occurred and is continuing of which the Trustee has been notified in the manner required by the Master Indenture, (b) the holders of at least 25% in aggregate amount of the Bonds then outstanding have made a request to the Trustee and will have offered it reasonable opportunity either to proceed to exercise the powers granted by the Master Indenture or to institute such action, suit or proceeding in its own name or their name, (c) they have offered to the Trustee security and indemnity as provided in the Master Indenture, and (d) the Trustee has failed or refused to exercise the powers granted by the Master Indenture within 60 days after receipt by it of such request and offer of indemnity.

Amendments and Supplemental Indentures

The Authority and Trustee may, without consent of or notice to any of the holders, enter into one or more Supplemental Indentures to:

(1) Cure any ambiguity or formal defect or omission;

(2) Correct or supplement any provision which may be inconsistent with any other provision;

(3) Grant or confer upon the holders any additional rights, remedies, powers, or authority that may lawfully be granted or conferred upon them;

(4) Secure additional revenues or provide additional security or reserves for payment of the Bonds;

(5) Preserve the excludability of interest on any tax-exempt Bonds from gross income for purposes of federal income taxes;

(6) Modify, amend or supplement the Indenture to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or any state securities (Blue Sky) law;

(7) Modify, amend or supplement the Indenture in such a manner as required to permit the Authority to comply with the provisions of the Code relating to the rebate of certain earnings on the proceeds of any tax-exempt Bonds;

(8) Modify, amend or supplement the Indenture in such a manner as required by the Rating Agencies to maintain their respective ratings on the Bonds;

(9) Authorize the issuance of and to secure one or more series of Additional Bonds;

(10) Remove the Trustee; and

(11) Modify, amend or supplement the Indenture in any manner as will not, in the opinion of the Trustee, prejudice in any material respect the rights of the holders of the Bonds then Outstanding.

The holders of not less than a majority in aggregate principal amount of the Bonds may consent to or approve, from time to time, the execution by the Authority and the Trustee of such Supplemental Indentures for the purpose of modifying, altering, amending, adding to or rescinding any of the provisions contained in the Indenture except:

(1) Extending the stated maturity of or time for paying the interest on any Bond or reducing the principal amount of or the redemption premium or rate of interest payable on any Bond without the consent of the holder of such Bond;

(2) Giving preference or priority to any Bond over any other Bond without the consent of the holders of each Bond not receiving such preference or priority; or

(3) Reducing the percentage of the holders of the aggregate principal amount of Bonds then outstanding required for any consent to any such Supplemental Indenture without the consent of the holders of all Bonds then outstanding.

Defeasance

If the Authority shall pay or cause to be paid from an irrevocable escrow of cash and direct and general, non-callable obligations of, or obligations the timely payments of principal and interest on which are unconditionally guaranteed by, the United States of America, the principal of and premium, if any, and interest on all (or less than all) of such Bonds, then in that case, the right, title and interest of the owners of such Bonds in the security pledged to the payment of the Bonds shall cease.

Bonds will be deemed to have been paid for purposes of the foregoing sentence when there shall have been deposited with a depository either moneys in an amount which, or non-callable, direct and general obligations of, or obligations the timely payments of principal and interest on which are unconditionally guaranteed by, the United States of America, or evidence of ownership of such obligations, the principal and interest on which shall be sufficient to pay when due the principal, redemption premium, if any, and interest on such Bonds to their maturity or earlier redemption date, and the other requirements of the Master Indenture are met.

Enforceability of Remedies

The remedies available to the Trustee, the Authority, or the owners of the Bonds upon an Event of Default under the Master Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies provided in the Master Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds and the Master Indenture will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Certain actions may be taken and certain consents may be given under the Master Indenture by the owners of specified percentages of the Bonds. The Authority has issued the Prior Bonds and may issue Additional Bonds. Depending upon the outstanding principal balances of such Prior Bonds and Additional Bonds, the owners of such Prior Bonds and Additional Bonds may be able to take actions or give consents without obtaining the approval of any of the owners of the 2011 Bonds.

RATINGS

Fitch Ratings, Moody’s Investors Service ("Moody's") and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., have assigned the ratings of “___”, “___”, and “___”, respectively, to the 2011 Bonds.

Such ratings reflect only the views of the respective rating agencies and an explanation of the significance of such ratings may be obtained only from the respective rating agency. There can be no assurance given that such ratings will be continued for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies if, in their judgment, the circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the liquidity and market price of the 2011 Bonds.

In connection with Moody's July 13, 2011 action placing its Aaa government bond rating of the United States on review for downgrade, Moody's announced it would assess the ratings of Aaa-rated states to gauge their sensitivity to sovereign risk. On July 19, 2011, Moody's announced it had placed on review for possible downgrade five states rated Aaa by Moody's including the Commonwealth. If the United States government's rating were to be downgraded by Moody's to Aa1 or lower, Moody's stated the Commonwealth's ratings, including the rating on the Bonds, likely would be downgraded as well. Following the increase in the statutory debt limit on August 2, 2011, Moody's confirmed the Aaa government bond rating of the United States but changed the outlook to negative. On August 4, 2011 Moody's confirmed the Aaa rating of the Commonwealth and revised the outlook to negative. This outlook applies also to the outstanding Bonds.

LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the 2011 Bonds will be subject to the approving opinions of Christian & Barton, L.L.P., Bond Counsel, Richmond, Virginia, which will be furnished at the expense of the Authority upon delivery of the 2011 Bonds (the "Bond Opinions"). The form of the Bond Opinions are set forth in ***Appendix D***. The Bond Opinions will be limited to matters relating to the authorization and validity of the 2011 Bonds and to the tax status of interest thereon as described in "*TAX MATTERS.*" Bond Counsel has not been engaged to investigate the financial resources of the Authority or the Commonwealth, or their respective ability or willingness to provide for payment of the 2011 Bonds, and the Bond Opinions will make no statement as to such matters or as to the accuracy or completeness of this Official Statement or of any other information that may have been relied on by anyone in making the decision to purchase the 2011 Bonds.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. The legal opinions to be delivered concurrently with the delivery of the 2011 Bonds express the professional judgment of the attorneys rendering the opinions regarding the legal issues expressly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of the result indicated by that expression of professional judgment, of the transaction on which the opinion is rendered, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Certain legal matters will be passed upon for the Authority, the Treasury Board and the Commonwealth by the Office of the Attorney General of Virginia.

TAX MATTERS

Federal Tax Exemption as to 2011A Bonds

Opinion of Bond Counsel. Under current law, in the opinion of Christian & Barton, L.L.P., Richmond, Virginia, Bond Counsel, interest, including accrued original issue discount ("OID"), on the 2011A Bonds (a) will not be included in the gross income of the owners of the 2011A Bonds for federal income tax purposes, and (b) will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to certain corporations subject to the alternative minimum income tax, such interest, including accrued OID, is taken into account in determining adjusted current earnings for purposes of computing such tax. Except as set forth below under "Virginia Tax Matters," no other opinion will be expressed by Bond Counsel regarding the tax consequences of the ownership of, or the receipt or accrual of interest on, the 2011A Bonds.

Bond Counsel's opinion will be given in reliance upon certifications by representatives of the Authority and the governmental entities that use or benefit from the Projects ("Users") as to certain facts relevant to both the opinion and requirements of the Internal Revenue Code of 1986, as amended (the

"Code"), and is subject to the condition that there is compliance subsequent to the issuance of the 2011ABonds with all requirements of the Code that must be satisfied in order for interest income to remain excludable from gross income for federal income tax purposes. The Authority and the Users have covenanted to comply with the provisions of the Code regarding, among other matters, the use, expenditure, and investment of proceeds of the 2011A Bonds and the timely payment of any arbitrage rebate amounts in respect to the 2011A Bonds to the United States Treasury. Failure of the Authority or such Users to comply with such covenants could cause interest, including accrued OID, on the 2011A Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue.

Appendix D to this Official Statement contains the proposed form of the approving opinions of Bond Counsel. Prospective purchasers of the 2011 Bonds should review such form to determine the assumptions relevant to such opinions and the relevant qualifications thereto. Bond Counsel's opinions represent its legal judgment based in part upon the representations and covenants referenced therein and its review of existing law, but is not a guarantee of result or binding on the Internal Revenue Service (the "Service") or the courts. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in law or the interpretation thereof that may thereafter occur or become effective.

Original Issue Discount. The 2011A Bonds maturing in the years ____ (the "OID Bonds") have been offered and sold to the public at an original issue discount. In the case of the OID Bonds, the difference between (a) the stated principal amount of each maturity of the OID Bonds, and (b) the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of such maturity is sold will constitute OID. OID will accrue for federal income tax purposes on a constant yield-to-maturity method. A holder's basis in such an OID Bond will be increased by the amount of OID treated for federal income tax purposes as having accrued on the OID Bond while the holder holds the OID Bond.

Prospective purchasers of OID Bonds should consult their own tax advisors with respect to the precise determinations for federal income tax purposes of interest accrued upon sale or redemption of such OID Bonds and with respect to state and local tax consequences of owning OID Bonds.

Original Issue Premium. The excess, if any, of the tax basis of the 2011A Bonds purchased as part of the initial public offering to a purchaser (other than a purchaser who holds such 2011A 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 2011A 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). Owners of such 2011A Bonds are required to decrease their adjusted basis in such 2011A Bonds by the amount of amortizable Bond Premium attributable to each taxable year such 2011A Bonds are held. The amortizable Bond Premium on such 2011A Bonds attributable to a taxable year is not deductible for federal income tax purposes; however, bond premium on such 2011A Bonds is treated as an offset to qualified stated interest received on such 2011A Bonds. Owners of such 2011A Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premium upon sale or other disposition of such 2011A Bonds and with respect to the state and local tax consequences of owning and disposing of such 2011A Bonds.

Prospective purchasers of such 2011A Bonds should consult their own 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 2011A Bonds and with respect to Commonwealth of Virginia and local income tax consequences of owning and disposing of such 2011A Bonds.

Other Tax Matters. In addition to the matters addressed above, prospective purchasers of the 2011A 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, S corporations, foreign corporations subject to the branch profits tax, corporations subject to the environmental tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the 2011A Bonds should consult their tax advisors as to the applicability and impact of such consequences. Bond Counsel will not render any opinion as to these collateral federal income tax matters.

Each prospective purchaser of the 2011A Bonds should also consult his own tax advisor as to the status of interest on the 2011A Bonds under the tax laws of any state other than Virginia.

Legislation and regulations affecting municipal securities are constantly being considered by the United States Congress and the Service, respectively. There can be no assurance that legislation or regulations enacted, promulgated or proposed after the date of issuance of the 2011A Bonds will not have an adverse effect on the tax status or market price of the 2011A Bonds. It is not possible to predict whether any legislation or regulations having an adverse impact on the tax treatment of owners of the 2011A Bonds may be proposed, promulgated or enacted.

On September 12, 2011, President Obama sent to Congress draft legislation entitled the "American Jobs Act of 2011" (the "Proposed Act"). If enacted as proposed, the Proposed Act includes a provision that would limit the amount of exclusions (including tax-exempt interest) and deductions certain high income taxpayers could use to reduce their income tax for taxable years after 2012. It is not possible to predict whether the Proposed Act will be enacted into law. Tax legislation (either proposed or future), administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the 2011A Bonds under federal or state law or otherwise prevent beneficial owners of the 2011A Bonds from realizing the full current benefit of the tax status of such interest and could affect the market price or marketability of the 2011A Bonds. Prospective investors should consult with their tax advisors on the foregoing matters as they consider an investment in the 2011A Bonds.

Many events could affect the value and liquidity or marketability of the 2011A Bonds after their issuance, including but not limited to public knowledge of an audit of the 2011A Bonds by the Service, a general change in interest rates for comparable securities, a change in Federal or state income tax rates, legislative or regulatory proposals as described above and changes in judicial interpretation of existing law. In addition, certain tax considerations relevant to owners of 2011A Bonds who purchase 2011A Bonds after their issuance may be different from those relevant to purchase upon issuance. Neither the opinion of Bond Counsel nor this Official Statement addresses the likelihood or effect of any such potential events or such other tax considerations.

Further, the Service has a program to audit obligations to determine whether the interest thereon is includible in gross income for Federal income tax purposes. If the Service does audit the 2011A Bonds, under current Service procedures, the Service would likely treat the Authority as the taxpayer and the owners of the 2011A Bonds would have limited rights, if any, to participate.

2011B Bonds (Federally Taxable)

Opinion of Bond Counsel. Under current law, in the opinion of Bond Counsel, interest on the 2011B Bonds is includible in the gross income of the owners of the 2011B Bonds for federal income tax purposes. Except as set forth below under "Virginia Tax Matters," no other opinion will be expressed by Bond Counsel regarding the tax consequences of the ownership of, or the receipt or accrual of interest on, the 2011B Bonds.

Summary. The following is a summary of certain of the federal income tax consequences of the ownership of the 2011B Bonds as of the date hereof. Each prospective purchaser of the 2011B Bonds should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as Treasury regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the 2011B Bonds generally and does not purport to furnish information in the level of detail or with the prospective purchaser's specific tax circumstances that would be provided by a prospective purchaser's own tax advisor. For example, it generally is addressed only to original purchasers of the 2011B Bonds that are "U.S. holders" (as defined below), deals only with 2011B Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to owners that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, S corporations, persons that hold 2011B Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in an owner of 2011B Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a Beneficial Owner of a 2011B Bond. A "non-U.S. investor" is a holder (or Beneficial Owner) of a 2011B Bond that is not a U. S. person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more U.S. persons have the authority to control all of the trust's substantial decisions.

Tax Status of the 2011B Bonds. The 2011B Bonds will be treated, for federal income tax purposes, as debt instruments. Accordingly, interest will be included in the income of the owner as it is paid (or, if the owner is an accrual method taxpayer, as it is accrued) as interest.

Owners of the 2011B Bonds that allocate a basis in the 2011B Bonds that is greater than the principal amount of the 2011B Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

If an owner purchases the 2011B Bonds for an amount that is less than the principal amount of the 2011B Bonds, and such difference is not considered to be de minimis, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a 2011B Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year, will be deferred.

Sale and Exchange of 2011B Bonds. Upon a sale or exchange of a 2011B Bond, an owner generally will recognize gain or loss on the 2011B Bond equal to the difference between the amount realized on the sale and its adjusted tax basis in such 2011B Bond. Such gain or loss generally will be capital gain or loss (although any gain attributable to accrued market discount of the 2011B Bond not yet taken into income will be ordinary income). The adjusted basis of the owner in a 2011B Bond will (in general) equal its original purchase price increased by any original issue discount or market discount includible in the gross income of the owner with respect to the 2011B Bonds and decreased by any principal payments received on the 2011B Bond. In general, if the 2011B Bond is held for longer than one year, any gain or loss would be long term capital gain or loss, and capital losses are subject to certain limitations.

Defeasance. The Authority may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the 2011B Bonds to be deemed to be no longer outstanding (a "defeasance"). Defeasance of any 2011B Bond may result in a reissuance thereof, in which event an owner will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the holder's adjusted tax basis in the 2011B Bond.

Foreign Investors. Distributions of the 2011B Bonds to a non-U.S. holder that has no connection with the United States other than holding its 2011B Bond generally will be made free of withholding tax, as long as the non-U.S. holder has complied with certain tax identification and certification requirements.

Circular 230. Under 31 C.F.R. part 10, the regulations governing practice before the Internal Revenue Service (Circular 230), the Authority and its tax advisors are (or may be) required to inform prospective investors that (i) any advice contained herein, including any opinions of counsel referred to herein, is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer; (ii) any such advice is written to support the promotion or marketing of the 2011B Bonds and the transactions described herein (or in such opinion or other advice); and (iii) each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Virginia Tax Matters

In the opinion of Bond Counsel, interest on the 2011 Bonds will be exempt from income taxation by the Commonwealth and, under the Act, the transfer of the 2011 Bonds and the income therefrom (including any profit made on the sale thereof) will be free from taxation within the Commonwealth. Each prospective purchaser of the 2011 Bonds should consult his own tax advisor as to the tax status of interest in the 2011 Bonds under the tax laws of any state other than Virginia.

CONTINUING DISCLOSURE

Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), prohibits an underwriter from purchasing or selling municipal securities such as the 2011 Bonds, unless it has determined that the issuer of such securities and/or other persons deemed to be "material obligated persons" (hereinafter referred to as "MOPs") have committed to provide (i) on an annual basis, certain financial information and operating data ("Annual Reports"), and, if available, audited financial statements, to the Municipal Securities Rulemaking Board ("MSRB") via the MSRB'S Electronic Municipal Market Access System ("EMMA"), as described in 1934 Act Release No. 59062 and (ii) notice of various events described in Rule 15c2-12, if material ("Event Notices"), to the MSRB via EMMA.

The covenants that follow have been made to assist the successful bidder of the 2011 Bonds in complying with Rule 15c2-12.

Authority Continuing Disclosure. The Authority has covenanted, as provided in the Twenty-Ninth Supplemental Indenture for the benefit of the holders of the 2011 Bonds, and as contained in the Authority's continuing disclosure undertaking as set forth in ***Appendix E***, to provide to the MSRB via EMMA annually, not later than May 1 of each year, commencing May 1, 2012, Annual Reports and such annual financial statements as may be required by Rule 15c2-12 with respect to itself, as issuer. The Authority also has covenanted to provide Event Notices with respect to the 2011 Bonds to the MSRB via EMMA. All filings shall be made solely by transmitting such filings to the MSRB via EMMA, as described in 1934 Act Release No. 59062. Should the Securities and Exchange Commission approve any additional or subsequent internet-based electronic filing system for satisfying the continuing disclosure filing requirements of Rule 15c2-12, any required filings may be made by transmitting such filing to such system, as described in the applicable Securities and Exchange Commission regulation or release approving such filing system, and such filing shall constitute compliance with provisions of Rule 15c2-12 applicable to filing Annual Reports and Listed Events. As of the date of this Official Statement, the Authority has complied with this and its other undertakings regarding Rule 15c2-12.

Commonwealth Continuing Disclosure. The Commonwealth, which the Authority has determined to be a MOP for purposes of Rule 15c2-12, will covenant, by executing a Continuing Disclosure Agreement prior to issuance of the 2011 Bonds, to provide to the MSRB via annually, not later than January 31 of each year commencing January 31, 2012, Annual Reports and such annual financial statements as may be required by Rule 15c2-12 with respect to itself. All filings under the Continuing Disclosure Agreement shall be made solely by transmitting such filings to the MSRB via EMMA, as described in 1934 Act Release No. 59062. Should the Securities and Exchange Commission approve any additional or subsequent internet-based electronic filing system for satisfying the continuing disclosure filing requirements of Rule 15c2-12, any filings required under the Continuing Disclosure Agreement may be made by transmitting such filing to such system, as described in the applicable Securities and

Exchange Commission regulation or release approving such filing system, and such filing shall constitute compliance with provisions of Rule 15c2-12 applicable to filing Annual Reports and Listed Events. The form of the Commonwealth's Continuing Disclosure Agreement is set forth in ***Appendix E***. As of the date of this Official Statement, the Commonwealth has complied with this and its other undertakings regarding Rule 15c2-12.

SALE AT COMPETITIVE BIDDING

The 2011 Bonds will be awarded pursuant to electronic competitive bidding to be held via the PARITY® Competitive Bidding System (PARITY®) on Wednesday, October 5, 2011 unless changed, as set forth in the respective Notices of Sale contained in ***Appendix F*** to this Official Statement.

This Preliminary Official Statement has been deemed final as of its date by the State Treasurer in accordance with the meaning and requirements of Rule 15c2-12, except for the omission of certain pricing and other information permitted to be omitted pursuant to the Rule. After the award of the 2011 Bonds, the State Treasurer will complete the Official Statement so as to be a "final official statement" with the meaning of Rule 15c2-12. The final Official Statement will include, among other matters, the identity of the winning bidders and the managers of the syndicates, if any, submitting the winning bids, the expected selling compensation to underwriters of the 2011 Bonds and other information on the interest rates, CUSIPs and offering prices or yields of the 2011 Bonds, as supplied by the winning bidders.

FINANCIAL ADVISOR

Public Resources Advisory Group, New York, New York, has served as financial advisor to the Authority with respect to the issuance and sale of the 2011 Bonds. Public Resources Advisory Group is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading of municipal or any other negotiable instruments.

LITIGATION

The Authority is not a party to any litigation. The Authority has no knowledge of any litigation, pending or threatened, to restrain or enjoin the issuance, sale, execution or delivery of the 2011 Bonds, or in any way contesting or affecting the validity of the 2011 Bonds or the Payment Agreement, any proceeding of the Authority taken with respect to the issuance or sale of the 2011 Bonds, or the existence or powers of the Authority or the title of any officers of the Authority with respect to his or her office.

See the caption in ***Appendix B*** - "*COMMONWEALTH OF VIRGINIA - FINANCIAL AND OTHER INFORMATION* – Litigation" for a description of litigation involving the Commonwealth.

LEGALITY FOR INVESTMENT AND SECURITY FOR PUBLIC DEPOSITS

Under the Act, the 2011 Bonds are made securities in which all public officers and public bodies of the Commonwealth and its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries in the Commonwealth may properly and legally invest funds, including capital in their control or belonging to them. No representation is made as to the eligibility of the 2011 Bonds for investment or for any other purpose under the laws of any other state.

The 2011 Bonds are securities that may be deposited with any state or municipal officer or any agency or political subdivision of the Commonwealth for any purpose for which the deposit of bonds or obligations of the Commonwealth is now or may hereafter be authorized by law.

CERTIFICATES OF AUTHORITY AND COMMONWEALTH

Concurrently with the delivery of the 2011 Bonds, an officer of the Authority will certify that, to the best of his or her knowledge, this Official Statement (except for the statements and information contained in "*LEGAL MATTERS*," "*TAX MATTERS*," "*FINANCIAL ADVISOR*," and "*LEGALITY FOR INVESTMENT AND SECURITY FOR PUBLIC DEPOSITS*," the last paragraph in "*CONTINUING DISCLOSURE*," "*THE 2011 Bonds* - Book-Entry-Only System," and ***Appendices A, B***, ***C**, **and E*** (insofar as such pertains to the continuing disclosure obligations of the Commonwealth), all of the foregoing as to which the Authority will express no representation) did not as of its date, and does not as of the date of delivery of the 2011 Bonds, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained herein, in the light of the circumstances under which they were made, not misleading. Such certificate will state that such Authority officer did not independently verify the information in this Official Statement from sources other than the Authority and its officers, but that he or she has no reason to believe that such information contains any untrue statement of a material fact or omits to state a material fact that should be included herein for the purpose for which this Official Statement is to be used, or which is necessary in order to make the statements contained herein, in the light of the circumstance under which they were made, not misleading.

The State Treasurer (who is also the Secretary/Treasurer of the Authority) will certify as of the date of delivery of the 2011 Bonds that, to the best of her knowledge, ***Appendices A, B, C, and E*** (insofar as such pertains to the continuing disclosure obligations of the Commonwealth), except for the information in the section *"LITIGATION OF THE COMMONWEALTH"* in ***Appendix B***, as to which the State Treasurer will make no representation, and the last paragraph in *"CONTINUING DISCLOSURE"* of this Official Statement do not, as of the date of delivery of the 2011 Bonds, contain any untrue statement of a material fact or omit to state a material fact relating to the Commonwealth necessary in order to make such statements, in the light of the circumstances under which they were made, not misleading.

MISCELLANEOUS

The references, excerpts and summaries of all documents referred to herein do not purport to be complete statements of all matters of fact relating to the 2011 Bonds, the security for the payment of the 2011 Bonds and the rights and obligations of the registered owners thereof. Copies of the documents referred to herein are available for inspection at the corporate trust office of The Bank of New York Mellon Trust Company, N.A., 919 East Main Street, Suite 1602, Richmond, Virginia 23219.

This Official Statement has been authorized by the Authority for use in connection with the sale of the 2011 Bonds. Its purpose is to supply information to prospective buyers of the 2011 Bonds. Financial and other information contained in this Official Statement has been prepared by the Authority and the Department of the Treasury of the Commonwealth from their records, except where other sources are noted. The information is not intended to indicate future or continuing trends in the financial or economic position of the Authority or the Commonwealth.

The information contained in this Official Statement has been compiled from official and other sources deemed to be reliable, and while not guaranteed as to completeness or accuracy, is believed by the Authority to be correct as of this date.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The Commonwealth's audited Financial Statements for the year ended June 30, 2010, as audited by the Auditor of Public Accounts of the Commonwealth, are included as ***Appendix A***. These financial statements, along with the related Notes to Financial Statements, (i) have been examined, to the extent set forth in such report by the Auditor of Public Accounts and are included in reliance upon the report of such Auditor, and (ii) are intended to provide a broad overview of the financial position and operating results of the Commonwealth's various funds and account groups as of such date.

VIRGINIA PUBLIC BUILDING AUTHORITY

BY: ____
Chairman

APPENDIX A

FINANCIAL STATEMENTS OF THE COMMONWEALTH

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

December 14, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgin
Chairman, Joint Legislative Audit and Review Commission

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, 2010, 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 33.72 percent, 21.64 percent, and 9.11 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, Science Museum of Virginia Foundation, Virginia Museum of Fine Arts Foundation, Danville Science Center, Inc, Virginia Horse Center Foundation, and Virginia Sesquicentennial of the American Civil War Commission, 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, 2010, 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 37 and 168 through 182 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 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 14, 2010, 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, 2010. 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, 2010, by $16.6 billion. Net assets of governmental activities increased by $589.4 million and net assets of business-type activities decreased by $337.9 million. Component units reported an increase in net assets of $1.0 billion from June 30, 2009.

Fund Highlights

At the end of the fiscal year, the Commonwealth's governmental funds reported a combined ending fund balance of $2.6 billion, a decrease of $154.2 million in comparison with the prior year. Of this total fund balance, $1.7 billion represents unreserved fund balance and the remaining $910.1 million represents amounts reserved for specific purposes, such as the Revenue Stabilization Fund. The enterprise funds reported deficit net assets at June 30, 2010, of $120.1 million, a decrease of $336.7 million during the year which is primarily attributable to the Unemployment Compensation Fund. See page 33 for additional information.

While the General Fund actual revenues for fiscal year 2010 increased $72.5 million over the prior year, the General Fund recognized lower fund assets and higher fund liabilities when compared to fiscal year 2009. See page 34 for additional information.

Long-term Debt

The Commonwealth's total debt rose during the fiscal year to $31.8 billion, an increase of $2.4 billion or 8.04 percent. During the fiscal year, the Commonwealth issued new debt in the amount of $1.1 billion for the primary government and $4.4 billion for the component units. These debt issuances increased the debt balances to $9.6 billion for the primary government and $22.2 billion for component units.

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 40 and 41) 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 42 through 44) presents information showing how the Commonwealth's net assets changed during fiscal year 2010. 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 48 and 52) 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 46 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 54 and 56). 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 23 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 64.

  The Commonwealth's fiduciary funds are the:

  - Private-purpose Trusts, which reports the activities for 7 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 19 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 postemployment 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 183 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 $16.6 billion during the fiscal year. The net assets of the governmental activities increased $589.4 million or 3.7 percent, primarily due to increases to capital assets offset by decreases in current and other assets as discussed further on pages 35 and 36. Business-type activities had a decrease of $337.9 million or 156.8 percent, primarily due to a decrease for the Unemployment Compensation Fund. The government-wide beginning balance was restated primarily for the implementation of GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*, to arrive at a restated beginning balance of $16.3 billion.

Figure 11
Net Assets as of June 30, 2010 and 2009
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	2009 as restated	2010	2009	2010	2009 as restated
Current and other assets	$ 8,238,212	$ 8,356,433	$ 2,978,742	$ 2,920,608	$ 11,216,954	$ 11,277,041
Capital assets	21,127,054	19,724,515	32,121	25,740	21,159,175	19,750,255
Total assets	29,365,266	28,080,948	3,010,863	2,946,348	32,376,129	31,027,296
Long-term liabilities outstanding	7,248,690	6,469,039	2,389,594	2,239,130	9,638,284	8,708,169
Other liabilities	5,419,077	5,503,854	743,633	491,709	6,162,710	5,995,563
Total liabilities	12,667,767	11,972,893	3,133,227	2,730,839	15,800,994	14,703,732
Net assets:						
Invested in capital assets, net of related debt	17,424,092	16,241,632	30,526	22,856	17,454,618	16,264,488
Restricted	1,160,120	1,421,086	15,730	372,274	1,175,850	1,793,360
Unrestricted	(1,886,713)	(1,554,663)	(168,620)	(179,621)	(2,055,333)	(1,734,284)
Total net assets	$ 16,697,499	$ 16,108,055	$ (122,364)	$ 215,509	$ 16,575,135	$ 16,323,564

The largest portion of the primary government's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, infrastructure, construction-in-progress, and intangible assets including water rights, easements and software), 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 11**). The investment in capital assets amount exceeds total net assets due to a negative unrestricted net asset amount unrelated to capital assets.

An additional portion of the primary government's net assets represents restricted net assets. These resources are subject to external restrictions or constitutional provisions specifying how they may be used. The remaining balance of ($2.0 billion) is unrestricted net assets (**Figure 11**).

Approximately 47.8 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 2010, governmental program expenses exceeded governmental program and general revenue by $8.0 million. Program revenues exceeded expenses from business-type activities by $247.6 million. The following condensed financial information (**Figure 12**) was derived from the Government-wide Statement of Activities and provides detail regarding the change in net assets (see page 42).

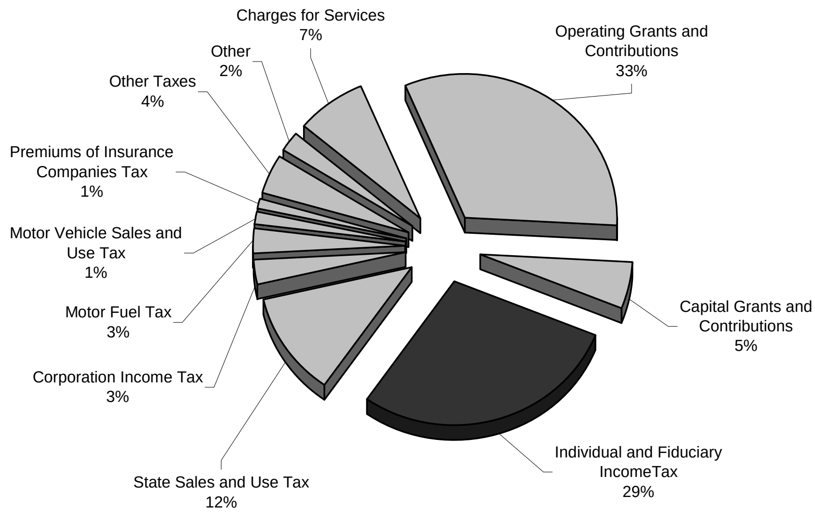
Figure 12
Changes in Net Assets for the Fiscal Years Ended June 30, 2010 and 2009
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	2009 as restated	2010	2009	2010	2009 as restated
Revenues:						
Program Revenues:						
Charges for Services	$ 2,264,136	$ 2,294,236	$ 3,279,750	$ 2,517,206	$ 5,543,886	$ 4,811,442
Operating Grants and Contributions	9,951,302	7,583,725	4,237	104,868	9,955,539	7,688,593
Capital Grants and Contributions	1,603,355	996,875	-	-	1,603,355	996,875
General Revenues:						
Taxes:						
Individual and Fiduciary Income	8,778,749	9,558,764	-	-	8,778,749	9,558,764
State Sales and Use	3,568,878	3,553,675	-	-	3,568,878	3,553,675
Corporation Income	845,989	545,800	-	-	845,989	545,800
Motor Fuel	890,872	889,245	-	-	890,872	889,245
Motor Vehicle Sales and Use	439,889	406,400	-	-	439,889	406,400
Communications Sales and Use	455,609	448,750	-	-	455,609	448,750
Deeds, Contracts, Wills, and Suits	325,920	350,614	-	-	325,920	350,614
Premiums of Insurance Companies	414,165	365,404	-	-	414,165	365,404
Alcoholic Beverage Sales Tax	111,293	109,643	-	-	111,293	109,643
Tobacco Products	177,483	182,484	-	-	177,483	182,484
Estate	6,198	3,569	-	-	6,198	3,569
Public Service Corporations	111,693	102,611	-	-	111,693	102,611
Beer and Beverage Excise	44,432	44,597	-	-	44,432	44,597
Wine and Spirits/ABC Liter	20,842	19,625	-	-	20,842	19,625
Bank Stock	24,341	21,323	-	-	24,341	21,323
Other Taxes	66,558	82,047	9,886	12,668	76,444	94,715
Unrestricted Grants and Contributions	49,187	60,001	-	-	49,187	60,001
Investment Earnings	204,786	142,557	1,786	4,550	206,572	147,107
Miscellaneous	427,422	237,423	285	599	427,707	238,022
Total Revenues	30,783,099	27,999,368	3,295,944	2,639,891	34,079,043	30,639,259
Expenses:						
General Government	2,828,740	2,987,934	-	-	2,828,740	2,987,934
Education	9,311,627	9,564,445	-	-	9,311,627	9,564,445
Transportation	2,311,563	2,785,494	-	-	2,311,563	2,785,494
Resources and Economic Development	1,106,690	1,004,818	-	-	1,106,690	1,004,818
Individual and Family Services	12,285,084	10,729,498	-	-	12,285,084	10,729,498
Administration of Justice	2,741,432	2,607,804	-	-	2,741,432	2,607,804
Interest and Charges on Long-term Debt	205,965	200,782	-	-	205,965	200,782
State Lottery	-	-	998,421	919,818	998,421	919,818
Virginia College Savings Plan	-	-	294,322	115,447	294,322	115,447
Unemployment Insurance	-	-	922,952	880,989	922,952	880,989
Alcoholic Beverage Control	-	-	469,306	466,734	469,306	466,734
Risk Management	-	-	7,123	5,814	7,123	5,814
Local Choice Health Care	-	-	231,338	231,215	231,338	231,215
Virginia Industries for the Blind	-	-	27,605	23,764	27,605	23,764
Consolidated Laboratory	-	-	6,009	6,115	6,009	6,115
eVA Procurement System	-	-	18,476	18,009	18,476	18,009
Department of Environmental Quality Title V	-	-	10,168	11,226	10,168	11,226
Wireless E-911	-	-	47,744	52,631	47,744	52,631
Museum and Library Gift Shops	-	-	2,054	2,130	2,054	2,130
Behavioral Health Canteen and Work Activity	-	-	853	530	853	530
Total Expenses	30,791,101	29,880,775	3,036,371	2,734,422	33,827,472	32,615,197
Excess (Deficiency) before transfers	(8,002)	(1,881,407)	259,573	(94,531)	251,571	(1,975,938)
Transfers	597,446	591,326	(597,446)	(591,326)	-	-
Increase (Decrease) in net assets	589,444	(1,290,081)	(337,873)	(685,857)	251,571	(1,975,938)
Net assets, July 1, as restated	16,108,055	17,398,136	215,509	901,366	16,323,564	18,299,502
Net assets (deficit), June 30	$ 16,697,499	$ 16,108,055	$ (122,364)	$ 215,509	$ 16,575,135	$ 16,323,564

Governmental Activities Revenues

Figure 13 is a graphical representation of the Statement of Activities revenues for governmental activities. Governmental activities revenues increased by $2.8 billion, or 9.9 percent. The net increase is mainly attributable to overall increases in revenue, primarily due to increases in the Federal Trust Fund, which are discussed on page 35.

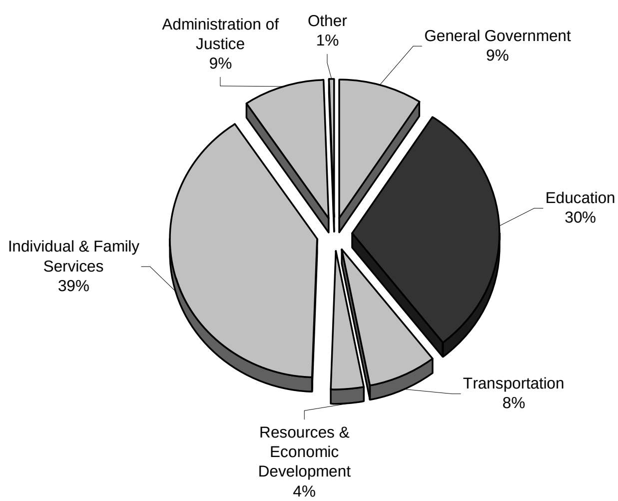
Figure 13
Revenues by Source – Governmental Activities
Fiscal Year 2010



Governmental Activities Expenses

Figure 14 is a graphical representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses increased by $910.3 million or 3.1 percent. The majority of the increase is related to individual and family services expenses funded by increased federal support, which is discussed further on page 35.

Figure 14
Expenses by Type – Governmental Activities
Fiscal Year 2010



Net Assets of Business-type Activities

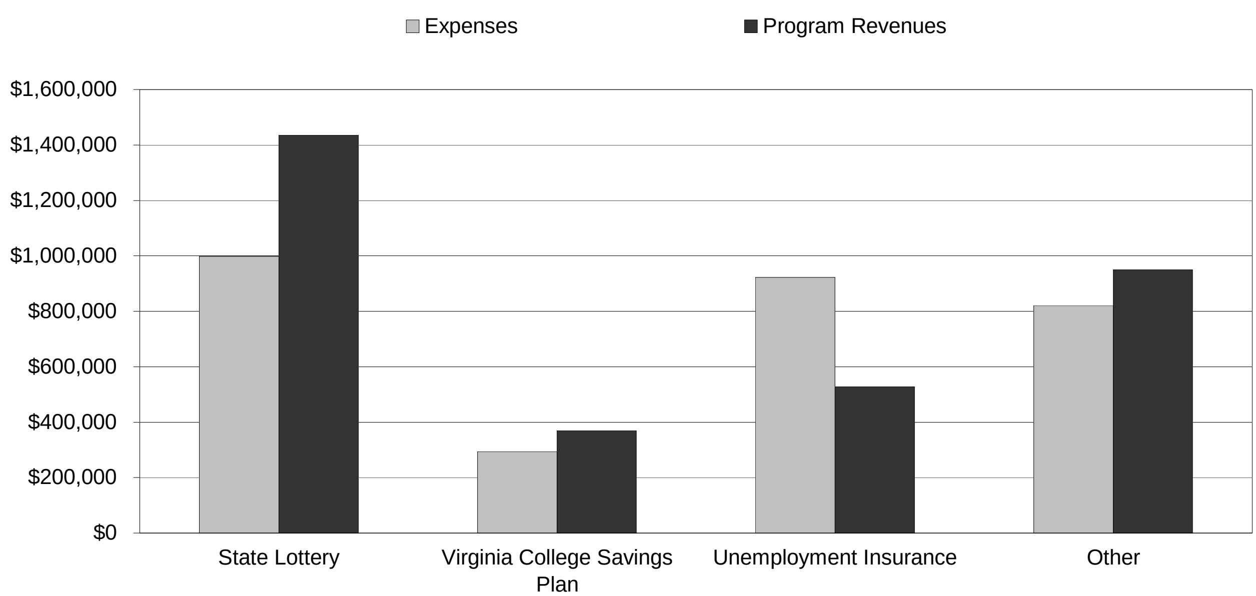
Net assets of business-type activities decreased by $337.9 million during the fiscal year. Highlights of the changes in net assets for the major enterprise funds were as follows:

- Lottery sales were $1.4 billion, consistent with the prior year. Net income was $439.2 million, a decrease of $12.4 million (2.8 percent) from fiscal year 2009. Sales of scratch games increased by $20.8 million (3.0 percent) and online sales increased by $48.7 million (7.2 percent). This is offset by an increase of $78.9 million (8.6 percent) in total expenses, primarily attributable to the cost of sales and services.

- Virginia College Savings Plan's net assets increased by $75.9 million (26.6 percent). This increase in financial position is primarily attributable to stronger than anticipated investment performance as a result of the recovery of capital markets in the fiscal year and as a result of reduced future liabilities.

- Unemployment Compensation Fund net assets decreased by $408.6 million during fiscal year 2010 primarily as a result of the Virginia Unemployment Trust Fund becoming insolvent in October 2009 which required obtaining Federal repayable advances under Title XII of the Social Security Act totaling $346.9 million. The advances enabled the Fund to continue payments of benefits to claimants and accommodate an increase in unemployment claims payments. It is anticipated that additional advances will be received during fiscal year 2011. Although the overall unemployment rate remained relatively unchanged and there was no change in the maximum weekly benefit amounts, the number of exhaustions rose from 77,000 to 119,000. This increase indicates that more claimants went the full term of benefits in fiscal year 2010 than in fiscal year 2009. Additionally, the average duration increased from 13.5 weeks in June 2009 to 16.7 weeks in June 2010. These multiple influences led to total increased benefit payments of $41.5 million over the prior year.

Figure 15
Business-type Activities
Program Revenues and Expenses
For the Fiscal Year Ended June 30, 2010
(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 $2.6 billion. Of this amount, $1.7 billion, or 64.9 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 negative $1.1 billion and reserved fund balance was $394.8 million. As discussed in Note 5, the decrease in reserved fund balance is due partially to a withdrawal of $295.0 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 $415.8 million.

Effective for fiscal year 2010, statutory changes required the Communication Sales and Use Tax Fund be reported as part of the General Fund for reporting purposes. Since this fund was previously reported as an agency fund, there is no beginning balance impact. However, the comparability of revenue and expense amounts are affected. Accordingly, the fiscal year 2009 information in the Management's Discussion and Analysis has been adjusted to reflect the impact of the Communication Sales and Use Tax Fund. Refer to pages 88 and 91 for additional information.

Fiscal year 2010 General Fund revenues were 2.5 percent or $376.2 million lower than fiscal year 2009 revenues. This revenue change results from increases of $414.3 million primarily attributable to corporation income taxes ($190.7 million) and interest earnings ($92.5 million) offset by decreases of $790.6 million primarily attributable to individual and fiduciary income taxes ($742.5 million).

Fiscal year 2010 expenditures decreased $1.3 billion as compared to fiscal year 2009. This was primarily attributable to decreases in education, administration of justice expenditures, and individual and family services expenditures of $1.0 billion, $165.5 million, and $104.2 million, respectively. Net other financing sources and uses increased by $91.8 million which is due to both higher transfers in and lower transfers out from nongeneral funds.

Budget Highlights

The General Fund recognized decreases in overall growth when compared to 2009. Additionally, the economic conditions contributed to a decrease in the original revenue budget by $991.1 million or 6.2 percent. This reduction was primarily attributable to decreases in the final budget for individual and fiduciary income taxes of $1.1 billion, tobacco products tax of $166.7 million, sales and use taxes of $134.7 million, and interest earnings of $51.1 million offset by an increase in the final budget for communications sales and use taxes of $446.2 million as discussed above. Total actual General Fund revenues were greater than final budgeted revenues by $279.1 million.

Total final budget expenditures were less than original budget expenditures by $404.7 million or 2.5 percent, primarily due to actions taken to reduce spending as a result of declining revenue collections. This reduction was primarily attributable to decreases in education expenditures of $819.7 million, administration of justice expenditures of $281.6 million and individual and family services expenditures of $173.8 million. Additionally, the decreases were offset by an $850.4 million increase in general government budgeted expenditures due to appropriation increases and the addition of the Virginia Communication Sales and Use Tax Fund.

The Commonwealth spent less than planned so actual expenditures were $200.2 million or 1.3 percent lower than final budget expenditures. The actual General Fund expenditures were less than budgeted in all categories as a result of actions taken to reduce spending.

Budget Outlook

In order to mitigate the effects of recent economic conditions, the Commonwealth adopted numerous budget solutions, such as, tax amnesty, accelerated sales taxes, and temporary pension funding strategy modifications (discussed further on the next page) and the receipt of additional federal funding during fiscal year 2010. In spite of the economic challenges that the Commonwealth has faced in recent years, there is planned growth in the recently adopted budget for the 2010-2012 biennium (fiscal years 2011 and 2012). Additionally, based on the most recent General Fund revenue estimate, the fiscal year 2011 revenue is projected to increase 2.6 percent over the fiscal year 2010 revenue collections. The Governor will release his amendments to the 2010-2012 biennial budget on December 17, 2010.

Pension Funding Strategy

As part of the fiscal year 2010 budgetary solution, the Commonwealth adopted modifications to the funding strategy for the Virginia Retirement System (VRS). Employer contributions attributable to the last five pay periods in fiscal year 2010 were suspended, and employer-paid member contributions for this period were deferred until fiscal year 2011. Selected nongeneral fund savings from the suspension and deferral were transferred to the General Fund prior to June 30, 2010. See page 114 for additional information.

Effective for fiscal year 2011 and fiscal year 2012, the Commonwealth has approved a VRS contribution rate that is lower than the certified rate. VRS will receive contributions computed using the lower rate from all participating funds. In certain instances, the General Fund will receive the monetary differential between the certified and approved contribution rates. Additionally, effective July 1, 2010, a new pension plan was established since the Commonwealth no longer makes the employee contributions for newly hired employees. Employees hired on or after July 1, 2010, are responsible for paying the employee's 5 percent retirement contribution.

Major Special Revenue Fund Highlights

The Commonwealth Transportation Fund ended the fiscal year with a fund balance of $2.0 billion, an increase of $579.5 million from the prior year. Approximately $2.2 billion is committed for various highway, public transportation, and rail preservation projects (see Note 19). The increase in fund balance was primarily the result of the following activities: revenues increased $156.0 million, or 4.5 percent and expenditures decreased $302.3 million, or 8.1 percent, with revenues exceeding expenditures by approximately $195.1 million. This increased activity is primarily due to increased federal funds available for construction, decreases in expenditures for highway maintenance and toll facilities operations, and bond proceeds.

The Federal Trust Fund balance decreased by $11.7 million, or 21.6 percent. Federal Grants and Contracts revenue increased by approximately $2.36 billion, or 32.3 percent. This increase was offset with an increase in total expenditures of approximately $2.34 billion, or 31.5 percent. The increases in Federal Grants and Contracts revenue were to supplement individual and family services payments due to the economic downturn and included $413.0 million for Medicaid funding, $362.7 million in food stamps, $167.4 million for unemployment insurance, and a total of $2.25 billion in American Recovery and Reinvestment Act revenue.

The Literary Fund's fund balance decreased by $47.0 million, or 23.7 percent, in fiscal year 2010 from fiscal year 2009. The decrease is the result of net disbursements exceeding net receipts by $57.3 million, offset by a cash transfer in of $10.3 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, 2010, amounts to $21.2 billion (net of accumulated depreciation totaling $12.1 billion). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, construction-in-progress, and intangible assets including water rights, easements, and software. Infrastructure assets are items that are normally immovable such as roads, bridges, drainage systems, and other similar assets. As noted on page 30, decreases in current and other assets offset by increases to capital assets resulted in an increase in net assets of the governmental activities of $589.4 million or 3.7 percent. The increase in the primary government's investment in capital assets was primarily attributable to increases in infrastructure of $1.2 billion related 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, infrastructure, and intangible assets that have a cost or value greater than $100,000 and an expected useful life of two or more years. Additional information on the primary government's capital assets can be found in Note 12, "Capital Assets."

Figure 16
Capital Assets as of June 30, 2010
(Net of Depreciation)
(Dollars in Thousands)

	Governmental Activities	Business-type Activities	Total
Land	$ 2,288,408	$ 1,977	$ 2,290,385
Buildings	2,043,556	7,508	2,051,064
Equipment	368,734	14,263	382,997
Water Rights / Easements	18,752	-	18,752
Infrastructure	13,076,383	-	13,076,383
Software	182,726	847	183,573
Construction in Progress	3,148,495	7,526	3,156,021
Total	$ 21,127,054	$ 32,121	$ 21,159,175

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 $31.8 billion, including total tax-supported debt of $10.6 billion and total debt not supported by taxes of $21.2 billion. Bonds backed by the full faith and credit of the government and tax-supported total $1.7 billion. Debt is considered tax supported if Commonwealth tax revenues are used or pledged for debt service payments. An additional $669.8 million 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 2010, the Commonwealth issued $5.5 billion of new debt for various projects. $1.1 billion of the new debt was for the primary government and $4.4 billion for the component units. Additional information on the Commonwealth's outstanding debt can be found on page 137 in Note 26, "Long-Term Liabilities," 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 may be issued to fund the defense of the Commonwealth; to meet casual deficits in revenue or in anticipation of the collection of revenues; or to redeem previous debt obligations, and are limited to 30 percent of 1.15 times the annual tax revenues for fiscal year 2010. 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 2008, 2009, and 2010. 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 2008, 2009, and 2010. The current debt limitation for the Commonwealth is $4.5 billion, $14.6 billion, and $14.9 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 17
Outstanding Debt as of June 30, 2010
General Obligation Bonds
(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
General obligation bonds				
9(b)	$ 999,841	$ -	$ 999,841	$ -
9(c)	49,545	-	49,545	631,275
Total	$ 1,049,386	$ -	$ 1,049,386	$ 631,275

Economic Factors and Review

In fiscal year 2010, the nation continued to suffer from what many have called "the Great Recession" which began in December 2007. The Commonwealth was not immune to this economic downtrend. Virginia's nonfarm employment growth rate fell slightly; however the national growth rate fell even lower. The Commonwealth's personal income in current dollars grew by only 1.0 percent, slightly better than the national growth, but much less than in the three previous years. Although it increased sharply in fiscal year 2010, unemployment in the Commonwealth was only 7.0 percent, substantially lower than the national average, which was 9.7 percent. Taxable sales suffered a 2.7 percent decline in fiscal year 2010 following last year's 4.1 percent decline. During fiscal year 2010, with the help of federal housing tax credits, new housing in Virginia fell by only 4.5 percent compared to 5.8 percent for the nation. The Commonwealth generally faired better than the nation when compared to national averages. For a more in-depth discussion on the Commonwealth's economy see "Economic Review" beginning 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, 2010
(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and Cash Equivalents (Notes 1 and 6)	$ 3,528,081	$ 701,101	$ 4,229,182	$ 1,921,061
Investments (Notes 1 and 6)	1,332,010	1,793,246	3,125,256	9,206,713
Receivables, Net (Notes 1 and 7)	2,504,499	482,327	2,986,826	12,299,691
Contributions Receivable, Net (Notes 1 and 8)	-	-	-	332,760
Internal Balances (Note 1)	50,724	(50,724)	-	-
Due from Primary Government (Note 9)	-	-	-	31,597
Due from Component Units (Note 9)	12,226	-	12,226	109,517
Due from External Parties (Fiduciary Funds) (Note 9)	417	-	417	-
Inventory (Note 1)	135,010	50,482	185,492	81,664
Prepaid Items (Note 1)	76,680	2,141	78,821	89,996
Other Assets (Notes 1 and 10)	6,723	169	6,892	173,454
Loans Receivable from Primary Government (Notes 1 and 9)	-	-	-	168,730
Loans Receivable from Component Units (Notes 1 and 9)	16,401	-	16,401	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	575,441	-	575,441	2,708,171
Restricted Investments (Notes 6 and 11)	-	-	-	3,730,842
Other Restricted Assets (Note 11)	-	-	-	202,160
Nondepreciable Capital Assets (Notes 1 and 12)	5,455,655	9,503	5,465,158	2,510,324
Depreciable Capital Assets, Net (Notes 1 and 12)	15,671,399	22,618	15,694,017	10,418,328
Total Assets	29,365,266	3,010,863	32,376,129	43,985,008
Deferred Outflows (Note 13)	-	-	-	62,591
Total Assets and Deferred Outflows	29,365,266	3,010,863	32,376,129	44,047,599
Liabilities				
Accounts Payable (Notes 1 and 23)	774,974	37,816	812,790	851,195
Amounts Due to Other Governments	660,251	22,900	683,151	79,097
Due to Primary Government (Note 9)	-	-	-	12,226
Due to Component Units (Note 9)	31,597	-	31,597	109,517
Due to External Parties (Fiduciary Funds) (Note 9)	46,812	1,295	48,107	23,532
Unearned Revenue (Note 1)	115,575	5,274	120,849	332,739
Obligations Under Securities Lending Program (Notes 1 and 6)	1,108,888	218,338	1,327,226	134,812
Other Liabilities (Notes 1, 13, and 24)	1,973,407	419,847	2,393,254	1,151,658
Loans Payable to Primary Government (Notes 1 and 9)	-	-	-	16,401
Loans Payable to Component Units (Notes 1 and 9)	168,730	-	168,730	-
Claims Payable (Notes 1 and 22):				
Due Within One Year	159,422	27,813	187,235	69,298
Due in More Than One Year	379,421	10,350	389,771	38,317
Long-term Liabilities (Notes 1, 20, 21, and 26):				
Due Within One Year	661,279	212,531	873,810	1,577,801
Due in More Than One Year	6,587,411	2,177,063	8,764,474	20,605,147
Total Liabilities	12,667,767	3,133,227	15,800,994	25,001,740

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	17,424,092	30,526	17,454,618	7,541,337
Restricted For:				
Nonexpendable:				
Higher Education	-	-	-	2,281,539
Permanent Funds	45,356	-	45,356	-
Other	-	-	-	93,330
Expendable:				
Higher Education	-	-	-	3,648,288
Permanent Funds	1,706	-	1,706	-
Revenue Stabilization Fund	295,159	-	295,159	-
Literary Fund	151,445	-	151,445	-
Gifts and Grants	111,132	-	111,132	46,211
Unemployment Compensation	-	15,730	15,730	-
Virginia Pooled Investment Program	-	-	-	7,248
Capital Projects/Construction/Capital Acquisition	448,576	-	448,576	1,590,542
Debt Service	105,325	-	105,325	77,124
Bond Indenture	-	-	-	2,069,281
Lottery Proceeds Fund	1,421	-	1,421	-
Other	-	-	-	24,175
Unrestricted	(1,886,713)	(168,620)	(2,055,333)	1,666,784
Total Net Assets (Deficit)	$ 16,697,499	$ (122,364)	$ 16,575,135	$ 19,045,859

Statement of Activities

For the Fiscal Year Ended June 30, 2010
(Dollars in Thousands)

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	$ 2,828,740	$ 248,345	$ 146,319	$ 4,303
Education	9,311,627	380,125	1,434,131	6,056
Transportation	2,311,563	610,567	37,247	1,570,053
Resources and Economic Development	1,106,690	306,412	265,761	22,896
Individual and Family Services	12,285,084	410,731	8,002,054	47
Administration of Justice	2,741,432	307,956	65,790	-
Interest and Charges on Long-term Debt	205,965	-	-	-
Total Governmental Activities	30,791,101	2,264,136	9,951,302	1,603,355
Business-type Activities				
State Lottery	998,421	1,435,566	-	-
Virginia College Savings Plan	294,322	370,599	-	-
Unemployment Compensation	922,952	524,291	3,364	-
Alcoholic Beverage Control	469,306	584,036	873	-
Risk Management	7,123	5,494	-	-
Local Choice Health Care	231,338	240,965	-	-
Virginia Industries for the Blind	27,605	29,446	-	-
Consolidated Laboratory	6,009	7,007	-	-
eVA Procurement System	18,476	17,144	-	-
Department of Environmental Quality Title V	10,168	9,521	-	-
Wireless E-911	47,744	53,016	-	-
Museum and Library Gift Shops	2,054	2,210	-	-
Behavioral Health Canteen and Work Activity	853	455	-	-
Total Business-type Activities	3,036,371	3,279,750	4,237	-
Total Primary Government	$ 33,827,472	$ 5,543,886	$ 9,955,539	$ 1,603,355
Component Units				
Virginia Housing Development Authority	$ 657,909	$ 544,608	$ 197,585	$ -
Virginia Public School Authority	168,561	142,573	-	-
Higher Education:				
Major	6,353,543	4,513,874	1,355,818	263,358
Nonmajor	4,447,424	1,810,220	911,148	395,973
Other Nonmajor	838,586	537,929	52,818	130,410
Total Component Units	$ 12,466,023	$ 7,549,204	$ 2,517,369	$ 789,741

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
$ (2,429,773)	$ -	$ (2,429,773)	$ -
(7,491,315)	-	(7,491,315)	-
(93,696)	-	(93,696)	-
(511,621)	-	(511,621)	-
(3,872,252)	-	(3,872,252)	-
(2,367,686)	-	(2,367,686)	-
(205,965)	-	(205,965)	-
(16,972,308)	-	(16,972,308)	-
-	437,145	437,145	-
-	76,277	76,277	-
-	(395,297)	(395,297)	-
-	115,603	115,603	-
-	(1,629)	(1,629)	-
-	9,627	9,627	-
-	1,841	1,841	-
-	998	998	-
-	(1,332)	(1,332)	-
-	(647)	(647)	-
-	5,272	5,272	-
-	156	156	-
-	(398)	(398)	-
-	247,616	247,616	-
(16,972,308)	247,616	(16,724,692)	-
-	-	-	84,284
-	-	-	(25,988)
-	-	-	(220,493)
-	-	-	(1,330,083)
-	-	-	(117,429)
-	-	-	(1,609,709)

Continued on next page

Statement of Activities *(Continued from previous page)*

For the Fiscal Year Ended June 30, 2010
(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	8,778,749	-	8,778,749	-
Sales and Use	3,568,878	-	3,568,878	-
Corporation Income	845,989	-	845,989	-
Motor Fuel	890,872	-	890,872	-
Motor Vehicle Sales and Use	439,889	-	439,889	-
Communications Sales and Use	455,609	-	455,609	-
Deeds, Contracts, Wills, and Suits	325,920	-	325,920	-
Premiums of Insurance Companies	414,165	-	414,165	-
Alcoholic Beverage Sales Tax	111,293	-	111,293	-
Tobacco Products	177,483	-	177,483	-
Estate	6,198	-	6,198	-
Public Service Corporations	111,693	-	111,693	-
Beer and Beverage Excise	44,432	-	44,432	-
Wine and Spirits/ABC Liter	20,842	-	20,842	-
Bank Stock	24,341	-	24,341	-
Other Taxes	66,558	9,886	76,444	-
Operating Appropriations from Primary Government	-	-	-	1,727,766
Unrestricted Grants and Contributions	49,187	-	49,187	75,292
Investment Earnings	204,786	1,786	206,572	627,126
Miscellaneous	427,422	285	427,707	70,547
Tobacco Master Settlement	-	-	-	11,629
Transfers	597,446	(597,446)	-	-
Contributions to Permanent Funds and Endowments	-	-	-	101,330
Total General Revenues and Transfers	17,561,752	(585,489)	16,976,263	2,613,690
Change in Net Assets	589,444	(337,873)	251,571	1,003,981
Net Assets, July 1, as restated (Note 2)	16,108,055	215,509	16,323,564	18,041,878
Net Assets (Deficit), June 30	$ 16,697,499	$ (122,364)	$ 16,575,135	$ 19,045,859

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 185 in the Combining and Individual Fund Statements and Schedules section of this report.

Balance Sheet – Governmental Funds

June 30, 2010
(Dollars in Thousands)

	General	Special Revenue: Commonwealth Transportation	Special Revenue: Federal Trust	Special Revenue: Literary
Assets				
Cash and Cash Equivalents (Notes 1 and 6)	$ 282,900	$ 1,975,530	$ 114,784	$ 22,827
Investments (Notes 1 and 6)	1,060,114	165,548	4,243	2,768
Receivables, Net (Notes 1 and 7)	1,020,186	326,700	756,826	322,577
Due from Other Funds (Note 9)	6,391	28,116	-	-
Due from External Parties (Fiduciary Funds) (Note 9)	15	-	-	-
Interfund Receivable (Note 9)	-	-	-	-
Inventory (Note 1)	42,674	58,110	14,031	-
Prepaid Items (Note 1)	55,525	9,693	628	-
Other Assets (Notes 1 and 10)	2,431	316	2,017	-
Loans Receivable from Component Units (Notes 1 and 9)	-	-	-	-
Restricted Cash and Cash Equivalents (Notes 1, 6, and 11)	-	244,644	-	-
Total Assets	$ 2,470,236	$ 2,808,657	$ 892,529	$ 348,172
Liabilities and Fund Balances				
Accounts Payable (Notes 1 and 23)	$ 221,026	$ 233,225	$ 118,709	$ 197
Amounts Due to Other Governments	356,097	592	207,712	-
Due to Other Funds (Note 9)	47,852	13,470	7,356	-
Due to Component Units (Note 9)	8,556	-	3,611	-
Due to External Parties (Fiduciary Funds) (Note 9)	27,466	7,592	4,171	-
Interfund Payable (Note 9)	13,151	6,000	8,746	-
Deferred Revenue (Note 1)	532,932	36,672	100,159	19,896
Unearned Revenue (Note 1)	-	22,680	-	-
Deferred Taxes (Note 1)	566,899	-	-	-
Obligations Under Securities Lending Program (Notes 1 and 6)	445,521	472,712	12,115	7,904
Other Liabilities (Notes 1 and 24)	924,152	5,628	387,274	-
Loans Payable to Component Units (Notes 1 and 9)	-	-	-	168,730
Long-term Liabilities Due Within One Year (Notes 1, 20, and 26)	876	483	119	-
Total Liabilities	3,144,528	799,054	849,972	196,727
Fund Balances Reserved for (Note 1):				
Revenue Stabilization Fund	295,159	-	-	-
Lottery Proceeds Fund	1,421	-	-	-
Inventory	42,674	58,110	14,031	-
Prepaid Items	55,525	9,693	628	-
Debt Service	-	-	-	-
Gifts and Grants	-	30,511	-	-
Capital Acquisition / Construction	-	242,843	-	-
Fund Balances Unreserved, Reported in (Note 1):				
General Fund	(1,069,071)	-	-	-
Special Revenue Funds	-	1,668,446	27,898	151,445
Capital Projects Funds	-	-	-	-
Permanent Funds	-	-	-	-
Total Fund Balances (Deficit) (Note 3)	(674,292)	2,009,603	42,557	151,445
Total Liabilities and Fund Balances	$ 2,470,236	$ 2,808,657	$ 892,529	$ 348,172

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 971,557	$ 3,367,598
63,117	1,295,790
58,475	2,484,764
9,101	43,608
281	296
110,202	110,202
4,881	119,696
10,684	76,530
1,855	6,619
16,401	16,401
-	244,644
$ 1,246,554	$ 7,766,148
$ 64,619	$ 637,776
686	565,087
4,890	73,568
6,041	18,208
6,862	46,091
-	27,897
13,632	703,291
11,052	33,732
-	566,899
67,210	1,005,462
4,875	1,321,929
-	168,730
411	1,889
180,278	5,170,559
-	295,159
-	1,421
4,881	119,696
10,684	76,530
105,325	105,325
38,608	69,119
-	242,843
-	(1,069,071)
653,983	2,501,772
205,733	205,733
47,062	47,062
1,066,276	2,595,589
$ 1,246,554	$ 7,766,148

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

June 30, 2010
(Dollars in Thousands)

Total fund balances - governmental funds (see Balance Sheet - Governmental Funds)	$	2,595,589
When capital assets (land, buildings, equipment, improvements, construction-in-progress, intangible assets, 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 Assets		5,455,227
Depreciable Capital Assets		15,617,577
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.		
Tax Note		(81,278)
Pension Liability		(1,133,272)
OPEB Liability		(211,428)
Capital Lease		(76,983)
Installment Purchases		(71,843)
Compensated Absences		(313,365)
Uninsured Employer's Fund		(26,041)
Regional Jails		(6,445)
Bonds		(5,169,442)
Notes		(12,613)
Accrued Interest Payable		(79,159)
Other Obligations		(96,493)
Pollution Remediation Liability		(4,019)
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.		(197,999)
Other long-term payables are not due and payable in the current period and, therefore, are not reported in the funds.		(192,111)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		701,597
Net assets of governmental activities (see Government-wide Statement of Net Assets)	$	16,697,499

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, 2010
(Dollars in Thousands)

	General	Special Revenue: Commonwealth Transportation	Special Revenue: Federal Trust	Special Revenue: Literary
Revenues				
Taxes	$ 14,155,824	$ 1,941,587	$ -	$ -
Rights and Privileges	68,432	526,830	-	226
Institutional Revenue	6,019	-	-	-
Interest, Dividends, Rents, and Other Investment Income	214,557	39,450	1,782	17,740
Federal Grants and Contracts	-	959,128	9,662,083	-
Other (Note 27)	418,127	150,900	68,385	181,899
Total Revenues	14,862,959	3,617,895	9,732,250	199,865
Expenditures				
Current:				
General Government	2,080,279	1,850	130,733	128
Education	7,025,480	2,405	1,522,359	257,076
Transportation	11,125	3,371,203	13,604	-
Resources and Economic Development	269,987	9,502	210,777	-
Individual and Family Services	3,967,298	-	7,690,351	-
Administration of Justice	2,121,176	8,182	169,863	-
Capital Outlay	10,515	29,701	14,663	-
Debt Service:				
Principal Retirement	-	-	-	-
Interest and Charges	-	-	-	-
Total Expenditures	15,485,860	3,422,843	9,752,350	257,204
Revenues Over (Under) Expenditures	(622,901)	195,052	(20,100)	(57,339)
Other Financing Sources (Uses)				
Transfers In (Note 31)	743,343	116,439	19,434	10,308
Transfers Out (Note 31)	(544,005)	(313,200)	(11,045)	-
Notes Issued	7,276	-	-	-
Insurance Recoveries	24	1,745	13	-
Capital Leases Initiated	438	585	-	-
Bonds Issued	-	564,860	-	-
Premium on Debt Issuance	-	9,933	-	-
Refunding Bonds Issued	-	-	-	-
Sale of Capital Assets	-	4,078	-	-
Payment to Refunded Bond Escrow Agents	-	-	-	-
Total Other Financing Sources (Uses)	207,076	384,440	8,402	10,308
Net Change in Fund Balances	(415,825)	579,492	(11,698)	(47,031)
Fund Balance (Deficit), July 1	(258,467)	1,430,111	54,255	198,476
Fund Balance (Deficit), June 30 (Note 3)	$ (674,292)	$ 2,009,603	$ 42,557	$ 151,445

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 89,379	$ 16,186,790
274,098	869,586
397,230	403,249
20,267	293,796
7,281	10,628,492
376,190	1,195,501
1,164,445	29,577,414
93,058	2,306,048
35,138	8,842,458
5,292	3,401,224
407,172	897,438
578,390	12,236,039
99,379	2,398,600
563,979	618,858
420,202	420,202
205,739	205,739
2,408,349	31,326,606
(1,243,904)	(1,749,192)
735,039	1,624,563
(154,033)	(1,022,283)
12,638	19,914
3,271	5,053
-	1,023
375,985	940,845
34,336	44,269
123,887	123,887
-	4,078
(146,385)	(146,385)
984,738	1,594,964
(259,166)	(154,228)
1,325,442	2,749,817
$ 1,066,276	$ 2,595,589

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, 2010
(Dollars in Thousands)

Net Change in fund balances - total government funds (See Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds)	$	(154,228)
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		195,792
Net Depreciable Capital Assets		1,840,789
Net Depreciation Expense		(629,312)
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		(940,845)
Capital Lease Proceeds		(1,023)
Bond Premiums		(44,269)
Refunding Bonds Issued		(123,887)
Installment Purchase Proceeds		(19,914)
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		420,202
Repayment of Debt Principal in Other Funds:		
Installment Purchases		11,011
Regional Jails		2,633
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.		146,385
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		187,706
Increases/decreases of expenses associated with long-term debt reported in the Statement of Activities do not require the use of, or provide, current financial resources and, therefore, are not reported in the governmental funds.		
Increase in Pension Liability		(155,114)
Increase in OPEB Liability		(95,677)
Increase in Other Long-term Liabilities		(5,105)
Increase in Interest Expense, Amortization of Deferrals on Long-term Debt and accrued interest liability		(470)
Decrease in Compensated Absences		15,434
Decrease in Other Liabilities		8,989
Net Decrease in Due to Component Units for Capital and Other Projects resulting from appropriation reductions, which are not reported as expenditures in the fund statements.		18,041
The net revenue (expenses) of certain activities of internal service funds is reported within governmental activities.		(87,694)
Change in net assets of governmental activities (See Government-wide Statement of Activities)	$	589,444

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 Fund 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 197 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 213 in the Combining and Individual Fund Statements and Schedules section of this report.

Statement of Net Assets – Proprietary Funds

June 30, 2010
(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)	$ 122,311	$ 146,000	$ 232,418	$ 200,372
Investments (Notes 1 and 6)	115,056	165	-	12,615
Receivables, Net (Notes 1 and 7)	54,838	72,391	114,021	35,994
Due from Other Funds (Note 9)	-	-	1,157	6
Due From External Parties (Fiduciary Funds) (Note 9)	-	-	-	-
Due From Component Units (Note 9)	-	-	-	-
Inventory (Note 1)	-	-	-	50,482
Prepaid Items (Note 1)	445	-	-	1,696
Other Assets (Notes 1 and 10)	1	-	-	168
Total Current Assets	292,651	218,556	347,596	301,333
Noncurrent Assets:				
Investments (Notes 1 and 6)	199,382	1,466,027	-	1
Receivables, Net (Notes 1 and 7)	-	205,083	-	-
Nondepreciable Capital Assets (Notes 1 and 12)	-	120	-	9,383
Depreciable Capital Assets, Net (Notes 1 and 12)	7,068	2,793	-	12,757
Total Noncurrent Assets	206,450	1,674,023	-	22,141
Total Assets	499,101	1,892,579	347,596	323,474
Liabilities				
Current Liabilities:				
Accounts Payable (Notes 1 and 23)	8,479	1,429	191	27,717
Amounts Due to Other Governments	-	-	8,036	14,864
Due to Other Funds (Note 9)	225	28	239	7,352
Due to External Parties (Fiduciary Funds) (Note 9)	254	91	-	950
Interfund Payable (Note 9)	9,000	-	-	32,781
Unearned Revenue (Note 1)	2,814	-	-	2,460
Obligations Under Securities Lending Program (Notes 1 and 6)	181,847	472	-	36,019
Other Liabilities (Notes 1 and 24)	43,995	58	375,466	328
Claims Payable Due Within One Year (Notes 1 and 22)	-	-	-	27,813
Long-term Liabilities Due Within One Year (Notes 1, 20, and 26)	52,318	156,368	-	3,845
Total Current Liabilities	298,932	158,446	383,932	154,129
Noncurrent Liabilities:				
Interfund Payable (Note 9)	-	-	-	-
Claims Payable Due in More Than One Year (Notes 1 and 22)	-	-	-	10,350
Long-term Liabilities Due in More Than One Year (Notes 1, 20, and 26)	205,882	1,943,466	-	27,715
Total Noncurrent Liabilities	205,882	1,943,466	-	38,065
Total Liabilities	504,814	2,101,912	383,932	192,194
Net Assets				
Invested in Capital Assets, Net of Related Debt	7,068	1,505	-	21,953
Restricted for Unemployment Compensation	-	-	15,730	-
Unrestricted	(12,781)	(210,838)	(52,066)	109,327
Total Net Assets (Deficit) (Note 3)	$ (5,713)	$ (209,333)	$ (36,336)	$ 131,280

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.

	Governmental Activities
Total	Internal Service Funds
$ 701,101	$ 491,280
127,836	36,220
277,244	19,735
1,163	38,109
-	121
-	11,802
50,482	15,314
2,141	150
169	7,782
1,160,136	620,513
1,665,410	-
205,083	-
9,503	428
22,618	53,822
1,902,614	54,250
3,062,750	674,763
37,816	60,204
22,900	717
7,844	1,468
1,295	721
41,781	31,484
5,274	82,813
218,338	103,426
419,847	1,108
27,813	159,422
212,531	6,144
995,439	447,507
-	9,040
10,350	379,421
2,177,063	39,056
2,187,413	427,517
3,182,852	875,024
30,526	32,121
15,730	-
(166,358)	(232,382)
$ (120,102)	$ (200,261)
(2,262)	
$ (122,364)	

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

For the Fiscal Year Ended June 30, 2010
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Operating Revenues				
Charges for Sales and Services	$ 1,435,128	$ 133,162	$ 524,291	$ 930,865
Interest, Dividends, Rents, and Other Investment Income	-	237,413	-	-
Other (Note 27)	-	1	-	18,105
Total Operating Revenues	1,435,128	370,576	524,291	948,970
Operating Expenses				
Cost of Sales and Services	100,725	-	-	333,380
Prizes and Claims (Note 28)	842,417	-	922,952	221,116
Tuition Benefits Expense	-	280,799	-	-
Personal Services	22,392	7,345	-	106,353
Contractual Services	28,176	5,116	-	55,028
Supplies and Materials	500	93	-	23,990
Depreciation	2,187	707	-	3,456
Rent, Insurance, and Other Related Charges	1,627	76	-	27,264
Interest Expense	-	36	-	-
Non-recurring Cost Estimate Payments to Providers	-	-	-	46,020
Other (Note 29)	-	139	-	2,647
Total Operating Expenses	998,024	294,311	922,952	819,254
Operating Income (Loss)	437,104	76,265	(398,661)	129,716
Nonoperating Revenues (Expenses)				
Interest, Dividends, Rents, and Other Investment Income	2,224	23	3,364	1,104
Other (Note 30)	(153)	(23)	-	9,822
Total Nonoperating Revenues (Expenses)	2,071	-	3,364	10,926
Income (Loss) Before Transfers	439,175	76,265	(395,297)	140,642
Transfers In (Note 31)	-	-	-	2,448
Transfers Out (Note 31)	(440,547)	(375)	(13,313)	(145,659)
Change in Net Assets	(1,372)	75,890	(408,610)	(2,569)
Total Net Assets (Deficit), July 1	(4,341)	(285,223)	372,274	133,849
Total Net Assets (Deficit), June 30 (Note 3)	$ (5,713)	$ (209,333)	$ (36,336)	$ 131,280

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 with 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
$ 3,023,446	$ 1,487,537
237,413	-
18,106	-
3,278,965	1,487,537
434,105	63,990
1,986,485	999,409
280,799	-
136,090	56,182
88,320	345,561
24,583	8,790
6,350	12,662
28,967	67,951
36	174
46,020	-
2,786	16,364
3,034,541	1,571,083
244,424	(83,546)
6,715	3,215
9,646	(3,740)
16,361	(525)
260,785	(84,071)
2,448	330
(599,894)	(5,164)
(336,661)	(88,905)
216,559	(111,356)
$ (120,102)	$ (200,261)

(1,212)
$ (337,873)

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended June 30, 2010
(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	$ 1,433,502	$ 150,137	$ 475,063	$ 932,052
Internal Activity-Receipts from Other Funds	-	-	7,089	11,387
Internal Activity-Payments to Other Funds	-	(227)	-	(2,796)
Payments to Suppliers for Goods and Services	(100,725)	(877)	-	(383,678)
Payments for Contractual Services	(20,107)	(5,408)	-	(54,720)
Payments for Prizes, Claims, and Loss Control (Note 34)	(912,482)	-	(950,340)	(226,178)
Payments for Tuition Benefits	-	(94,627)	-	-
Payments to Employees	(21,037)	(6,500)	-	(100,874)
Payments to Providers for Non-recurring Cost Estimates	-	-	-	(41,761)
Other Operating Revenue (Note 34)	-	1	-	6,380
Other Operating Expense (Note 34)	-	(1)	-	(182)
Net Cash Provided by (Used for) Operating Activities	379,151	42,498	(468,188)	139,630
Cash Flows from Noncapital Financing Activities				
Transfers In From Other Funds	-	-	-	2,063
Transfers Out to Other Funds	(449,393)	(375)	(13,587)	(305,879)
Other Noncapital Financing Receipt Activities (Note 34)	8,908	-	346,876	201,733
Other Noncapital Financing Disbursement Activities (Note 34)	-	-	-	(28,200)
Net Cash Provided by (Used for) Noncapital Financing Activities	(440,485)	(375)	333,289	(130,283)
Cash Flows from Capital and Related Financing Activities				
Acquisition of Capital Assets	(2,035)	(644)	-	(10,074)
Payment of Principal and Interest on Bonds and Notes	-	(547)	-	(797)
Proceeds from Sale of Capital Assets	-	-	-	21
Net Cash Provided By (Used for) Capital and Related Financing Activities	(2,035)	(1,191)	-	(10,850)
Cash Flows from Investing Activities				
Purchase of Investments	(3,070)	(2,052,683)	-	-
Proceeds from Sales or Maturities of Investments	62,912	1,847,110	-	-
Investment Income on Cash, Cash Equivalents, and Investments	2,163	134,905	3,365	872
Net Cash Provided by (Used for) Investing Activities	62,005	(70,668)	3,365	872
Net Increase (Decrease) in Cash and Cash Equivalents	(1,364)	(29,736)	(131,534)	(631)
Cash and Cash Equivalents, July 1	5,513	175,429	363,952	177,766
Cash and Cash Equivalents, June 30	$ 4,149	$ 145,693	$ 232,418	$ 177,135
Reconciliation of Cash and Cash Equivalents				
Per the Statement of Net Assets:				
Cash and Cash Equivalents	$ 122,311	$ 146,000	$ 232,418	$ 200,372
Cash and Travel Advances	1	-	-	168
Less:				
Securities Lending Cash Equivalents	(118,163)	(307)	-	(23,405)
Cash and Cash Equivalents per the Statement of Cash Flows	$ 4,149	$ 145,693	$ 232,418	$ 177,135

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

	Governmental Activities
Total	Internal Service Funds
$ 2,990,754	$ 1,030,969
18,476	474,358
(3,023)	(10,865)
(485,280)	(136,618)
(80,235)	(342,267)
(2,089,000)	(1,001,579)
(94,627)	-
(128,411)	(52,716)
(41,761)	-
6,381	-
(183)	(11,131)
93,091	(49,849)
2,063	330
(769,234)	(5,164)
557,517	30,209
(28,200)	-
(237,854)	25,375
(12,753)	(3,418)
(1,344)	(7,311)
21	423
(14,076)	(10,306)
(2,055,753)	-
1,910,022	-
141,305	2,940
(4,426)	2,940
(163,265)	(31,840)
722,660	456,019
$ 559,395	$ 424,179
$ 701,101	$ 491,280
169	104
(141,875)	(67,205)
$ 559,395	$ 424,179

Continued on next page

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

For the Fiscal Year Ended June 30, 2010
(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)	$ 437,104	$ 76,265	$ (398,661)	$ 129,716
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities				
Depreciation	2,187	707	-	3,456
Interest, Dividends, Rents, and Other Investment Income	(17,432)	(236,127)	-	-
Miscellaneous Nonoperating Income	-	-	-	45
Other Expenses	-	-	-	-
Change in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(1,734)	16,266	(43,097)	(1,624)
(Increase) Decrease in Due From Other Funds	-	-	(177)	1,392
(Increase) Decrease in Due From External Parties (Fiduciary Funds)	-	-	-	-
(Increase) Decrease in Due From Component Units	-	-	-	-
(Increase) Decrease in Other Assets	-	-	-	-
(Increase) Decrease in Inventory	-	-	-	(451)
(Increase) Decrease in Prepaid Items	(156)	-	-	337
Increase (Decrease) in Accounts Payable	(244)	(1,051)	(88)	(6,429)
Increase (Decrease) in Amounts Due to Other Governments	-	-	(8,136)	4,754
Increase (Decrease) in Due to Other Funds	59	2	6	234
Increase (Decrease) in Due to External Parties (Fiduciary Funds)	254	91	-	950
Increase (Decrease) in Interfund Payables	-	-	-	59
Increase (Decrease) in Unearned Revenue	108	-	-	369
Increase (Decrease) in Other Liabilities	73	(119)	(18,035)	81
Increase (Decrease) in Claims Payable: Due Within One Year	-	-	-	(339)
Increase (Decrease) in Claims Payable: Due in More Than One Year	-	-	-	1,235
Increase (Decrease) in Long-term Liabilities: Due Within One Year	(9,650)	26,057	-	175
Increase (Decrease) in Long-term Liabilities: Due in More Than One Year	(31,418)	160,407	-	5,670
Net Cash Provided by (Used for) Operating Activities	$ 379,151	$ 42,498	$ (468,188)	$ 139,630
Noncash Investing, Capital, and Financing Activities:				
The following transactions occurred prior to the statement of net assets date:				
New Capital Leases	$ -	$ -	$ -	$ -
Trade-ins of Used Equipment on New Equipment	-	-	-	-
Installment Purchases Used to Finance Capital Assets	-	-	-	-
Change in Fair Value of Investments	-	101,222	-	-
Capital Asset Addition Included in Accounts Payable	-	-	-	-
Total Noncash, Investing, Capital, and Financing Activities	$ -	$ 101,222	$ -	$ -

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

	Governmental Activities
Total	Internal Service Funds
$ 244,424	$ (83,546)
6,350	12,662
(253,559)	-
45	53
-	39
(30,189)	9,512
1,215	2,258
-	(121)
-	(11,802)
-	1,819
(451)	693
181	321
(7,812)	(20,689)
(3,382)	(133)
301	447
1,295	721
59	(220)
477	14,087
(18,000)	(4,474)
(339)	(7,818)
1,235	32,694
16,582	(288)
134,659	3,936
$ 93,091	$ (49,849)
$ -	$ 4,037
-	40
-	765
101,222	-
-	223
$ 101,222	$ 5,065

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 or the Department of Accounts.

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 222-223 in the Combining and Individual Fund Statements and Schedules section of this report. Combining financial statements for all Fiduciary Funds begin on page 224.

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2010
(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)	$ 71,595	$ 14,882	$ 1,425,572	$ 295,478
Investments (Notes 1 and 6):				
Bonds and Mortgage Securities	-	17,146,153	197,367	-
Stocks	232,358	16,309,939	-	-
Fixed Income Commingled Funds	-	1,732,430	-	-
Index and Pooled Funds	363,100	5,424,776	-	-
Real Estate	-	2,654,164	-	-
Private Equity	-	4,590,737	-	-
Mutual and Money Market Funds	752,317	-	-	-
Short-term Investments	-	68,803	1,634,487	64,637
Other	196,707	4,085,645	-	342,602
Total Investments	1,544,482	52,012,647	1,831,854	407,239
Receivables, Net (Notes 1 and 7):				
Accounts	7	-	-	43,255
Contributions	-	76,007	-	-
Interest and Dividends	1,362	191,856	1,405	-
Security Transactions	-	1,813,792	-	-
Other Receivables	-	586,247	-	-
Total Receivables	1,369	2,667,902	1,405	43,255
Due from Other Funds (Note 9)	-	38	-	-
Due from Internal Parties (Governmental Funds and Business-type Activities) (Note 9)	-	48,107	-	-
Due from Component Units (Note 9)	-	23,532	-	-
Prepaid Items	209	-	-	-
Other Assets (Notes 1 and 10)	-	-	-	6
Furniture and Equipment (Note 1)	-	13,855	-	-
Total Assets	1,617,655	54,780,963	3,258,831	745,978
Liabilities				
Accounts Payable and Accrued Expenses (Notes 1 and 23)	1,931	39,291	-	3,915
Amounts Due to Other Governments	-	-	-	228,054
Due to Internal Parties (Governmental Funds and Business-type Activities) (Note 9)	18	103	15	281
Due to Other Funds (Note 9)	38	-	-	-
Obligations Under Securities Lending Program (Notes 1 and 6)	1,644	4,092,144	-	7,085
Other Liabilities (Notes 1 and 24)	271	749,188	-	506,048
Retirement Benefits Payable	-	242,724	-	-
Refunds Payable	-	6,087	-	-
Compensated Absences Payable (Notes 1 and 20)	252	1,961	-	-
Insurance Premiums and Claims Payable	-	47,304	-	595
Payable for Security Transactions	-	1,943,475	-	-
Pension Liability	717	5,992	-	-
Other Postemployment Benefits (OPEB) Liability	181	1,513	-	-
Total Liabilities	5,052	7,129,782	15	745,978
Net Assets Held in Trust for Pension/ Other Employment Benefits, Pool Participants, and Other Purposes	$ 1,612,603	$ 47,651,181	$ 3,258,816	$ -

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, 2010
(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	$ 152,933	$ 6,724,016	$ 8,341
Distributions to Shareholders from Net Investment Income	-	-	(8,341)
Total Investment Income	152,933	6,724,016	-
Less Investment Expenses	2,583	300,883	-
Net Investment Income	150,350	6,423,133	-
Proceeds from Unclaimed Property	24,556	-	-
Contributions:			
Participants	239,512	-	-
Member	-	851,059	-
Employer	-	1,242,677	-
Total Contributions	239,512	2,093,736	-
Shares Sold	-	-	4,743,012
Reinvested Distributions	-	-	8,369
Other Revenue (Note 27)	58	1,083	-
Total Additions	414,476	8,517,952	4,751,381
Deductions:			
Loan Servicing Payments	94	-	-
Educational Expense Benefits	78,120	-	-
Retirement Benefits	-	3,035,944	-
Refunds to Former Members	-	93,096	-
Retiree Health Insurance Credits	-	120,269	-
Insurance Premiums and Claims	26,496	145,217	-
Trust Payments	2,011	-	-
Administrative Expenses	5,507	28,477	-
Other Expenses (Note 29)	-	4,843	-
Shares Redeemed	6,335	-	5,195,756
Long-term Disability Benefits	-	27,574	-
Total Deductions	118,563	3,455,420	5,195,756
Transfers:			
Transfers In	-	104	-
Transfers Out	-	(104)	-
Total Transfers	-	-	-
Net Increase (Decrease)	295,913	5,062,532	(444,375)
Net Assets Held in Trust for Pension/ Other Employment Benefits, Pool Participants, and Other Purposes			
July 1, as restated (Note 2)	1,316,690	42,588,649	3,703,191
June 30	$ 1,612,603	$ 47,651,181	$ 3,258,816

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 to cities and counties for capital construction of primary and secondary schools.

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 246-247 in the Combining and Individual Fund Statements and Schedules section of this report.

Statement of Net Assets – Component Units

June 30, 2010
(Dollars in Thousands)

	Virginia Housing Development Authority	Virginia Public School Authority	University of Virginia
Assets			
Cash and Cash Equivalents (Notes 1 and 6)	$ 22,621	$ 11,451	$ 450,659
Investments (Notes 1 and 6)	45,677	3,207,432	4,364,932
Receivables, Net (Notes 1 and 7)	8,128,116	44,884	269,757
Contributions Receivable, Net (Note 8)	-	-	107,003
Due from Primary Government (Note 9)	-	-	7,126
Due from Component Units (Note 9)	-	-	6,801
Inventory (Note 1)	-	-	21,985
Prepaid Items (Note 1)	-	-	16,146
Other Assets (Notes 1 and 10)	41,192	-	20,013
Loans Receivable from Primary Government (Notes 1 and 9)	-	168,730	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	1,196,256	82,623	86,978
Restricted Investments (Notes 6 and 11)	156,549	-	522,569
Other Restricted Assets (Note 11)	46,308	-	-
Nondepreciable Capital Assets (Notes 1 and 12)	3,926	-	546,035
Depreciable Capital Assets, Net (Notes 1 and 12)	20,574	-	2,266,278
Total Assets	9,661,219	3,515,120	8,686,282
Deferred Outflows (Note 13)	-	-	13,776
Total Assets and Deferred Outflows	9,661,219	3,515,120	8,700,058
Liabilities			
Accounts Payable (Notes 1 and 23)	2,649	206	203,202
Amounts Due to Other Governments	-	72,822	-
Due to Primary Government (Note 9)	-	-	110
Due to Component Units (Note 9)	-	-	-
Due to External Parties (Fiduciary Funds) (Note 9)	-	-	5,284
Unearned Revenue (Note 1)	-	730	97,737
Obligations Under Securities Lending Program (Notes 1 and 6)	-	-	5,802
Other Liabilities (Notes 1, 13, and 24)	122,162	61,891	585,526
Loans Payable to Primary Government (Notes 1 and 9)	-	-	-
Claims Payable (Notes 1 and 22):			
Due Within One Year	-	-	-
Due in More Than One Year	-	-	-
Long-term Liabilities (Notes 1, 20, and 26):			
Due Within One Year	627,522	252,729	113,722
Due in More Than One Year	6,687,073	3,151,948	1,450,458
Total Liabilities	7,439,406	3,540,326	2,461,841
Net Assets			
Invested in Capital Assets, Net of Related Debt	(5,749)	-	1,656,632
Restricted For:			
Nonexpendable:			
Higher Education	-	-	892,266
Other	-	-	-
Expendable:			
Higher Education	-	-	2,297,694
Gifts and Grants	-	-	-
Virginia Pooled Investment Program	-	-	-
Capital Projects/Construction/Capital Acquisition	-	-	-
Debt Service	-	-	-
Bond Indenture	2,069,281	-	-
Other	-	-	-
Unrestricted	158,281	(25,206)	1,391,625
Total Net Assets (Deficit) (Note 3)	$ 2,221,813	$ (25,206)	$ 6,238,217

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

Virginia Polytechnic Institute and State University	Virginia Commonwealth University	Nonmajor Component Units	Total
$ 178,819	$ 365,445	$ 892,066	$ 1,921,061
148,656	635,871	804,145	9,206,713
86,233	308,177	3,462,524	12,299,691
68,150	20,146	137,461	332,760
179	927	23,365	31,597
12,720	8,168	81,828	109,517
18,565	17,535	23,579	81,664
12,413	6,728	54,709	89,996
6,100	18,256	87,893	173,454
-	-	-	168,730
218,676	25,449	1,098,189	2,708,171
538,386	380,825	2,132,513	3,730,842
10,254	18,035	127,563	202,160
326,793	103,385	1,530,185	2,510,324
988,893	1,268,707	5,873,876	10,418,328
2,614,837	3,177,654	16,329,896	43,985,008
-	48,815	-	62,591
2,614,837	3,226,469	16,329,896	44,047,599
118,015	136,587	390,536	851,195
-	-	6,275	79,097
2,405	2,316	7,395	12,226
-	-	109,517	109,517
3,618	2,926	11,704	23,532
46,657	36,845	150,770	332,739
-	-	129,010	134,812
48,999	126,668	206,412	1,151,658
-	6,194	10,207	16,401
-	69,298	-	69,298
-	38,317	-	38,317
46,067	86,697	451,064	1,577,801
692,866	752,198	7,870,604	20,605,147
958,627	1,258,046	9,343,494	25,001,740
821,306	682,220	4,386,928	7,541,337
328,138	199,832	861,303	2,281,539
-	-	93,330	93,330
419,228	238,031	693,335	3,648,288
-	-	46,211	46,211
-	-	7,248	7,248
-	-	1,590,542	1,590,542
-	-	77,124	77,124
-	-	-	2,069,281
-	-	24,175	24,175
87,538	848,340	(793,794)	1,666,784
$ 1,656,210	$ 1,968,423	$ 6,986,402	$ 19,045,859

Statement of Activities – Component Units

For the Fiscal Year Ended June 30, 2010
(Dollars in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenue
Virginia Housing Development Authority	$ 657,909	$ 544,608	$ 197,585	$ -	$ 84,284
Virginia Public School Authority	168,561	142,573	-	-	(25,988)
Higher Education:					
University of Virginia	2,768,828	1,870,260	800,044	160,932	62,408
Virginia Polytechnic Institute & State University	1,097,788	529,454	305,600	85,032	(177,702)
Virginia Commonwealth University	2,486,927	2,114,160	250,174	17,394	(105,199)
Total Higher Education	6,353,543	4,513,874	1,355,818	263,358	(220,493)
Nonmajor Component Units:					
Higher Education	4,447,424	1,810,220	911,148	395,973	(1,330,083)
Other	838,586	537,929	52,818	130,410	(117,429)
Total Nonmajor Component Units	5,286,010	2,348,149	963,966	526,383	(1,447,512)
Total Component Units	$ 12,466,023	$ 7,549,204	$ 2,517,369	$ 789,741	$ (1,609,709)

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

General Revenues					
Operating Appropriations from Primary Government	Unrestricted Grants and Contributions	Investment Earnings	Miscellaneous	Tobacco Master Settlement	Contributions to Permanent / Term Endowments
$ -	$ -	$ 18,045	$ 71	$ -	$ -
-	-	243	390	-	-
152,008	20,369	332,750	2,897	-	40,021
229,306	22,320	53,337	17,044	-	19,918
180,962	368	64,862	18,646	-	6,340
562,276	43,057	450,949	38,587	-	66,279
1,093,301	24,072	94,738	29,317	-	29,336
72,189	8,163	63,151	2,182	11,629	5,715
1,165,490	32,235	157,889	31,499	11,629	35,051
$ 1,727,766	$ 75,292	$ 627,126	$ 70,547	$ 11,629	$ 101,330

Continued on next page

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

For the Fiscal Year Ended June 30, 2010
(Dollars in Thousands)

	Changes in Net Assets	Net Assets July 1 as restated (Note 2)	Net Assets (Deficit) June 30 (Note 3)
Virginia Housing Development Authority	$ 102,400	$ 2,119,413	$ 2,221,813
Virginia Public School Authority	(25,355)	149	(25,206)
Higher Education:			
University of Virginia	610,453	5,627,764	6,238,217
Virginia Polytechnic Institute & State University	164,223	1,491,987	1,656,210
Virginia Commonwealth University	165,979	1,802,444	1,968,423
Total Higher Education	940,655	8,922,195	9,862,850
Nonmajor Component Units:			
Higher Education	(59,319)	3,693,193	3,633,874
Other	45,600	3,306,928	3,352,528
Total Nonmajor Component Units	(13,719)	7,000,121	6,986,402
Total Component Units	$ 1,003,981	$ 18,041,878	$ 19,045,859

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 Commonwealth provides funding for, and construction of, major academic plant facilities for the institutions. Institutions reported Operating Appropriations from Primary Government of approximately $1.65 billion and Program Revenue Capital Grants and Contributions of approximately $36.5 million from the primary government. Institutions paid the Commonwealth approximately $86.7 million. 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 Commonwealth. 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.

Innovation and Entrepreneurship Investment Authority (IEIA) (nonmajor) – The Authority (formerly the Innovative Technology 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 and General Assembly appoint the 13-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 $496.0 million as Program

Revenue Capital Grants and Contributions for the 21st Century Program and $60.9 million as Program Revenue Operating Grants and Contributions for equipment. The Authority reported approximately $18.8 million in payments from the state-supported colleges and universities for debt service costs. 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 $524.6 million, is not included in the financial statements.

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. Clifton Gunderson, 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 Foundation for Healthy Youth (formerly 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.

The Authority issued two series of revenue bonds for specific customers, the 2002 series and the 2006 series. The 2002 series variable rate revenue bonds were for a facility built specifically for the United Network for Organ Sharing organization. The 2006 Series variable rate revenue bonds were for the Virginia Blood Services project. The bonds are secured by a letter of credit and are payable solely from the payments made by the borrower under the loan agreement. Neither of these bonds constitute a debt or pledge of the Authority or the Commonwealth. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Virginia 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.

The Authority 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 are obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities on the accompanying financial statements.

Virginia School 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 (School) (part of primary government). 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 School, 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.

Virginia Commercial Space Flight Authority (VCSFA) (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to facilitate and coordinate scientific and technological research and development and to promote the industrial and economic development of the Commonwealth. There is a potential financial benefit/burden to the primary government. The Commonwealth provided $26 million in bond offerings through the Virginia Public Building Authority (VPBA) to the VCSFA in fiscal year 2009. Per a memorandum of understanding between the Commonwealth and the VCSFA, the VCSFA will provide 75 percent of the related debt service payments. The administrative offices of the Authority are located at 4111 Monarch Way, Suite 201, Norfolk, Virginia 23508. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Danville Science Center, Inc. (nonmajor) – The Center 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 Center are located at 657 Craghead Street, Post Office Box 167, Danville, Virginia 24541. Goodman and Company, LLP, audits the Center, 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, Martinsville, Virginia 24112-6693. 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. Cherry, Bekaert, & Holland, LLP, 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 Sesquicentennial of the American Civil War Commission (nonmajor) – The Commission was established to prepare for and commemorate the sesquicentennial of Virginia's participation in the American Civil War. The Commission was formed under the Virginia Nonstock Corporation Act. The economic resources received or held by the Commission are entirely or almost entirely for the direct benefit of the primary government. The administrative offices are located at 910 Capitol Street, Richmond, Virginia 23219. Brown, Edwards & Company, LLP, audits the Commission, and a separate report is issued.

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.

(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 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 Foundation for Healthy Youth (formerly the Virginia Tobacco Settlement Foundation, 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. Clifton Gunderson, 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. Robinson, Farmer, Cox Associates 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. Cherry, Bekaert & Holland, 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. 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. KPMG, 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 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, contributions, and investment income 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), Department of Alcoholic Beverage Control (nonmajor enterprise fund), Behavioral Health Local Funds (nonmajor enterprise fund), the Virginia Biotechnology Research Partnership 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 component unit), and the Innovation and Entrepreneurship Investment 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), Department of Alcoholic Beverage Control (nonmajor enterprise fund), Behavioral Health Local Funds (nonmajor enterprise fund), the Virginia Biotechnology Research Partnership 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 component unit), and the Innovation and Entrepreneurship Investment 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 rather than GASB standards. 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 December 31st or March 31st year-end rather than a fiscal year-end. Foundations (component units) with different year-ends are included in these financial statements for the year ending December 31, 2009, or March 31, 2010. 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 $73.8 million and liabilities of $71.2 million, and foundation assets of $64.8 million and liabilities of $79.5 million. Longwood University (nonmajor component unit) reported the following intrafund balances that could not be eliminated because of differing year-ends: institution expenses of $2.8 million and foundation assets of $0.2 million and revenues of $2.7 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 Behavioral Health Endowment Funds whose principal must remain 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 plan, 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, 2010, the General Fund had a negative cash balance of $3.9 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 which approximates fair value. 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 (the System) 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 System's 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 13).

G. Receivables

Receivables in the governmental funds consist primarily of the accrual of taxes, as well as 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 security transactions 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.

In addition to inventories maintained as stated above, the following agencies reported donated inventory on hand at June 30, 2010:

- Department of Health (VDH)
- Department of Corrections (DOC)
- Department of Behavioral Health and Developmental Services (DBHDS)
- Department of Juvenile Justice (DJJ)

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), and the Consolidated Laboratory (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 unit cost methodology. Inventories at the gift shop run by the Library of Virginia Foundation are stated at net realizable value.

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 primary government capitalizes all land, water rights/easements, buildings, infrastructure, and software 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, including construction of intangible assets, 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
Software	5–35

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 23).

P. Unearned and Deferred Revenue

Unearned revenue represents monies received or revenues accrued but not earned as of June 30, 2010. 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, 2010. 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 2010. 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 $855,115,266 and estimated underpayments total $290,900,524. This results in deferred taxes of $564,214,742.

Corporate income tax estimated overpayments total $62,966,911 and estimated underpayments total $60,282,315. This results in deferred taxes of $2,684,596.

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 24).

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, 2010. 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 22.A. and 22.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. Accrued workers' compensation costs for the Virginia International Terminals (a discrete component unit of the Virginia Port Authority – nonmajor component unit) represent accrued costs for the Company's estimate of its continuing liability for injuries which occurred during periods of self-insurance.

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 26).

Bond premiums and discounts, as well as significant 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 26).

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 March 31, 2011. 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 average of the bond equivalent rates of 13-week Treasury Bills auctioned during the annual reporting period as calculated by FMS.

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 resulted from the following:

GOVERNMENTAL ACTIVITIES:

- The Commonwealth implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* effective for the fiscal year ending June 30, 2010. Accordingly, Governmental Activities have been restated by $32.0 million to record intangible capital assets. Additionally, balances were previously understated by $0.9 million due to various agencies' failure to record capital assets at the time of acquisition.

- As discussed on pages 34 and 91, the Communications Sales and Use Tax Fund is included in the General Fund for fiscal year 2010. While there is no beginning balance impact, this change does affect the comparability of revenue and expenses between fiscal years 2010 and 2009.

COMPONENT UNITS

- The Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit) has a restatement of $28.8 million for the implementation of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. In addition, a restatement of $12.8 million is for the inclusion of the Children's Hospital. The Authority became the sole corporate member of the Children's Hospital, a not-for-profit corporation, effective June 30, 2010 and this merger qualified and was accounted for under the pooling-of-interests accounting method.

- Radford University (nonmajor component unit) has a restatement of $5.2 million for the implementation of GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*.

- George Mason University (nonmajor component unit) has been restated for $10.9 million for an unreported liability of a foundation.

FUND STATEMENTS

The fund statement beginning balance restatements resulted from the following:

- The Private Purpose Trust Funds have been restated by $21.1 billion due to a reporting change with the Education Savings Trust Funds. Since the Commonwealth does not control the daily activities nor bear fiduciary responsibility for these amounts, the CollegeAmerica and CollegeWealth savings plans are no longer reported in the accompanying financial statements.

Beginning Balance Restatement

(Dollars in Thousands)

	Balance as of June 30, 2009	GASBS No. 51 Intangible Assets	GASBS No. 53 Derivatives	Change in Reporting Entity	Correction of Prior Year Errors	Balance June 30, 2009 as restated
Government-wide Activities:						
Primary Government:						
Governmental Activities	$ 16,075,111	$ 32,087	$ -	$ -	$ 857	$ 16,108,055
Business-type Activities	215,509	-	-	-	-	215,509
Total Primary Government	$ 16,290,620	$ 32,087	$ -	$ -	$ 857	$ 16,323,564
Component Units	$ 18,006,029	$ 5,199	$ 28,780	$ 12,837	$ (10,967)	$ 18,041,878
Fund Statements - Fiduciary Funds						
Private Purpose Funds	$ 22,437,535	$ -	$ -	$ (21,120,845)	$ -	$ 1,316,690
Pension Trust Funds	$ 42,588,649	$ -	$ -	$ -	$ -	$ 42,588,649
Investment Trust Funds	$ 3,703,191	$ -	$ -	$ -	$ -	$ 3,703,191
Fund Statements - Component Units:						
Virginia Housing Development Authority	$ 2,119,413	$ -	$ -	$ -	$ -	$ 2,119,413
Virginia Public School Authority	149	-	-	-	-	149
University of Virginia	5,627,764	-	-	-	-	5,627,764
Virginia Polytechnic Institute and State University	1,491,987	-	-	-	-	1,491,987
Virginia Commonwealth University	1,760,827	-	28,780	12,837	-	1,802,444
Nonmajor Component Units	7,005,889	5,199	-	-	(10,967)	7,000,121
Total Component Units	$ 18,006,029	$ 5,199	$ 28,780	$ 12,837	$ (10,967)	$ 18,041,878

3. DEFICIT FUND BALANCES / NET ASSETS

The General Fund ended fiscal year 2010 with a deficit fund balance of $674.3 million on a modified accrual basis of accounting. This is due primarily to the effects of accrual items. These accruals generally result in decreases to fund balance and are similar in nature to previous years.

The State Lottery (major enterprise fund) and Department of Alcoholic Beverage Control (nonmajor enterprise fund) ended the year with deficit net assets of $5.7 million and $16.6 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 $209.3 million. This deficit is mostly attributable to the projected unfunded actuarial liability calculated by the plan's actuary.

The Unemployment Compensation Fund (major enterprise fund) ended the year with a deficit net assets balance of $36.3 million. The deficit was the result of benefits paid to claimants in accordance with the Virginia Unemployment Compensation Act exceeding employer contributions and reserve balances in the Unemployment Trust Fund.

The Wireless E-911 Service Board (nonmajor enterprise fund) ended the year with a deficit net assets balance of $435 thousand. The deficit was a result of the Wireless E-911 service board issuing more grants in fiscal year 2010 than in previous years that consumed the beginning retained earnings.

The Virginia Information Technologies Agency (internal service fund) ended the year with a deficit net assets balance of $35.1 million. The deficit was a result of operating expenses exceeding revenues.

The Property Management Fund (internal service fund) ended the year with a deficit net assets balance of $11.1 million. This deficit was the result of the purchase of a leasehold interest in a state-owned building in fiscal year 2006. Also, the Property Management Fund incurred additional capital lease liabilities due to transfers of leases from other state agencies in fiscal year 2009.

The Risk Management Fund (internal service fund) ended the year with a deficit net assets balance of $357.4 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 Payroll Service Bureau (internal service fund) ended the year with a deficit net assets balance of $299 thousand. The deficit was the result of liabilities exceeding the available equity in the fund.

The Virginia Public School Authority (major component unit) ended the year with a deficit net assets balance of $25.2 million. This deficit is the result of an accrued credit against future debt service payments on Local School Bonds due from the localities subsequent to June 30.

The Virginia Economic Development Partnership (nonmajor component unit) ended the year with a deficit net assets balance of $288 thousand. This deficit occurs because the partnership's Statement of Net Assets reflects $3.3 million in non-current liabilities related to compensated absences, net pension obligation, and net other postemployment benefit obligation. The Partnership is funded mainly by state appropriation, which show current funding only.

The Virginia College Building Authority (nonmajor component unit) ended the year with a deficit net assets balance of $1.64 billion. This deficit occurred because the Authority issued 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, 2010

(Dollars in Thousands)

Reserved Fund Balance:		
Revenue Stabilization Reserve Fund	$ 295,159	
Payroll Reserve for July 1, 2010 Payroll	83,051	
Lottery Proceeds Fund	1,421	
Total Reserved Fund Balance		379,631
Unreserved Fund Balance:		
Designated:		
Amount Required for Reappropriation of 2010 Unexpended Balances for Capital Outlay	6,099	
Central Capital Planning Fund	3,285	
Communication Sales and Use Tax	37,492	
3% Bonus for State Employees	82,200	
Natural Disaster Sum Sufficient	23,851	
Amount Required by Chapter 874	49,159	
Amount Required for Mandatory Reappropriation	103,557	
Accelerated Sales Tax for Transportation Trust Fund	27,748	
Federal Portion of Dominion Resources Refund	1,243	
Virginia Water Quality Improvement Fund - Part A	23,091	
Virginia Water Quality Improvement Fund - Part B	13,352	
Amount Required for Discretionary Reappropriations	71,158	
Transportation Trust Fund	32,673	
Nonrecurring Expenditures	16,336	
Total Designated Fund Balance		491,244
Fund Balance, June 30, 2010		$ 870,875

Note: Effective for fiscal year 2010, statutory changes required the Communication Sales and Use Tax Fund to be reported as part of the General Fund for reporting purposes. This reporting change affects the General Fund balances reported in all financial statements and required supplementary schedules. Refer to page 34 for additional information.

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. During fiscal year 2010, 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 $295 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 2010 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 2010.

The Revenue Stabilization Fund has principal and interest on deposit of $295 million 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 deposit limit allowed is $1.38 billion and $1.35 billion, respectively, for fiscal year 2010 and fiscal year 2011.

In November 2010, the Virginia voters approved increasing the maximum deposit limit allowed from 10 percent to 15 percent of the average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years.

6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2010, the carrying amount of cash for the primary government was $3,166,164,244 and the bank balance was $80,824,175. The carrying amount of cash for component units was $1,203,580,552 and the bank balance was $649,120,470. Cash equivalents are investments with an original maturity of 90 days or less. Cash and cash equivalents for foundations (component units) totaled $409,014,672 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. As stated in Note 1.Z., unrealized gains or losses for the Treasurer's Portfolio are recorded in the General Fund.

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.

Public funds held by the Commonwealth, public officers, municipal corporations, political subdivisions, and any other public body of the Commonwealth shall be held in trust for the citizens of the Commonwealth. Any investment of such funds pursuant to the provisions of this chapter shall be made solely in the interest of the citizens of the Commonwealth and 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.

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 Virginia Retirement System (the System) (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 System 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 System 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, 2010, the primary government had $709,564,278 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. The System had $704,008,000 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 System's name. Common and preferred stocks represented $565,278,933 and mortgage-backed securities represented $110,066,000 of the total. The remainder was for various types of debt and equity securities. The component units had $20,903,260 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. Mutual and money market funds represented $17,996,812 and common and preferred stocks represented $1,347,440 of the total and the remainder was for various types of debt and equity securities.

As of June 30, 2010, the investments of the Pension and Other Employee Benefit Trust Funds were approximately 78 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 1.7 years.

The System 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. All of the System's fixed income portfolios are managed in accordance with the System's investment guidelines, most of which are specific as to the degree of interest rate risk that can be taken.

At June 30, 2010, 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	$ 1,845,088	$ 453,605	$ 792,616	$ 311,635	$ 287,232
Corporate Notes	2,172,698	2,090,892	79,034	449	2,323
Corporate Bonds	644,478	32,300	336,313	198,892	76,973
Corporate and Other Credit	11,027,589	4,500,737	3,888,272	2,129,362	509,218
Corporate Mortgage-Backed Securities	68,186	-	-	502	67,684
Commercial Paper	1,506,187	1,506,187	-	-	-
Banker's Acceptance	41,046	41,046	-	-	-
Negotiable Certificates of Deposit	1,693,646	1,693,419	227	-	-
Reverse Repurchase Agreements	600,474	600,474	-	-	-
Repurchase Agreements	2,544,114	2,544,114	-	-	-
Municipal Securities	242,436	12,166	44,990	49,924	135,356
Asset-Backed Securities	1,022,034	369,216	354,556	24,264	273,998
Agency Mortgage-Backed Securities	1,849,216	69,171	1,567,670	22,842	189,533
Agency Unsecured Bonds and Notes	2,905,898	1,883,414	853,596	68,322	100,566
Mutual and Money Market Funds (Includes SNAP)	1,133,788	1,133,613	175	-	-
The Boston Company Pooled Employee Trust Fund	7,203	7,203	-	-	-
Guaranteed Investment Contracts	261,342	-	261,342	-	-
Fixed Income and Commingled Funds	1,824,870	140,168	219,566	1,465,136	-
Deposits with the U.S. Treasury for Unemployment Compensation	230,476	230,476	-	-	-
Investments held by broker-dealers under securities loans					
U. S. Government and Agency Securities	1,793,571	-	1,112,764	354,037	326,770
Corporate Bonds	669	-	216	453	-
Corporate and Other Credit	354,311	25,396	160,703	149,016	19,196
Other Debt Securities	26,195	-	-	26,195	-
Other	1,027,983	498,606	347,627	83,204	98,546
Total	$ 34,823,498	$ 17,832,203	$ 10,019,667	$ 4,884,233	$ 2,087,395

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	$ 756,969	$ 392,383	$ 139,352	$ 55,202	$ 170,032
Corporate Notes	73,513	24,916	39,320	7,582	1,695
Corporate Bonds	273,004	35,674	170,821	59,424	7,085
Corporate Mortgage Backed Securities	13,868	-	-	-	13,868
Commercial Paper	170,630	170,470	160	-	-
Negotiable Certificates of Deposit	63,706	60,861	2,845	-	-
Repurchase Agreements	44,272	44,272	-	-	-
Municipal Securities	3,567,389	25,254	113,624	82,252	3,346,259
Asset Backed Securities	166,393	19,520	67,408	22,564	56,901
Agency Unsecured Bonds and Notes	111,522	39,476	72,046	-	-
Agency Mortgage Backed	271,650	17,331	20,155	11,159	223,005
Mutual and Money Market Funds (Includes SNAP)	1,824,055	1,749,286	13,921	55,903	4,945
Guaranteed Investment Contracts	110,536	11,147	1,514	-	97,875
Fixed Income and Commingled Funds	3,001	3,001	-	-	-
Other	337,054	328,293	1,064	969	6,728
Total	$ 7,787,562	$ 2,921,884	$ 642,230	$ 295,055	$ 3,928,393

Foundation Investments

(Dollars in Thousands)

Investment Type	Fair Value
U.S. Treasury and Agency Securities	$ 594,765
Common & Preferred Stocks	806,608
Corporate Notes	5,241
Corporate Bonds	200,772
Negotiable Certificates of Deposit	7,742
Municipal Securities	3,525
Asset Backed Securities	3,935
Agency Mortgage Backed	24,800
Mutual Funds	407,896
Real Estate	213,723
Index Funds	329
Others	4,959,470
Total	$ 7,228,806

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: A3/A- or equivalent by two nationally recognized rating agencies, one of which 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).
- Municipal Bonds: A3/A- or equivalent by two nationally recognized rating agencies, one of which must be Moody's or S&P
- Asset-backed securities: AAA by two nationally recognized rating agencies, one of which 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) and Collateralized Mortgage Obligations (CMOs): AAA by two nationally recognized rating agencies, one of which 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, 2010. 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 68.1 percent of the total debt securities, 8.9 percent of which were invested in corporate investments rated Aaa by Moody's. Within the component units, the investments presented in the table represented 86.5 percent of the total debt securities, 41.3 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 section of this 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
Corporate and Other Credit	$ 3,083,821	Moody's	Aaa	8.86%
Agency Unsecured Bonds and Notes	2,630,921	Standard & Poor's	AAA	7.56%
Corporate and Other Credit	1,924,854	Moody's	NR	5.53%
U. S. Treasury and Agency Securities	1,845,088	N/A	N/A	5.30%
Investments held by broker-dealers under securities loans (U.S. Government and Agency Securities)	1,781,323	N/A	N/A	5.12%
Agency Mortgage Backed Securities	1,607,916	N/A	N/A	4.62%
Repurchase Agreements	1,600,000	Standard & Poor's	AAA	4.59%
Commercial Paper	1,372,302	Moody's	P-1	3.94%
Negotiable Certificates of Deposit	1,052,052	Moody's	P-1	3.02%
Fixed Income and Commingled Funds	654,817	Moody's	Baa1	1.88%
Mutual and Money Market Funds (Include SNAP)	647,684	Standard & Poor's	AAA	1.86%
Corporate and Other Credit	646,449	Moody's	B1	1.86%
Repurchase Agreements	638,630	Standard & Poor's	A-1	1.83%
Reverse Repurchase Agreements	600,474	Moody's	NR	1.72%
Corporate and Other Credit	593,211	Moody's	Baa2	1.70%
Corporate and Other Credit	536,060	Moody's	Baa1	1.54%
Asset Backed Securities	531,939	Standard & Poor's	AAA	1.53%
Corporate and Other Credit	514,240	Moody's	A2	1.48%
Corporate Notes	498,026	Moody's	Aa2	1.43%
Corporate and Other Credit	487,442	Moody's	B3	1.40%
Corporate Notes	466,321	Moody's	Aa3	1.34%

Credit Rating - Component Units
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Municipal Securities	$ 3,212,680	N/A	N/A	41.25%
Mutual and Money Market Funds (Include SNAP)	895,228	Moody's	P-1	11.50%
U. S. Treasury and Agency Securities	756,969	N/A	N/A	9.72%
Mutual and Money Market Funds (Include SNAP)	730,756	Standard & Poor's	AAA	9.38%
Other Debt Securities	328,711	N/A	N/A	4.22%
Mutual and Money Market Funds (Include SNAP)	141,242	N/A	N/A	1.81%
Agency Mortgage Backed Securities	140,057	Standard & Poor's	AAA	1.80%
Agency Mortgage Backed Securities	112,226	Moody's	Aaa	1.44%
Commercial Paper	106,481	Standard & Poor's	A-1+	1.37%
Municipal Securities	84,704	Standard & Poor's	AAA	1.09%
Agency Unsecured Bonds and Notes	81,259	Standard & Poor's	AAA	1.04%
Guaranteed Investment Contracts	79,961	Moody's	Aa3	1.03%
Negotiable Certificates of Deposit	63,706	N/A	N/A	0.82%

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 the System 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 four 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. Certain portfolios are limited to amounts less than four percent of the value of the fund invested in the securities of any single issuer.

The System 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 System portfolio at June 30, 2010.

The System's currency risk exposure, or exchange rate risk, primarily exists in the international and global equity investment holdings. From time to time, the System's 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 System's 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	$ -	$ -	$ -	$ -	$ -	$ 805,464	$ 805,464
British Pound Sterling	2,517	668,482	105,636	1,824	7,122	-	785,581
Japanese Yen	233	679,249	15,140	-	2	-	694,624
Hong Kong Dollar	5,659	543,176	-	-	-	-	548,835
South Korean Won	1,974	392,201	-	-	-	-	394,175
Swedish Krona	1,598	114,525	209,487	426	-	-	326,036
Indian Rupee	5,610	286,810	-	-	-	-	292,420
Euro Currency Unit	24,783	603,278	(381,322)	22,482	-	-	269,221
Canadian Dollar	1,713	286,749	(21,871)	-	-	-	266,591
New Taiwan Dollar	8,157	245,168	-	-	-	-	253,325
Swiss Franc	4,839	154,580	65,434	-	-	-	224,853
Brazil Real	4,939	212,113	782	-	-	-	217,834
South African Comm Rand	873	108,362	-	-	-	-	109,235
New Turkish Lira	561	94,558	-	-	-	-	95,119
New Zealand Dollar	501	35,011	54,218	-	-	-	89,730
Australian Dollar	1,932	59,475	16,728	-	-	-	78,135
Mexican New Peso	234	76,000	-	-	-	-	76,234
Thailand Baht	75	74,207	-	-	-	-	74,282
Malaysian Ringgit	73	70,814	-	-	-	-	70,887
Singapore Dollar	425	52,700	-	-	-	-	53,125
Indonesian Rupian	432	37,739	-	-	-	-	38,171
Norwegian Krone	285	36,367	(10,109)	-	-	-	26,543
Polish Zloty	247	25,177	888	-	-	-	26,312
Danish Krone	782	24,448	-	-	-	-	25,230
Israeli Shekel	269	14,478	-	-	-	-	14,747
Egyptian Pound	34	13,207	-	-	-	-	13,241
Russian Ruble (New)	-	9,937	-	-	-	-	9,937
Philippines Peso	989	7,467	-	-	-	-	8,456
Turkish Lira	7,189	-	-	-	-	-	7,189
Hungarian Forint	58	5,036	-	-	-	-	5,094
Czech Koruna	257	4,032	-	-	-	-	4,289
Omani Rial	-	1,919	-	-	-	-	1,919
UAE Dirham	-	1,636	-	-	-	-	1,636
Moroccan Dirham	42	1,104	-	-	-	-	1,146
Chilean Peso	-	522	-	-	-	-	522
Pakistan Rupee	-	296	-	-	-	-	296
Total	$ 77,280	$ 4,940,823	$ 55,011	$ 24,732	$ 7,124	$ 805,464	$ 5,910,434

Securities Lending

The State Treasury's securities lending program is managed by Deutsche Bank AG, New York (Deutsche Bank), under a contract dated March 31, 2006 and Novation Agreement dated November 23, 2009. 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 Deutsche Bank, all cash reinvestment securities attributable to loans made on the Commonwealth's behalf shall be maintained by Deutsche Bank, and Treasury cannot pledge or sell such collateral absent a default.

The State Treasury's contract with Deutsche Bank provides for loss indemnification against insolvency default with respect to lending transactions and in the case of reverse transactions as defined in the applicable Agency Securities Lending and Repurchase Agreement. Additionally, Deutsche Bank AG 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. During the past year, Treasury disposed of $7.6 million of an asset-backed security in default. The sale price for the security was $0.415 per dollar of par, and total losses realized were $4.4 million.

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 restricts the maximum percentage of the portfolio that may be loaned. During the past fiscal year, approximately 33 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, 2010, all collateral received was in the form of cash.

Securities loaned for the Treasurer's cash collateral reinvestment pool, which consisted of 87.6 percent general account funds and 12.4 percent State Lottery funds as of June 30, 2010, had a carrying value of $1,437,690,921 and a fair value of $1,447,169,057. The fair value of the collateral received was $1,464,962,429 providing for coverage of 101.23 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 $1,464,975,546 and the fair value of the investments purchased with the cash collateral was $1,452,206,741. As of June 30, 2010, the Treasurer's cash collateral reinvestment pool had an unrealized loss of $12.8 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 reinvestment guidelines allow for a maximum weighted-average portfolio maturity of up to 60 days. At June 30, 2010, the cash reinvestment portfolio had a weighted average maturity of 14 days using the next interest reset date as the maturity date for floating rate securities. Using the expected maturity date, the weighted average maturity was 1.7 years and using the final maturity date, which assumes no pay downs on any asset-backed or mortgage-backed securities, the weighted average maturity was in excess of six years.

Treasury's current cash reinvestment guidelines allow for investment in government securities, AAA rated sovereign governments, asset-backed (including mortgage-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, 2010, the majority of cash reinvestments were in indemnified repurchase agreements and asset-backed (including mortgage-backed) floating rate securities. In order to ensure adequate liquidity and to reduce the reinvestment portfolio risk profile, all cash reinvestments made since August 2007 have been in overnight or short-term indemnified repurchase agreements.

At June 30, 2010, $31.0 million or 2.1 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 past few years. Included in the $31.0 million of out of compliance securities is a $15.0 million asset-backed security that Treasury has reason to believe is other than temporarily impaired therefore, Treasury has written off $1.2 million or $0.08 per dollar of par value of this security as of June 30. Subsequent to June 30, an additional $1,050,000 loss was realized for this security. Approximately 87.6 percent of these out of compliance securities are part of the general account portion of the securities lending program and the other 12.4 percent is the State Lottery's portion of the securities lending program. The Commonwealth regularly evaluates these positions to determine the most beneficial course of action going forward.

Under authorization of the Board of Trustees, the Virginia Retirement System (the System) lends its fixed income and equity securities to various broker-dealers on a temporary basis. This program is administered through an agreement with the System's 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 System unless the borrower defaults. Contracts require the lending agents to indemnify the System 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 System 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 24 days. At year-end, the System 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, 2010, was $4,603,717,000. The June 30, 2010, balance was composed of U.S. Government and agency securities of $1,792,822,000, corporate and other bonds of $380,507,000 and common and preferred stocks of $2,430,388,000. The value of collateral (cash and non-cash) at June 30, 2010, was $4,813,736,000.

At June 30, 2010, the invested cash collateral had a market value of $4,084,119,000 and was composed of commercial paper of $1,038,472,000, time deposits of $235,193,000, certificates of deposit of $448,683,000, floating rate notes of $1,747,969,000, asset backed securities of $13,328,000, and repurchase agreements of $600,474,000. As of June 30, 2010, the System's cash collateral reinvestment pool had an unrealized loss of $24 million.

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.

A foundation of the University of Virginia (major component unit) reports an obligation under securities lending of approximately $5.8 million. Since this foundation follows FASB rather than GASB reporting requirements, disclosures can be found in the individually published financial statements of the foundation.

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, 2010:

	Accounts Receivable	Loans / Mortgage Receivable	Interest Receivable	Taxes Receivable	Prepaid Tuition Contributions Receivable
Primary Government:					
General	$ 820,443	$ 197	$ 464,449	$ 1,590,939	$ -
Major Special Revenue Funds:					
Commonwealth Transportation	197,687	27,770	-	128,324	-
Federal Trust	771,157	228	-	-	-
Literary	224,784	297,014	17,640	-	-
Nonmajor Governmental Funds	150,350	-	2,364	2,627	-
Major Enterprise Funds:					
State Lottery	54,838	-	-	-	-
Virginia College Savings Plan	6,577	-	4,440	-	266,457
Unemployment Compensation	148,233	-	-	-	-
Nonmajor Enterprise Funds	37,985	-	-	-	-
Internal Service Funds	12,243	-	-	-	-
Private Purpose	-	7	1,362	-	-
Pension and Other Employee Benefit Trust (1)	76,007	-	191,856	-	-
Investment Trust Fund	-	-	1,405	-	-
Agency Funds	208	-	-	109,003	-
Total Primary Government (2)	$ 2,500,512	$ 325,216	$ 683,516	$ 1,830,893	$ 266,457
Discrete Component Units:					
Virginia Housing Development Authority (3)	$ -	$ 8,076,234	$ 39,110	$ -	$ -
Virginia Public School Authority	-	-	44,884	-	-
University of Virginia	473,770	42,554	1,246	-	-
Virginia Polytechnic Institute and State University	55,144	33,259	860	-	-
Virginia Commonwealth University	341,867	29,595	729	-	-
Nonmajor Component Units	170,520	3,161,581	54,173	5,506	-
Total Component Units	$ 1,041,301	$ 11,343,223	$ 141,002	$ 5,506	$ -

Note (1): Other Receivables of the Pension and Other Employee Benefit Trust Fund of $586,247 (dollars in thousands) are made up $578,714 (dollars in thousands) in pending investment transactions, including the offsetting entries for $576,538 (dollars in thousands) in the investment overlay and swaps, $1,423 (dollars in thousands) in securities lending, and $753 (dollars in thousands) in other investment receivable; as well as $7,533 (dollars in thousands) in other receivables related to benefit plans.

Note (2): Fiduciary net receivables in the amount of $2,713,931 (dollars in thousands) are not included in the Government-wide Statement of Net Assets.

Note (3): VHDA reports $8,021,822 (dollars in thousands) as Restricted Loans Receivable, $37,714 (dollars in thousands) as Restricted Interest Receivable, and $6,749 (dollars in thousands) as Restricted Other Receivables.

Security Transactions	Other Receivables	Allowance for Doubtful Accounts	Net Accounts Receivable	Amounts to be Collected Greater than One Year
$ -	$ -	$ (1,855,842)	$ 1,020,186	$ 9,167
-	-	(27,081)	326,700	27,823
-	-	(14,559)	756,826	341
-	-	(216,861)	322,577	271,159
-	-	(96,866)	58,475	1,038
-	-	-	54,838	-
-	-	-	277,474	205,083
-	-	(34,212)	114,021	-
-	-	(1,991)	35,994	-
-	7,824	(332)	19,735	-
-	-	-	1,369	-
1,813,792	586,247	-	2,667,902	-
-	-	-	1,405	-
-	-	(65,956)	43,255	145
$ 1,813,792	$ 594,071	$ (2,313,700)	$ 5,700,757	$ 514,756
$ -	$ 12,772	$ -	$ 8,128,116	$ 7,916,701
-	-	-	44,884	44,884
-	28,649	(276,462)	269,757	49,958
-	33	(3,063)	86,233	38,792
-	82,829	(146,843)	308,177	23,391
-	86,048	(15,304)	3,462,524	3,040,527
$ -	$ 210,331	$ (441,672)	$ 12,299,691	$ 11,114,253

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, 2010:

(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	$ 50,726	$ 59,467	$ 12,352	$ 122,545	$ (6,403)	$ (9,139)	$ 107,003
Virginia Polytechnic Institute & State University	26,236	35,928	8,490	70,654	(1,284)	(1,220)	68,150
Virginia Commonwealth University	8,545	13,303	1,074	22,922	(1,986)	(790)	20,146
Nonmajor Component Units	44,280	78,519	31,518	154,317	(11,972)	(4,884)	137,461
Total Component Units	$ 129,787	$ 187,217	$ 53,434	$ 370,438	$ (21,645)	$ (16,033)	$ 332,760

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.
Note (2): The discount rate used to determine present value ranges from 0.29 percent to 9.00 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, 2010.

Schedule of Due from/to Other Funds

June 30, 2010

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 6,391	Major Enterprise Funds:	
		State Lottery	$ 51
		Nonmajor Enterprise Funds	5,606
		Internal Service Funds	734
Major Special Revenue Funds:			
Commonwealth Transportation	28,116	General Fund	27,748
		Internal Service Funds	368
Nonmajor Governmental Funds	9,101	Major Special Revenue Funds:	
		Commonwealth Transportation	6,181
		Federal Trust	2,194
		Major Enterprise Funds:	
		Unemployment Compensation	239
		Nonmajor Enterprise Funds	487
Major Enterprise Funds:			
Unemployment Compensation	1,157	General Fund	568
		Major Special Revenue Funds:	
		Commonwealth Transportation	259
		Federal Trust	134
		Nonmajor Governmental Funds	155
		Major Enterprise Funds:	
		State Lottery	4
		Nonmajor Enterprise Funds	24
		Internal Service Funds	13
Nonmajor Enterprise Funds	6	General Fund	6
Internal Service Funds	38,109	General Fund	19,530
		Major Special Revenue Funds:	
		Commonwealth Transportation	7,030
		Federal Trust	5,028
		Nonmajor Governmental Funds	4,735
		Major Enterprise Funds:	
		State Lottery	170
		Virginia College Savings Plan	28
		Nonmajor Enterprise Funds	1,235
		Internal Service Funds	353
Pension Trust	38	Private Purpose Trust	38
Total Primary Government	$ 82,918	Total Primary Government	$ 82,918

Schedule of Due from/to Internal/External Parties
June 30, 2010

(Dollars in Thousands)

Due From		Amount	Due To		Amount
Primary Government			**Primary Government**		
General Fund	$	15	Investment Trust	$	15
Nonmajor Governmental Funds		281	Agency		281
Internal Service Funds		121	Pension and Other Employee Benefit Trust		103
			Private Purpose Trust Funds		18
Pension and Other Employee Benefit Trust		48,107	General Fund		27,466
			Major Special Revenue Funds:		
			Commonwealth Transportation		7,592
			Federal Trust		4,171
			Nonmajor Governmental Funds		6,862
			Major Enterprise Funds:		
			State Lottery		254
			Virginia College Savings Plan		91
			Nonmajor Enterprise Funds		950
			Internal Service Funds		721
Total Primary Government	$	48,524	Total Primary Government	$	48,524

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, 2010. There were no Interfund Receivables/Payables for the component units as of June 30, 2010.

Interfund Receivables/Payables
June 30, 2010

(Dollars in Thousands)

Receivable From:		Amount	Payable To:		Amount
Primary Government			**Primary Government**		
Nonmajor Governmental Funds	$	110,202	General Fund	$	13,151
			Major Special Revenue Funds:		
			Commonwealth Transportation		6,000
			Federal Trust		8,746
			Major Enterprise Funds:		
			State Lottery		9,000
			Nonmajor Enterprise Funds		32,781
			Internal Service		40,524
Total	$	110,202	**Total**	$	110,202

Note: The loan payable to the General Fund will not be repaid within one year.

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 (major governmental fund) appropriation available amounts that are due from the General Fund: University of Virginia (major component unit) - $7.0 million, Virginia Polytechnic Institute and State University (major component unit) - $0.1 million, Virginia Commonwealth University (major component unit) - $0.7 million, and nonmajor component units - $4.9 million. The General Fund reports $0.6 million of the due to component units in the governmental funds and the entire amount of $12.7 million is reported in the government-wide financial statements.

The following due from primary government amounts represent amounts due from the General Fund (major governmental 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) - $0.2 million, and nonmajor component units - $7.6 million. In addition, a due from primary government amount due from the Federal Trust Special Revenue Fund (major governmental fund) to the Virginia College Building Authority (nonmajor component unit) of $3.6 million is for interest on BABs.

A $6.0 million due from primary government amount represents an amount due from a nonmajor governmental fund related to the Department of the Treasury's reimbursement programs primarily to nonmajor component units.

A $1.3 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.

An $11.8 million due from component units in the Health Care Fund (internal service fund) represents amounts due from the following: University of Virginia (major component unit) - $0.1 million, Virginia Polytechnic Institute and State University (major component unit) - $2.4 million, Virginia Commonwealth University (major component unit) - $2.3 million, and nonmajor component units - $7.0 million.

A $0.4 million due from component units 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 units amounts represent amounts due from the Virginia College Building Authority (nonmajor component unit) related to the Department of the Treasury's reimbursement programs: University of Virginia (major component unit) - $6.8 million, Virginia Polytechnic Institute and State University (major component unit) - $12.7 million, Virginia Commonwealth University (major component unit) - $8.2 million, and nonmajor component units - $71.9 million. There is a due to component units of $9.7 million from the Virginia Commercial Space Flight Authority (nonmajor component unit) to a foundation of the Old Dominion University (nonmajor component unit). There is a $0.2 million due to component units from the Virginia Economic Development Partnership (nonmajor component unit) to the Virginia National Defense Industrial Authority (nonmajor component unit).

Due from/to Component Units and Fiduciary Funds

A $23.5 million due from component units in the Pension and Other Employee Benefit Trust Funds (fiduciary funds) represents amounts due from the following: University of Virginia (major component unit) - $5.3 million, Virginia Polytechnic Institute and State University (major component unit) - $3.6 million, Virginia Commonwealth University (major component unit) - $2.9 million, and nonmajor component units - $11.7 million.

Loans Receivable/Payable Between Primary Government and Component Units

The Virginia Commonwealth University (major component unit) loan of $6.2 million, the Norfolk State University (nonmajor component unit) loan of $8.5 million, and the George Mason University (nonmajor component unit) loan of $0.1 million were used to fund programs until bonds were issued. The Virginia Community College System (nonmajor component unit) loan of $1.6 million was used to advance fund federally-funded grant programs.

The $168.7 million in loans receivable from primary government represents loans from the Virginia Public School Authority (VPSA) to the Literary Special Revenue Fund (major governmental 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 Special Revenue Fund (major governmental fund).

10. OTHER ASSETS

The following table summarizes Other Assets as of June 30, 2010:

(Dollars in Thousands)

	Cash and Travel Advances	Unamortized Bond Issuance Expense	Other Assets	Total Other Assets
Primary Government:				
General	$ 2,431	$ -	$ -	$ 2,431
Major Special Revenue Funds:				
Commonwealth Transportation	316	-	-	316
Federal Trust	2,017	-	-	2,017
Nonmajor Governmental Funds	835	-	1,020	1,855
Major Enterprise Funds:				
State Lottery	1	-	-	1
Nonmajor Enterprise Funds	168	-	-	168
Internal Service Funds (1)	104	-	7,678	7,782
Agency Funds (2)	-	-	6	6
Total Primary Government	$ 5,872	$ -	$ 8,704	$ 14,576
Discrete Component Units:				
Virginia Housing Development Authority	$ -	$ 6,749	$ 34,443	$ 41,192
University of Virginia	1,537	494	17,982	20,013
Virginia Polytechnic Institute and State University	-	1,158	4,942	6,100
Virginia Commonwealth University	363	4,243	13,650	18,256
Nonmajor Component Units	6,559	64,452	16,882	87,893
Total Component Units	$ 8,459	$ 77,096	$ 87,899	$ 173,454

Note (1): The $7,678 (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. This amount is reclassified to an internal balance on the Government-wide Statement of Net Assets.

Note (2): Other Assets of the Agency Funds represent prepaid expenses and advances to third party agents. The $6 (dollars in thousands) shown above is not included in the Government-wide Statement of Net Assets.

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 $575.4 million in restricted assets related to bond agreements. The Virginia Housing Development Authority (major component unit) reported restricted assets totaling $1.4 billion. The Virginia Public School Authority (major component unit) reported restricted assets of $82.6 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 $115.0 million. Of this amount, $40.0 million are assets placed in an escrow account for construction projects, $45.3 million for debt service under a bond indenture agreement, $1.3 million for securities lending transactions, $19.1 million reserved as part of the Port Facility Revenue Bond requirement, $4.1 million for current expenses, and $5.2 million for other restrictions. The Virginia Resources Authority (nonmajor component unit) reported restricted assets of $688.9 million. Of this amount, $681.6 million is restricted for loans to local governments, bond indentures, or federal and state regulations for various revolving funds, and $7.3 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 $141.4 million. Of this amount, $12.3 million is for debt service and $129.1 million is revenue bond construction funds. The Tobacco Indemnification and Community Revitalization

Commission (nonmajor component unit) reported restricted assets of $355.8 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 $3.7 billion primarily for endowment and other contractual obligations. Included in this amount is approximately $2.8 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 $150.3 million and $14.0 million, respectively, primarily for donor-imposed restricted endowments.

The remaining $23.6 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 National Defense Industrial Authority (nonmajor component unit), the Virginia Arts Foundation (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 (1)	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 2,063,282	$ 279,824	$ (54,698)	$ 2,288,408
Water Rights and / or Easements	5,136	13,616	-	18,752
Construction in Progress	3,191,829	1,418,593	(1,461,927)	3,148,495
Total Nondepreciable Capital Assets	5,260,247	1,712,033	(1,516,625)	5,455,655
Depreciable Capital Assets:				
Buildings (2)	3,015,747	90,322	(37,433)	3,068,636
Equipment	848,953	38,843	(16,454)	871,342
Infrastructure	21,811,151	1,918,228	(195,835)	23,533,544
Software	226,208	47,117	-	273,325
Total Capital Assets being Depreciated	25,902,059	2,094,510	(249,722)	27,746,847
Less Accumulated Depreciation for:				
Buildings	982,169	74,619	(31,708)	1,025,080
Equipment	466,208	53,606	(17,206)	502,608
Infrastructure	9,915,914	581,656	(40,409)	10,457,161
Software	73,500	17,099	-	90,599
Total Accumulated Depreciation	11,437,791	726,980	(89,323)	12,075,448
Total Depreciable Capital Assets, Net	14,464,268	1,367,530	(160,399)	15,671,399
Total Capital Assets, Net	$ 19,724,515	$ 3,079,563	$ (1,677,024)	$ 21,127,054

Note 1: Beginning balances have been restated by $32,944 (dollars in thousands) due to the implementation of GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*, and the correction of prior year errors, as discussed in Note 2. Additionally, there have been reclassifications in the beginning balances of certain line items above.

Note 2: Includes a temporarily impaired asset with a carrying value of $2.97 million.

Depreciation Expense Charged to Functions of the Primary Government
June 30, 2010

(Dollars in Thousands)

Governmental Activities:		
General Government	$	15,399
Education		13,850
Transportation		604,886
Resources and Economic Development		22,342
Individual and Family Services		22,105
Administration of Justice		35,736
Capital Assets held by the Internal Service		
Funds are charged to various functions		12,662
Total	$	726,980

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	336	7,190	-	7,526
Total Nondepreciable Capital Assets	2,313	7,190	-	9,503
Depreciable Capital Assets:				
Buildings	18,320	949	-	19,269
Equipment	94,084	4,173	(27,629)	70,628
Infrastructure	1	-	(1)	-
Software	413	691	-	1,104
Total Capital Assets being Depreciated	112,818	5,813	(27,630)	91,001
Less Accumulated Depreciation for:				
Buildings	11,130	697	(66)	11,761
Equipment	78,138	5,518	(27,291)	56,365
Infrastructure	1	-	(1)	-
Software	122	135	-	257
Total Accumulated Depreciation	89,391	6,350	(27,358)	68,383
Total Depreciable Capital Assets, Net	23,427	(537)	(272)	22,618
Total Capital Assets, Net	$ 25,740	$ 6,653	$ (272)	$ 32,121

Note: There have been reclassifications in the beginning balances of certain line items above due to the implementation of GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*.

Schedule of Changes in Capital Assets

Component Units

(Dollars in Thousands)

	Balance July 1 as restated (1)	Increases	Decreases	Subtotal June 30	Foundations (2)	Total June 30
Nondepreciable Capital Assets:						
Land	$ 459,724	$ 26,761	$ (8,023)	$ 478,462	$ 263,549	$ 742,011
Construction in Progress	1,813,989	1,311,366	(1,584,150)	1,541,205	132,628	1,673,833
Inexhaustible Works of Art / Historical Treasures	73,896	1,342	-	75,238	16,950	92,188
Livestock	636	-	(57)	579	1,713	2,292
Total Nondepreciable Capital Assets	2,348,245	1,339,469	(1,592,230)	2,095,484	414,840	2,510,324
Depreciable Capital Assets:						
Buildings	8,798,278	1,247,890	(16,645)	10,029,523	903,290	10,932,813
Infrastructure	2,094,594	279,091	(2,756)	2,370,929	-	2,370,929
Equipment	2,459,200	214,578	(91,563)	2,582,215	116,649	2,698,864
Improvements Other Than Buildings	361,963	19,638	(2,506)	379,095	58,550	437,645
Library Books	695,441	34,866	(6,030)	724,277	-	724,277
Software	206,996	27,818	(3,735)	231,079	-	231,079
Other Intangible Assets	2,000	-	-	2,000	-	2,000
Total Capital Assets being Depreciated	14,618,472	1,823,881	(123,235)	16,319,118	1,078,489	17,397,607
Less Accumulated Depreciation for:						
Buildings	2,765,587	263,810	(9,417)	3,019,980	179,302	3,199,282
Infrastructure	1,040,288	67,987	(2,205)	1,106,070	-	1,106,070
Equipment	1,499,398	207,275	(80,059)	1,626,614	79,207	1,705,821
Improvements Other Than Buildings	198,949	15,966	(1,945)	212,970	24,470	237,440
Library Books	563,052	33,038	(5,815)	590,275	-	590,275
Software	121,067	21,747	(3,223)	139,591	-	139,591
Other Intangible Assets	667	133	-	800	-	800
Total Accumulated Depreciation	6,189,008	609,956	(102,664)	6,696,300	282,979	6,979,279
Total Depreciable Capital Assets, Net	8,429,464	1,213,925	(20,571)	9,622,818	795,510	10,418,328
Total Capital Assets, Net	$ 10,777,709	$ 2,553,394	$ (1,612,801)	$ 11,718,302	$ 1,210,350	$ 12,928,652

Note (1): Beginning balances have been restated for a change in reporting entity by the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit) and for the implementation of GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*, as discussed in Note 2. Additionally, there have been reclassifications in the beginning balances of certain line items above.

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Since foundations follow FASB rather than GASB reporting requirements, no amounts are reported in the software and other intangible assets categories for foundations.

13. DERIVATIVES

The Government Accounting Standards Board (GASB) issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* which requires additional reporting and disclosures for derivative instruments. The statement became effective with fiscal year 2010.

Primary Government

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 (CMOs), 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 Virginia Retirement System (the System) 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.

At June 30, 2010, the System had four types of derivative financial instruments – futures, currency forwards, options and swaps. Futures, currency forwards and options contracts provide the System 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 exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates.

Futures Contracts – Futures contracts are contracts to deliver or receive securities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange-traded) and require an 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. The net gains or losses resulting from the daily settlements are included in the System's financial statements. 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. At June 30, 2010, the notional value of the System's investment in futures contracts is $3,188,352,000.

Currency Forwards – Currency forwards represent foreign exchange contracts and are used by the System 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. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated price. 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 usually is 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. At June 10, 2010, the market value of the System's currency forwards contracts is ($5,786,000).

Options Contracts – 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 (call) or sell (put) 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 System typically pays a premium at the outset. This premium is reflected as an asset on the financial statements. The System then retains the right, but not the obligation, to exercise the options 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 System receives a premium at the outset. This premium is reflected as a liability on the financial statements, and the System bears the risk of an unfavorable change in the price of the financial instrument underlying the option. At June 30, 2010, the System's options balances had a notional value of ($8,738,000).

Swap Agreements – Swap agreements 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. Swaps are used to manage risk and enhance returns. To reduce the risk of counterparty nonperformance, the System generally requires collateral on any material gains from these transactions. During fiscal year 2010, the System entered into various swap agreements with a total notional value and fair value at June 30, 2010, of $2,227,116,000 and ($12,123,000), respectively. Credit defaults swaps balances had a notional value of $614.9 million and fair value of ($9.2 million). Inflation rate swaps had a notional value of $34.8 million and fair value of $1.3 million. Interest rate swaps had a notional value of $980.7 million and fair value of ($4.5 million). Total return swaps had a notional value of $596.7 million and fair value of $280 thousand. Additional information is available in the Systems' separately issued financial statements which may be obtained from the Virginia Retirement System at P.O. Box 2500, Richmond, Virginia 23218-2500.

Component Units

Hedging Derivative Instruments

In December 2005, Virginia Commonwealth University (VCU) (major) entered into an interest rate swap agreement in anticipation of the issuance of General Revenue Pledge Bonds, Series 2006A and Series 2006B, which carry variable interest rates. The swap has a notional amount of $75,000,000, which declines over time to $5,035,000 at the termination date of November 1, 2030. VCU pays a fixed rate of 3.436 percent and the counterparty pays 67 percent of LIBOR (0.23 percent as of June 30, 2010). The payments are settled monthly at the first of each month. In December 2005, the Medical College of Virginia Hospitals (MCVH) which is a division of the Virginia Commonwealth University Health System Authority (a blended component unit of VCU), entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 tax-exempt bonds. The swap has a notional amount of $75,000,000, which declines over time to $8,000,000 at the maturity date of July 1, 2030. MCVH pays a fixed rate of 3.499 percent and the counterparty pays 67 percent of LIBOR (0.23 percent as of June 30, 2010). The payments are settled monthly at the first of each month. In June 2007, the MCVH entered into two interest rate swap agreements in anticipation of the issuance of the Series 2008 tax-exempt bonds. The swaps have a combined notional amount of $125,000,000, which declines over time to $15,700,000 at the termination date of July 1, 2037. MCVH pays a fixed rate of 3.84 percent and the counterparty pays 67 percent of LIBOR (0.23 percent as of June 30, 2010). The payments are settled monthly at the first of each month. At June 30, 2010, the negative fair market value of VCU's swap of $9,522,930 and MCVH's swaps of $39,292,301 are included in other liabilities in the accompanying financial statements. For the year ended June 30, 2010, the change in fair value of VCU's swap was $2,949,071 and MCVH's swaps was approximately $10,511,000 and is included in deferred outflows in the accompanying financial statements.

The fair value of VCU's derivative was calculated by Deutshe Bank using undisclosed proprietary methods. The fair values of MCVH's derivatives were calculated by Wells Fargo and Bank of America using undisclosed proprietary pricing models.

VCU and MCVH use interest rate swap agreements to limit exposure to rising interest rates on its variable rate debt. VCU and MCVH are exposed to interest rate risk on the interest rate swaps. On the pay-fixed, receive-variable interest rate swaps, as the LIBOR index decreases, VCU and MCVH's net payments on the swaps increase.

At June 30, 2010, the University of Virginia (UVA) (major) had two fixed-payer interest rate swaps totaling $100 million in notional amount. The swaps are used as cash flow hedges by UVA in order to provide a cash flow hedge against changes in interest rates on approximately $82.0 million of the variable rate Series 2003A Bonds maturing in June 2034 and a portion of approximately $20.0 million of outstanding commercial paper which may have various maturities of no greater than 270 days each. UVA pays fixed rates of 4.154 percent and 4.066 percent and the underlying index for the swaps is the Securities Industry and Financial Markets Municipal Swap Index (SIFMA). The floating rate on June 30, 2010 was 0.295 percent. The payments are settled monthly at the first of each month. The swaps were entered into in January 2007 and February 2007 and both swaps mature June 1, 2038. The swaps were entered into at a zero market value and no payments were made or received when they were initiated. At June 30, 2010, the negative market value of the swap of $13,775,850 is in other liabilities in the accompanying financial statements. The market value of the swaps has fallen by approximately $6.5 million over the reporting period and is included in deferred outflows in the accompanying financial statements.

The fair value was determined by using the quoted SIFMA index curve at the time of market valuation. UVA would be exposed to the credit risk of its swap counterparties any time the swaps had a positive market value. At June 30, 2010, UVA had no credit risk related to its swaps. As of June 30, 2010, UVA's swap counterparties were rated A from Standard & Poor's and A2 by Moody's. To mitigate credit risk, UVA limits market value exposure and requires the posting of collateral based on the credit rating of the counterparty. All counterparties are required to have at least an A-/A3 rating by Standard & Poor's and Moody's, respectively. As of June 30, 2010, no collateral was required to be posted by the counterparties.

Interest rate risk is the risk that an unexpected change in interest rates will negatively affect the collective value of a hedge and a hedged item. When viewed collectively, the hedges and the hedged item are subject to interest rate risk in that a change in interest rate will impact the collective market value of both the hedge and hedged item. Conversely, the collective effect of the hedges and the hedged item serve to reduce cash flow variability caused by changes in interest rates. Basis risk arises when different indexes are used in connection with a derivative resulting in the hedge and hedged item not experiencing price changes in entirely opposite directions from each other. UVA's swaps are deemed to be effective hedges of its variable rate debt with an amount of basis risk that is within the guidelines for establishing hedge effectiveness. Termination risk arises when the unscheduled termination of a derivative could have an adverse effect on UVA's strategy or could lead to potentially significant unscheduled payments. UVA's derivative contracts use the International Swap

Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an additional termination event. That is, the swap may be terminated by either party if the counterparty's credit rating falls below BBB/Baa2 in the case of Standard & Poor's and Moody's, respectively. UVA or the counterparty may also terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative market value, UVA would be liable to the counterparty for a payment equal to the swaps' market value.

The following schedule shows debt service requirements of VCU, MCVH, and UVA's bonds payable debt and net receipts/payments on associated derivative instruments. These amounts assume that current variable and reference rates on the hedging instruments will remain the same for their terms. As these rates vary, net receipt/payments on the hedging instruments will vary.

Maturity	Principal	Variable Interest	Derivative Instruments, Net	Total
2011	$ 4,920,000	$ 680,102	$ 12,289,305	$ 17,889,407
2012	5,110,000	670,444	12,123,792	17,904,236
2013	5,230,000	660,267	11,954,571	17,844,838
2014	5,530,000	649,724	11,775,861	17,955,585
2015	5,735,000	638,833	11,590,275	17,964,108
2016-2020	32,195,000	3,013,773	54,901,758	90,110,531
2021-2025	44,280,000	2,637,360	48,465,255	95,382,615
2026-2030	76,575,000	1,977,875	38,195,101	116,747,976
2031-2035	151,890,000	1,100,443	22,349,569	175,340,012
2036-2040	45,370,000	26,690	1,680,099	47,076,789
Total	$ 376,835,000	$ 12,055,511	$ 225,325,586	$ 614,216,097

Various foundations of higher education institutions have derivative instruments. The **foundations** follow FASB rather than GASB reporting requirements. Disclosures for the foundations' derivatives can be found in the individually published financial statements of the foundations.

14. 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 (the System) 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 System 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 System administers 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 (Virginia Retirement System)

Basis of Accounting

The financial statements of the pension and other employee benefit trust funds are prepared using the flow of 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 plans. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investments

Investments are reported at fair value as determined by the System's master custodian, Mellon Trust, from its Global Pricing System. This pricing 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. Municipal fixed income securities and options on Treasury/Government National Mortgage Association securities are priced at month-end.

The System's investment guidelines for each specific portfolio limits investments in any corporate entity to no more than 5.0 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 5.0 percent or more of plan net assets available for benefits.

C. Plan Description

Retirement Plans

The Virginia Retirement System 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 2010, were $1.8 billion with a reserve balance available for benefits of $44.6 billion. At June 30, 2010, the VRS had 826 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 Virginia Retirement System. 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 and VaLORS members are eligible for an unreduced benefit at age 60 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 is calculated using a 1.85 percent multiplier. Members of SPORS 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 2.0 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. A cost-of-living adjustment, based on changes in the Consumer Price Index and limited to 5.0 percent per year, is granted on July 1 of the second calendar year after retirement and is effective each July 1 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 5.0 percent of their annual compensation to the defined benefits plans. Employers may assume the 5.0 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 2010, were $20.7 million, $56.3 million, $20.2 million and reserved balances available for benefits of $533.9 million, $792.3 million, and $314.7 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 former 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 2010 were based on the actuary's valuation as of June 30, 2007. Employer contributions by the Commonwealth to VRS, SPORS, VaLORS, and JRS were 6.26 percent, 20.05 percent, 14.23 percent, and 34.51 percent, respectively, of covered payrolls. These rates were lower than the actuary's recommended rates to VRS, SPORS, VaLORS, and JRS of 8.02 percent, 24.09 percent, 16.78 percent, 38.04 percent, respectively. Additionally, employer contributions were suspended for April, May and the first half of June 2010.

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		
	2010	2009	2008	2010	2009	2008
Annual required contribution	$ 360,232	$ 355,608	$ 316,649	$ 32,341	$ 31,894	$ 29,718
Interest on net pension obligation	71,709	62,199	54,933	8,075	7,227	6,587
Adjustment to annual required contribution	(75,995)	(65,798)	(56,436)	(8,550)	(7,653)	(6,777)
Annual pension cost	355,946	352,009	315,146	31,866	31,468	29,528
Contributions made	(176,189)	(225,079)	(218,256)	(15,730)	(20,175)	(20,990)
Increase in net pension obligation	179,757	126,930	96,890	16,136	11,293	8,538
Net pension obligation, beginning of year	956,186	829,256	732,366	107,662	96,369	87,831
Net pension obligation, end of year	$ 1,135,943	$ 956,186	$ 829,256	$ 123,798	$ 107,662	$ 96,369
Percentage of annual pension cost contributed	49.5%	63.9%	69.3%	49.4%	64.1%	71.1%

	JRS			VaLORS		
	2010	2009	2008	2010	2009	2008
Annual required contribution	$ 29,483	$ 28,427	$ 28,284	$ 80,603	$ 80,509	$ 79,420
Interest on net pension obligation	5,520	4,985	4,553	21,446	19,313	17,589
Adjustment to annual required contribution	(5,845)	(5,279)	(4,684)	(22,708)	(20,450)	(18,096)
Annual pension cost	29,158	28,133	28,153	79,341	79,372	78,913
Contributions made	(17,065)	(21,000)	(22,387)	(39,027)	(50,932)	(55,929)
Increase in net pension obligation	12,093	7,133	5,766	40,314	28,440	22,984
Net pension obligation, beginning of year	73,605	66,472	60,706	285,946	257,506	234,522
Net pension obligation, end of year	$ 85,698	$ 73,605	$ 66,472	$ 326,260	$ 285,946	$ 257,506
Percentage of annual pension cost contributed	58.5%	74.6%	79.5%	49.2%	64.2%	70.9%

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 VRS liability for the Virginia Economic Development Partnership (component unit), the Virginia Tourism Authority (component unit), the Fort Monroe Federal Area Development Authority (component unit), and the Virginia National Defense Industrial Authority (component unit) of $2.2 million, $1.1 million, $154,802, and $86,091, respectively. The table also excludes the non-VRS pension liability of $91.5 million for all other component units and includes the fiduciary pension liability of $6.7 million.

The contribution rates were determined during the actuarial valuation conducted as of June 30, 2007. These 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, 2010, 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, 2010, was as follows:

(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)						
2009	$ 53,185	$ 66,323	$ 13,138	80.2%	$ 14,948	87.9%
State Police Officers' Retirement System (SPORS)						
2009	$ 647	$ 879	$ 232	73.6%	$ 101	230.0%
Virginia Law Officers' Retirement System (VaLORS)						
2009	$ 913	$ 1,412	$ 499	64.7%	$ 359	138.9%
Judicial Retirement System (JRS)						
2009	$ 378	$ 521	$ 143	72.6%	$ 63	228.4%

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 ING Institutional Plan Services (ING). This is a defined contribution plan where the retirement benefits are based upon the Commonwealth's (6.26 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, 2010, the total contributions to this plan were $726,109.

The summary of significant accounting policies for the plan is in accordance with those discussed in Note 14. 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 System 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, 2010, there were two participants in this plan. Total contributions to the plan for fiscal year 2010 were $29,279.

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 System 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, 2010, there were two participants in this plan. There were no contributions to the plan for fiscal year 2010.

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 System 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. 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, 2010, the total contributions to these plans were:

TIAA-CREF	$	95,291,471
VALIC		2,772,914
Fidelity Investments		56,392,319
Vanguard		5,243,241
Others		1,352,398
Total	$	161,052,343

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – major) contributes to the VRS. The System 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, 2010, were approximately $14,577,000. 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, 2010, there were five actively employed participants in the HCP plan. Total contributions to the HCP plan for the year ended June 30, 2010, were approximately $36,000.

Previously, the MCV 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 VCUHS 401(a) Retirement Plan, a defined contribution plan which covers all non-medical employees of MCVP and the VCUHS 457(b) Savings 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, 2010, were approximately $1,864,000.

MCVAP also sponsors the MCVAP 401(a) Retirement Plan (the 401(a) plan), a noncontributory, defined contribution plan which covers substantially all full-time eligible clinical providers of MCVAP. Contributions to the 401(a) plan, as determined annually at the discretion of the board of directors were approximately $10,524,000 for the year ended June 30, 2010.

VA Premier (a component unit of the Authority) adopted a 401(k) plan sponsored by Fidelity Investments. Employees become eligible to participate in the plan after completing one year of service. 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 2010 was approximately $921,000.

Effective June 2007, the Carolina Crescent Health Plan (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 $196,000 for the year ended June 30, 2010.

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, 175 faculty members have elected to enroll in the plan. As of June 30, 2010, 63 participants remain, including 15 new participants who retired under this plan during fiscal year 2010 and 1 new participant who is scheduled to retire under this plan during fiscal year 2011. 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 $1,561,504 of the fiscal year 2011 plan contribution in 2010. The remaining 2011 plan contribution of $83,800 will be paid in 2011.

The Center for Innovative Technology (CIT) is a blended component unit of the Innovation and Entrepreneurship Investment 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. Contributions for the plan totaled $378,622 in fiscal year 2010.

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 Foundation for Healthy Youth (formerly 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 System 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 $1,820,678 in fiscal year 2010.

The Virginia Outdoors Foundation (nonmajor) maintains a 401(k) 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

	2010	2009	2008
Service cost - benefits earned during the year	$ 2,834,000	$ 2,234,100	$ 2,136,300
Interest cost on projected benefit obligation	4,762,200	3,976,700	3,660,500
Expected return on assets	(3,535,600)	(4,027,000)	(4,286,500)
Net amortization and deferral	3,205,400	1,446,200	779,200
Annual pension cost	7,266,000	3,630,000	2,289,500
Contributions made	(7,920,000)	(2,482,000)	(1,640,100)
Increase (Decrease) in prepaid pension obligation	(654,000)	1,148,000	649,400
Prepaid pension obligation, beginning of year	(7,592,800)	(8,740,800)	(9,390,200)
Prepaid pension obligation, end of year	$ (8,246,800)	$ (7,592,800)	$ (8,740,800)

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, 2009 and 2008, respectively, and is the 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, 2010, 2009, and 2008.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2010	$ 7,266,000	109 %	$ (8,264,800)
2009	$ 3,630,000	68 %	$ (7,592,800)
2008	$ 2,289,500	72 %	$ (8,740,800)

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

	2010	2009	2008
Service cost - benefits earned during the year	$ 1,111,163	$ 655,361	$ 642,254
Interest cost on projected benefit obligation	83,337	435,006	356,456
Expected return on assets	(135,251)	1,096,215	260,403
Net amortization and deferral	208,410	(1,310,223)	(458,630)
Annual pension cost	1,267,659	876,359	800,483
Contributions made	(923,681)	(1,185,944)	(1,166,439)
Additional minimum liability	-	-	-
Increase (Decrease) in pension obligation	343,978	(309,585)	(365,956)
Pension obligation, beginning of year	(1,803,344)	(1,493,759)	(1,127,803)
Prepaid pension obligation, end of year	$ (1,459,366)	$ (1,803,344)	$ (1,493,759)

The annual pension cost for the current year was determined as part of the July 2010 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 7.50 percent in 2010, 6.82 percent in 2009, and 6.92 percent in 2008.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2010, 2009, and 2008.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2010	$ 1,267,659	73 %	$ (1,459,366)
2009	$ 876,359	135 %	$ (1,803,344)
2008	$ 800,483	146 %	$ (1,493,759)

The Authority also sponsors two noncontributory supplemental plans covering certain key employees. The plans had assets of $5,490,968 and an accrued liability of $6,312,214. Contributions made to the plans were $2,500,000 for the year ended June 30, 2010.

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, 2010, the Authority's annual pension cost of $98,593 was equal to the Authority's required and actual contributions.

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, 2010, and 2009, the Foundation contributed 8.4 percent of employees' gross income to the plan. In addition, contributions made by an employee up to 3 percent are matched 100 percent and contributions between 3 and 5 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 $99,579 for the fiscal year ended June 30, 2010. Also, the Foundation entered into a supplemental retirement agreement to pay a key employee of the Museum upon retirement the difference between the amount accrued under the VRS defined benefit plan, based on salary, and the amount based on the supplemental salary. The plan vests July 31, 2011. Therefore, no liability was recorded in the financial statements in fiscal year 2010. Contributions made to the plan began in 2010 totaling $22,170 as of June 30, 2010.

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 $8,751 in 2010.

15. OTHER EMPLOYMENT BENEFITS

In addition to the pension plans, the Commonwealth participates in two other employment benefit plans, Group Life Insurance and the Virginia Sickness and Disability Program, which are administered by the Virginia Retirement System (the System). The System 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 14 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 358,562 members participate in the program at June 30, 2010.

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 63,643 members were covered under this program at June 30, 2010.

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 System 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. If the employee's condition becomes catastrophic, income replacement increases to 80 percent until the condition is no longer catastrophic. Long-term disability benefits continue until employees either return to work, retire or 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 73,569 members were covered under the program at June 30, 2010.

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 System 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 2010, there were no monies appropriated for administration of the program. At June 30, 2010, there were 1,530 workers participating in the fund.

16. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Virginia Retirement System (The System) 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 System-administered OPEB plans beginning with the fiscal year ended June 30, 2007. The assets and actuarial accrued liabilities for the following other postemployment benefits were determined through an actuarial valuation performed as of June 30, 2009, by Cavanaugh Macdonald Consulting, LLC, and are presented in the Required Supplemental Schedule of Funding Progress for Other Postemployment Benefit Plans. The significant accounting policies for all three plans are the same as those described in Note 14 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 postemployment 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 130,912 retirees in the Basic Group Life Insurance Program and 1,836 retirees were covered under the Optional Group Life Insurance Program in fiscal year 2010.

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. 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 by the employers based on contribution rates determined by the system's actuary. Approximately 92,126 retired members were covered under this program at June 30, 2010. 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 2,592 former members receiving benefits from the program during fiscal year 2010. The Disability Insurance Trust Fund is a single-employer defined benefit OPEB plan.

The employer contributions for the Group Life Insurance Fund, Retiree Health Insurance Credit Fund, and Disability Insurance Trust Fund were suspended for April, May and the first half of June 2010.

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. A trust fund has been established to account for this activity. 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 14 for pension plans. The Line of Duty Death and Disability is administered by the Department of Accounts. There were approximately 662 retirees and 612 other participants in the program in fiscal year 2010.

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 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 14 for pension plans. The Pre-Medicare Retiree Healthcare is administered by Department of Human Resource Management. There were approximately 8,851 retirees in the program in fiscal year 2010.

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 required additional reporting and disclosures for OPEB plans beginning with the fiscal year ending June 30, 2008. The Commonwealth calculated an OPEB liability as of June 30, 2010, for each of the five OPEB plans. The Retiree Health Insurance Credit Fund, Disability Insurance Trust Fund, Line of Duty Death and Disability, and Pre-Medicare Retiree Healthcare OPEB liabilities were $25.6 million, $75.4 million, $15.6 million, and $309.4 million, respectively. There is no liability for the Group Life Insurance Fund.

The following table (dollars in thousands) shows the Commonwealth's annual OPEB cost and net OPEB obligation (asset) for the current and prior years.

	Group Life Insurance Fund			Retiree Health Insurance Credit Fund		
	2010	2009	2008	2010	2009	2008
Annual required contribution	$ 28,887	$ 40,248	$ 48,000	$ 66,510	$ 66,979	$ 62,387
Interest on net OPEB obligation	-	-	-	165	-	-
Adjustment to annual required contribution	-	-	-	(143)	-	-
Annual OPEB cost	28,887	40,248	48,000	66,532	66,979	62,387
Contributions made	(28,887)	(40,248)	(48,000)	(43,094)	(64,783)	(62,387)
Increase in net OPEB obligation	-	-	-	23,438	2,196	-
Net OPEB obligation (asset), beginning of year	-	-	-	2,196	-	-
Net OPEB obligation (asset), end of year	$ -	$ -	$ -	$ 25,634	$ 2,196	$ -
Percentage of annual OPEB cost contributed	100.0%	100.0%	100.0%	64.8%	96.7%	100.0%

	Disability Insurance Trust Fund			Line of Duty Death and Disability		
	2010	2009	2008	2010	2009	2008
Annual required contribution	$ 78,117	$ 79,450	$ 97,689	$ 16,901	$ 16,523	$ 9,786
Interest on net OPEB obligation	2,080	1,467	-	386	(12)	-
Adjustment to annual required contribution	(1,808)	(1,552)	-	(367)	11	-
Annual OPEB cost	78,389	79,365	97,689	16,920	16,522	9,786
Contributions made	(30,771)	(71,142)	(78,151)	(9,084)	(8,511)	(10,026)
Increase in net OPEB obligation	47,618	8,223	19,538	7,836	8,011	(240)
Net OPEB obligation (asset), beginning of year	27,761	19,538	-	7,771	(240)	-
Net OPEB obligation (asset), end of year	$ 75,379	$ 27,761	$ 19,538	$ 15,607	$ 7,771	$ (240)
Percentage of annual OPEB cost contributed	39.3%	89.6%	80.0%	53.7%	51.5%	102.5%

	Pre-Medicare Retiree Healthcare		
	2010	2009	2008
Annual required contribution	$ 136,426	$ 131,654	$ 127,156
Interest on net OPEB obligation	9,751	4,733	-
Adjustment to annual required contribution	(9,265)	(4,489)	-
Annual OPEB cost	136,912	131,898	127,156
Contributions made	(23,780)	(30,722)	(32,056)
Increase in net OPEB obligation	113,132	101,176	95,100
Net OPEB obligation (asset), beginning of year	196,276	95,100	-
Net OPEB obligation (asset), end of year	$ 309,408	$ 196,276	$ 95,100
Percentage of annual OPEB cost contributed	17.4%	23.3%	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), Fort Monroe Federal Area Development Authority (component unit), Virginia Outdoors Foundation (component unit) and the Virginia National Defense Industrial Authority (component unit) of $565,930, $287,814, $39,112, $7,242, and $21,707, respectively. The table also excludes non-Commonwealth sponsored OPEB liabilities of $14.2 million for all other component units and includes the fiduciary OPEB liability of $1.7 million.

The annual required contributions for the current year were determined during the actuarial valuations conducted as of June 30, 2007, as that is the most recent report that reflects the current funding policies. For fiscal year 2010, employer contributions by the Commonwealth for Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance were 0.79 percent, 1.00 percent, and 1.00 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 Death and Disability trust funds for which the Projected Unit Credit actuarial cost method was used. The Line of Duty Death and Disability use a 4.97 percent investment rate of return while the Pre-Medicare Retiree Healthcare plan uses a 4.97 percent investment rate of return, per year compounded annually, which approximates the projected rate of return on the Treasurer's Portfolio. The Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance use a 7.5 percent investment rate of return, per year compounded annually. The actuarial assumptions for all but the Pre-Medicare Retiree Healthcare plan included a projected salary increase of 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, 2010, 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) projected salary increases ranging from 3.75 percent to 5.6 percent, including a 2.5 percent inflation component; and, (b) 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 10.0 percent, 11.0 percent, and 6.0 percent for medical, pharmacy, and dental benefits, respectively. The ultimate trend rates used were 5.0 percent, 5.0 percent, and 4.0 percent for medical, pharmacy, and dental benefits, respectively. The remaining closed amortization period at June 30, 2010 is 30 years.

D. Funded Status and Funding Progress

The funded status of the plans as of June 30, 2010, was as follows:

(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			
2009	$ 967	$ 1,995	$ 1,028	48.5%	$ 16,728	6.1%
			Retiree Health Insurance Credit Fund			
2009	$ 294	$ 1,976	$ 1,682	14.9%	$ 13,589	12.4%
			Disability Insurance Trust Fund			
2009	$ 267	$ 268	$ 1	99.6%	$ 4,080	-
			Line of Duty Death and Disability			
2009	$ -	$ 373	$ 373	-	N/A	-
			Pre-Medicare Retiree Healthcare			
2009	$ -	$ 1,218	$ 1,218	-	$ 3,170	38.4%

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) 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, 2010, the Authority's Annual OPEB cost was $962,413; the percentage of Annual OPEB Cost Contributed was 93 percent; and the ending Net OPEB asset was $39,238.

Hampton Roads Sanitation District Commission (nonmajor) provides other postemployment benefits for its employees through a single employer defined benefit plan. The plan was established and may be amended by the Commission. The plan 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 plan 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 7.6 percent of annual covered payroll. For 2010, the Commission's annual OPEB cost was $2.4 million; the percentage of annual OPEB cost contributed was 100 percent.

The Virginia Port Authority (nonmajor) offers post retirement medical and dental benefits to employees who retire under either VRS or the VPA 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, 2010, the Authority's annual OPEB cost was $44,628; contribution towards OPEB cost was $16,361; the percentage of annual OPEB cost contributed was 36.7 percent; and the ending net OPEB obligation was $113,346.

17. DEFERRED COMPENSATION PLANS

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The Virginia Retirement System (the System) 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 System 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, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the System 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, unforeseeable emergency, or an in-service distribution at age 70 ½ or later. Since the System has no fiduciary relationship with plan participants, plan assets of $1,170.9 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. 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, 2010, was $194.6

million, which is also excluded from the financial statements.

The Virginia Housing Development Authority (major component unit) and the Virginia Resource 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 System 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 $136,561 for the fiscal year ended June 30, 2010. 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 $297,242 for the fiscal year ended June 30, 2010.

18. 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 is a class of the PFM Funds Prime Series, a money market mutual fund registered with the Securities and Exchange Commission. PFM Funds is a diversified, open-end management investment company organized as a Virginia business trust. Shares of the SNAP fund are solely available to investors participating in the SNAP program. The PFM Funds Board of Trustees 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 $2.1 billion are not included in the financial statements.

19. COMMITMENTS

A. Construction Projects

Highway Projects

At June 30, 2010, the Department of Transportation (part of primary government) had contractual commitments of approximately $1.9 billion for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) federal funds – approximately 58 percent or $1.1 billion, (2) state funds – approximately 40 percent or $791 million, and (3) Proceeds from Bonds – approximately 2 percent or $47 million.

Mass Transit Projects

At June 30, 2010, the Department of Rail and Public Transportation (part of primary government) had contractual commitments of approximately $313.5 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 85.5 percent or $267.9 million, and (2) federal funds - approximately 14.5 percent or $45.6 million.

Wastewater Treatment Projects

At June 30, 2010, the Department of Environmental Quality (part of primary government) was committed to grant contracts with localities to reimburse a portion of construction costs for nutrient reduction facilities at wastewater treatment plants totaling $260.5 million.

Port Projects

At June 30, 2010, the Virginia Port Authority (nonmajor component unit) was committed to construction contracts totaling $246.6 million.

Sanitation District Project

At June 30, 2010, the Hampton Roads Sanitation District Commission (nonmajor component unit) was committed to construction programs totaling $189.1 million.

Higher Education Institutions

Colleges and universities (component units) had contractual commitments as of June 30, 2010, of approximately $938.6 million primarily for construction contracts. Higher education foundations' commitments total approximately $59.5 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, 2010, was $68.9 million for governmental activities (including internal service funds) and $20.8 million for business-type activities. Rental expense for the discrete component units (excluding foundations) for the year ended June 30, 2010, was $89.6 million. The Commonwealth has, as of June 30, 2010, the following minimum rental payments due under the above leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-type Activities	Component Units (1)
2011	$ 61,132	$ 18,948	$ 60,225
2012	48,753	15,668	46,689
2013	37,375	11,652	35,639
2014	29,795	7,334	22,702
2015	26,399	4,239	19,296
2016-2020	57,612	2,261	46,097
2021-2025	8,850	-	14,483
2026-2030	6,696	-	823
2031-2035	551	-	823
2036-2040	462	-	823
2041-2045	-	-	823
2046-2050	-	-	659
Total	$ 277,625	$ 60,102	$ 249,082

Note (1): The above amounts exclude operating lease obligations of foundations.

	Foundations (2)
2011	$ 2,364
2012	1,976
2013	1,638
2014	1,180
2015	1,005
Thereafter	5,152
Total	$ 13,315

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Rental expense for the year ended June 30, 2010, was approximately $1.5 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, 2010, amounted to $3.7 billion.

D. Tobacco Grants

The Tobacco Indemnification and Community Revitalization Commission (Commission) (nonmajor component unit) has $200.0 million in grant award commitments not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2010, in accordance with GASB Statement No. 33. The Commission awarded an additional $14.8 million in grants in July 2010 that are also not reflected in the accompanying financial statements.

The Virginia Foundation for Healthy Youth (nonmajor component unit) has $13.3 million in grant commitments and outstanding contracts not reflected in these statements since eligibility requirements were not met as of June 30, 2010, in accordance with GASB Statement No. 33.

E. Other Commitments

The Virginia Land Conservation Foundation (nonmajor component unit) has $1.8 million in grant award commitments, which were not dispersed since eligibility requirements were not met as of June 30, 2010, in accordance with GASB Statement No. 33.

The Virginia University Research Partnership (nonmajor component unit) has $3.0 million in grant award commitments not reflected in these statements since eligibility requirements were not met as of June 30, 2010, in accordance with GASB Statement No. 33.

The Virginia Small Business Financing Authority (nonmajor component unit) has $3.1 million in loan commitments in the Federal Economic Development Loan Fund as of June 30, 2010. In addition, the Child Care Financing Program had $787,770 in loan commitments in accordance with GASB Statement No. 33.

20. 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 15). 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 26). All amounts related to the fiduciary funds are recognized in those funds.

The liability at June 30, 2010, 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.

21. POLLUTION REMEDIATION OBLIGATIONS

The Commonwealth implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* during fiscal year 2009.

The Commonwealth has pollution remediation obligations of $4.0 million of which $3.5 million is due within one year. With the exception of the Department of Environmental Quality (DEQ), agencies estimated future obligations based on professional consultant estimates and/or historical project expenses of similar projects; however, there is the potential for change in estimates due to price increase or reductions, technology, or applicable laws and regulations. Remediations for DEQ are not estimates but contractual obligations between the Commonwealth and the U.S. Environmental Protection Agency (EPA), and any change due to a reconciliation of incurred costs requires mutual consent and contract amendment.

The estimated Commonwealth pollution remediation liability relates to the anticipated cost of hazardous waste removal, cleanup relating to leakage of underground storage tanks, soil and groundwater contaminations, dump site cleanups, asbestos abatement, lead contamination and remediation relating to superfund state contracts.

Agencies involved in remediation include:

- Department of Environmental Quality (DEQ)
- Department of Transportation (VDOT)
- Department of Corrections (DOC)
- Department of Juvenile Justice (DJJ)
- Department of Behavioral Health & Developmental Services (DBHDS)

A Facility Lead Agreement was signed between the EPA and VDOT to resolve an issue concerning the storage of lab wastewater in an outdoor lined surface impoundment that operated between 1979 and 1983 for which contamination is present in soil and groundwater. VDOT is expected to recover $168,939 to offset remediation costs related to two contaminated groundwater sites. VDOT can only estimate interim remedial activities; additional estimates cannot be made beyond one year at this time. DOC is expected to recover $23,000 to offset remediation costs related to lead contamination. DOC was fined by the EPA in September/October 2003. DOC proposed to conduct a Supplemental Environmental Project (SEP) which included the formation of the Pollution Prevention Section of the Environmental Services Unit, disclosure of all environmental deficiencies to both the EPA and DEQ and corrections of those deficiencies. DJJ has a pollution remediation project to remove asbestos due to imminent endangerment.

The following pollution remediation outlays could not reasonably be estimated as of June 30, 2010:

- Department of Emergency Management (VDEM) relating to a fuel storage facility;
- Department of State Police (DSP) relating to gasoline tank leakage;
- Department of Behavioral Health and Developmental Services (DBHDS) relating to groundwater contamination;
- Department of Transportation (VDOT) relating to groundwater contamination.

22. 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, 2010, $94.4 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)
2009-2010	$ 104,911	$ 918,686	$ (929,221)	$ 94,376
2008-2009	$ 97,631	$ 903,616	$ (896,336)	$ 104,911

(1) Of the balance shown above, $94.4 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 the 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, 2010, $444.5 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, 2010, is $520.6 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)
2009-2010	$ 409,056	$ 101,793	$ (66,382)	$ 444,467
2008-2009	$ 375,534	$ 99,680	$ (66,158)	$ 409,056

(1) Of the balance shown above, $65.0 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 component unit) 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. 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)
2009-2010	$ 30,415	$ 788	$ (4,293)	$ 26,910
2008-2009	$ 31,014	$ 1,176	$ (1,775)	$ 30,415

(1) Of the balance shown above, $3.4 million is due within one year.

Estimated Workers' Compensation Losses

	Balance July 1,	Claims Expense	Claims Settled	Balance June 30, (1)
2009-2010	$ 16,334	$ 3,383	$ (2,710)	$ 17,007
2008-2009	$ 17,802	$ 699	$ (2,167)	$ 16,334

(1) Of the balance shown above, $2.2 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, 2010 the amount of these liabilities is $63,697,510 and is reported as Claims Payable – Due within One Year. This liability is VA Premier's and Carolina Crescent Health Plan's best estimate based on available information.

Additional information on the claims payable amounts reported by the Authority can be found in the individually published financial statements of the Authority.

Virginia International Terminals, Inc., a component unit of 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 $125,000 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 $6,659,696.

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 262 local government units participating in the pool. This includes 28 school districts, 34 counties, 97 cities/towns, and 103 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, 2010, $22.9 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 the 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 by 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, 2010, there were 542 units of local government in the pool, including 4 cities, 36 towns, and 32 counties. The remaining 470 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, participation is voluntary and open to those identified in Section 2.2-1839 of the *Code of Virginia*. The risk assumed by the local public entity pool for member liability is $1,000,000 per occurrence.

At June 30, 2010, $15.3 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, 2010	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	$ 23,607	$ 19,211	$ 14,550	$ 14,072
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	221,273	211,904	(498)	448
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	1,274	(881)
Total Incurred Claims and Adjustment Expenses	221,273	211,904	776	(433)
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	222,006	207,508	412	300
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year	-	-	-	-
Total Payments	222,006	207,508	412	300
Change in Provision for Discounts	-	-	375	321
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted) (1) (2) (3)	$ 22,874	$ 23,607	$ 15,289	$ 13,660
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	$ 22,874	$ 23,607	$ 16,309	$ 14,550

Note (1): The entire balance for Local Choice Health Care, $22,874 (dollars in thousands) is due within one year.

Note (2): Of the balance shown above for Risk Management, $4,939 (dollars in thousands) is due within one year.

Note (3): The interest rate used for discounting is 3.0 percent.

23. ACCOUNTS PAYABLE

The following table (dollars in thousands) summarizes Accounts Payable as of June 30, 2010.

	Vendor	Salary/ Wage	Retainage	Other	Foundations (1)	Total
Primary Government:						
General	$ 135,282	$ 85,744	$ -	$ -	$ -	$ 221,026
Major Special Revenue Funds:						
Commonwealth Transportation	202,214	26,063	4,948	-	-	233,225
Federal Trust	102,561	16,008	140	-	-	118,709
Literary	197	-	-	-	-	197
Nonmajor Governmental Funds	31,714	24,454	8,415	36	-	64,619
Major Enterprise Funds:						
State Lottery (2)	3,348	816	-	4,315	-	8,479
Virginia College Savings Plan (2)	58	282	-	1,089	-	1,429
Unemployment Compensation	191	-	-	-	-	191
Nonmajor Enterprise Funds	23,178	4,539	-	-	-	27,717
Internal Service Funds	57,516	2,688	-	-	-	60,204
Private Purpose	1,763	168	-	-	-	1,931
Pension and Other Employee Benefit Trust (3)	695	1,621	-	36,975	-	39,291
Agency Funds	1,899	-	-	2,016	-	3,915
Total Primary Government (4)	$ 560,616	$ 162,383	$ 13,503	$ 44,431	$ -	$ 780,933
Discrete Component Units:						
Virginia Housing Development Authority	$ 1,473	$ 1,176	$ -	$ -	$ -	$ 2,649
Virginia Public School Authority	206	-	-	-	-	206
University of Virginia	94,914	52,277	898	14,840	40,273	203,202
Virginia Polytechnic Institute and State University	49,204	47,703	6,617	-	14,491	118,015
Virginia Commonwealth University	60,021	75,050	540	-	976	136,587
Nonmajor Component Units	177,048	143,628	29,870	9,318	30,672	390,536
Total Component Units	$ 382,866	$ 319,834	$ 37,925	$ 24,158	$ 86,412	$ 851,195

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 $23,398 (dollars in thousands) in investment management expense, $12,636 (dollars in thousands) in program benefit liabilities, $822 (dollars in thousands) of investment interest payable, and $119 (dollars in thousands) of other investment payables generally related to Futures and month-end rebalancing items.

Note (4): Fiduciary liabilities of $45,137 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. In addition, governmental fund liabilities of $76,994 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

24. OTHER LIABILITIES

The following table (dollars in thousands) summarizes Other Liabilities as of June 30, 2010.

	Primary Government				
	General	Commonwealth Transportation	Federal Trust	Nonmajor Governmental Funds	State Lottery
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ 43,995
Due to Program Participants, Escrows, and Providers	-	-	-	-	-
Medicaid Payable	237,785	-	379,623	-	-
Family Access to Medical Insurance Security Payable	4,120	-	7,651	-	-
Tax Refunds Payable	417,304	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	1,918	5,628	-	2,334	-
Car Tax Payable	263,025	-	-	-	-
Title XII Federal Advances	-	-	-	-	-
Other Liabilities	-	-	-	2,541	-
Total Other Liabilities	$ 924,152	$ 5,628	$ 387,274	$ 4,875	$ 43,995

	Primary Government				
	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	58	28,590	-	-	271
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Tax Refunds Payable	-	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	-	-	179	351	-
Car Tax Refund Payable	-	-	-	-	-
Title XII Federal Advances	-	346,876	-	-	-
Other Liabilities	-	-	149	757	-
Total Other Liabilities	$ 58	$ 375,466	$ 328	$ 1,108	$ 271

	Primary Government		
	Pension and Other Employee Benefit Trust Funds (1)	Agency Funds	Total Primary Government (2)
Lottery Prizes Payable	$ -	$ -	$ 43,995
Due to Program Participants, Escrows, and Providers	-	35,037	63,956
Medicaid Payable	-	-	617,408
Family Access to Medical Insurance Security Payable	-	-	11,771
Tax Refunds Payable	-	-	417,304
Insurance Carrier Surety Deposit	-	434,434	434,434
Deposits Pending Distribution	-	34,495	44,905
Car Tax Refund Payable	-	-	263,025
Title XII Federal Advances	-	-	346,876
Other Liabilities	749,188	2,082	754,717
Total Other Liabilities	$ 749,188	$ 506,048	$ 2,998,391

Note (1): Other Liabilities of $749,188 (dollars in thousands) reported in pension and other employee benefit trust funds are made up of $25,762 (dollars in thousands) in funds held for the Commonwealth Health Research Fund; $9,710 (dollars in thousands) in other funds managed by the System; $712,716 (dollars in thousands) in pending investment transactions, including $653,073 (dollars in thousands) for investment overlay and swaps, $30,000 (dollars in thousands) for securities lending, $27,727 (dollars in thousands) for net foreign exchange contracts, $1,916 (dollars in thousands) in other investment payables; and $1,000 (dollars in thousands) in other payable related to the System benefit plans.

Note (2): Fiduciary liabilities of $1,255,507 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. Governmental fund liabilities of $650,370 (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 (3)	Virginia Polytechnic Institute & State University	Virginia Commonwealth University (3)
Accrued Interest Payable	$ 105,980	$ 61,889	$ 2,362	$ 3,634	$ 4,933
Other Liabilities	10,002	2	85,579	28,747	77,494
Deposits Pending Distribution	6,180	-	367,544	13,643	29,241
Short-term Debt	-	-	130,041	2,975	15,000
Grants Payable	-	-	-	-	-
Total Other Liabilities	$ 122,162	$ 61,891	$ 585,526	$ 48,999	$ 126,668

	Component Units	
	Nonmajor Component Units	Total Component Units
Accrued Interest Payable	$ 116,648	$ 295,446
Other Liabilities	40,934	242,758
Deposits Pending Distribution	28,279	444,887
Short-term Debt	10,010	158,026
Grants Payable	10,541	10,541
Total Other Liabilities	$ 206,412	$ 1,151,658

Note (3): Other Liabilities of $13,776 (dollars in thousands) for the University of Virginia and $48,815 (dollars in thousands) for the Virginia Commonwealth University represent hedging derivative instruments reported in accordance with GASBS No. 53 (see Note 13 for additional information).

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, 2010, the estimated liability related to Medicaid claims totaled $617.4 million. Of this amount, $237.8 million is reflected in the General Fund (major) and $379.6 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, 2010, the estimated liability related to claims totaled $11.8 million. Of this amount, $4.1 million is reflected in the General Fund (major) and $7.7 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, 2009, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2010. 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

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 2010, the primary government's agencies did not participate in short-term borrowings with external parties.

Various higher education institutions' foundations (component units) have short-term debt. University of Virginia Foundations (major component unit) report approximately $59.3 million and nonmajor component unit foundations report approximately $9.9 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 $70.7 million and the Virginia Polytechnic Institute and State University (major component unit) reports approximately $3.0 million of commercial paper that provides bridge financing for capital projects. The Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University) reports short-term debt of $15.0 million to meet certain cash reserve requirements. The Virginia Horse Center Foundation (nonmajor component unit) has a $44,000 note with a related party. The Library of Virginia Foundation (nonmajor component unit) has a $60,000 note with a related party.

The balance of Other Liabilities is spread among various other funds.

25. TERMINATION BENEFITS

During fiscal year 2010, all Commonwealth employees were aware that required budgetary reductions could result in involuntary employment separations. As of June 30, 2010, the Commonwealth had laid off 820 employees. The affected employees had the option of volunteering for enhanced retirement benefits or severance benefits. The enhanced retirement option was elected by 341 employees, and the remaining 479 employees elected severance benefits. The severance benefits include salary payments based on years of service and insurance premium payments for health and life insurance payments. All severance benefits were initiated during fiscal year 2010 and will end no later than June 30, 2011. The benefit cost expended and the outstanding liability as of June 30, 2010, is $7.2 million and $4.3 million, respectively. Since the severance benefits last for a maximum of 12 months, discounting of future cash flows is unnecessary. Additionally, the estimated payments are calculated using the Department of Human Resources' Termination Benefits Calculator.

26. 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). 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, 2010

(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)	$ 6,469	$ 6,469
9(b) Public Facilities (3)	993,372	75,575
9(c) Parking Facilities (3)	21,151	1,533
9(c) Transportation Facilities (3)	28,394	1,975
Total General Obligation Bonds	1,049,386	85,552
Nongeneral Obligation Bonds - 9(d):		
Transportation Debt (3) (4)	1,843,237	200,810
Virginia Public Building Authority (3)	2,276,819	151,085
Total Nongeneral Obligation Bonds	4,120,056	351,895
Other Long-term Obligations:		
Pension Liability	1,147,163	-
OPEB Liability	214,943	-
Compensated Absences	320,912	164,709
Capital Lease Obligations	97,012	10,985
Pollution Remediation Obligations	4,019	3,451
Regional Jail Financing Payable	6,445	1,828
Notes Payable	93,891	23,276
Installment Purchase Obligations	73,950	6,376
Industrial Development Authority Obligations	5,150	5,150
Economic Development Authority Obligations (3)	89,722	3,690
Other Liabilities	26,041	4,367
Total Other Long-term Obligations	2,079,248	223,832
Total Governmental Activities (3)	7,248,690	661,279
Business-type Activities: (1) (5)		
Other Long-term Obligations:		
Pension Liability	26,379	-
OPEB Liability	5,779	-
Compensated Absences	9,130	4,830
Capital Lease Obligations	1,407	560
Installment Purchase Obligations	187	187
Tuition Benefits Payable	2,095,958	155,582
Lottery Prizes Payable	250,754	51,372
Total Other Long-term Obligations	2,389,594	212,531
Total Business-type Activities	2,389,594	212,531
Total Primary Government	9,638,284	873,810

Continued on next page

Total Long-term Liabilities
June 30, 2010
(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)	631,275	39,820
Nongeneral Obligation Bonds:		
Higher Education Institutions - 9(d) (3) (5)	1,333,083	24,045
Virginia College Building Authority (3)	1,677,617	119,604
Innovation and Entrepreneurship Investment Authority	4,480	1,015
Virginia Port Authority (3) (6)	483,051	12,493
Virginia Housing Development Authority (3) (5)	6,739,603	256,051
Virginia Resources Authority (3) (7)	2,585,556	102,469
Virginia Public School Authority (3) (5)	3,235,947	196,864
Hampton Roads Sanitation District Commission (5)	547,318	16,699
Virginia Biotechnology Research Park Authority (3) (8)	44,005	2,826
Foundations (5) (9)	851,731	15,885
Total Nongeneral Obligation Bonds	17,502,391	747,951
Other Long-term Obligations:		
Pension Liability (10)	506,555	-
OPEB Liability (11)	218,745	-
Compensated Absences	238,916	158,700
Capital Lease Obligations	104,489	6,088
Notes Payable (5)	2,034,214	450,114
Installment Purchase Obligations	141,026	26,581
Trust and Annuity Obligations (5) (12)	1,535	-
Other Liabilities (5)	338,411	82,139
Total Other Long-term Obligations (Excluding Foundations)	3,583,891	723,622
Other Long-term Obligations (Foundations): (5) (9)		
Pension Liability	79,958	-
OPEB Liability	16	-
Compensated Absences	10,044	5,050
Capital Lease Obligations	5,196	509
Notes Payable	194,354	56,790
Installment Purchase Obligations	8	3
Trust and Annuity Obligations (12)	73,286	2,712
Other Liabilities	102,529	1,344
Total Other Long-term Obligations - Foundations	465,391	66,408
Total Other Long-term Obligations	4,049,282	790,030
Total Component Units	22,182,948	1,577,801
Total Long-term Liabilities	$ 31,821,232	$ 2,451,611

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 $1.68 billion.
3. Amounts are net of any unamortized discounts, premiums, and deferrals.
4. This debt includes $414.3 million that is not supported by taxes.
5. This debt is not supported by taxes.
6. This debt includes $288.8 million that is not supported by taxes.
7. This debt is not supported by taxes; however, $669.8 million from VRA is considered moral obligation debt.
8. This debt includes $1.3 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 $5.2 million and Virginia Port Authority of $6.3 million. It does not include pension obligations from fiduciary funds of $6.7 million.
11. This includes OPEB obligations that do not relate to the Virginia Retirement System from University of Virginia of $14.1 million, and Virginia Port Authority of $113,346. It does not include OPEB obligations from fiduciary funds of $1.7 million.
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 $6,469,056 of Section 9(b) general obligation bonds, $28,393,839 of Section 9(c) general obligation bonds and $1,428,918,395 of Section 9(d) revenue bonds. The Transportation Facilities Section 9(d) debt of $1,843,237,254 includes $414,318,859 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 $6,301,250. 9(c) Principal and interest requirements for the current year totaled $3,188,600. 9(d) Principal and interest requirements for the current year totaled $244,256,965. 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 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 2.00 percent to 5.95 percent and the issuance dates range from November 1, 2000, to May 15, 2010.

The following schedules detail the annual funding requirements necessary to amortize Transportation Facilities 9(b) and 9(c) bonds and 9(d) debt. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35 percent interest subsidy to reimburse interest payments of $143,108,333 for Build America Bonds (BABs) issued. The BABs are applicable to Commonwealth of Virginia Transportation Series 2010A Capital Project Revenue Bonds and Series 2009A Northern Virginia Transportation District Revenue Bonds.

9(b) TRANSPORTATION FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2011	$ 6,010,000	$ 300,500	$ 6,310,500
Less:			
Deferral on			
Debt Defeasance	(118,300)	-	(118,300)
Add:			
Unamortized Premium	577,356	-	577,356
Total	$ 6,469,056	$ 300,500	$ 6,769,556

9(c) TRANSPORTATION FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2011	$ 1,975,000	$ 1,212,600	$ 3,187,600
2012	2,080,000	1,113,850	3,193,850
2013	2,185,000	1,009,850	3,194,850
2014	2,290,000	900,600	3,190,600
2015	2,405,000	786,100	3,191,100
2016-2020	13,660,000	2,292,250	15,952,250
2021-2025	3,065,000	122,600	3,187,600
Less:			
Deferral on			
Debt Defeasance	(58,400)	-	(58,400)
Add:			
Unamortized Premium	792,239	-	792,239
Total	$ 28,393,839	$ 7,437,850	$ 35,831,689

9(d) TRANSPORTATION FACILITIES DEBT
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2011	$ 200,810,000	$ 80,725,676	$ 281,535,676
2012	156,340,000	73,089,669	229,429,669
2013	161,590,000	65,319,035	226,909,035
2014	105,650,000	58,958,673	164,608,673
2015	110,780,000	53,710,241	164,490,241
2016-2020	452,443,820	195,259,671	647,703,491
2021-2025	260,870,875	113,572,715	374,443,590
2026-2030	156,377,169	62,974,540	219,351,709
2031-2035	153,511,804	24,450,450	177,962,254
Less:			
Unamortized			
Discount	(119,655)	-	(119,655)
Deferral on			
Debt Defeasance	(3,162,300)	-	(3,162,300)
Add:			
Accretion on Capital			
Appreciation			
Bonds	17,129,174	-	17,129,174
Unamortized Premium	71,016,367	-	71,016,367
Total	$ 1,843,237,254	$ 728,060,670	$ 2,571,297,924

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 5.00 percent and the issue date was April 12, 2006. The principal and interest requirements for current year totaled $7,828,438. 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*
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		4,270,000		3,555,938		7,825,938
2015		4,485,000		3,342,438		7,827,438
2016-2020		25,975,000		13,169,488		39,144,488
2021-2025		32,610,000		6,532,888		39,142,888
2026-2030		7,490,000		337,050		7,827,050
Add:						
Unamortized Premium		3,256,636		-		3,256,636
Total	$	89,721,636	$	38,788,116	$	128,509,752

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 2002 Refunding, Series 2003A Refunding, Series 2004A, Series 2004B Refunding, Series 2005A, Series 2006A Refunding, Series 2006B, Series 2007A, Series 2007B, Series 2008A, Series 2008B, Series 2008B Refunding, Series 2009A, Series 2009D Refunding, and Series 2009E. 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. The Series 2008B bonds were issued to advance refund outstanding Series 1998 refunding bonds. The Series 2009D Bonds were issued to advance refund outstanding Series 2004A, Series 2005A, and Series 2006B bonds. Principal and interest requirements for the current year totaled $121,215,753. The interest rates for all bonds range from 1.2 percent to 5.5 percent and the issuance dates range from October 23, 2002, to October 21, 2009. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35 percent interest subsidy to reimburse interest payments of $6,746,565 for Build America Bonds (BABs) issued. The BABs are applicable to Series 2009E Public Facilities Revenue Bonds.

9(b) PUBLIC FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity		*Principal*		*Interest*		*Total*
2011	$	75,575,309	$	44,006,692	$	119,582,001
2012		78,721,071		40,597,234		119,318,305
2013		78,507,179		36,888,838		115,396,017
2014		73,465,000		33,226,925		106,691,925
2015		68,410,000		29,756,935		98,166,935
2016-2020		261,810,000		106,457,363		368,267,363
2021-2025		230,945,000		49,201,949		280,146,949
2026-2030		81,630,000		7,325,446		88,955,446
Less:						
Deferral on						
Debt Defeasance		(18,475,100)		-		(18,475,100)
Add:						
Unamortized Premium		62,783,691		-		62,783,691
Total	$	993,372,150	$	347,461,382	$	1,340,833,532

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, 2002 Refunding, 2003A, 2004A, 2009B, and 2009D Refunding. 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 9th and Franklin Street parking deck. The Series 2009B bonds were issued to fund the construction of a new 1,000 vehicle parking structure at 7th and Franklin Streets. The Series 2009D Refunding bonds were issued to advance refund outstanding Series 2004A and 2006B Refunding bonds. The interest rates for these bonds range from 2.5 percent to 5.5 percent and the issuance dates range from October 23, 2002, to October 21, 2009. Current year principal and interest requirements totaled $1,714,797.

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*
2011	$	1,533,102	$	916,660	$	2,449,762
2012		740,000		852,055		1,592,055
2013		770,000		819,855		1,589,855
2014		805,000		781,355		1,586,355
2015		845,000		746,355		1,591,355
2016-2020		4,572,093		3,099,355		7,671,448
2021-2025		5,565,000		1,813,200		7,378,200
2026-2030		4,025,000		515,250		4,540,250
Less:						
Deferral on						
Debt Defeasance		(278,200)		-		(278,200)
Add:						
Unamortized Premium		2,573,613		-		2,573,613
Total	$	21,150,608	$	9,544,085	$	30,694,693

Virginia Public Building Authority

Virginia Public Building Authority (VPBA) Section 9(d) bonds consist of Series 1992B, 2000A, 2001A, 2002A, 2003A Refunding, 2004A Refunding, 2004B, 2004C Refunding, 2004D Refunding, 2005A Refunding, 2005B Refunding, 2005C, 2005D, 2006A, 2006B, 2007A, 2008A Refunding, 2008B, 2009A, 2009B, 2009C, 2009D Refunding and 2010A. 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 Series 2009D bonds were issued to advance refund outstanding series 2001A and 2002A Revenue bonds. The interest rates for all fixed rate bonds range from 2.0 percent to 5.75 percent and the issuance dates range from August 1, 1992, to February 24, 2010. 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 $222,383,880. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35 percent interest subsidy to reimburse interest payments of $65,649,540 for Build America Bonds (BABs) issued. The BABs are applicable to Series 2010 Revenue Bonds.

9(d) VIRGINIA PUBLIC BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2011	$ 151,085,000	$ 99,384,333	$ 250,469,333
2012	161,775,000	93,187,193	254,962,193
2013	163,425,000	85,332,997	248,757,997
2014	153,810,000	77,569,643	231,379,643
2015	157,100,000	69,914,888	227,014,888
2016-2020	610,000,000	252,339,784	862,339,784
2021-2025	458,750,000	131,978,008	590,728,008
2026-2030	308,745,000	39,072,658	347,817,658
2031-2035	21,675,000	623,156	22,298,156
Less:			
Deferral on Debt Defeasance	(21,628,979)	-	(21,628,979)
Unaccreted Capital Appreciation Bonds	(40,768)	-	(40,768)
Add:			
Unamortized Premium	112,124,142	-	112,124,142
Total	$ 2,276,819,395	$ 849,402,660	$ 3,126,222,055

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 $2,633,289.

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*
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	837,165	(646,926)	190,239
Total	$ 6,444,840	$ 1,653,323	$ 8,098,163

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 $5,292,183. The following schedule details the annual funding requirements necessary to repay these bonds:

NEWPORT NEWS INDUSTRIAL DEVELOPMENT AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2011	$ 5,150,000	$ 141,625	$ 5,291,625
Total	$ 5,150,000	$ 141,625	$ 5,291,625

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	$ 1,059,008
College and university debt backed exclusively by pledged revenues of an institution	274,075
Total Higher Education Institution 9(d) debt	$ 1,333,083

The interest rates for these bonds range from 0.14 percent to 6.2 percent and the issuance dates range from November 17, 1981, to October 21, 2009. The VCBA Series 2006B and 2006C bonds, the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University) Series 2005 and 2008 bonds, and the UVA Series 2003A bonds are variable rate bonds and the rates are reset weekly by the remarketing agent.

The following schedules detail the annual funding requirements necessary to amortize Higher Education Institution 9(c) and 9(d) bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive a 35 percent interest subsidy to reimburse interest payments of $93,430,599 for Build America Bonds (BABs) issued. The BABs are applicable to Series 2009F 21st Century Virginia College Building Authority Education Facilities Bonds.

9(c) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2011	$ 38,508,589	$ 29,170,250	$ 67,678,839
2012	37,343,929	27,308,347	64,652,276
2013	38,342,822	25,479,206	63,822,028
2014	32,770,000	23,621,789	56,391,789
2015	35,080,000	22,017,339	57,097,339
2016-2020	157,817,907	85,581,140	243,399,047
2021-2025	148,300,000	50,122,231	198,422,231
2026-2030	96,595,000	17,768,038	114,363,038
2031-2035	24,765,000	3,175,050	27,940,050
2036-2040	1,830,000	131,338	1,961,338
Deferral on			
Debt Defeasance	(13,623,200)	-	(13,623,200)
Add:			
Unamortized Premium	33,544,607	-	33,544,607
Total	$ 631,274,654	$ 284,374,728	$ 915,649,382

9(d) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2011	$ 24,514,726	$ 44,636,259	$ 69,150,985
2012	25,478,496	43,849,537	69,328,033
2013	26,492,379	42,940,679	69,433,058
2014	26,376,381	41,979,206	68,355,587
2015	27,590,503	40,946,148	68,536,651
2016-2020	120,348,841	189,882,322	310,231,163
2021-2025	117,528,876	169,692,973	287,221,849
2026-2030	121,500,000	155,922,246	277,422,246
2031-2035	218,400,000	144,908,838	363,308,838
2036-2040	616,500,000	98,930,455	715,430,455
Less:			
Deferral on			
Debt Defeasance	(8,382,841)	-	(8,382,841)
Add:			
Unamortized Premium	16,736,091	-	16,736,091
Total	$ 1,333,083,452	$ 973,688,663	$ 2,306,772,115

9(d) VIRGINIA COLLEGE BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2011	$ 112,495,000	$ 74,784,766	$ 187,279,766
2012	105,060,000	67,195,184	172,255,184
2013	91,025,000	62,532,441	153,557,441
2014	94,995,000	58,431,876	153,426,876
2015	103,765,000	54,189,533	157,954,533
2016-2020	445,125,000	207,893,774	653,018,774
2021-2025	384,895,000	116,786,527	501,681,527
2026-2030	263,820,000	37,888,890	301,708,890
Less:			
Deferral on			
Debt Defeasance	(17,668,500)	-	(17,668,500)
Add:			
Unamortized Premium	94,105,300	-	94,105,300
Total	$ 1,677,616,800	$ 679,702,991	$ 2,357,319,791

Various higher education institutions' foundations (component units) and a museum foundation (component unit) 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
2011	$ 15,884,857
2012	14,413,622
2013	16,114,946
2014	28,470,878
2015	17,732,976
Thereafter	756,741,549
Mark-to-market estimate of bank swap transactions	2,372,462
Total	$ 851,731,290

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

Innovation and Entrepreneurship Investment Authority

The Innovation and Entrepreneurship Investment Authority (IEIA) 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) INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
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	1,220,000	91,744	1,311,744
Total	$ 4,480,000	$ 867,808	$ 5,347,808

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 3.375 percent to 5.5 percent and the issuance dates range from July 23, 2002, to May 6, 2010. Series 2006A bonds were issued to advance refund $22.9 million of outstanding Series 1996 bonds. Series 2010 bonds were issued to currently refund in full the outstanding principal amount of the Authority's Series 2009 Bond Anticipation Note. 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
2011	$ 11,760,000	$ 23,396,465	$ 35,156,465
2012	12,330,000	22,287,428	34,617,428
2013	12,935,000	21,647,813	34,582,813
2014	13,575,000	20,977,708	34,552,708
2015	14,250,000	20,225,658	34,475,658
2016-2020	77,990,000	89,130,367	167,120,367
2021-2025	96,205,000	67,105,283	163,310,283
2026-2030	102,635,000	41,056,229	143,691,229
2031-2035	78,070,000	20,638,138	98,708,138
2036-2040	47,445,000	3,938,500	51,383,500
2041-2045	4,590,000	229,500	4,819,500
Less: Deferral on Debt Defeasance	(914,048)	-	(914,048)
Add: Unamortized Premium	12,180,380	-	12,180,380
Total	$ 483,051,332	$ 330,633,089	$ 813,684,421

Virginia Housing Development Authority

The Virginia Housing Development Authority (VHDA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.151 percent to 8.18 percent and the origination dates range from August 3, 2000, to February 10, 2010. 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
2011	$ 256,051,478	$ 318,926,180	$ 574,977,658
2012	281,405,000	309,253,733	590,658,733
2013	276,445,000	296,819,715	573,264,715
2014	269,560,000	285,125,765	554,685,765
2015	267,100,000	273,199,664	540,299,664
2016-2020	1,323,510,000	1,176,061,594	2,499,571,594
2021-2025	1,136,945,000	851,627,112	1,988,572,112
2026-2030	1,035,540,872	563,994,000	1,599,534,872
2031-2035	837,446,501	314,237,305	1,151,683,806
2036-2040	611,004,956	110,036,610	721,041,566
2041-2045	420,610,000	10,310,853	430,920,853
Add: Unamortized Premium	23,984,028	-	23,984,028
Total	$ 6,739,602,835	$ 4,509,592,531	$ 11,249,195,366

Virginia Resources Authority

The Virginia Resources Authority (VRA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 1.00 percent to 8.70 percent and the origination dates range from December 1, 1985, to June 17, 2010. 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
2011	$ 93,828,450	$ 114,352,667	$ 208,181,117
2012	96,083,450	111,484,632	207,568,082
2013	104,236,100	107,279,731	211,515,831
2014	111,123,450	102,916,242	214,039,692
2015	117,330,000	98,257,756	215,587,756
2016-2020	631,470,000	406,567,664	1,038,037,664
2021-2025	566,280,000	263,858,335	830,138,335
2026-2030	513,395,000	133,368,394	646,763,394
2031-2035	223,675,000	41,982,563	265,657,563
2036-2040	66,910,000	6,067,541	72,977,541
2041-2045	890,000	20,563	910,563
Less: Unaccreted Capital Appreciation Bonds	(43,608,808)	-	(43,608,808)
Add: Unamortized Premium	103,943,520	-	103,943,520
Total	$ 2,585,556,162	$ 1,386,156,088	$ 3,971,712,250

Virginia Public School Authority

The Virginia Public School Authority (VPSA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 2.60 percent to 5.95 percent, and the origination dates range from November 20, 1997, to May 13, 2010. 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
2011	$ 196,210,000	$ 145,425,590	$ 341,635,590
2012	221,750,000	136,606,961	358,356,961
2013	210,185,000	126,175,176	336,360,176
2014	207,180,000	116,283,764	323,463,764
2015	203,520,000	106,351,695	309,871,695
2016-2020	945,187,063	387,116,346	1,332,303,409
2021-2025	709,895,000	185,955,283	895,850,283
2026-2030	432,695,000	54,268,018	486,963,018
2031-2035	61,875,000	8,498,237	70,373,237
2036-2040	7,705,000	344,663	8,049,663
Less: Deferral on Debt Defeasance	(81,549,500)	-	(81,549,500)
Add: Unamortized Premium	121,294,181	-	121,294,181
Total	$ 3,235,946,744	$ 1,267,025,733	$ 4,502,972,477

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 2.38 percent to 5.86 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
2011	$ 16,699,000	$ 22,653,000	$ 39,352,000
2012	18,414,000	23,841,000	42,255,000
2013	19,854,000	24,111,000	43,965,000
2014	20,807,000	24,823,000	45,630,000
2015	21,518,000	23,977,000	45,495,000
2016-2020	87,127,000	108,259,000	195,386,000
2021-2025	91,701,000	87,862,000	179,563,000
2026-2030	95,287,000	63,015,000	158,302,000
2031-2035	94,861,000	36,304,000	131,165,000
2036-2040	81,050,000	10,097,000	91,147,000
Total	$ 547,318,000	$ 424,942,000	$ 972,260,000

Virginia Biotechnology Research Partnership Authority

The Virginia Biotechnology Research Partnership Authority issued Series 1996, 1999A, 1999B, 2001 and 2009 Commonwealth of Virginia Lease Revenue bonds. Coupon interest rates range from 3.0 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
2011	$ 2,860,000	$ 1,855,776	$ 4,715,776
2012	3,005,000	1,718,938	4,723,938
2013	2,105,000	1,609,413	3,714,413
2014	3,560,000	1,518,663	5,078,663
2015	3,700,000	1,386,688	5,086,688
2016-2020	19,195,000	4,578,900	23,773,900
2021-2025	9,055,000	458,375	9,513,375
Less: Unamortized Discount	(692,710)	-	(692,710)
Deferral on Debt Defeasance	(2,939,800)	-	(2,939,800)
Add: Unamortized Premium	4,157,004	-	4,157,004
Total	$ 44,004,494	$ 13,126,753	$ 57,131,247

Total principal outstanding at June 30, 2010, on all component unit bonds amounted to $18.1 billion.

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, 2009	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30, 2010
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)	$ 984,077	$ 166,765	$ (201,778)	$ 949,064
Parking Facilities Bonds (3)	6,275	15,877	(3,297)	18,855
Transportation Facilities Bonds (3)	41,285	-	(7,615)	33,670
Add: Unamortized Premium	53,819	24,891	(11,983)	66,727
Less: Deferral on Debt Defeasance	(7,936)	2,449	(13,443)	(18,930)
Total General Obligation Bonds	1,077,520	209,982	(238,116)	1,049,386
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Transportation Facilities Bonds (3)	1,373,344	564,860	(179,830)	1,758,374
Virginia Public Building Authority Bonds (3)	2,005,225	317,230	(136,090)	2,186,365
Regional Jails Financing Payable	8,231	-	(1,786)	6,445
Industrial Development Authority Obligations	10,025	-	(4,875)	5,150
Economic Development Authority Obligations (3)	89,980	-	(3,515)	86,465
Add: Unamortized Premium	191,243	19,378	(24,225)	186,396
Accretion on Capital Appreciation Bonds	14,526	2,603	-	17,129
Less: Unamortized Discount	(582)	540	(116)	(158)
Deferral on Debt Defeasance	(30,336)	5,543	-	(24,793)
Installment Purchase Obligations	61,966	20,679	(8,695)	73,950
Notes Payable - Virginia Public Broadcasting Board	5,830	-	(2,840)	2,990
Notes Payable - Transportation	8,000	-	-	8,000
Notes Payable - Aviation	1,909	-	(286)	1,623
Notes Payable - Tax Refund	81,278	-	-	81,278
Compensated Absences	336,072	3,965	(19,125)	320,912
Capital Lease Obligations	102,913	4,908	(10,809)	97,012
Pension Liability	989,517	157,646	-	1,147,163
OPEB Liability	117,604	97,339	-	214,943
Pollution Remediation Liability	2,472	1,890	(343)	4,019
Other	22,302	6,991	(3,252)	26,041
Total Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	5,391,519	1,203,572	(395,787)	6,199,304
Total Governmental Activities	6,469,039	1,413,554	(633,903)	7,248,690
Business-type Activities:				
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Installment Purchase Obligations	964	-	(777)	187
Capital Lease Obligations	1,919	-	(512)	1,407
Obligations:				
Compensated Absences	8,955	2,157	(1,982)	9,130
Pension Liability	21,368	5,011	-	26,379
OPEB Liability	2,973	2,806	-	5,779
Lottery Prizes Payable	293,165	4,376	(46,787)	250,754
Tuition Benefits Payable	1,909,786	296,158	(109,986)	2,095,958
Total Business-type Activities	2,239,130	310,508	(160,044)	2,389,594
Total Primary Government	$ 8,708,169	$ 1,724,062	$ (793,947)	$ 9,638,284

Foundations (4)	Balance June 30, 2010	Due Within One Year
$ -	$ 949,064	$ 75,575
-	18,855	1,533
-	33,670	8,444
-	66,727	-
-	(18,930)	-
-	1,049,386	85,552
-	1,758,374	200,810
-	2,186,365	151,085
-	6,445	1,828
-	5,150	5,150
-	86,465	3,690
-	186,396	-
-	17,129	-
-	(158)	-
-	(24,793)	-
-	73,950	6,376
-	2,990	2,990
-	8,000	-
-	1,623	286
-	81,278	20,000
-	320,912	164,709
-	97,012	10,985
-	1,147,163	-
-	214,943	-
-	4,019	3,451
-	26,041	4,367
-	6,199,304	575,727
-	7,248,690	661,279
-	187	187
-	1,407	560
-	9,130	4,830
-	26,379	-
-	5,779	-
-	250,754	51,372
-	2,095,958	155,582
-	2,389,594	212,531
$ -	$ 9,638,284	$ 873,810

Continued on next page

Schedule of Changes in Long-term Debt and Obligations (1) (2)
(continued)

(Dollars in Thousands)

	Balance July 1, 2009	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30, 2010
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)	$ 573,550	$ 173,994	$ (116,269)	$ 631,275
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Bonds (3)	15,876,380	3,322,043	(2,547,763)	16,650,660
Installment Purchase Obligations	156,236	8,366	(23,576)	141,026
Capital Lease Obligations	113,687	223	(9,421)	104,489
Notes Payable	1,649,031	721,993	(336,810)	2,034,214
Compensated Absences	237,832	193,649	(192,565)	238,916
Pension Liability	420,996	89,329	(3,770)	506,555
OPEB Liability	121,736	100,383	(3,374)	218,745
Trust and Annuity Obligations	1,106	429	-	1,535
Other	300,535	171,164	(133,288)	338,411
Total Component Units	$ 19,451,089	$ 4,781,573	$ (3,366,836)	$ 20,865,826

(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.

Foundations (4)	Balance June 30, 2010	Due Within One Year
$ -	$ 631,275	$ 39,820
851,731	17,502,391	747,951
8	141,034	26,584
5,196	109,685	6,597
194,354	2,228,568	506,904
10,044	248,960	163,750
79,958	586,513	-
16	218,761	-
73,286	74,821	2,712
102,529	440,940	83,483
$ 1,317,122	$ 22,182,948	$ 1,577,801

Bond Defeasance

Primary Government

In October 2009, the Commonwealth issued $20,270,000 of General Obligation Bonds, Series 2009C, all of which was for the purpose of refunding certain outstanding maturities (“Refunding Bonds”), pursuant to Section 9(c) of Article X of the *Constitution*, with a true interest cost (TIC) of 3.04256 percent to refund $9,025,000 and $11,580,000 of outstanding Commonwealth of Virginia General Obligation Refunding Bonds, Series 2001 and 2002 respectively (the “Refunded Bonds”). The net proceeds from the sale of the Refunding Bonds of $21,926,048 (after payment of underwriter’s fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the Refunded Bonds. The reacquisition price exceeded the net carrying amount of the old debt by $1,321,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. It will, however, reduce total debt service payments over the next fifteen years by $1,926,556 resulting in an economic gain of $1,771,876 discounted at the rate of 2.8074104 percent.

In October 2009, the Commonwealth also issued $168,185,000 of General Obligation Bonds, Series 2009D, all of which was for the purpose of refunding certain outstanding maturities (“Refunding Bonds”), pursuant to Sections 9(b) and 9(c) of Article X of the *Constitution*, with a true interest cost (TIC) of 2.89119 percent to refund $66,420,000, $52,560,000 and $52,570,000 of outstanding Commonwealth of Virginia General Obligation Refunding Bonds, Series 2004A, 2005A and 2006B respectively (the “Refunded Bonds”). The net proceeds from the sale of the Refunding Bonds of $198,736,555 (after payment of underwriter’s fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the Refunded Bonds. The reacquisition price exceeded the net carrying amount of the old debt by $19,529,000. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. Total debt service payments over the next thirteen years will be reduced by $7,099,194 resulting in an economic gain of $6,856,779 discounted at the rate of 2.8074104 percent.

Component Units

In October 2009, the Virginia College Building Authority (nonmajor) issued $134,000,000 of Series 2009E-1 and $74,860,000 of Series 2009E-2 21st Century College Program refunding bonds. The bonds refunded with the series 2009E-1 refunding bonds were $87,465,000 of series 2004A, $34,855,000 of series 2005A, and $19,415,000 of series 2007B 21st Century College Program bonds. The bonds refunded with the series 2009E-2 refunding bonds were $10,400,000 of series 2002A and $66,005,000 of series 2003A 21st Century College Program bonds. The net proceeds from the sale of the 2009E-1 refunding bonds of $157,471,383 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 $9,821,000. Total debt service payments over the next 14 years will be reduced by $6,028,993 resulting in a present value savings of $5,954,141 discounted at the rate of 2.7918101 percent. The net proceeds from the sale of the 2009E-2 refunding bonds of $84,301,827 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 $3,995,000. Total debt service payments over the next 13 years will be reduced by $2,924,981 resulting in a present value savings of $2,898,006 discounted at the rate of 2.7918101 percent.

In October 2009, the Virginia Public School Authority (nonmajor) issued $481,285,000 of Series 2009C refunding bonds (“Refunding Bonds”). The bonds refunded were $85,430,000 of series 2001A, $69,230,000 of series 2001B, $33,495,000 of series 2001C, $62,145,000 of series 2002A, $80,665,000 of series 2002B, $45,505,000 of series 2003A, and $122,475,000 of series 2003C bonds. The net proceeds from the sale of the Refunding Bonds were placed with an escrow agent to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $53,186,000. Total debt service payments over the next 19 years will be reduced by $29,229,742 resulting in a present value savings of $28,722,072 discounted at the rate of 2.65 percent.

In October 2009, the Virginia Biotechnology Research Partnership Authority (nonmajor) issued $36,740,000 of Series 2009 refunding bonds (“Refunding Bonds”). Proceeds of the Refunding Bonds were used to refund $37,165,000 of Series 2001 bonds. The net proceeds from the sale of the Refunding Bonds of $40,389,571 were deposited with an escrow agent to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $3,106,597. Total debt service payments over the next 12 years will be reduced by $2,441,694 resulting in a present value savings of $2,285,977 discounted at the rate of 3.0903635 percent.

In May 2010, the Virginia Port Authority (nonmajor) issued Port Facilities Revenue Refunding Bond Series 2010 (“Refunding Bonds”) in the principal amount of $68,630,000. Proceeds of the Refunding Bonds were used, together with other funds, to currently refund in full the outstanding principal amount of the Authority’s series 2009 $65,000,000 Subordinate Port Facilities Revenue Bond Anticipation Note.

During the fiscal year, the Virginia Resources Authority (nonmajor) issued bond series 2009B and 2010A, from which a portion of proceeds was used to refund or partially refund the following bond series: $3,170,000 of series 2000B, $6,895,000 of series 2001, $17,110,000 of series 2001D, $20,125,000 of series 2002A, and

$137,740,000 of CWSRF series 2004. The refunding resulted in an economic gain of $7,326,832.

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, 2010, there were $354.9 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 $1.4 billion 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. Governmental issuers may elect to pay a penalty in lieu of rebate. Some bonds may be exempt from the rebate requirements if they qualify for certain regulatory exceptions. 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, 2010, the Commonwealth has recognized a government-wide liability of $1,620,132 and the Virginia Resources Authority (nonmajor component unit) has recognized a liability of $3,628,572.

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. No rebate payments were owed during the year on the Commonwealth's general obligation bonds or bonds of the Virginia Public Building Authority, Virginia College Building Authority or Commonwealth Transportation Board.

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, $549,399 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, 2010, are shown in the following table (dollars in thousands).

	Governmental Activities	Business-Type Activities	Component Units (1)
2011	$ 17,566	$ 560	$ 10,042
2012	16,716	575	10,148
2013	15,202	588	10,124
2014	15,251	-	9,446
2015	14,761	-	8,695
2016-2020	41,582	-	32,598
2021-2025	12,211	-	25,267
2026-2030	276	-	25,291
2031-2035	-	-	13,600
2036-2040	-	-	744
2041-2045	-	-	684
2046-2050	-	-	622
2051-2055	-	-	518
Total Gross Minimum Lease Payments	133,565	1,723	147,779
Less: Amount Representing Executory Costs	9,426	-	3
Net Minimum Lease Payments	124,139	1,723	147,776
Less: Amount Representing Interest	27,127	316	43,287
Present Value of Net Minimum Lease Payments	$ 97,012	$ 1,407	$ 104,489

Note (1): The above amounts exclude capital lease obligations of foundations.

	Foundations (2)
2011	$ 514
2012	457
2013	442
2014	447
2015	425
Thereafter	6,611
Net Minimum Lease Payments	8,896
Less: Amount Representing Interest	3,700
Present Value of Net Minimum Lease Payments	$ 5,196

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Land purchased under a capital lease for approximately $4.8 million is not included in the schedule below.

At June 30, 2010, 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	$ 176,056	$ 2,548	$ 178,604
Less: Accumulated Depreciation	58,919	1,059	59,978
Total Governmental Activities	$ 117,137	$ 1,489	$ 118,626
Business-Type Activities:			
Gross Capital Assets	$ 2,347	$ -	$ 2,347
Less: Accumulated Depreciation	861	-	861
Total Business-Type Activities	$ 1,486	$ -	$ 1,486
Component Units:			
Gross Capital Assets	$ 158,168	$ 20,521	$ 178,689
Less: Accumulated Depreciation	26,470	15,762	42,232
Subtotal (excluding Foundations)	131,698	4,759	136,457
Foundations:			
Gross Capital Assets	85	980	1,065
Less: Accumulated Depreciation	2	186	188
Subtotal Foundations	83	794	877
Total Component Units	$ 131,781	$ 5,553	$ 137,334

Notes Payable

Notes Payable consist of several items as shown in the following schedule (dollars in thousands):

Primary Government	
Transportation Note	$ 8,000
Virginia Public Broadcasting Board Note	2,990
Aviation Note	1,623
Installment Notes	74,137
Tax Refund Note	81,278
Total Primary Government	168,028
Component Units	
Virginia Public School Authority	168,730
Virginia Housing Development Authority	327,990
University of Virginia	53,843
Virginia Polytechnic Institute and State University	162,866
Virginia Commonwealth University	213,314
Nonmajor Component Units	1,107,471
Installment Notes	141,026
Subtotal (excluding Foundations)	2,175,240
Foundations:	
Notes Payable	194,354
Installment Notes	8
Subtotal - Foundations	194,362
Total Component Units	2,369,602
Total Notes Payable	$ 2,537,630

The Transportation (primary government) Note represents 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 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 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 Tax Refund (primary government) Note of $81,278,205 is owed to a taxpayer and will be paid in four equal annual installments. Variable interest not to exceed 4.0 percent will be included in the annual payments.

The Virginia Public School Authority (major component unit) notes of $168,730,000 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 $327,990,000, representing 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 $7,225,165 are Equipment and Term Financing loans.

An additional amount of $1,530,269,000 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 VCBA principal amount net of unamortized accruals is $1,517,349,382. Interest rates range from 2.00 percent to 5.75 percent and shall be paid semi-annually. The final principal payment is due in 2040. The Virginia Biotechnology Research Partnership Authority has notes payable in the amount of $9,446,462 used for refunding the 1998 bonds issued for BioTech One, making tenant improvements to BioTech Six and 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 $601,607 for a GPS system. The College of William and Mary (nonmajor component unit) has notes payable of $24,207 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 $1,750,883, 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 $57,796, 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 $1,038,191 to purchase land and a building. The original note was refinanced and the new terms include an interest rate of 5.53 percent, payable in monthly installments with a final payment in 2022.

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, 2010, are shown in the following table (dollars in thousands).

Foundations' Notes Payable (Component Units) (1)
June 30, 2010

Maturity	Principal	
2011	$	56,741
2012		8,366
2013		14,376
2014		8,003
2015		10,335
Thereafter		96,533
Total	$	194,354

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 $215,162,949 of the total outstanding debt of the Commonwealth. The foundations (component units) had installment purchase obligations totaling $7,875 as of year-end. Presented in the following tables are repayment schedules for installment purchase obligations.

Installment Purchase Obligations - Governmental Funds
June 30, 2010

Maturity	Principal	Interest	Total
2011	$ 6,376,082	$ 2,297,719	$ 8,673,801
2012	5,841,031	2,565,015	8,406,046
2013	5,448,421	2,353,726	7,802,147
2014	5,604,539	2,147,401	7,751,940
2015	6,171,475	1,999,988	8,171,463
2016-2020	28,983,278	6,291,019	35,274,297
2021-2025	15,525,272	1,415,091	16,940,363
Total	$ 73,950,098	$ 19,069,959	$ 93,020,057

Installment Purchase Obligations - Business-type Activities
June 30, 2010

Maturity	Principal	Interest	Total
2011	$ 186,944	$ 1,963	$ 188,907
Total	$ 186,944	$ 1,963	$ 188,907

Installment Purchase Obligations - Component Units (1)
June 30, 2010

Maturity	Principal	Interest	Total
2011	$ 26,581,433	$ 6,051,565	$ 32,632,998
2012	17,447,988	3,899,955	21,347,943
2013	16,754,466	3,352,044	20,106,510
2014	15,392,236	2,839,791	18,232,027
2015	13,352,544	2,332,031	15,684,575
2016-2020	43,219,132	5,679,917	48,899,049
2021-2025	8,278,108	777,182	9,055,290
Total	$ 141,025,907	$ 24,932,485	$ 165,958,392

Note (1): The above amounts exclude installment purchase obligations of foundations.

Installment Purchase Obligations - Foundations (2)
June 30, 2010

Maturity	Principal
2011	$ 2,921
2012	1,968
2013	1,968
2014	1,018
Total	$ 7,875

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, 2010, are shown in the following table:

	Jackpot	Win For Life	Total
Due within one year	$ 47,637,175	$ 3,734,531	$ 51,371,706
Due in subsequent years	149,510,800	49,871,326	199,382,126
Total (present value)	197,147,975	53,605,857	250,753,832
Add:			
Interest to Maturity	61,460,025	39,067,143	100,527,168
Lottery Prizes Payable at Maturity	$ 258,608,000	$ 92,673,000	$ 351,281,000

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, 2010, tuition benefits payable of $2.1 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 $266.5 million has been recorded to reflect the actuarially determined present value of future payments anticipated from contract holders.

27. OTHER REVENUE

The following table (dollars in thousands) summarizes Other Revenue for the fiscal year ended June 30, 2010.

	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	$ 477	$ 193,763	$ 9,761	$ 137	$ 823
Major Special Revenue Funds:					
Commonwealth Transportation	18,068	11,791	84,390	19,397	949
Federal Trust	-	113	-	62	254
Literary	-	67,974	-	-	-
Nonmajor Governmental Funds	97,823	56,436	73,081	10,939	30,437
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	-	-
Nonmajor Enterprise Funds	-	13,153	-	-	-
Private Purpose	-	-	-	-	-
Pension and Other Employee Benefit Trust	-	-	-	-	-
Total Primary Government	$ 116,368	$ 343,230	$ 167,232	$ 30,535	$ 32,463

	Tobacco Master Settlement	Taxes	E-Z Pass	Other (1)	Total Other Revenue
Primary Government:					
General	$ 49,182	$ -	$ -	$ 163,984	$ 418,127
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	11,298	5,007	150,900
Federal Trust	-	-	-	67,956	68,385
Literary	-	-	-	113,925	181,899
Nonmajor Governmental Funds	-	-	-	107,474	376,190
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	1	1
Nonmajor Enterprise Funds	-	2,961	-	1,991	18,105
Private Purpose	-	-	-	58	58
Pension and Other Employee Benefit Trust	-	-	-	1,083	1,083
Total Primary Government	$ 49,182	$ 2,961	$ 11,298	$ 461,479	$ 1,214,748

Note (1): $105,000 (dollars in thousands) of the total amount recorded for the Literary fund is related to unclaimed property.

28. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2010.

(Dollars in Thousands)

	Insurance Claims	Lottery Prize Expense	Total Prizes and Claims
Proprietary Funds:			
Major Enterprise Funds:			
State Lottery	$ -	$ 842,417	$ 842,417
Unemployment Compensation	922,952	-	922,952
Nonmajor Enterprise Funds	221,116	-	221,116
Total Enterprise Funds	$ 1,144,068	$ 842,417	$ 1,986,485
Internal Service Funds	$ 999,409	$ -	$ 999,409

29. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2010.

(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	$ -	$ 138	$ 1	$ 139
Nonmajor Enterprise Funds	84	1,994	569	2,647
Total Enterprise Funds	$ 84	$ 2,132	$ 570	$ 2,786
Internal Service Funds	$ 1,694	$ 7,288	$ 7,382	$ 16,364
Pension and Other Employee Benefit Trust (2)	$ -	$ -	$ 4,843	$ 4,843

Note (1): $6,538 (dollars in thousands) can be attributed to expenses related to closing cases in the Risk Management internal service fund.

Note (2): Fiduciary expenses of $4,843 (dollars in thousands) are not included in the Government-wide Statement of Activities.

30. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2010.

(Dollars in Thousands)

	Loss on Sale of Capital Assets	Expenses for Securities Lending Transactions	Other	Total Other Non-Operating Revenue/ Expenses
Proprietary Funds:				
Major Enterprise Funds:				
State Lottery	$ -	$ (438)	$ 285	$ (153)
Virginia College Savings Plan	-	(23)	-	(23)
Nonmajor Enterprise Funds	-	(46)	9,868	9,822
Total Enterprise Funds	$ -	$ (507)	$ 10,153	$ 9,646
Internal Service Funds	$ (447)	$ (118)	$ (3,175)	$ (3,740)

31. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2010 (dollars in thousands).

	Transfers In (Reported In):				
Transfers Out (Reported In):	**General**	**Commonwealth Transportation**	**Federal Trust**	**Literary**	**Nonmajor Governmental Funds**
Primary Government					
General	$ -	$ 106,872	$ -	$ -	$ 437,133
Major Special Revenue Funds:					
Commonwealth Transportation	41,440	-	5,341	-	266,089
Federal Trust	496	9,567	-	-	964
Nonmajor Governmental Funds	139,213	-	780	-	11,610
Major Enterprise Funds:					
State Lottery	430,251	-	-	10,296	-
Virginia College Savings Plan	375	-	-	-	-
Unemployment Compensation	-	-	13,313	-	-
Nonmajor Enterprise Funds	131,079	-	-	12	14,568
Internal Service Funds	489	-	-	-	4,675
Total Primary Government	$ 743,343	$ 116,439	$ 19,434	$ 10,308	$ 735,039

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.

Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
$ -	$ -	$ 544,005
-	330	313,200
18	-	11,045
2,430	-	154,033
-	-	440,547
-	-	375
-	-	13,313
-	-	145,659
-	-	5,164
$ 2,448	$ 330	$ 1,627,341

- Various nongeneral funds transferred approximately $132.0 million to the General Fund as required by Chapter 872, 2010 Acts of Assembly.
- The Department of Motor Vehicles transferred certain fees of approximately $6.4 million to the General Fund as required by Chapter 872, 2010 Acts of Assembly.

32. ON-BEHALF PAYMENTS

Higher education institutions (component units) recognized various foundation and association on-behalf payments for fringe benefits and salaries during fiscal year 2010 totaling $638,080. This activity was recorded as Program Revenue – Operating Grants and Contributions.

33. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions. The net appreciation available for expenditure is $785.7 million. Of this amount, $784.8 million is reported as restricted net assets and $0.9 million 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.

34. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2010.

	State Lottery	Virginia College Savings Plan	Unemployment Compensation
Cash Flows Resulting from:			
Payments for Prizes, Claims, and Loss Control:			
Lottery Prizes	$ (912,482)	$ -	$ -
Claims and Loss Control	-	-	(950,340)
Total	$ (912,482)	$ -	$ (950,340)
Other Operating Revenue:			
Other Operating Revenue	$ -	$ 1	$ -
Total	$ -	$ 1	$ -
Other Operating Expense:			
Other Operating Expenses (1)	$ -	$ (1)	$ -
Total	$ -	$ (1)	$ -
Other Noncapital Financing Receipt Activities:			
Advances/Contributions from the Commonwealth	$ 9,000	$ -	$ -
Receipts from Taxes	-	-	-
Other Noncapital Financing Receipt Activities (2)	(92)	-	346,876
Total	$ 8,908	$ -	$ 346,876
Other Noncapital Financing Disbursement Activities:			
Repayments of Advances/Contributions from the Commonwealth	$ -	$ -	$ -
Other Noncapital Financing Disbursement Activities	-	-	-
Total	$ -	$ -	$ -

Note (1): $ 6,538 (dollars in thousands) can be attributed to disbursements related to closing cases in the Risk Management internal service fund.

Note (2): $346,876 (dollars in thousands) can be attributed to Federal repayable advances under Title XII of the Social Security Act.

	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
	$ -	$ (912,482)	$ -
	(226,178)	(1,176,518)	(1,001,579)
	$ (226,178)	$ (2,089,000)	$ (1,001,579)
	$ 6,380	$ 6,381	$ -
	$ 6,380	$ 6,381	$ -
	$ (182)	$ (183)	$ (11,131)
	$ (182)	$ (183)	$ (11,131)
	$ 32,722	$ 41,722	$ 30,000
	168,780	168,780	-
	231	347,015	209
	$ 201,733	$ 557,517	$ 30,209
	$ (28,110)	$ (28,110)	$ -
	(90)	(90)	-
	$ (28,200)	$ (28,200)	$ -

35. 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 Foundation for Healthy Youth (Foundation) (formerly the Virginia Tobacco Settlement 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 Commission and the 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 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.

36. INFORMATION TECHNOLOGY INFRASTRUCTURE PARTNERSHIP – NORTHROP GRUMMAN

The Comprehensive Infrastructure Agreement (CIA) is a contract, executed on November 13, 2005, between the Commonwealth of Virginia (Commonwealth) acting through the Virginia Information Technologies Agency (VITA) and Northrop Grumman Information Technology, Inc (NG). 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 for the following service towers: Cross-Functional Services, Desktop Computing Services; Data Network Services; Voice and Video Telecom Services; Mainframe and Server Services; Help Desk Services; Messaging Services; Security Services; Internal Application Services; and Data Center facilities.

On March 31, 2010, contract revisions to the CIA were completed between the Commonwealth and Northrop Grumman. As a result of the contract changes, the Commonwealth renewed the contract for an additional three years, the parties established the products and services covered in the contractual cap including the baseline quantities to be billed and the prices at which those quantities will be billed, a shortened formula for contract year ten cost of living adjustment, and increased resolution and disentanglement fees. These contract changes are intended to provide improved performance to the VITA customer agencies, provide greater accountability and operational efficiencies for the services provided, and resolve outstanding financial issues. Expenses associated with the CIA during the fiscal year 2010 totaled $248.8 million, including payments to Northrop Grumman of $190.6 million. The Commonwealth expects to spend an additional $2.2 billion over the next nine 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 and resolution fees as outlined in the CIA. Additional causes for termination that do not require the payment of exit or resolution 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 percent of the direct damages cap. NG may terminate the CIA only if the Commonwealth owes an aggregate amount in excess of $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 and resolution fees, as outlined in the CIA, if NG terminates the CIA. Fees resulting from the termination of the agreement are expected to be significant to the Commonwealth. However, exit fees are subject to the appropriation, allocation and availability of Commonwealth funds. Further, if the Commonwealth and NG terminate the business relationship at the conclusion of the CIA term, the Commonwealth will incur significant costs to reacquire and transition the IT infrastructure and staff necessary to continue the Commonwealth's operations.

37. 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 2011 cost allocation plan, which is based on fiscal year 2009 data. The Commonwealth believes this liability has the potential to total $856,487 as of June 30, 2010.

Virginia's combined overpayment and underpayment Supplemental Nutrition Assistance Program (SNAP) error rate for federal fiscal year 2009 was 5.74 percent. The national average combined error rate was 4.36 percent. A liability amount is established when, for the second or subsequent consecutive fiscal year, the USDA determines that there is a 95 percent probability that a State's payment error rate exceeds 105 percent of the national performance measure. Virginia fell within the tolerance level for 2009 and therefore 2009 does not count as a first year of potential liability.

The Virginia Tourism Authority had unclaimed awards totaling $1,368,125 payable to awardees upon submission of proper claims for reimbursement for the Marketing Leverage Program. Also, the Authority received a donation of land from King George County to be used as the Gateway Welcome Center on highway U.S. 301 at the Virginia Maryland border. The deed requires the land revert to the U.S. government if needed for national defense. The book value of the land is $826,900.

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 $2.5 billion. The discretely presented component units have such debt of $1.7 billion.

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, 2010, the bailment inventory was valued at $36.1 million.

E. Loan Guarantees

The Virginia Small Business Financing Authority (VSBFA) (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. In addition, the Department of Minority Business Enterprise (DMBE) 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. The VSBFA administers this program for DMBE. As of June 30, 2010, the loan guaranty program has guarantees outstanding of $1.5 million.

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, 2010, there was approximately $712,957 of loans issued in which it was the guarantor.

F. Other

The Virginia Horse Center Foundation (nonmajor component unit) is in default of a loan with the U.S. Department of Agriculture. The amount of default is $161,036. Further, the Foundation incurred new debt without express permission as prescribed in loan agreement from the U.S. Department of Agriculture or the memorandum of understanding with the Commonwealth. The outstanding balance as of June 30, 2010 is $322,825. While the Foundation has prepared a plan to restructure the debt and address other matters, the Foundation's auditor has expressed concern regarding the Foundation's continued operational viability.

38. SUBSEQUENT EVENTS

Primary Government

Other

On July 22, 2010, Congress passed an extension of federally-funded unemployment compensation benefits that had previously expired on May 23, 2010. The extension was applied retroactively to include claimants who would have had available EUC08 Tiers or EB had the previous law not expired. As a result of this extension, payments totaling approximately $14.4 million were made during August 2010 for benefit weeks prior to June 30, 2010. Federal revenue was received to fund 100 percent of these payments. These retroactive payments are not accrued liabilities in the financial statement attachments, since as of June 30, federal extensions were in an expired status. These payments were accounted for in a non-ARRA federal Unemployment Compensation Benefits Fund.

Debt

On October 27, 2010, the Commonwealth issued a total of $171,270,000 in General Obligation Bonds, comprised of $21,720,000 Series 2010A-1 (Tax-Exempt) and $149,550,000 Series 2010A-2 (Taxable-Build America Bonds). Build America Bonds (BABs) were authorized under the America Recovery and Reinvestment Act of 2009 (the ARRA) as an alternative to traditional tax-exempt bonds. BABs are issued on a taxable basis, and the issuer is eligible to receive a subsidy payment from the Federal government equal to 35 percent of each interest payment. Interest paid to bondholders on these bonds will be subject to federal income tax, but will be exempt from Commonwealth income tax. The Series 2010A Bonds were issued to finance revenue-producing capital projects at various institutions of higher education pursuant to Article X, Section 9(c) of the *Constitution of Virginia*.

On November 23, 2010, the Virginia Public Building Authority (VPBA) issued its $333,600,000 Public Facilities Revenue Bonds and Revenue Refunding Bonds Series 2010B-1, 2010B-2 and 2010B-3. Its $87,510,000 Series 2010B-1 (Tax-Exempt) Bonds and its $195,310,000 Series 2010B-2 (Taxable BABs) will provide funding for authorized VPBA projects and reimbursement of the Commonwealth's share of regional and local jail costs. The $50,780,000 Series 2010B-3 Refunding Bonds were issued to refinance portions of the VPBA's Series 2002A and 2004B bonds for debt service savings.

Component Units

Debt

Subsequent to June 30, 2010, the Virginia Resources Authority as part of the Virginia Pooled Financing Program issued bonds in the amount of $41,230,000, dated August 18, 2010. The interest rates range from 3.1 percent to 5.0 percent with a final due date of November 1, 2040.

On July 6, 2010, the Virginia Port Authority (VPA) entered into an agreement with APM Terminals Virginia, Inc. to lease facilities and equipment owned by APM Terminals North America, Inc. Virginia International Terminals, Inc. (a discrete component unit of the VPA), is designated to be the operator of said facility during the term of the lease and is a party to various agreements made part of the lease. Lease commitments extend to June 30, 2030. Lease payments include base rent, volume rent, and options rent. The minimum annual lease payments begin at $40,000,000 for the first non-transitional year. Payments increase both notionally and by an inflation escalator. The total estimated lease obligation is estimated to be $1.2 billion for the 20-year term. The Virginia Department of Planning and Budget has appropriated $33.6 million for the Virginia Port Authority resulting from this lease, to be available for the 2011 fiscal year.

On July 8, 2010, the Virginia Public School Authority (VPSA) issued its $72,655,000 School Tax Credit Bonds (Qualified School Construction Bonds) Series 2010-1. Qualified School Construction Bonds were established under the ARRA. The bonds were issued to purchase general obligation school bonds issued by participating localities to finance capital projects for public school purposes.

On July 28, 2010, the University of Virginia issued $190,000,000 par amount of Taxable General Revenue Pledge Bonds, Series 2010. The Series 2010 Bonds were issued to refund $19,701,500 of the University's outstanding commercial paper and fund new construction on the grounds of the University. The Series 2010 Bonds were issued as Build America Bonds (BABs) for purposes of the American Recovery and Reinvestment Act of 2009 with a coupon rate of 5.0 percent. The University will receive a 35.0 percent interest subsidy payment from the U.S. Treasury on the amount of each interest payment made on the Series 2010 Bonds, resulting in an effective yield to the University of 3.2 percent.

On August 26, 2010, the Virginia Housing Development Authority (VHDA) borrowed $33,000,000 from the Rental Housing Bonds, Series 2010D Non-AMT.

On August 31, 2010, the VHDA borrowed $40,000,000 from Bank of America, N.A., Revolving Credit Agreement.

On October 19, 2010, the VPSA issued its $85,510,000 School Financing Bonds (1997 Resolution) Refunding Series 2010C to refinance certain of its Series 2004A and 2004B bonds for debt service savings.

On October 26, 2010, the Virginia College Building Authority (VCBA) issued its Educational Facilities Revenue Bonds (21st Century College and Equipment Programs) $55,815,000 Series 2010B-1 and $290,600,000 Series 2010B-2 (Federally Taxable BABs). The proceeds of the bonds will be used to finance certain capital projects at public institutions of higher education.

On November 10, 2010, the (Virginia Public School Authority) VPSA issued its $9,975,000 of School Financing Bonds (1997 Resolution) Series 2010D to purchase certain general obligation local school bonds to finance capital projects for public schools.

On November 18, 2010, VCBA issued its $322,710,000 Educational Facilities Revenue and Refunding Bonds, Series 2010A-1, 2010A-2 and 2010B under the Public Higher Education Financing Program (the Program). The A-1 Bonds were sold in the amount of $65,060,000 and are tax-exempt. The A-2 Bonds are Taxable BABs sold in the amount of $156,610,000. The Authority will use the proceeds of the Series A-1 and A-2 Bonds to acquire Institutional Notes from participating public institutions of higher education. Each participating institution will use the proceeds of its Institutional Note to finance capital projects approved by the General Assembly. Series 2010B Refunding Bonds in the amount of $101,040,000 were sold to refinance certain outstanding maturities of the Authority's Series 2000A, 2001A, 2002A and 2003A Bonds for debt service savings.

The Virginia Biotechnology Research Partnership Authority (VBRPA) is in discussions to sell BioTech One and the BioTechnology Center buildings and land to the Virginia Commonwealth University (VCU) (major component unit). The VBRPA will net $4.5 million from the sale and VCU will assume the existing Banc of America note. VBRPA will lease back the BioTechnology Center for $1 per year. An anticipated closing date has been set for December 2010.

The VBRPA Board has given approval for the Authority to utilize proceeds from tax-exempt bonds or taxable-debt to build BioTech Ten. The Board also has given approval for VBRPA to advance its own funds to pay expenditures for the project and then receive reimbursement from the bonds or taxable debt or both.

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, 2010
(Dollars in Thousands)

	General Fund			
	Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
Revenues:				
Taxes:				
Individual and Fiduciary Income	$ 10,034,100	$ 8,960,100	$ 9,088,252	$ 128,152
Sales and Use	3,382,200	3,247,500	3,291,958	44,458
Corporation Income	724,000	730,700	806,473	75,773
Motor Fuel	-	-	-	-
Motor Vehicle Sales and Use	-	-	-	-
Communications Sales and Use	-	446,247	491,698	45,451
Deeds, Contracts, Wills, and Suits	298,100	299,000	290,189	(8,811)
Premiums of Insurance Companies	283,100	242,500	261,881	19,381
Alcoholic Beverage Sales	181,000	174,800	175,093	293
Tobacco Products	337,000	170,300	176,057	5,757
Estate	-	3,600	5,671	2,071
Public Service Corporations	93,900	94,600	97,263	2,663
Other Taxes	19,600	24,000	26,269	2,269
Rights and Privileges	75,335	74,700	68,460	(6,240)
Sales of Property and Commodities	1,700	8,300	824	(7,476)
Assessments and Receipts for Support of Special Services	400	400	373	(27)
Institutional Revenue	7,500	5,900	6,019	119
Interest, Dividends, and Rents	167,886	116,765	113,142	(3,623)
Fines, Forfeitures, Court Fees, Penalties, and Escheats	214,800	204,200	194,151	(10,049)
Federal Grants and Contracts	-	-	-	-
Receipts from Cities, Counties, and Towns	10,100	10,200	9,761	(439)
Private Donations, Gifts and Contracts	1,700	1,753	137	(1,616)
Tobacco Master Settlement	61,348	57,186	49,182	(8,004)
Other	139,508	169,445	168,429	(1,016)
Total Revenues	16,033,277	15,042,196	15,321,282	279,086
Expenditures:				
Current:				
General Government	1,297,019	2,147,466	2,093,036	54,430
Education	7,861,895	7,042,173	7,007,842	34,331
Transportation	42	11,680	11,125	555
Resources and Economic Development	277,226	284,912	272,075	12,837
Individual and Family Services	4,239,678	4,065,874	4,004,995	60,879
Administration of Justice	2,433,258	2,151,618	2,120,477	31,141
Capital Outlay	18,774	19,477	13,477	6,000
Total Expenditures	16,127,892	15,723,200	15,523,027	200,173
Revenues Over (Under) Expenditures	(94,615)	(681,004)	(201,745)	479,259
Other Financing Sources (Uses):				
Transfers:				
Transfers In	600,995	740,009	752,251	12,242
Transfers Out	(497,682)	(503,274)	(503,106)	168
Bonds Issued	-	-	-	-
Premium on Debt Issuance	-	-	-	-
Total Other Financing Sources (Uses)	103,313	236,735	249,145	12,410
Revenues and Other Sources Over (Under) Expenditures and Other Uses	8,698	(444,269)	47,400	491,669
Fund Balance, July 1	823,475	823,475	823,475	-
Fund Balance, June 30	$ 832,173	$ 379,206	$ 870,875	$ 491,669

See notes on page 171 in this section.

Special Revenue Funds

Commonwealth Transportation Fund

Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
$ -	$ -	$ -	$ -
529,000	490,100	470,511	(19,589)
-	-	-	-
885,224	861,711	856,395	(5,316)
457,200	392,800	439,892	47,092
-	-	-	-
56,900	33,500	35,186	1,686
129,900	129,100	129,101	1
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
35,885	31,210	38,035	6,825
505,518	591,699	522,466	(69,233)
556	556	5,025	4,469
18,187	18,574	18,080	(494)
-	-	-	-
50,703	35,957	38,519	2,562
22,811	11,897	11,804	(93)
1,068,984	1,002,085	916,572	(85,513)
244,136	100,638	78,391	(22,247)
-	-	8,942	8,942
-	-	-	-
427	28,962	18,857	(10,105)
4,005,431	3,728,789	3,587,776	(141,013)
2,424	2,424	1,844	580
2,414	2,414	2,404	10
4,030,490	4,819,478	3,363,693	1,455,785
16,615	9,987	9,202	785
-	-	-	-
8,656	8,656	8,217	439
43,352	35,529	29,532	5,997
4,103,951	4,878,488	3,414,892	1,463,596
(98,520)	(1,149,699)	172,884	1,322,583
62,350	79,124	88,691	9,567
(284,290)	(342,902)	(313,201)	29,701
564,860	564,860	564,860	-
9,933	9,933	9,933	-
352,853	311,015	350,283	39,268
254,333	(838,684)	523,167	1,361,851
1,368,893	1,368,893	1,368,893	-
$ 1,623,226	$ 530,209	$ 1,892,060	$ 1,361,851

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, 2010
(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	-	-	-	-
Communications 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	-	-	-	-
Sales of Property and Commodities	298	122	254	132
Assessments and Receipts for Support of Special Services	-	-	-	-
Institutional Revenue	-	-	-	-
Interest, Dividends, and Rents	2,667	1,742	1,750	8
Fines, Forfeitures, Court Fees, Penalties, and Escheats	286	223	138	(85)
Federal Grants and Contracts	6,657,008	9,559,349	9,609,968	50,619
Receipts from Cities, Counties, and Towns	-	-	-	-
Private Donations, Gifts and Contracts	-	-	1	1
Tobacco Master Settlement	-	-	-	-
Other	27,259	25,398	74,969	49,571
Total Revenues	6,687,518	9,586,834	9,687,080	100,246
Expenditures:				
Current:				
General Government	116,809	148,185	128,984	19,201
Education	913,705	1,854,171	1,444,729	409,442
Transportation	34,017	25,108	15,241	9,867
Resources and Economic Development	173,054	318,934	198,925	120,009
Individual and Family Services	5,371,288	7,008,137	7,725,272	(717,135)
Administration of Justice	59,564	198,630	168,293	30,337
Capital Outlay	19,081	32,939	14,024	18,915
Total Expenditures	6,687,518	9,586,104	9,695,468	(109,364)
Revenues Over (Under) Expenditures	-	730	(8,388)	(9,118)
Other Financing Sources (Uses):				
Transfers:				
Transfers In	-	-	19,434	19,434
Transfers Out	-	(730)	(11,046)	(10,316)
Bonds Issued	-	-	-	-
Premium on Debt Issuance	-	-	-	-
Total Other Financing Sources (Uses)	-	(730)	8,388	9,118
Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	-	-
Fund Balance, July 1	-	-	-	-
Fund Balance, June 30	$ -	$ -	$ -	$ -

See notes on page 171 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, 2010, to the fund balance on a modified accrual basis follows.

Fund Balance Comparison

Budgetary Basis to GAAP Basis

(Dollars in Thousands)

	General Fund	Commonwealth Transportation Fund	Federal Trust Fund
Fund Balance, Basis of Budgeting	$ 870,875	$ 1,892,060	$ -
Adjustments from Budget to Modified Accrual, Undesignated:			
Accrued Revenues:			
Taxes	357,168	97,874	-
Tax Refunds	(417,304)	-	-
Other Revenue/Other Sources	48,509	190,928	756,762
Deferred Taxes (2)	(566,899)	-	-
Medicaid Payable	(237,785)	-	(387,274)
Accrued Expenditures/Other Uses	(728,856)	(171,259)	(326,931)
Fund Balance, Modified Accrual Basis	$ (674,292)	$ 2,009,603	$ 42,557

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, 2010, except the Literary Fund which has no approved budget.

(Dollars in Thousands)	General Fund (10)	Commonwealth Transportation Fund	Federal Trust Fund (11)
Appropriations (1)	$ 16,127,892	$ 4,103,951	$ 6,687,518
Supplemental Appropriations:			
Reappropriations (2)	141,493	61,300	29,795
Subsequent Executive (3)	508,820	170,769	497,070
Subsequent Legislative (4)	(966,959)	615,246	2,313,375
Capital Outlay and Operating Reversions (5)	(11,337)	(56)	(885)
Deficit (6)	60,118	-	-
Transfers (7)	(126,060)	5,670	90,629
Capital Outlay Adjustment (8)	(10,767)	(42,380)	(31,398)
Debt Service Adjustment (9)	-	(36,012)	-
Appropriations, as adjusted	$ 15,723,200	$ 4,878,488	$ 9,586,104

1. Represents the budget appropriated through Chapter 781, 2009 Acts of Assembly, as amended by Chapter 872, 2010 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 subsequent to the 2009 General Assembly session to fund programs and services that were later determined to be ineligible for Federal ARRA State Fiscal Stabilization Funds.
7. Represents transfers required by the Appropriation Act. Transfers out are reduced by approximately $1.4 billion (General Fund) and $0.4 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. Budgetary reductions totaling $104.0 million are excluded since they were not available for disbursement during the current fiscal year.
11. Appropriations do not include food stamp issuances of $1.2 billion 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) **			
* 2009	$ 53,185	$ 66,323	$ 13,138	80.2%	$ 14,948	87.9%
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	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%)
			State Police Officers' Retirement System (SPORS)			
* 2009	$ 647	$ 879	$ 232	73.6%	$ 101	229.7%
2008	646	844	198	76.5%	103	192.2%
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	77.7%	82	178.0%
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%
			Virginia Law Officers' Retirement System (VaLORS)			
* 2009	$ 913	$ 1,412	$ 499	64.7%	$ 359	139.0%
2008	873	1,281	408	68.1%	368	110.9%
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)			
* 2009	$ 378	$ 521	$ 143	72.6%	$ 63	227.0%
2008	374	495	121	75.6%	61	198.4%
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%

* Revised economic and demographic assumptions due to experience study.

** Change in benefit formula, unreduced early retirement age and actuarial amortization method.

See Notes on following page.

Valuation Date:	June 30, 2009
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	
State Employees	Level percent, open
Teachers	Level percent, open
Political Subdivision Employees	Level percent, open
State Police / VA Law Officers / Judges	Level percent, open
Payroll Growth Rate:	
State Employees	3.00%
Teachers	3.00%
Political Subdivision Employees	3.00%
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%
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	4.50%
Cost of Living Adjustments	2.50%

(1) Includes inflation at 2.50%.

Schedule of Employer Contributions – Defined Pension Plans

(Dollars in Thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Statutory Required Contribution	Percentage Contributed
		Virginia Retirement System (VRS)		
2010 *	$ 1,489,124	66.57%	$ 991,334	100.00%
2009 *	1,501,018	81.25%	1,219,645	100.00%
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%
		State Police Officers' Retirement System (SPORS)		
2010 *	$ 23,791	66.05%	$ 15,714	100.00%
2009 *	24,241	83.23%	20,175	100.00%
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%
		Virginia Law Officers' Retirement System (VaLORS)		
2010 *	$ 57,894	67.41%	$ 39,027	100.00%
2009 *	60,059	84.80%	50,932	100.00%
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%
		Judicial Retirement System (JRS)		
2010 *	$ 23,638	72.20%	$ 17,065	100.00%
2009 *	23,148	90.72%	21,000	100.00%
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%

* Contributions made by employers during the fiscal years ended June 30, 2001, through June 30, 2010, were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet statutory requirements.

Funding Progress for Other Postemployment 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			
2009	$ 967	$ 1,995	$ 1,028	48.5%	$ 16,728	6.1%
2008	975	1,772	797	55.0%	16,267	4.9%
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			
2009	$ 294	$ 1,976	$ 1,682	14.9%	$ 13,589	12.4%
2008	261	1,908	1,647	13.7%	12,986	12.7%
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			
2009	$ 267	$ 268	$ 1	99.6%	$ 4,080	-
2008	286	363	77	78.8%	4,111	1.9%
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			
2009	$ -	$ 373	$ 373	-	N/A	-
2008	3	185	182	1.6%	N/A	-
2007	-	146	146	-	N/A	-
* 2006	-	99	99	-	N/A	-
			Pre-Medicare Retiree Healthcare			
2009	$ -	$ 1,218	$ 1,218	-	$ 3,170	38.4%
** 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 for Funding Progress for Other Postemployment Benefit Plans

	Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund	Line of Duty Death and Disability	Pre-Medicare Retiree Healthcare
Valuation Date	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	July 01, 2009
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Pay, Open	Level Percent of Pay, Open	Level Percent of Pay, 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	27 years	27 years	27 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%	4.97%	4.30%
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	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%

(1) Includes inflation at 2.50%.

Schedule of Employer Contributions – Other Postemployment Benefit Plans

(Dollars in Thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Statutory Required Contribution	Percentage Contributed
		Group Life Insurance Fund		
2010*	$ 145,228	65.54%	$ 95,185	100.00%
2009*	146,545	92.13%	135,019	100.00%
2008	158,740	100.00%	158,740	100.00%
		Retiree Health Insurance Credit Fund		
2010*	$ 148,956	66.70%	$ 99,356	100.00%
2009*	150,048	96.63%	144,989	100.00%
2008	147,524	100.00%	147,524	100.00%
		Disability Insurance Trust Fund		
2010*	$ 76,530	40.32%	$ 30,861	100.00%
2009*	78,120	91.33%	71,344	100.00%
2008*	97,975	80.00%	78,380	100.00%
		Line of Duty Death and Disability		
2010*	$ 16,901	53.75%	$ 9,084	100.00%
2009*	16,523	51.51%	8,511	100.00%
2008	9,786	102.45%	10,026	100.00%
		Pre-Medicare Retiree Healthcare		
2010*	$ 136,710	17.43%	$ -	-
2009*	131,925	23.34%	-	-
2008*	127,426	25.21%	-	-

* Contributions made by employers were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet 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	2001	2002	2003	2004
1. Required contribution and investment revenue:				
Earned	$ 5,814	$ 5,936	$ 5,740	$ 5,729
Ceded (a)	-	-	-	-
Net earned	5,814	5,936	5,740	5,729
2. Unallocated expenses	1,863	902	918	1,209
3. Estimated incurred claims and expenses, end of policy year:				
Incurred	2,687	4,110	3,488	2,861
Ceded (a)	-	-	-	-
Net incurred	2,687	4,110	3,488	2,861
4. Net paid (cumulative) as of:				
End of policy year	336	550	380	161
One year later	1,628	1,979	1,894	1,072
Two years later	2,388	2,291	2,181	1,420
Three years later	2,490	2,556	2,375	1,539
Four years later	2,530	2,864	2,435	1,559
Five years later	2,616	2,900	2,454	1,569
Six years later	2,616	3,054	2,455	1,569
Seven years later	2,618	3,054	2,455	
Eight years later	2,618	3,054		
Nine years later	2,618			
5. Reestimated ceded claims and expenses (a)	-	-	-	-
6. Reestimated incurred claims and expenses:				
End of policy year	2,687	4,110	3,488	2,861
One year later	3,752	4,458	3,237	3,302
Two years later	3,318	4,196	2,910	2,306
Three years later	3,270	3,734	2,619	1,700
Four years later	3,186	3,299	2,447	1,697
Five years later	3,171	3,566	2,467	1,648
Six years later	3,171	3,240	2,457	1,642
Seven years later	3,168	3,191	2,458	
Eight years later	3,168	3,191		
Nine years later	3,168			
7. Increase (decrease) in estimated net incurred claims and expense from end of policy year	481	(919)	(1,030)	(1,219)

The Commonwealth, through the Department of the Treasury, Division of Risk Management, provides errors and omissions liability insurance and law enforcement professional liability insurance for local governmental units, which went into effect in fiscal year 1987.

See Notes on page 182 in this section.

	2005	2006	2007	2008	2009	2010
	$ 5,788	$ 6,166	$ 6,560	$ 6,759	$ 6,197	$ 5,485
	-	-	-	-	-	-
	5,788	6,166	6,560	6,759	6,197	5,485
	1,068	1,008	1,047	1,307	1,272	1,269
	2,790	1,539	2,060	3,330	3,681	3,282
	-	-	-	-	-	-
	2,790	1,539	2,060	3,330	3,681	3,282
	227	177	106	493	300	350
	1,699	745	1,051	1,697	1,858	
	2,079	1,421	2,436	3,476		
	2,332	2,087	2,631			
	2,438	2,176				
	2,451					
	-	-	-	-	-	-
	2,790	1,539	2,060	3,330	3,681	3,282
	3,563	2,168	3,316	3,928	3,742	
	3,418	2,494	3,224	5,420		
	3,204	2,872	2,887			
	2,783	2,820				
	2,736					
	(54)	1,281	827	2,090	61	-

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	**2001**	**2002**	**2003**	**2004**
1. Required contribution and investment revenue:				
Earned	$ 88,313	$ 100,836	$ 118,825	$ 137,582
Ceded (a)	-	-	-	-
Net earned	88,313	100,836	118,825	137,582
2. Unallocated expenses	7,203	6,225	6,171	6,271
3. Estimated incurred claims and expenses, end of policy year:				
Incurred	87,222	95,860	104,453	124,887
Ceded (a)	-	-	-	-
Net incurred	87,222	95,860	104,453	124,887
4. Net paid (cumulative) as of:				
End of policy year	74,579	80,974	99,443	99,656
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	87,222	95,860	104,453	124,887
One year later	87,222	95,860	104,453	124,887
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	-	-	-	-

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 182 in this section.

2005	2006	2007	2008	2009	2010
$ 157,959	$ 184,360	$ 202,366	$ 211,034	$ 222,498	$ 240,305
-	-	-	-	-	-
157,959	184,360	202,366	211,034	222,498	240,305
10,655	11,899	13,782	16,215	16,400	15,936
144,976	152,289	163,787	185,117	214,411	215,376
-	-	-	-	-	-
144,976	152,289	163,787	185,117	214,411	215,376
140,452	147,534	159,769	181,566	204,655	214,371
-	-	-	-	-	
N/A	N/A	N/A	N/A		
N/A	N/A	N/A			
N/A	N/A				
N/A					
-	-	-	-	-	-
144,976	152,289	163,787	185,117	214,411	215,376
144,976	152,289	163,787	185,117	214,411	
N/A	N/A	N/A	N/A		
N/A	N/A	N/A			
N/A	N/A				
N/A					
-	-	-	-	-	-

Notes for Claims Development Information Tables

The tables on the previous four pages illustrate how the Risk Management and Health Care Claims Funds earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of each of the past several years. The rows of the tables are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

2. This line shows each fiscal year's other operating costs of the funds, including overhead and claims expense not allocable to individual claims.

3. This line shows the funds' gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

4. This section of rows shows the cumulative net amounts paid as of the end of successive years for each policy year.

5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.

6. This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)

7. This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years.

The columns of the tables show data for successive policy years.

Notes:

(a) During fiscal year 1997, the Commonwealth implemented GASB Statement No. 30, *Risk Financing Omnibus*. The Commonwealth has no reinsurers; therefore, the ceded amounts on lines 1, 3, and 5 are zero.

APPENDIX B

COMMONWEALTH OF VIRGINIA

FINANCIAL AND OTHER INFORMATION

APPENDIX B
TABLE OF CONTENTS

INTRODUCTION

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 130 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 16, 2010 and each expires January 18, 2014. 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 twelve 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 for the next biennium (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 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. A Revenue Stabilization Fund was established by constitutional amendment effective January 1, 1993, and is available to offset, in part, anticipated shortfalls in revenues in years when revenues are forecast to decline by more than two percent of the certified tax revenues collected in the most recently ended fiscal year. Deposits to the Fund are made pursuant to Constitutional provisions based on tax revenue collections as certified by the Auditor of Public Accounts. If in any year total revenues are forecast to decline by more than two 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. The maximum balance in the Fund can consist of an amount not to exceed 15 percent of the Commonwealth's average annual tax revenues derived from income and retail sales taxes for the three immediately preceding fiscal years, as certified by the Auditor of Public Accounts. If any amounts accrue to the credit of the Fund in excess of the 15 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 Joint Advisory Board of Economists (JABE) and the Commonwealth's own staff. The national economic forecast is used to develop a forecast of similar indicators of in-state activity. The Governor’s Advisory Council on Revenue Estimates (GACRE) also examines the economic assumptions with respect to the general economic climate of the Commonwealth.

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 portfolios. Both portfolios are managed in accordance with guidelines promulgated by the Treasury Board. The Primary Liquidity Portfolio, 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 Extended Duration and Credit Portfolio, 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 Portfolio, 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, 2010, are contained in the Commonwealth Comprehensive Annual Financial Report (the "CAFR") available at www.doa.virginia.gov. The financial statements conform to 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 for the year ended June 30, 2011, which is comprised of cash basis financial statements, is presented on an unaudited basis, and is available at www.doa.virginia.gov. The audited CAFR for the fiscal year ended June 30, 2011 will be available on December 15, 2011.

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 cash basis for fiscal years 2007 through 2011 and compares the budgeted to actual numbers. The financial information for fiscal year 2011 is preliminary and unaudited.

The General Fund balance, as shown on page B-5, increased by $322.7 million in fiscal year 2011, an increase of 33.1 percent from fiscal year 2010. However, this was attributed in part to the restatement required under GASB No. 54, which resulted in the inclusion of numerous funds in the General Fund that have previously been reported as special revenue funds. The effect was to increase the General Fund balance by $104 million. Overall tax revenues increased by 5.2 percent from fiscal year 2010 to fiscal year 2011. Individual and Fiduciary Income tax revenues increased by 9.4 percent. Additional tax revenue increases occurred in the form of a 1.96 percent increase in Corporation Income tax collections. Tax revenue decreases occurred in the form of a 3.6 percent decrease in Public Service Corporation tax collections and a 3.3 percent decrease in State Sales and Use tax collections. As shown on page B-5, there was a 0.6 percent increase in other tax collections which includes: Deeds, Contracts, Wills and Suits; Alcoholic Beverage Sales; Tobacco Products; Estate and Other Taxes. Overall revenue and non-tax revenues increased by 5.8 percent and by 19.7 percent, respectively. Overall expenditures increased by 3.7 percent in fiscal year 2011, compared to a 5.2 percent decrease in fiscal year 2010. Individual and family service expenditures increased by $444.7 million, or 11.1 percent, and education expenditures declined by $76.3 million, or 1.1 percent. General government expenditures increased $56.2 million or 2.7 percent.

Of the $1.3 billion fund balance as of June 30, 2011, $299.4 million was restricted as the Revenue Stabilization Fund (the "Fund"). During fiscal year 2011, no withdrawal was made from the Fund and $4.2 million in interest was earned. 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 2011 revenue collections, a deposit of $132.7 million is required to the Fund during fiscal year 2013. 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 2011.

SUMMARY OF GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – CASH BASIS (in thousands)

	Fiscal Year Ended June 30,				
	2007	2008	2009	2010	2011*
Revenues:					
Taxes					
Individual and Fiduciary Income	$9,787,592	$10,114,833	$9,481,109	$9,088,252	$9,944,370
State Sales and Use	3,274,286	3,302,181	3,116,831	3,291,958	3,216,406
Corporation Income	879,575	807,852	648,033	806,473	822,259
Communications Sales and Use	-	-	-	491,698	442,455
Deeds, Contracts, Wills and Suits	582,946	456,348	314,264	290,189	299,967
Premiums of Insurance Companies	384,894	396,858	255,019	261,881	281,563
Alcoholic Beverage Sales	161,845	168,862	173,227	175,093	178,937
Tobacco Products	186,920	183,946	183,750	176,057	173,731
Estate	152,864	153,378	6,006	5,671	2,713
Public Service Corporations	87,961	96,390	91,340	97,263	93,777
Other Taxes	19,229	15,459	28,230	26,269	21,808
Total Taxes	15,518,112	15,696,107	14,297,809	14,710,804	15,477,986
Rights and Privileges	68,407	67,449	67,426	68,460	73,283
Sales of Property and Commodities	-	2,460	1	824	28,005
Assessments and Receipts for Support of Special Services	224	461	396	373	2,777
Institutional Revenue	7,169	7,590	6,402	6,019	40,122
Interest, Dividends, Rents	229,007	252,284	134,400	113,142	90,905
Fines, Forfeitures, Court Fees, Penalties, and Escheats	193,280	195,716	197,875	194,151	222,256
Receipts from Cities, Counties, and Towns	10,281	10,091	10,265	9,761	16,340
Private Donations, Gifts and Contracts	16	31	118	137	4,595
Tobacco Master Settlement	50,087	53,684	58,966	49,182	48,185
Other	60,894	63,844	102,568	168,429	204,033
Total Revenues	16,137,477	16,349,717	14,876,226	15,321,282	16,208,487
Expenditures:					
General Government	1,750,274	1,789,768	1,669,257	2,093,036	2,149,242
Education	7,592,975	7,822,396	8,045,614	7,007,842	6,931,515
Transportation	44	25,971	11,863	11,125	516
Resources and Economic Development	308,657	329,729	288,877	272,075	306,970
Individual and Family Services	3,919,109	4,255,474	4,012,450	4,004,995	4,449,683
Administration of Justice	2,220,203	2,424,790	2,300,008	2,120,477	2,247,447
Capital Outlay	175,713	370,552	47,421	13,477	6,144
Total Expenditures	15,966,975	17,018,680	16,375,490	15,523,027	16,091,517
Revenues Over (Under) Expenditures	170,502	(668,963)	(1,499,264)	(201,745)	116,970
Other Financing Sources (Uses):					
Transfers In	611,041	634,513	664,141	752,251	693,750
Transfers Out	(716,463)	(700,861)	(561,192)	(503,106)	(487,991)
Total Other Financing Sources (Uses)	(105,422)	(66,348)	102,949	249,145	205,759
Revenues and Other Sources Over (Under) Expenditures and Other Uses	65,080	(735,311)	(1,396,315)	47,400	322,729
Fund Balance, July 1:					
Restricted	-	-	-	-	310,778
Committed	-	-	-	-	443,182
Assigned	-	-	-	-	220,871
Reserved	1,085,538	1,420,528	1,127,908	662,489	-
Unreserved	1,804,483	1,534,573	1,091,882	160,986	-
Total Fund Balance, July 1, as restated	2,890,021	2,955,101	2,219,790	823,475	974,831**
Fund Balance, June 30:					
Restricted	-	-	-	-	456,384
Committed	-	-	-	-	461,140
Assigned	-	-	-	-	380,036
Reserved	1,420,528	1,127,908	662,489	379,631	-
Unreserved	1,534,573	1,091,882	160,986	491,244	-
Total Fund Balance, June 30	$2,955,101	$2,219,790	$823,475	$870,875	$1,297,560

*Preliminary and Unaudited
** As restated as required by GASB 54
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,			
	2007		2008	
	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
Revenues:				
Taxes				
Individual and Fiduciary Income	$ 9,968,800	$(181,208)	$10,171,300	$(56,467)
State Sales and Use	3,319,100	(44,814)	3,325,200	(23,019)
Corporation Income	901,400	(21,825)	699,100	108,752
Communications Sales and Use	-	-	-	-
Public Service Corporations	92,500	(4,539)	88,000	8,390
Premiums of Insurance Companies	384,600	294	418,400	(21,542)
Other	1,086,700	17,104	991,300	(13,307)
Total Taxes	$15,753,100	$(234,988)	$15,693,300	$ 2,807
Rights and Privileges	64,800	3,607	68,800	(1,351)
Institutional Revenue	8,800	(1,631)	7,500	90
Interest, Dividends, Rents and Other Investment Income	248,472	(19,465)	227,574	24,710
Tobacco Master Settlement	45,439	4,648	54,006	(322)
Other [1]	248,573	16,122	291,938	(19,335)
Total Revenues	$16,369,184	$(231,707)	$16,343,118	$ 6,599
Expenditures:				
General Government	1,801,933	51,659	1,832,064	42,296
Education	7,658,804	65,829	7,863,398	41,002
Transportation	500,044	500,000	52,042	26,071
Resources and Economic Development	335,845	27,188	353,333	23,604
Individual and Family Services	4,010,002	90,893	4,275,525	20,051
Administration of Justice	2,239,237	19,034	2,439,998	15,208
Capital Outlay	430,654	254,941	511,963	141,411
Total Expenditures	$16,976,519	$1,009,544	$17,328,323	$309,643
Revenues Over (Under) Expenditures	$ (607,335)	$ 777,837	$ (985,205)	$316,242
Other Financing Sources (Uses):				
Transfers In	571,217	39,824	621,173	13,340
Transfers Out	(708,579)	(7,884)	(702,134)	1,273
Total Other Financing Sources (Uses)	$ (137,362)	$ 31,940	$ (80,961)	$ 14,613
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(744,697)	809,777	(1,066,166)	330,855
Fund Balance, July 1	2,890,021	-	2,955,101	-
Fund Balance, June 30	$ 2,145,324	$ 809,777	$ 1,888,935	$330,855

[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.

Source: Department of Accounts.

Fiscal Year Ended June 30,

2009		2010		2011*	
Final Budget	**Variance of Actual Favorable (Unfavorable)**	**Final Budget**	**Variance of Actual Favorable (Unfavorable)**	**Final Budget**	**Variance of Actual Favorable (Unfavorable)**
$ 9,697,300	$(216,191)	$ 8,960,100	$ 128,152	$ 9,746,200	$ 198,170
3,179,300	(62,469)	3,247,500	44,458	3,186,200	30,206
685,000	(36,967)	730,700	75,773	766,600	55,659
-	-	446,247	45,451	448,900	(6,445)
92,800	(1,460)	94,600	2,663	96,400	(2,623)
257,500	(2,481)	242,500	19,381	277,700	3,863
671,000	34,477	671,700	1,579	662,456	14,700
$ 14,582,900	$(285,091)	$14,393,347	$ 317,457	$15,184,456	$ 293,530
63,900	3,526	74,700	(6,240)	88,545	(15,262)
7,500	(1,098)	5,900	119	38,912	1,210
121,986	12,414	116,765	(3,623)	75,288	15,617
66,754	(7,788)	57,186	(8,004)	52,134	(3,949)
308,597	2,626	394,298	(20,623)	349,728	128,278
$ 15,151,637	$(275,411)	$15,042,196	$ 279,086	$15,789,063	$419,424
1,722,663	53,406	2,147,466	54,430	2,224,688	75,446
8,083,328	37,714	7,042,173	34,331	7,021,369	89,854
53,949	42,086	11,680	555	585	69
313,963	25,086	284,912	12,837	416,856	109,886
4,075,027	62,577	4,065,874	60,879	4,540,334	90,651
2,440,305	140,297	2,151,618	31,141	2,367,326	119,879
74,498	27,077	19,477	6,000	19,358	13,214
$ 16,763,733	$ 388,243	$15,723,200	$ 200,173	$16,590,516	$ 498,999
$(1,612,096)	$ 112,832	$ (681,004)	$ 479,259	$ (801,453)	$ 918,423
641,273	22,868	740,009	12,242	645,516	48,234
(556,413)	(4,779)	(503,274)	168	(467,055)	(20,936)
$ 84,860	$ 18,089	$ 236,735	$ 12,410	$ 178,461	$ 27,298
(1,527,236)	130,921	(444,269)	491,669	(622,992)	945,721
2,219,790	-	823,475	-	974,831 **	-
$ 692,554	$ 130,921	$ 379,206	$ 491,669	$ 351,839	$ 945,721

*Preliminary and Unaudited
** As restated as required by GASB 54

General Fund Revenues

Of total fiscal year 2011 tax revenue, 97.0 percent was derived from six major taxes imposed by the Commonwealth: Individual and Fiduciary Income Taxes, State Sales and Use Taxes, Corporate Income Taxes, Communications Sales and Use, 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: (64.2 percent of Total Taxes in fiscal year 2011) 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 2011:

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: (20.8 percent of Total Taxes in fiscal year 2011) 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: (5.3 percent of Total Taxes in fiscal year 2011) 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.

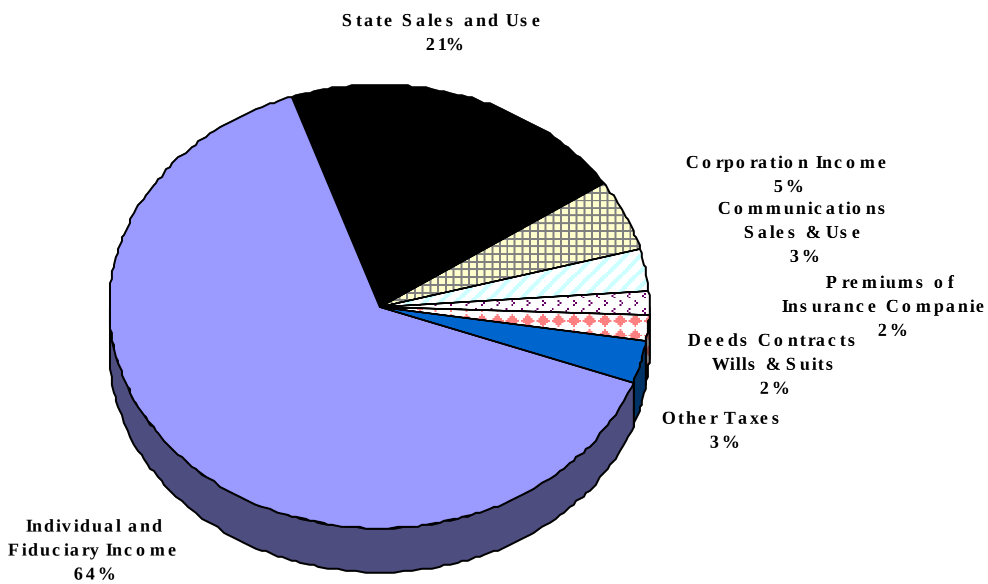
Communication Sales and Use Taxes: (2.9 percent of Total Taxes in fiscal year 2011) Effective for fiscal year 2010, statutory changes required that the Communication Sales and Use Tax Fund be included as part of the General Fund for reporting purposes. Since this fund was previously reported as an agency fund, there was no beginning balance impact. However, the comparability of revenue and expense amounts are affected. The Commonwealth collects communication sales and use taxes and disburses these amounts to localities.

Taxes on Premiums of Insurance Companies: (1.8 percent of Total Taxes in fiscal year 2011) 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: (1.9 percent of Total Taxes in fiscal year 2011) 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, 2011*



*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 2007 through 2011:

OUTSTANDING COLLECTIBLE TAX RECEIVABLES

Fiscal Year Ended June 30,	Amount
2007	$150,090,049
2008	178,122,389
2009	259,893,992
2010	351,827,736
2011	466,300,479

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: (43.1 percent of Total Expenditures in fiscal year 2011) 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: (27.7 percent of Total Expenditures in fiscal year 2011) 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 2011) 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.

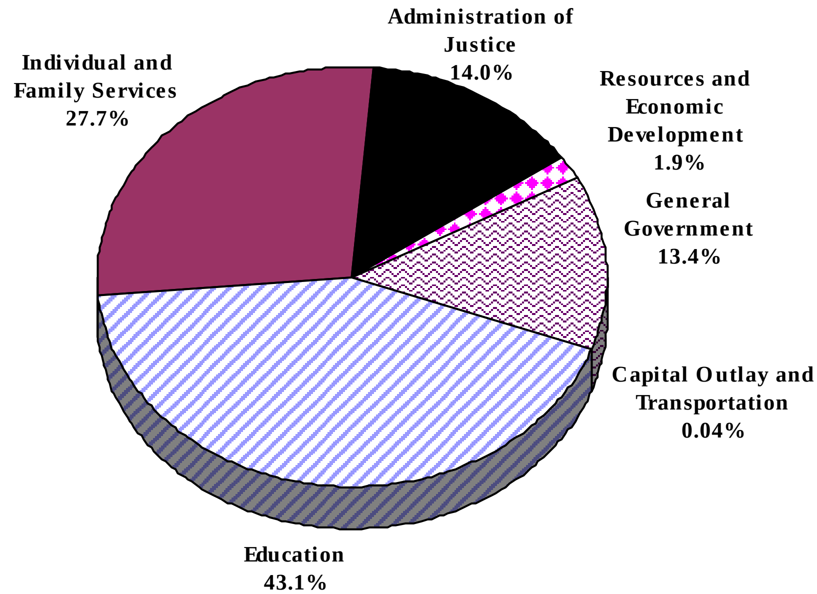
General Government: (13.4 percent of Total Expenditures in fiscal year 2011) General government expenditures support the general activities of state, regional and local levels of government. These activities include financial assistance to localities, enactment of legislative policy, intergovernmental projects, distribution of sales and use taxes to localities, and payments to localities pursuant to the Personal Property Tax Relief Act of 1998.

Resources and Economic Development: (1.9 percent of Total Expenditures in fiscal year 2011) 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: (0.04 percent of Total Expenditures in fiscal year 2011) 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, 2011*



*Preliminary and Unaudited

General Fund Balance

The Commonwealth's General Fund unreserved fund balance for the last ten fiscal years is shown below:

UNRESERVED GENERAL FUND ENDING BALANCE
(in thousands)

Fiscal Year	Cash Basis	Modified Accrual Basis
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	(927,977)
2010	491,244	(1,069,071)
2011	*	*

Source: Department of Accounts.
*See 2011 below for an explanation as to how GASB 54 has required a change in the unreserved General Fund balance classification.

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. 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 4.7 percent while transfers out decreased by 19.9 percent. Transfers to and from Component Units in fiscal year 2009 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2010. General Fund revenues and other sources exceeded expenditures and other uses by $47.4 million in fiscal year 2010. The General Fund unreserved balance on a budgetary basis increased by $330.3 million, or 205.1 percent, from fiscal year 2009 to fiscal year 2010 while reserved General Fund balances decreased by $282.9 million or 42.7 percent during the same period. Total revenues increased by 3.0 percent and total expenditures decreased by 5.2 percent. Transfers to the General Fund increased by 13.3 percent while transfers out decreased by 10.4 percent. Transfers to and from Component Units in fiscal year 2010 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2011. Based on the *General Fund Preliminary (unaudited) Annual Report* issued by the Department of Accounts for the fiscal year ended June 30, 2011, General Fund revenues and other sources exceeded expenditures and other uses by $322.7 million in fiscal year 2011. Total revenues increased by 5.8 percent and total expenditures increased by 3.7 percent. Transfers to the General Fund decreased by 7.8 percent while transfers out decreased by 3.0 percent. Transfers to and from Component Units in fiscal year 2011 are reported as expenditures and revenues in accordance with GASB Statement No. 34. With the implementation of GASB No. 54, the previous fund equity classifications of Reserved and Unreserved have been changed to Restricted, Committed, Assigned, and Unassigned. Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances represent amounts that that have been legislatively mandated for a specific purpose. Assigned fund balances represent amounts the Commonwealth has identified for a specific purpose, but for which the use is not legislatively mandated. Unassigned fund balances are those that have not been restricted, committed, or assigned to specific purposes. Due to statutory requirements, any unassigned balances in the General Fund are automatically committed for transfer to the Transportation Trust Fund and for nonrecurring expenditures. The table on page B-5 reflects the Fund Balance as of June 30, 2011 in these new classifications.

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,				
	2006	**2007**	**2008**	**2009**	**2010**
Total revenues	$3,290,146	$3,401,633	$3,739,225	$3,461,872	$3,617,895
Total expenditures	3,102,005	3,173,935	3,913,037	3,725,125	3,422,843
Revenues over (under) expenditures	188,141	227,698	(173,812)	(263,253)	195,052
Other sources (uses) net	281,493	(106,244)	64,576	(150,232)	384,440
Revenue and other sources (uses) over (under) expenditures	469,634	121,454	(109,236)	(413,485)	579,492
Beginning fund balance (adjusted)	1,361,744	1,831,378	1,952,832	1,843,596	1,430,111
Ending fund balance	$ 1,831,378	$ 1,952,832	$ 1,843,596	$ 1,430,111	$ 2,009,603

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.

* Fiscal year 2011 data not yet available.

Source: *Reports of the Comptroller, 2006-2010.*

The 2010-12 Appropriation Act

On December 18, 2009, then Governor Timothy M. Kaine presented the Budget Bill for the 2010-2012 biennium (House Bill 30/Senate Bill 30) (the “2010 Budget Bill”).

The 2010 General Assembly convened on January 13, 2010 and on January 16, 2010 Robert F. McDonnell was sworn in as the 71st Governor of Virginia. With the Commonwealth facing a budget shortfall of $4.2 billion, House Bill 30/Senate Bill 30 as introduced by former Governor Kaine was debated and amended.

On March 14, 2010 the General Assembly adjourned. House Bill 30/Senate Bill 30 as approved by the General Assembly was transmitted to the Governor for review. Highlights of the General Assembly’s spending action for the 2010-2012 biennium included: depositing $50 million into the Revenue Stabilization Fund in fiscal year 2012; providing $29.5 million to unfreeze the Local Composite Index (LCI) in fiscal year 2011; providing $174.1 over the biennium to those school divisions whose LCI is increasing; restoring $115.6 million to school divisions for Virginia Public School Authority technology grants; restoring $36.1 million in Medicaid waiver provider rates over the biennium; and providing $43.8 million towards Governor McDonnell’s economic development promotion package

Budget reductions over the biennium included: $250 million over the biennium in targeted K-12; $360.2 million over the biennium in health and human resources mitigated by the receipt of enhanced Federal Medical Assistance Percentage (FMAP) funds; and $120 million in across the board reductions in aid to localities.

On April 13, 2010, Governor McDonnell offered 96 amendments to House Bill 30/Senate Bill 30 to be considered at the reconvened session of the General Assembly on April 21, 2010. These amendments addressed three overarching themes: economic development and job creation; the provision of critical services; and technical amendments. The spending amendments totaled $42.1 million and were offset by amendments that would result in $51.0 million in savings or additional revenue over the biennium.

The 2010 General Assembly reconvened on April 21, 2010 and on May 17, 2010, the 2010 Budget Bill was approved by Governor McDonnell and enacted as the 2010-12 Appropriations Act (Chapter 874, 2010 Virginia Acts of Assembly). Chapter 874 became effective July 1, 2010.

The 2011 Amendments to the 2010 Appropriation Act

On December 17, 2010, Governor McDonnell presented his proposed amendments to Chapter 874, the 2010 Virginia Acts of Assembly (House Bill 1500/Senate Bill 800) (the "2011 Budget Bill") affecting the remainder of the 2010-2012 biennium. The Governor addressed unfunded liabilities and core services focusing on four top priorities: Government Reform, Economic Development, Transportation, and Higher Education.

The revised revenue forecast added $133.9 million in total net revenue for fiscal year 2011 and $149.1 million in fiscal year 2012, for a total of $283 million over the biennium. Although the revised revenue forecast went up slightly, the Governor called for $191.6 million in cuts, savings, and reprioritization across state government. Utilizing the work of the Government Reform and Restructuring Commission, the Governor identified savings from multiple sources, including: $24 million in reduced interest on bonds for college buildings; $1.4 million by reducing consultants in the tax department; and additional savings from reducing administrative expenses in the offices of the Governor, Lieutenant Governor, and Attorney General.

The 2011 Budget Bill included the following initiatives: $25 million for a technology and research fund to leverage private and federal research dollars to develop commercialized products resulting from research; $3 million to support non-credit courses in the Virginia Community College System to strengthen workforce development efforts; and amendments to seek new money to recapitalize the Virginia Small Business Financing Authority, enhance tourism and marketing activities, and revitalize and redevelop rural and urban areas.

Governor McDonnell proposed a $4 billion transportation package to be implemented over the next three years. These amendments included: accelerating the sale of $3 billion in bonds authorized by the General Assembly in 2007; issuing up to $1.1 billion in federal Grant Anticipation Revenue Vehicles (GARVEE) bonds; and establishing a new Virginia Transportation Infrastructure Bank to provide loans and loan guarantees to private and governmental entities for the construction and capital maintenance of transportation infrastructure and transit systems, based on local and regional priorities. Several projects that may immediately benefit from the transportation proposal include the Midtown Tunnel in Norfolk, the Broad Street Corridor in Richmond, U. S. Route 460 Public Private Transportation Act (PPTA) projects, I-95/I-395 Hot Lanes in Northern Virginia, and the Coalfields Expressway, as well as others.

In the area of Higher Education, the 2011 Budget Bill included $50 million towards the goal of making college more affordable and accessible by providing $13 million in undergraduate financial assistance for public institutions; $1 million to enhance the use of technology in the classroom; $3 million to expand online course offerings; and $30 million to increase student enrollment, graduation and retention rates, and degrees in Science, Technology, Engineering, and Mathematics (STEM) disciplines. Beyond the $13 million in financial assistance for public institutions, the Governor had proposed $3 million to increase the average undergraduate Tuition Assistance Grant (TAG) award to Virginia students attending Virginia's private higher education institutions, and $7.8 million in interest and credit card rebates to honor the state's prior commitments to reward higher education institutions for achieving performance expectations under the recent restructuring agreements.

Other notable proposed budget amendments included: $36.4 million of the fiscal year 2010 surplus to be deposited into the Water Quality Improvement Fund to help fund the Watershed Improvement Plan; $24 million for the Sexually Violent Predator program; $6.7 million in funding for the repair and renovation of outdated National Guard Armories; and $6 million in funding for State Police Trooper Schools and maintenance of the statewide agencies radio system.

The 2011 Budget Bill was considered by the 2011 General Assembly, which convened on January 12, 2011 and adjourned on February 26, 2011. The 2011 Budget Bill, as amended by the General Assembly, was submitted to the Governor for his approval. The Governor returned the amended bill to the General Assembly with 86 amendments for consideration at its one-day reconvened session held April 6, 2011. The General Assembly upheld all but 20 of the Governor's amendments. On May 2, 2011, the Governor vetoed one item and signed the bill. The 2011 Budget Bill became law on May 2, 2011, as Chapter 890 of the 2011 Virginia Acts of Assembly (the "2011 Appropriation Act")

The following table summarizes the 2011 Appropriation Act.

2011 Appropriation Act (Chapter 890, 2011 General Assembly)

	FY 2011	FY 2012	Total
GENERAL FUND			
Revenue			
Unreserved Balance June 30, 2010	$ 491,244,000	$ -	$ 491,244,000
Additions to balance	90,031,868	229,405,544	319,437,412
Official revenue estimate	14,718,486,729	15,595,636,810	30,314,123,539
Revenue Stabilization Fund	-	-	-
Transfers	423,136,445	468,575,442	891,711,887
Total general fund resources available for appropriation	$ 15,722,899,042	$ 16,293,617,796	$ 32,016,516,838
Appropriations			
Legislative	$ 69,012,458	$ 69,087,483	$ 138,099,941
Judicial	406,336,895	406,336,895	812,673,790
Executive	14,982,112,142	16,072,599,833	31,054,711,975
Independent Agencies	-	-	-
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	15,457,461,495	16,548,024,211	32,005,485,706
Capital Outlay	-	8,877,000	8,877,000
Total appropriations	$ 15,457,461,495	$ 16,556,901,211	$ 32,014,362,706
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2010	$ 3,893,497,975	$ -	$ 3,893,497,975
Official revenue estimate	23,303,648,405	23,257,484,874	46,561,133,279
Lottery Proceeds Fund	435,200,000	435,875,000	871,075,000
Bond proceeds	560,112,011	1,339,406,764	1,899,518,775
Total nongeneral fund revenue available for appropriation	$ 28,192,458,391	$ 25,032,766,638	$ 53,225,225,029
Appropriations			
Legislative	$ 3,608,634	$ 3,608,634	$ 7,217,268
Judicial	32,545,725	35,512,098	65,057,823
Executive Department	22,975,958,869	22,453,435,301	45,429,394,170
Independent Agencies	513,153,440	529,429,266	1,042,582,706
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	23,525,266,668	23,018,985,299	46,544,251,967
Capital Outlay	837,918,011	1,386,379,207	2,224,297,218
Total appropriations	$ 24,363,184,679	$ 24,405,364,506	$ 48,768,549,185

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) 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"). There is an additional 9(b) debt restriction on the amount of such debt that the General Assembly may authorize in any year. The additional authorization restriction is limited to 25% of the 9(b) Debt Limit less any 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. 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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, 2011, 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	**2009**	**2010**	**2011***
Individual and Fiduciary Income [1]	$ 9,481,109	$ 9,088,252	$ 9,944,370
Corporation Income [2]	648,033	806,473	822,259
State Sales and Use [3]	3,116,831	3,291,958	3,216,406
Total	$13,245,973	$13,186,683	$13,983,035
Average tax revenues for the three fiscal years			$13,471,897

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 2011*		$4,824,147
Less 9(a)(2) Bonds Outstanding at June 30, 2011*:		0
Debt Margin for Section 9(a)(2) General Obligation Bonds		$4,824,147
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		$15,492,682
Less 9(b) Bonds Outstanding at June 30, 2011*:		
Public Facilities Bonds [6]	914,573	
Transportation Facilities Refunding Bonds [5] [6]	0	
Bond Anticipation Notes	0	
Total 9(b) Bonds Outstanding at June 30, 2011*		914,573
Debt Margin for Section 9(b) General Obligation Bonds		$14,578,109
Debt Authorization Limit:		
25% of 1.15 times average tax revenues for three fiscal years as calculated above		$3,873,170
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):		$3,873,170
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		$15,492,682
Less 9(c) Bonds Outstanding at June 30, 2011*:		
Parking Facilities [6]	19,444	
Transportation Facilities [6]	26,355	
Higher Educational Institutions [6]	765,280	
Bond Anticipation Notes	0	
Total 9(c) Bonds Outstanding at June 30, 2011*		811,079
Debt Margin for Section 9(c) General Obligation Bonds		$14,681,603

____

[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, 2011 includes the unamortized portion of (a) $613 million of general obligation bonds authorized and approved by the voters in November 1992, (b) $1.0 billion 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, 2011 includes various series of Higher Educational Institutions Bonds (including refunding bonds) issued from 1983 to 2010, one series of Transportation Facilities Bonds issued in 2006, and five 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. 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, 2011, $2.0 billion 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, with an additional $180 million authorized in 2008. As of June 30, 2011, $1.1 billion had been issued under this authorization.

The Virginia Port Authority ("VPA") issues bonds secured by its share of the Transportation Trust Fund. As of June 30, 2011, $185 million of Commonwealth Port Fund Revenue Bonds were outstanding. In 2008, the Authority was authorized to issue an additional $155 million in Commonwealth Port Fund Revenue Bonds. However during 2011, $30 million of that amount was rescinded. On July 27, 2011, the VPA issued $57 million of the 2008 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, 2010. 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 $201.5 million as of June 30, 2010.

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 $215.0 million as of June 30, 2010.

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.

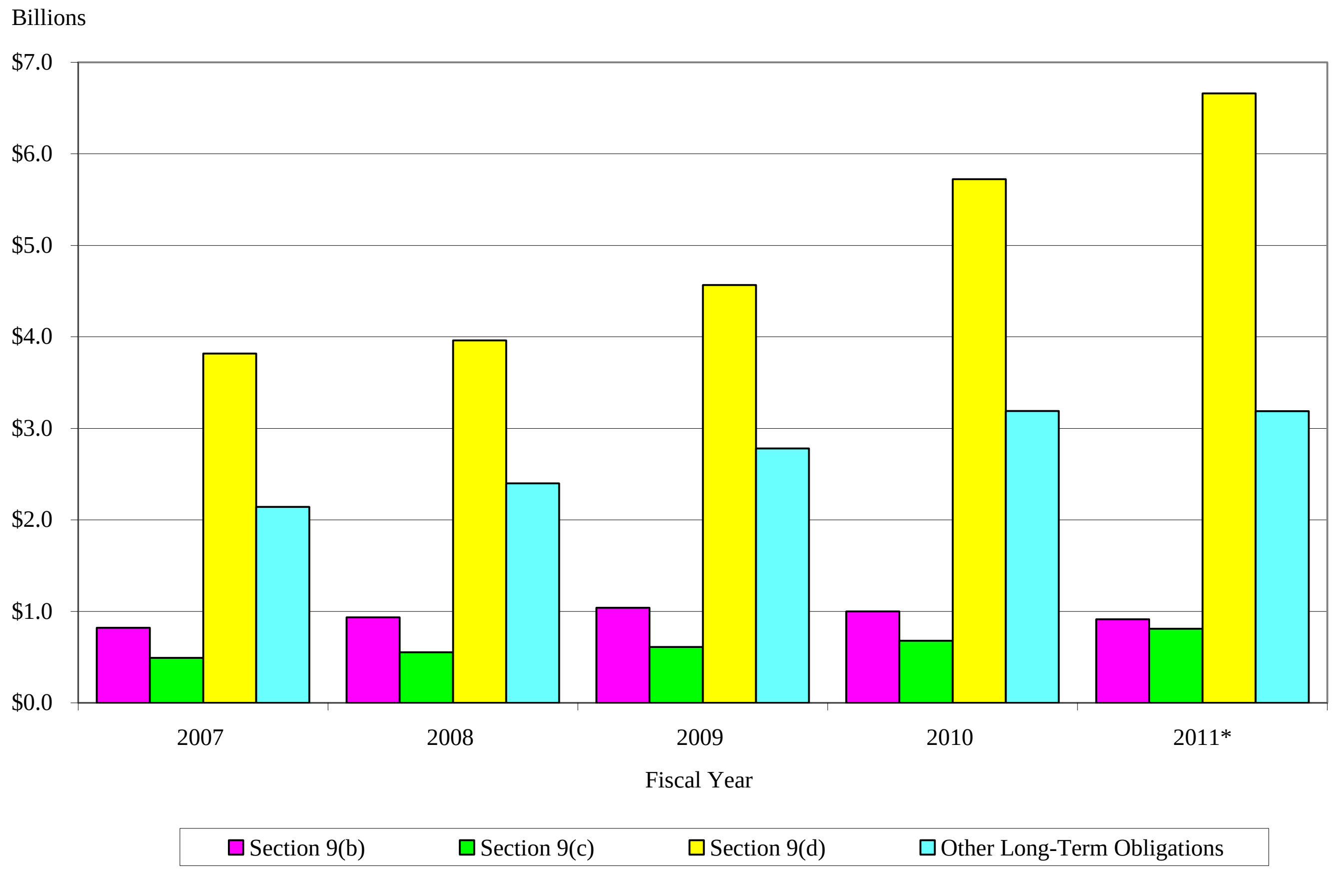
OUTSTANDING TAX-SUPPORTED DEBT
(in thousands)

	Fiscal Year Ended June 30,				
	2007	**2008**	**2009**	**2010**	**2011***
General Obligation Debt:					
Section 9(a)	-	-	-	-	-
Section 9(b) [1]	$ 821,563	$ 935,105	$ 1,040,636	$ 999,841	$ 914,573
Section 9(c)					
Higher Educational Institutions [1]	411,842	487,296	573,550	631,275	765,280
Transportation Facilities [1]	69,962	59,294	30,358	28,394	26,355
Parking Facilities [1]	8,804	7,590	6,526	21,151	19,444
Sub-Total Section 9(c)	490,608	554,180	610,434	680,820	811,078
Total General Obligation Debt	1,312,171	1,489,285	1,651,070	1,680,661	1,725,651
Section 9(d) Debt:					
Transportation [1]	987,550	948,507	908,601	1,428,918	2,015,467
Virginia Public Building Authority [1]	1,575,187	1,719,455	2,092,662	2,276,819	2,418,311
Virginia Port Authority [1]	236,300	218,596	200,886	194,287	184,911
Virginia College Building Authority 21st Century/Equipment [1]	828,488	899,572	1,203,701	1,677,617	1,909,786
Innovation and Entrepreneurship Investment Authority	7,145	6,270	5,415	4,480	3,465
Newport News Industrial Development Authority	19,010	14,640	10,025	5,150	-
Virginia Biotechnology Research Partnership Authority [1]	50,200	47,852	45,409	42,650	39,890
Virginia Public Broadcasting Board	11,070	8,520	5,830	2,990	-
Virginia Aviation Board	2,482	2,195	1,909	1,623	1,336
Fairfax County Economic Development Authority	100,387	96,992	93,442	89,722	85,827
Total Section 9(d) Debt	3,817,819	3,962,599	4,567,880	5,724,256	6,658,992
Other Long-Term Obligations:					
Transportation Notes Payable	12,325	12,325	8,000	8,000	8,000
Capital Leases	249,771	250,250	216,600	201,501	201,501 [2]
Installment Purchase Obligations	186,329	173,572	218,202	214,976	214,976 [2]
Compensated Absences	560,895	575,271	573,904	559,828	559,828 [2]
Regional Jail Financing Program	11,693	9,980	8,231	6,445	4,617
Pension Liability	1,105,031	1,237,460	1,410,513	1,653,718	1,653,718 [2]
Other Liabilities and Notes Payable	16,472	20,203	106,052	111,338	111,338 [2]
OPEB Liability	-	119,658	239,340	433,688	433,688 [2]
Total Other Long-Term Obligations	2,142,516	2,398,719	2,780,842	3,189,494	3,187,666
Total Tax-Supported Debt [3]	$ 7,272,506	$ 7,850,603	$ 8,999,792	$ 10,594,411	$ 11,572,309

[1] Net of deferral on debt defeasance, unamortized discounts and/or premiums.
[2] 2010 amounts used where amounts for fiscal year 2011 are not yet available.
[3] Numbers may not add to totals due to rounding.

*Preliminary and Unaudited
Source: Department of the Treasury; Department of Accounts.

OUTSTANDING TAX-SUPPORTED DEBT
As of June 30, 2007-2011



*Preliminary and Unaudited

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Outstanding Tax-Supported Debt Service

The following table summarizes annual debt service on outstanding tax-supported debt as of June 30, 2011. The table does not include debt service requirements for capital lease and installment purchase obligations payable from the General Fund of the Commonwealth.

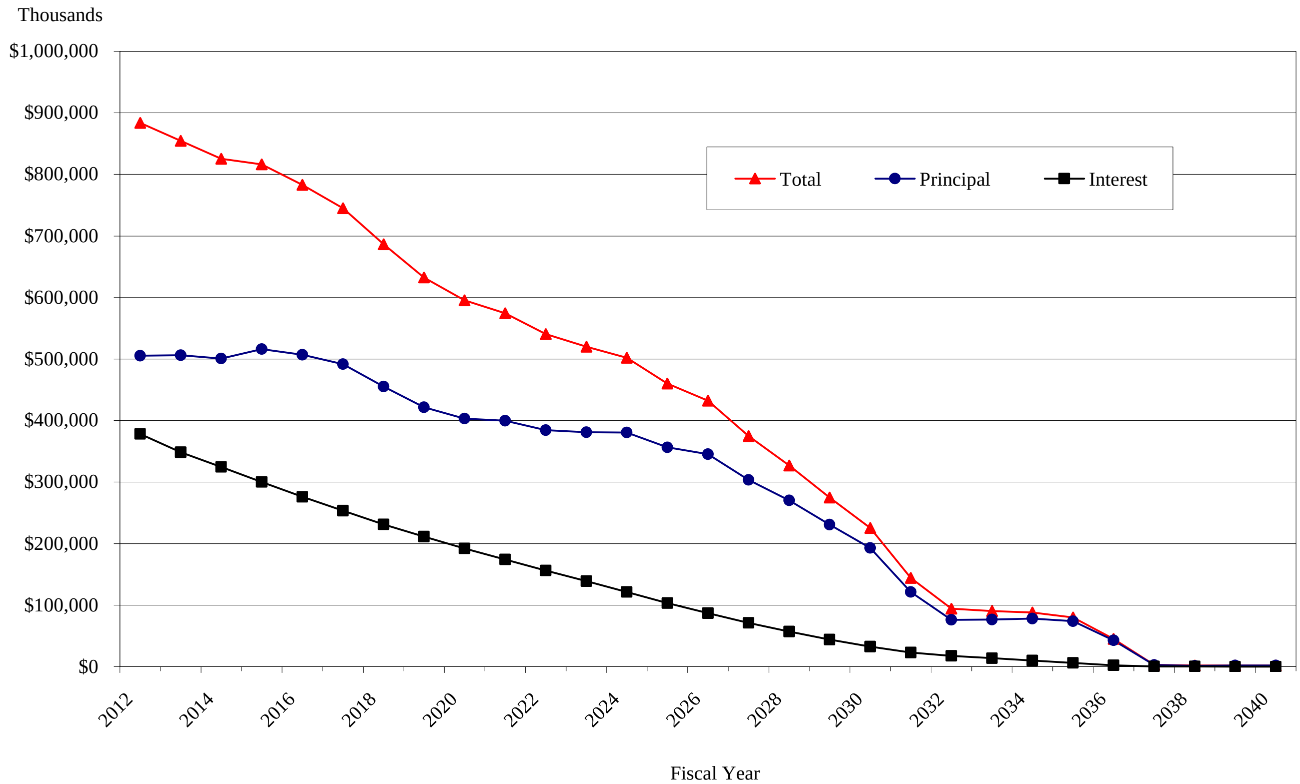
ANNUAL DEBT SERVICE REQUIREMENTS
Tax-Supported Debt Outstanding at June 30, 2011*
($ in thousands)

Fiscal Year Ending June 30	General Obligation Debt Sections 9(a), 9(b) and 9(c) Principal	Interest	Total	Other Tax-Supported Debt Section 9(d) [1] [2] Principal	Interest	Total	Total Principal	Interest	Total
2012	121,515	76,506	198,021	383,876	301,596	685,472	505,391	378,102	883,493
2013	125,710	70,754	196,464	380,436	277,778	658,214	506,146	348,532	854,678
2014	115,485	64,851	180,336	385,319	259,654	644,973	500,804	324,504	825,309
2015	113,210	59,319	172,529	402,737	240,930	643,667	515,947	300,248	816,196
2016	105,275	53,826	159,101	401,602	222,271	623,873	506,877	276,097	782,974
2017	97,250	48,980	146,230	394,319	204,305	598,625	491,569	253,285	744,855
2018	90,990	44,440	135,430	364,235	186,671	550,906	455,225	231,111	686,336
2019	90,025	40,467	130,492	331,450	170,710	502,161	421,475	211,178	632,653
2020	89,305	36,501	125,806	313,953	155,713	469,667	403,258	192,214	595,473
2021	90,940	32,503	123,443	308,921	141,760	450,681	399,861	174,263	574,124
2022	86,100	28,422	114,522	298,285	127,744	426,029	384,385	156,166	540,551
2023	86,130	24,438	110,568	294,865	114,475	409,341	380,995	138,913	519,908
2024	85,145	20,588	105,733	295,421	100,700	396,121	380,566	121,288	501,854
2025	76,270	16,730	93,000	280,284	86,776	367,060	356,554	103,506	460,060
2026	70,145	13,289	83,434	275,179	73,718	348,897	345,324	87,007	432,331
2027	61,080	10,110	71,190	242,416	61,240	303,656	303,496	71,350	374,847
2028	44,985	7,258	52,243	225,148	49,628	274,776	270,133	56,887	327,019
2029	29,155	5,167	34,322	201,599	38,810	240,408	230,754	43,977	274,730
2030	18,920	3,823	22,743	173,870	28,834	202,704	192,790	32,657	225,447
2031	13,770	2,968	16,738	107,492	19,986	127,479	121,262	22,954	144,216
2032	11,580	2,321	13,901	64,674	15,442	80,117	76,254	17,764	94,018
2033	10,810	1,765	12,575	65,720	12,167	77,887	76,530	13,933	90,463
2034	9,345	1,244	10,589	68,615	8,749	77,364	77,960	9,993	87,953
2035	6,695	796	7,491	67,265	5,181	72,446	73,960	5,977	79,937
2036	2,465	481	2,946	40,295	1,813	42,108	42,760	2,294	45,054
2037	2,560	365	2,925	0	0	0	2,560	365	2,925
2038	1,675	244	1,919	0	0	0	1,675	244	1,919
2039	1,730	165	1,895	0	0	0	1,730	165	1,895
2040	1,785	84	1,869	0	0	0	1,785	84	1,869
Subtotal	1,660,050	668,406	2,328,456	6,367,980	2,906,652	9,274,632	8,028,030	3,575,058	11,603,088
Add Unamortized Premium & Accretion on Capital Appreciation Bonds	93,895	-	93,895	339,912	-	399,912	433,807	-	433,807
Less Unamortized Discount & Deferral on Debt Defeasance	(28,293)	-	(28,293)	(40,900)	-	(40,900)	(69,193)	-	(69,193)
TOTAL	$ 1,725,652	$ 668,406	$ 2,394,058	$ 6,666,992	$ 2,906,652	$ 9,573,644	$ 8,392,644	$ 3,575,058	$ 11,967,702

[1] Includes Virginia Biotechnology Research Partnership Authority, Fairfax County Economic Development Authority (Va. Dept. of Transportation Camp 30 Project), Innovation and Entrepreneurship Investment Authority, Newport News Industrial Development Authority (VASIC Project), Virginia Aviation Board, Tax Refund Note, and Transportation Notes Payable. Does not include other capital leases, installment purchase obligations, regional jail reimbursement payments, compensated absences, pension liability, pollution remediation liability or uninsured employer's fund.
[2] Includes transportation notes payable of $8,000 (dollars in thousands) for the primary government.

*Preliminary and Unaudited
Source: Department of the Treasury; Department of Accounts.

ANNUAL DEBT SERVICE REQUIREMENTS
TAX-SUPPORTED DEBT OUTSTANDING AT JUNE 30, 2011*
(in thousands)



*Preliminary and Unaudited

RATIOS OF OUTSTANDING TAX-SUPPORTED DEBT TO POPULATION AND PERSONAL INCOME

Fiscal Year	Population [1]	Personal Income [2][3] (000's)	Outstanding Debt (000's)	Tax-Supported Debt/Capita	Debt/Income
2007	7,712,091	318,872,687	7,272,506	943.00	2.3
2008	7,795,424	245,285,000	7,850,603	1,007.08	3.2
2009	7,882,590	347,284,216	8,999,792	1,141.73	2.6
2010	8,001,024	358,140,177	10,594,411	1,324.13	3.0
2011	8,001,024	368,924,000	11,541,120	1,442.46	3.1

Sources: [1] U.S. Census Bureau. 2011 population data is not yet available. The estimate of 2011 population is the 2010 population.
[2] U.S. Department of Commerce, Bureau of Economic Analysis.
[3] 2011 personal income data is provisional.

Authorized and Unissued Tax-Supported Debt

As of June 30, 2011*, the following tax-supported debt had been authorized by the General Assembly and remained unissued:

Section 9(b) Debt:		
Higher Educational Institutions Bonds	$	0
Park and Recreational Facilities Bonds		0
Subtotal 9(b) Debt:	$	0
Section 9(c) Debt:		
Higher Educational Institutions Bonds	$	547,938,207
Parking Facility Bonds		225,918
Subtotal 9(c) Debt:	$	548,164,125
Section 9(d) Debt :		
Transportation Capital Projects Revenue Bonds	$	2,087,335,000
Northern Virginia Transportation District Program		24,700,000
Virginia Public Building Authority -- Projects		363,330,373
Virginia Public Building Authority -- Jails		289,141,859
Virginia Public Building Authority -- Juvenile Detention Facilities		0
Virginia College Building Authority -- 21st Century Projects		1,921,305,342
Virginia College Building Authority -- 21st Century Equipment		115,008,208
Virginia Port Authority		125,000,000
Capital Lease Revenue Financings		0
Subtotal 9(d) Debt:	$	4,925,820,782
Total	$	5,473,984,907

*Preliminary and Unaudited
Source: Department of the Treasury; Department of Accounts.

Moral Obligation Debt

The Virginia Housing Development Authority, the Virginia Resources Authority and the Virginia Public School Authority are authorized to issue bonds secured in part by a moral obligation pledge of the Commonwealth. All three are designed to be self-supporting from their individual loan programs. 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. However, neither the Virginia Housing Development Authority nor the Virginia Public School Authority have bonds outstanding that are secured by the moral obligation pledge. To date, the Virginia Resources Authority has 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,				
	2007	**2008**	**2009**	**2010**	**2011***
Virginia Housing Development Authority [1]	$ 449,350	$391,691	$ --	$ --	$ --
Virginia Resources Authority [1]	678,600	681,886	726,416	669,839	684,004
Virginia Public School Authority [1]	--	--	--	--	--
Total	$1,127,950	$1,073,577	$726,416	$669,839	$684,004

[1] Net of unamortized discounts, premiums, deferral on debt defeasance and issuance costs.

*Preliminary and Unaudited
Source: Department of the Treasury, Department of Accounts

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)

	2006	**2007**	**2008**	**2009**	**2010**
Institutions of Higher Education [1]	$ 840,779	$ 815,247	$ 1,147,172	$ 1,356,659	$ 1,333,083
Virginia College Building Authority Public Higher Education Financing Program	724,640	850,870	1,037,650	1,289,525	1,476,645
Virginia College Building Authority Private College Program	385,105	471,750	455,295	532,530	524,645
Virginia Housing Development Authority [1]	4,656,701	5,548,833	6,487,296	6,754,384	6,739,603
Virginia Public School Authority [1]	2,689,512	2,860,310	3,030,087	3,258,258	3,235,947
Virginia Port Authority	141,118	230,817	292,982	223,541	288,764
Commonwealth Transportation Board Federal Highway Reimbursement Anticipation Notes [1]	918,494	800,538	677,297	548,695	414,319
Hampton Roads Sanitation District	144,450	143,658	359,904	360,136	547,318
Virginia Equine Center	15,320	--	--	--	--
Total	$10,516,119	$11,722,023	$13,487,683	$14,323,728	$14,560,324

[1] Net of unamortized discounts, premiums, deferral on debt defeasance and issuance costs.
* Fiscal year 2011 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 for the next biennium, 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 condition of bonds, notes and other security obligations of the Commonwealth's agencies, institutions, boards and authorities which are neither tax-supported debt nor 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 two 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 328,001 active Commonwealth employees, school teachers and covered employees of local governments as of June 30, 2011, as compared with 11,739 active members of SPORS, VaLORS, and JRS combined. In addition, the four plans combined had approximately 35,393 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	
	2010	**2011**
State Employees (VRS)	78,613	78,392
Teachers (VRS)	147,817	145,707
Employees of Political Subdivisions (VRS)	104,385	103,902
State Police Officers (SPORS)	1,766	1,741
Virginia Law Officers (VaLORS)	9,620	9,604
Judges (JRS)	408	394

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.

The General Assembly established a new plan (Plan 2) for all members who are hired on or after July 1, 2010. Members with service before July 1, 2010 are in Plan 1. The different provisions for Plan 1 and Plan 2 members are set forth in the table below:

Defined Benefit Plan Provisions

AS ESTABLISHED BY TITLE 51.1 OF THE *CODE OF VIRGINIA* (1950), AS AMENDED

Members qualify for retirement when they become vested (have at least five years of service credit and meet the age and service requirements for their plan, as shown in the following table. The benefit is calculated using a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit at retirement.

PROVISIONS	**PLAN 1** *Hired Before July 1, 2010*	**PLAN 2** *Hired On or After July 1, 2010*
Average Final Compensation	Average of the member's 36 consecutive months of highest compensation as a covered employee.	Average of the member's 60 consecutive months of highest compensation as a covered employee
Member Contributions	Members or employers (on members' behalf) contribute 5 percent of members' compensation each month to their member contribution accounts.	State employees contribute 5 percent of their compensation each month to their member contribution accounts. Employees of school divisions and political subdivisions may contribute all or a portion of the 5 percent member contribution as elected by the employer.
Vesting and Refunds	Vested members who leave covered employment are eligible for a full refund of their member contribution account balance. Non-vested members are eligible for a refund, excluding any contributions made by the employer after July 1, 2010 and the interest on these contributions. *Exception:* Members who are involuntarily separated from employment for causes other than job performance or misconduct are eligible for a full refund.	Same as Plan 1.
Normal Retirement Age	VRS: Age 65.	Normal Social Security retirement age.
	SPORS, VaLORS and political subdivision hazardous duty employees: Age 60.	Same as Plan 1.
	JRS: Age 65.	Same as Plan 1.
Earliest Unreduced Retirement Eligibility	VRS: Age 65 with at least five years of service credit or age 50 with at least 30 years of service credit.	Normal Social Security retirement age with at least five years of service credit or when age and service credit equal 90. *Example:* Age 60 with 30 years of service credit.

	SPORS, VaLORS and political subdivision hazardous duty employees: Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.	Same as Plan 1.
	JRS: Age 65 with at least five years of service credit or age 60 with at least 30 years of service credit. Service earned under JRS is weighted. The weighting factors under Plan 1 are: • 3.5 for JRS members appointed or elected before January 1, 1995 • 2.5 for JRS members appointed or elected on or after January 1, 1995 Weighted and non-weighted service credit counts toward calculating the benefit.	Same as Plan 1. Service earned under JRS is weighted. The weighting factors under Plan 2 are: • 1.5 for JRS members appointed or elected before age 45 • 2.0 for JRS members appointed or elected between ages 45 and 54 • 2.5 for JRS members appointed or elected at age 55 or older Weighted and non-weighted service credit counts toward calculating the benefit.
Earliest Reduced Retirement Eligibility	VRS: Age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.	Age 60 with at least five years of service credit.
	SPORS, VaLORS and political subdivision employees: Age 50 with at least five years of service credit.	Same as Plan 1.
	JRS: Age 55 with at least five years of service credit.	Same as Plan 1.
Retirement Multipliers	VRS and JRS: 1.7 percent. SPORS, sheriffs and regional jail superintendents: 1.85 percent. VaLORS: 1.7 percent or 2.0 percent. Political subdivision hazardous duty employees: 1.7 percent or 1.85 percent as elected by the employer.	Same as Plan 1.
Cost-of-Living Adjustment (COLA)	Matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half the remaining increase, up to a maximum COLA of 5%. During years of no inflation or deflation, the COLA is 0%.	Matches the first 2% increase in the CPI-U and half the remaining increase, up to a maximum COLA of 6%. During years of no inflation or deflation, the COLA is 0%.

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 PLANS
ADDITIONS AND DEDUCTIONS
(in thousands)

	Fiscal Year Ended June 30,				
	2007	**2008**	**2009**	**2010**	**2011**
Additions:					
Member Contributions	$ 30,165	$ 25,304	$ 20,543	$ 26,498	$ 27,623
Employer Contributions	1,913,605	2,122,864	2,076,860	1,834,686	1,520,403
Net Investment Income (net of expenses)	1,156,556	981,838	752,986	774,306	1,030,658
Other	509	584	9,324	1,187	1,420
Total Additions	3,100,835	3,130,590	2,859,713	2,636,677	2,580,104
Deductions:					
Benefits	2,313,489	2,536,268	2,733,223	3,035,274	3,263,895
Refunds	95,765	102,935	91,348	93,086	100,544
Administrative Expenses	24,521	25,522	31,701	24,501	25,857
Other	178	298	668	4,050	6,675
Total Deductions	2,433,953	2,665,023	2,856,940	3,156,911	3,396,971
Excess of Additions over Deductions [before net appreciation (depreciation) in fair value of investments]	666,882	465,567	2,773	(520,234)	(816,867)
Net appreciation (depreciation) in fair value of investments	8,596,608	(3,756,138)	(12,253,992)	5,458,822	7,680,954
Net Assets Held in Trust at the End of the Year	$ 56,890,203	$ 53,599,632	$ 41,348,413	$ 46,287,001	$ 53,151,088

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. Effective July 1, 2011, Commonwealth employees (except elected officials), state police officers, and state law enforcement and correctional officers other than state police officers will begin paying the 5% employee contribution. This contribution will be handled as a pre-tax payroll deduction.

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 2011 fiscal year was determined in accordance with the actuarial valuation as of June 30, 2009. In calculating the Commonwealth's contribution rate for the 2011 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.

For fiscal year 2011, pension contributions due or required were based on the June 30, 2009 actuarial valuation, which used a 20-year funding period for the UAAL. The General Assembly again funded less than the rate determined by the actuary by extending the funding period for these groups from 20 years to 30 years, increasing the investment return assumption from 7.50% to 8.00% and increasing the inflation assumption from 2.50% to 3.00%. In addition, only the employer normal cost of the rate was funded and this was reduced by the expected rate reduction associated with the savings associated with the adoption of the revised benefits provision under Plan 2. As a result, the fiscal year 2011 employer rate for teachers was reduced from 12.91% to 3.93% and for state employees from 8.46% to 2.13%. Additionally, the employer rates for SPORS, VaLORS and JRS were reduced from the actuary's recommended rates of 25.56%, 15.93% and 46.79% to 7.76%, 5.12% and 28.81%, respectively. There was no adjustment to the employer contribution rate for political subdivision employers or to the member contribution rate of 5.00%.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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 2011 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
2009-10	2.93	4.71	8.84	8.24	25.13
2010-11	2.67	4.68	8.81	5.81	30.15
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
2009-10	5.09	7.13	15.25	8.54	12.91
2010-11	5.79	8.23	16.75	10.12	16.64
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
2009-10 [11]	8.02	11.84	24.09	16.78	38.04
2010-11 [12]	8.46	12.91	25.56	15.93	46.79

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.
[11] Contributions actually paid in FY 2010 were 6.26%, 8.81%, 20.05%, 14.23% and 34.51% for State, School Teachers, State Police, VaLORS, and Judges, respectively. However, these contributions were suspended for state employee groups for April, May and the first half of June 2010, and for school teachers for the entire fourth quarter of FY 2010.
[12] Contributions actually paid in FY 2011 were 2.13%, 3.93%, 7.76%, 5.152% and 28.81% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Effective October 1, 1983, the Commonwealth assumed the 5 percent employee contribution previously paid by its employees who are members of the VRS, SPORS, VaLORS and JRS. The total contribution rate actually being paid by the Commonwealth for Commonwealth employees, state police officers, state law enforcement and correctional officers other than state police officers, and judges through the 2010 fiscal year is, therefore, higher by that amount than what is shown in the summary. Effective July 1, 2011, Commonwealth employees (except elected officials), state police officers, and state law enforcement and correctional officers other than state police officers will again begin paying the 5% employee contribution through payroll deduction.

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, 2010. Below is the schedule of Funding Progress for the various pension plans. The 2010 data reflects a reduction in the assumed rate of return on investments from 7.50% to 7.00%. 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, 2011.

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							
2010		$52,729	$72,801	$20,072	72.4%	$14,758	136.0%
2009	[1]	53,185	66,323	13,138	80.2	14,948	87.9
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)							
2010		$634	$949	$315	66.8%	$ 98	323.2%
2009	[1]	647	879	232	73.6	101	230.0
2008		646	844	198	76.6	103	193.2
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)							
2010		$925	$1,579	$654	58.6%	$346	189.0%
2009	[1]	913	1,412	499	64.7	359	138.9
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)							
2010		$372	$560	$188	66.5%	$61	307.8%
2009	[1]	378	521	143	72.5	63	228.4
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, 2011, this plan had 271 accounts and total assets of approximately $6,781,337.

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. Eligibility periods for non-work related disability coverage and certain income replacement levels apply for employees hired on or after July 1, 2009.

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, 2010, $538.8 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, 2010, the estimated liability related to normal operations totaled $617.4 million. Of this amount, $237.8 million is reflected in the General Fund and $379.6 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, 2010.

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, 2011, the Commonwealth's estimated annual required OPEB contribution is $339.7 million and the estimated unfunded actuarial liabilities are $3.7 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.

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 amounts received by the Commonwealth from the Settlement is allocable to the TICR Commission (the "TICR Commission Allocation"). 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"). 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 the TICR Commission Allocation. 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 Foundation for Healthy Youth, and within it, the Virginia Tobacco Settlement 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 Virginia Tobacco Settlement Fund (the "Foundation Allocation"). Chapter 345 of the 2007 Virginia Acts of Assembly 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.

DISESTABLISHMENT OF THE UNITED STATES JOINT FORCES COMMAND

United States Joint Forces Command (USJFCOM) was one of the Department of Defense's (DOD) ten combatant commands and had several key roles in transforming the U.S. military's capabilities. Headquartered in Norfolk, Virginia, the command was comprised of 1,561 active and reserve personnel from each branch of the armed forces, 1,596 civil servants, and 2,565 contract employees. Approximately 3,900 of these positions were employed at facilities in Norfolk and Suffolk. USJFCOM's fiscal year 2010 operating budget totaled $838.7 million with building construction covering over 1 million square feet in Norfolk and Suffolk, and lease agreements for more than 642,000 square feet in Suffolk at a cost of $16 million.

During the spring of 2010, in recognition of the fiscal pressures the country was facing, Secretary of Defense Robert M. Gates launched a comprehensive effort to reduce DOD's overhead expenditures. The goal was to sustain the size and strength of the U.S. military over the long term by reinvesting those efficiency savings in force structure and other key combat capabilities.

On August 9, 2010, Secretary of Defense Gates announced a set of initiatives aimed at reducing overhead costs and improving efficiency across DOD as a whole, with special attention to the massive headquarters and support bureaucracies outside the four military services. DOD headquarters, administration and support elements such as the Office of the Assistant Secretary of Defense for Network Intelligence and Information, the Business Transformation Agency, and the USJFCOM were eliminated or disestablished, with a reduced number of their most essential functions transferred to other organizations. On February 9, 2011, DOD released final plans related to USJFCOM. Under the final plan approximately half of the 3,900 military, civilian and private contractor jobs at facilities in Norfolk and Suffolk were retained, including the modeling and simulation functions around the USJFCOM campus in Suffolk. In addition, Virginia was awarded a $500,000 grant from DOD's Office of Economic Adjustment (OEA) to establish a Workforce Transition Center in Suffolk for displaced USJFCOM workers to access a broad range of resources and assistance available from local, state, federal and nonprofit organizations. The Workforce Transition Center opened April 28, 2011 with a layoff aversion rate of about 49 percent.

On August 4, 2011, USJFCOM was formally dissolved with many of the command's functions staying in Hampton Roads. About 1,900 positions were eliminated with another 1,900 retained. The military expects to save $450 million a year. The former USJFCOM functions remaining in Hampton Roads include those related to joint training, developing new concepts and doctrine, experimentation and "lessons learned." The Joint Warfighting Center in Suffolk renamed the Joint and Coalition Warfighting Center and three buildings in Norfolk will remain occupied.

APPENDIX C

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 2010 population of 8,001,024 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 2010 population density was 202.1 persons per square mile, compared with 87.3 persons per square mile for the United States.

Population Trends

From 2001 to 2010, Virginia's population increased 11.3 percent versus 8.3 percent for the nation. Population trends since 2001 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**
2001	7,191,304	-	285,081,556	-
2002	7,283,541	1.3 %	287,803,914	1.0 %
2003	7,373,694	1.2	290,326,418	0.9
2004	7,468,914	1.3	293,045,739	0.9
2005	7,563,887	1.3	295,753,151	0.9
2006	7,646,996	1.1	298,593,212	1.0
2007	7,719,749	1.0	301,579,895	1.0
2008	7,795,424	1.0	304,374,846	0.9
2009	7,882,590	1.1	307,006,550	0.9
2010	8,001,024	1.5	308,745,538	0.6

AGE DISTRIBUTION OF POPULATION

Compared to the nation, a higher proportion of the Commonwealth's population is in the adult/working ages of 20 through 64. A lower proportion of Virginia's population is comprised of persons 65 and older and of persons age 5 through 19. In 2010 the population of the Commonwealth and of the United States was distributed by age as follows:

AGE DISTRIBUTION
2010

Age	Virginia		United States	
Under 5 years	6.4	%	6.5	%
5 through 19 years	19.7		20.4	
20 through 44 years	34.6		33.6	
45 through 64 years	27.1		26.4	
65 years and older	12.2		13.0	
	100.0	%	100.0	%

Sources: Virginia Employment Commission's Community Profile as of August 17, 2011 and US Bureau of the Census 2010 data as of June 3, 2011

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, 80.4 percent reside in eleven metropolitan statistical areas.

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 2009 population of 5,476,241 (including Washington and Maryland's population of 1,799,580). 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 2009 population of 1,674,498 and is an important center of manufacturing and tourism. The Richmond MSA is the third largest metropolitan area with a 2009 population of 1,238,187. 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 2009 population of 300,399. Also in the western part of the Commonwealth are the Lynchburg and Kingsport-Bristol-Bristol MSAs, which are both manufacturing centers, and had 2009 populations of 247,447 and 305,629, respectively. Located at the foot of the Blue Ridge Mountains is the Charlottesville MSA, a community with a 2009 population of 196,766 and home of the University of Virginia and significant manufacturing industries. The Danville MSA is located on the North Carolina border and had a 2009 population of 105,814.

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 2009 population of 123,989. 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 2009 population of 120,271, is located in west central Virginia. It is a major retail, service and manufacturing center in the Shenandoah Valley. With a 2009 population of 159,587, 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. 2009 population figures for all eleven Commonwealth MSAs are shown below:

METROPOLITAN STATISTICAL AREA
POPULATION AND PER CAPITA INCOME

MSA	2009 Population	2009 Per Capita Income
Blacksburg-Christiansburg-Radford	159,587	$28,384
Charlottesville	196,766	42,921
Danville	105,814	30,092
Harrisonburg	120,271	30,673
Kingsport-Bristol-Bristol	305,629	31,770
Lynchburg	247,447	33,308
Richmond	1,238,187	41,161
Roanoke	300,399	38,322
Virginia Beach-Norfolk-Newport News	1,674,498	39,518
Washington-Arlington-Alexandria*	5,476,241	56,984
Winchester	123,989	34,094
	2010 Population	**2010 Per Capita Income**
Commonwealth of Virginia	8,001,024	$44,762

* Washington-Arlington-Alexandria MSA includes Washington and Maryland.

Source: Bureau of Economic Analysis and US Census
2010 population and per capita income date by MSA not yet available.

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 $17.7 billion, or 25.7 percent. This growth is more than the average rate of inflation for this same period, which was 23.8 percent. The following table illustrates the changes in taxable retail sales for calendar years 2001 through 2010:

Calendar Year	Taxable Retail Sales	% Change
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
2009	85,869,132,300	-4.7
2010	86,420,963,843	0.6

Source: Department of Taxation and the Weldon Cooper Center.

Personal Income

According to the U.S. Department of Commerce, Virginians received over $358 billion in estimated personal income in 2010. In 2010, the Commonwealth had per capita income of $44,762, the highest of the Southeast region and greater than the national average of $40,584.

From 2001 to 2010, the Commonwealth's 3.7 percent average annual rate of growth in personal per capita income was more than the national average rate of growth of 3.2 percent. Virginia and United States per capita personal income are shown in the following table:

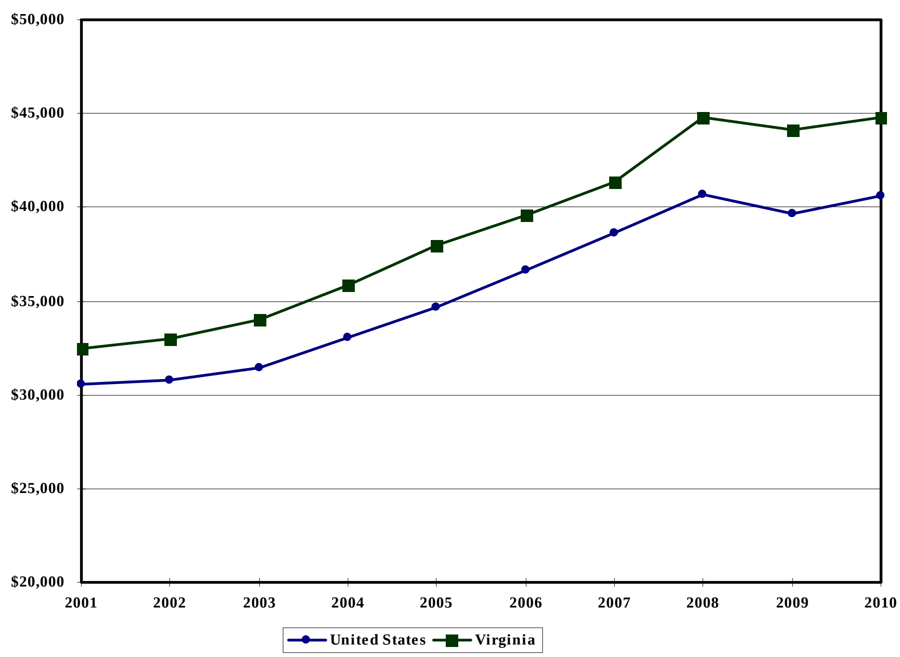
PERSONAL INCOME TRENDS

	Virginia		United States	
Year	Per Capita Personal Income	Increase Over Preceding Year	Per Capita Personal Income	Increase Over Preceding Year
2001	32,501	-	30,562	-
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	44,756	8.2	40,673	5.3
2009	44,129	-1.4	39,626	-2.6
2010	44,762	1.4	40,584	2.4

Source: Bureau of Economic Analysis

Virginia and United States per capita personal income are shown in the following graph:

PERSONAL INCOME TRENDS



In 2010, 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:

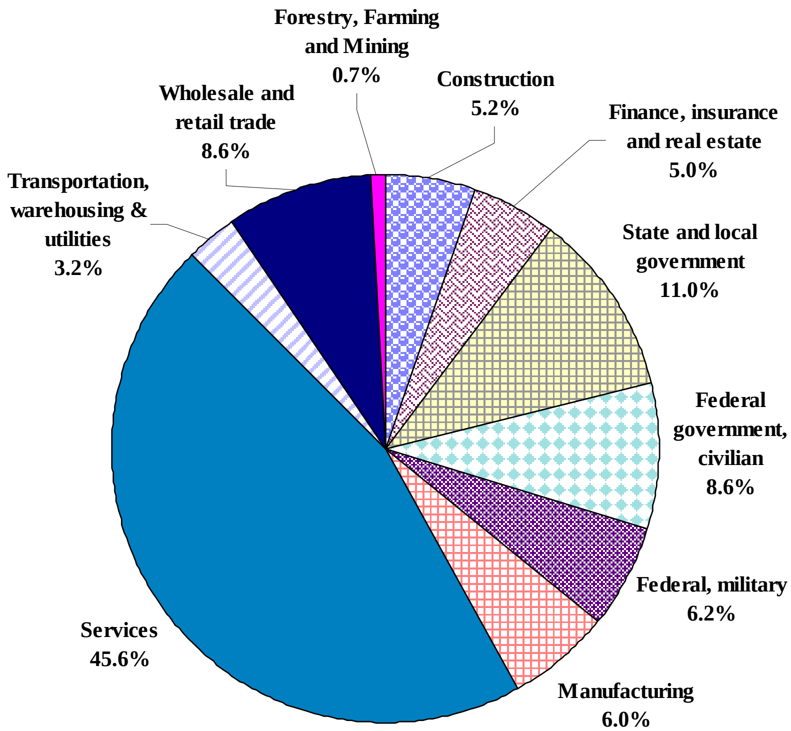
SOURCES OF PERSONAL INCOME
2010

	Virginia (in Millions)	Percentage of Personal Income Before Residence Adjustment: Virginia	Percentage of Personal Income Before Residence Adjustment: United States
Forestry, fisheries, related activities and other	$338	0.1 %	0.3 %
Construction	14,149	5.2	5.0
Farming	322	0.1	0.9
Finance, insurance and real estate	13,501	5.0	6.8
Government:			
State and local	29,789	11.0	12.6
Federal, civilian	23,229	8.6	3.4
Federal, military	16,701	6.2	2.0
Manufacturing	16,370	6.0	10.2
Mining	1,296	0.5	1.4
Services	123,561	45.6	42.0
Transportation, warehousing & utilities	8,553	3.2	4.2
Wholesale and retail trade	23,399	8.6	11.1
Subtotal	$271,207	100 %	100 %
Contributions for government social insurance	(29,659)		
Plus:			
Dividends, interest and rent	57,339		
Transfer payments	48,094		
Personal income before residence adjustment	$346,981		
Residence adjustment (1)	11,159		
Total Personal Income	$358,140		

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.

Bureau of Economic Analysis

DISTRIBUTION OF VIRGINIA NONAGRICULTURAL SOURCES OF GROSS PERSONAL INCOME BY MAJOR INDUSTRY
2010



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 77.6 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
2001	5,739.70	-	53,475	-
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
2009	3,196.75	-22.2	21,455	-22.56
2010	3,311.10	3.6	21,404	-0.24

[1] Excludes mobile homes.

Source: *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
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	900,079,538,628	28,843,374,447	69,815,543,837	998,738,456,912
2007	982,816,278,651	29,126,367,531	70,911,848,399	1,082,854,494,581
2008	1,023,386,154,546	31,749,628,737	71,398,689,437	1,126,534,472,720
2009	988,853,631,404	34,705,834,232	68,225,665,097	1,091,785,130,733

Note: Based on figures currently available from Taxation 2010 Annual Report to the Governor of the Commonwealth of Virginia. 2010 preliminary data is not yet available.

Source: Department of Taxation.

Employment

As of December 2010, more than 3.6 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.

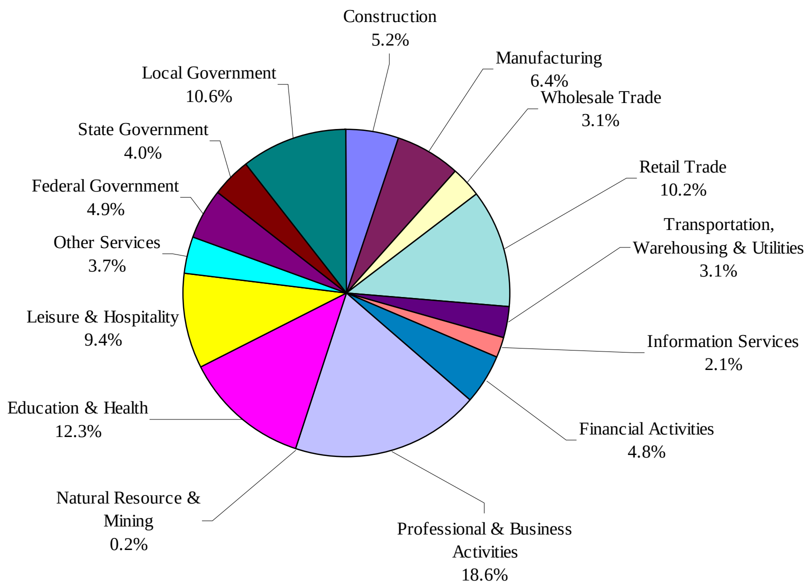
The following table indicates the distribution by category of nonagricultural employment in the Commonwealth and the comparative distribution in the United States.

DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT
2010

	Virginia	United States
Natural Resource & Mining	0.2 %	0.6 %
Construction	5.2	4.2
Manufacturing	6.4	8.9
Wholesale Trade	3.1	4.2
Retail Trade	11.5	11.1
Transportation, Warehousing & Utilities	3.1	3.7
Information Services	2.1	2.1
Financial Activities	4.8	5.8
Professional & Business Activities	18.6	13.0
Education & Health	12.3	15.2
Leisure & Hospitality	9.4	10.0
Other Services	3.7	4.2
Public Administration	0.0	
Federal Government	4.9	2.2
State Government	4.0	3.9
Local Government	10.6	10.9
	100.0 %	100.0 %

Source: U.S. Department of Labor, Bureau of Labor Statistics; and Virginia Employment Commission Report.

DISTRIBUTION OF VIRGINIA NONAGRICULTURAL EMPLOYMENT BY MAJOR INDUSTRY 2010



NONAGRICULTURAL EMPLOYMENT TRENDS

	2006	2007	2008	2009	2010	% Change 2006-2010
Natural Resource & Mining	11,300	10,900	11,100	11,100	8,871	**-21.5** %
Construction	249,400	239,900	222,900	194,900	184,474	**-26.0**
Manufacturing	288,700	277,800	264,800	236,100	229,656	**-20.5**
Wholesale Trade	119,500	120,900	119,465	115,845	111,469	**-6.7**
Retail Trade	423,700	427,500	420,635	409,055	410,027	**-3.2**
Transportation & Warehousing	119,800	119,700	119,000	117,500	109,547	**-8.6**
Information Services	92,000	90,400	87,400	78,700	75,879	**-17.5**
Financial Activities	195,700	193,700	188,700	186,300	171,688	**-12.3**
Professional & Business Activities	627,400	646,300	657,000	637,900	661,325	**5.4**
Education & Health	404,700	420,500	439,400	458,100	439,469	**8.6**
Leisure & Hospitality	338,100	345,300	349,300	333,000	336,654	**-0.4**
Other Services	181,600	185,500	188,800	179,900	130,120	**-28.3**
Public Administration						
Federal Government	153,600	156,600	159,900	169,700	174,225	**13.4**
State Government	152,800	153,000	154,000	160,400	140,928	**-7.8**
Local Government	367,800	373,400	380,500	385,800	378,150	**2.8**
Total	**3,726,100**	**3,761,400**	**3,762,900**	**3,674,300**	**3,562,482**	**-4.4** %

Source: Virginia Employment Commission.

During 2010, employment in the Information Services sector decreased from 78,700 in 2009 to 75,879. Professional and Business Activities sector employment increased by 23,425, or over 3.5 percent in 2010. The private Education and Health sector decreased by 18,631 jobs in 2010 for a 4.2 percent decrease. The Leisure and Hospitality sector increased by 3,654 to 336,354 in 2010. Financial Activities employment was down 14,612 or 7.8 percent below 2009 levels. Construction employment decreased to 184,474 or 5.6 percent below the 2009 average of 194,900.

Total Public Administration decreased by 22,597 or 3.2 percent in 2010. Wholesale and retail trade had an employment decrease of 3,404 or 3.6 percent decrease from 2009. Natural Resources and Mining employment in Virginia declined 25.1% to 8,871. Manufacturing employment decreased by 6,444 or 2.8 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
2010

Rank	Name	Industry
1	Wal Mart	General Merchandise Stores
2	Newport News Shipbuilding	Transportation Equipment Manufacturing
3	Sentara Healthcare	Hospitals
4	Food Lion	Food and Beverage Stores
5	Booz, Allen and Hamilton	Professional, Scientific, and Technical Services
6	Inova Fairfax Hospital	Hospitals
7	Science Applications International Corporation	Professional, Scientific, and Technical Services
8	Target Corp	General Merchandise Stores
9	Lowes' Home Centers, Inc.	Building Material and Garden Equipment and Supplies Dealers
10	Capital One Bank	Credit Intermediation and Related Activities

Source: Virginia Employment Commission Community Profile as of August 17, 2011.

TOP TEN PUBLIC SECTOR EMPLOYERS
2010

Rank	Name	Industry
1	U.S. Department of Defense	National Security and International Affairs
2	Fairfax County Public Schools	Educational Services
3	U.S. Postal Service	Postal Service
4	County of Fairfax	Executive, Legislative, and Other General Government Support
5	City of Virginia Beach Schools	Educational Services
6	Prince William County Schools	Educational Services
7	U.S. Department of Homeland Defense	Administration of Economic Programs
8	University of Virginia /Blue Ridge Hospital	Hospitals
9	Loudoun County Schools	Educational Services
10	Virginia Commonwealth University	Educational Services

Source: Virginia Employment Commission Community Profile as of August 17, 2011.

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.

As of December 2010, Virginia had modest job growth in three of its ten metropolitan areas. Those areas include Harrisonburg, Northern Virginia and Winchester. The Virginia Beach metropolitan area experienced the largest job loss, down 7,300 jobs or 1 percent from 2009.

The following table shows the size of the Commonwealth's total civilian labor force from 2001 through 2010, the percentage unemployed during this period and the comparable national unemployment rate.

UNEMPLOYMENT TRENDS

Year	Virginia's Civilian Labor Force	Unemployment in Virginia (1)	Unemployment in United States
2001	3,655,371	3.20 %	4.70 %
2002	3,744,636	4.20	5.80
2003	3,802,819	4.10	6.00
2004	3,857,950	3.70	5.50
2005	3,921,799	3.50	5.10
2006	3,983,717	3.00	4.60
2007	4,048,996	3.00	4.60
2008	4,188,397	4.00	5.80
2009	4,179,810	6.80	9.30
2010	4,185,321	6.90	9.60

(1) Components of labor force are by place of residence.

Source: Virginia Employment Commission as of August 17, 2011

Other Economic Factors [1]

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. The power station is scheduled to begin commercial operation in the summer of 2012. As of January 2011, Dominion's Virginia City Hybrid Energy Center project was more than 75 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 as well as the State Corporation Commission. Dominion Virginia Power announced on May 7, 2010, that it has selected Mitsubishi Heavy Industries' Advanced Pressurized Water Reactor (US-APWR) technology for the potential third nuclear unit at North Anna.. Dominion has not officially committed to build the new unit, but wants to maintain the option to do so to meet projected 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 State Corporation Commission (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 updated The Virginia Energy Plan which assesses Virginia's energy situation by examining the state's primary energy resources: electricity, coal, nuclear, natural gas, renewables and petroleum.

In addition to available electric power, the Commonwealth is also served by four major interstate natural gas transmission companies: Nisource Transmission (Columbia Gas Transmission), Dominion Transmission, Williams Pipeline (formerly Transcontinental Gas Pipe Line Corporation (Transco)), and Spectra Gas Transmission (formerly Eastern Tennessee Natural Gas).

BP Wind Energy North America has begun pursuing a wind project at Mill Creek in Wise County. The 60-megawatt project is expected to generate 150 construction jobs and $2 million in construction wages, $10 million in purchases of local products and services and 10-15 long-term jobs, plus millions in property tax revenue. Currently in the early stages of the project, the company still has much work to do including studies, engineering and various state and local approvals. Nearby in Tazewell County, Dominion is also seeking approval for an 80-megawatt proposed wind project at Bluestone River Wind Farm.

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 ground water. Of Virginia's 2,500 public water supply systems, 2,300 use ground water. More than 6.1 million Virginians are served by public water systems and of these citizens, 95% receive fluoridated water.

[1] Portions of the information contained within Economic Factors was compiled by the Virginia Economic Development Partnership (VEDP) with assistance from other Virginia state agencies and entities, and contains data recently published by Federal agencies and entities.

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 122,000 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. More than a dozen railroad companies and services, including nine freight railroads, operate over 3,500 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 nine 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 145 non-stop destinations around the world. Dulles International and Ronald Reagan Washington National Airports offer daily international non-stop flights to approximately 40 destinations. The commercial airports are supplemented by 58 general aviation airports licensed for public use. 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 Port of Virginia is largely responsible for the Commonwealth's strong ties with international commerce. In 2010, the four general cargo marine terminals, Norfolk International Terminal, Portsmouth Marine Terminal, Newport News Marine Terminal, and the new, state-of-the-art APM Terminals handled over 1.8 million twenty foot equivalent units (TEUs) with nearly 2000 vessel calls. 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, one of the largest intermodal networks on the East Coast, and the deepest channels of any port on the U.S. East Coast (50 feet deep).

On July 6, 2010, the Virginia Port Authority executed a 20-year lease with APM Terminals North America, allowing the Port Authority and its private operating company, Virginia International Terminals, to assume operations at this terminal. The 576-acre APM terminal is proclaimed as the most technologically-advanced marine cargo facility in the Americas. In addition to 4,000 linear feet of berth and 3.3 miles of on-site rail with links to Norfolk Southern and CSX, the highly-automated facility boasts a current capacity of 1.4 million TEUs annually with room for further expansion to over 2 million TEUs.

Rail is a critical component for the long-haul movement of containers to and from the marine terminals. In September 2010, Norfolk Southern completed their Heartland Corridor rail project, a direct double-stack container route between the marine terminals and the Midwest markets. This project is a public-private partnership between Norfolk Southern and West Virginia, Virginia, Ohio, and the federal government to create the shortest, fastest route for double-stacked container trains moving between the Port of Virginia and the Midwest. Containers from the marine terminals can reach Columbus, Ohio in one day, and Chicago, Illinois in two days.

The Port of Virginia is planning the Craney Island Marine Terminal. The first phase of Craney Island, a 600-acre terminal, is expected to be complete by 2020 with a capacity of 1.5 million TEUs. The full build-out of the terminal will be constructed as needed to accommodate demand. After Craney Island is completed, the Port of Virginia will have a port-wide capacity of 10 million TEUs. The White House has included in the 2012 federal budget $27.4 million for the Craney Island project. On December 1, 2010, construction of the dikes at Craney Island officially began.

With the increase in terminal capacity at the APM terminal and at Craney Island, along with the increased rail connectivity from the Heartland Corridor, the Port of Virginia is poised to become the future U.S. East Coast hub.

Telecommunications: Virginia is one of the most connected states in the country with more than 18.5 million access lines, over 7.2 million wireless telephone subscribers and 3.7 million high-speed lines. Mobile services are provided to the Commonwealth's communities by ten mobile telephone facilities-based carriers. More than 97 percent of households in the Commonwealth have telephone service. The largest exchange carrier in Virginia is Verizon. There are a multitude of competitive providers with large scale national and international backbone networks in operation in the Commonwealth, including Level (3) Communications, AT&T, 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's (MBC) world-class fiber-optic backbone network began providing services in 2006 and continues to expand. Through this initiative, 800 miles of new 144 strand advanced fiber optic cable have been installed in Southside Virginia connecting 4 cities, 20 counties, and more than 100 Virginia business, industrial and technology parks (called GigaParks).This cable network provides opportunities for the region to connect directly with major Tier 1 peering and carrier collocation centers. The Mid-Atlantic Broadband Cooperative, backed by grants from the U.S. Department of Commerce's Economic Development Administration and 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. Three major MBC projects are currently underway that will increase the network's fiber route miles from 800 to 1,500 by 2013.

Efforts are underway to further expand and enhance Southwest Virginia's technological capabilities. Grants from the Virginia Tobacco Indemnification and Community Revitalization Commission and the Virginia Coalfield Economic Development Authority will enable electronic upgrades as well as last-mile connections. Broadband infrastructure along Virginia's Interstate 81 is currently undergoing expansion work that will create a second connection between the BVU Authority and Mid-Atlantic Broadband. Specifically, an additional 49 miles of BVU's OptiNet fiber-optic backbone from Abingdon up I-81 to Virginia Route 16 from Marion into Grayson County will link up with Citizens Telephone. When complete, the route will connect existing facilities owned by Citizens Telephone in Independence, VA, to BVU's facilities in Marion and west along the Virginia Route 11 corridor. BVU OptiNet is recognized as the first municipal broadband network in the United States to provide triple-play services over an all-fiber-optic network. OptiNet was launched in Bristol, Virginia in 2003 and has since grown to encompass more than 850 miles across eight counties in Southwest Virginia.

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, 11 federally funded R&D Centers, and 19 FLC Laboratories such as the Homeland Security Institute, NASA Langley Research Center, and the Thomas Jefferson National Accelerator Facility. Twelve 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.

The renowned private, non-profit Howard Hughes Medical Institute opened the Janelia Farm Research Campus in Loudoun County in 2006. 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 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.

SRI International, a world-class, nonprofit research institute based in Menlo Park, California, established in 2006 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 a top-ranked state in three of the most comprehensive and impartial independent studies to date evaluating America's top states for business: Forbes.com, Pollina Corporate Real Estate, and CNBC.

According to the 2010 ranking of the *"Best States for Business"* by Forbes.com, Virginia has one of the best business climates in the country. Virginia took the top spot in 2006, 2007, 2008, and 2009 and ranked second overall in 2010. The review examines multiple objective measurements, including business cost, regulatory climate, quality of the workforce, and economic growth. Forbes.com is the official Internet site of the Forbes family of business publications. The Commonwealth took second place in the regulatory environment ranking, ranked third in labor supply, 4^{th} in economic climate, and 6^{th} in quality of life.

In 2011, Pollina Corporate Real Estate, a full-service brokerage and consulting firm representing corporations in real estate matters on a national and international basis, chose Virginia as America's most business-friendly state in their annual independent study titled, *Pollina Corporate Top 10 Pro-Business States for 2011*. The study evaluates and ranks states based on 32 factors including taxes, human resources, right-to-work legislation, energy costs, infrastructure spending, worker compensation legislation, jobs lost or gained, economic incentive programs and state economic development efforts. Virginia demonstrated strength particularly in the areas of taxes, education, and infrastructure, combined with excellent incentive programs and an efficient and effective state economic development department. This leading label marks Virginia's fifth number one ranking by Pollina. The Commonwealth ranked first in the Pollina study in 2004, 2007, 2009, and 2010 while ranking second in 2005 and 2006 and third in 2008.

Also in 2011, CNBC ranked Virginia as America's top state for business. The network evaluated each state on 43 different measures of competitiveness in 10 categories: cost of doing business, workforce, quality of life, economy, transportation and infrastructure, technology and innovation, education, business friendliness, access to capital, and cost of living. Specific improvements since last year's study included a considerably improved tax burden and the effort that begun in 2009 to reduce class sizes. The study commends Virginia for its strategic location, friendly business climate, and diverse economy. Since the rankings began Virginia has remained a top state, claiming the number one spot in both 2007 and 2009 while receiving second in 2008 and 2010.

Local Government: As of June 30, 2010, 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 $14.9 billion as of June 30, 2010; over 52 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 $10.4 billion. The outstanding debt for towns, as of June 30, 2010, was calculated by the Auditor of Public Accounts to be approximately $639 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, 2010, the Commonwealth paid $5.2 billion of the approximately $13.3 billion cost of operating local schools. Of the remainder, $1.5 billion was paid by the federal government and $6.6 billion was paid from local sources.

In the 2010-11 academic year, 409,277 students were enrolled in the Commonwealth's 39 public colleges, community colleges and universities. Of these students, 197,004 attended 23 community colleges on 40 campuses within the Virginia Community College System. A total of 1,253,038 students attended public elementary and secondary schools. 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 Year	Higher Education			Public Primary and Secondary
	Public	Private	Total	
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
2008-09	383,459	86,959	470,418	1,236,546
2009-10	401,352	100,514	501,866	1,245,937
2010-11	409,277	110,495	519,772	1,253,038

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.

Virginia's forests provide more than $27.5 billion in annual economic benefits to the Commonwealth. More than $23.4 billion is generated by the forest products industry, $2.4 billion in forest related recreational spending and employment for more than 144,000 Virginians, according to a 2010 state of the forest annual report. In addition, the forestland in Virginia provides citizens with valuable ecological services, including protection of water and air quality and habitat for many plant and animal species.

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, oysters, 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 $500 million.

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 2009 reached $17.7 billion. Approximately 204,480 Virginia jobs were directly supported by travel spending in 2009, 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 $1.24 billion in combined state and local tax revenues in 2009.

APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINIONS

APPENDIX D

Table of Contents

PROPOSED FORM OF BOND COUNSEL OPINION

Set forth below is the proposed form of the opinion of Christian & Barton, L.L.P., bond counsel, with respect to the Series 2011A Bonds. It is preliminary and subject to change prior to delivery of the Series 2011A Bonds.

October __, 2011

Virginia Public Building Authority
101 North 14th Street
Richmond, Virginia 23219

Virginia Public Building Authority
$__________ Public Facilities Revenue Bonds, Series 2011A

Ladies and Gentlemen:

We have examined applicable law, including the Virginia Public Building Authority Act of 1981 (Sections 2.2-2260 et seq. of the Code of Virginia of 1950, as amended) (the "Act"), and certified copies of proceedings and documents relating to the issuance and sale by the Virginia Public Building Authority (the "Authority") of its $__________ Public Facilities Revenue Bonds, Series 2011A (the "Series 2011A Bonds"). Reference is made to the Series 2011A Bonds for information concerning their details, including payment and redemption provisions, their purpose and the proceedings pursuant to which they are issued.

The Series 2011A Bonds are issued under and are equally and ratably secured by a Master Indenture of Trust, dated as of April 15, 1997, as previously supplemented and amended (the "Master Indenture"), as further supplemented by a Twenty-Ninth Supplemental Indenture of Trust, dated as of October 1, 2011 (the "Supplemental Indenture," and together with the Master Indenture, the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., Richmond, Virginia, as successor trustee (the "Trustee"). Additional bonds may be issued on parity with the Series 2011A Bonds on terms provided in the Master Indenture.

The Authority and the Treasury Board of the Commonwealth of Virginia (the "Commonwealth") have entered into a Payment Agreement dated as of April 15, 1997 (the "Payment Agreement"), which provides, among other things, for the procedures for requesting appropriations of funds by the General Assembly of the Commonwealth (the "General Assembly") sufficient to pay debt service on the Series 2011A Bonds and on bonds previously issued under the Master Indenture and paying such debt service to the Trustee.

Without undertaking to verify the same by independent investigation, we have relied upon representations of the Authority and the Commonwealth as to certain facts relevant to both our opinion and the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Authority and the Commonwealth have covenanted to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Series 2011A Bonds, including the timely payment to the United States of any arbitrage rebate amounts with respect to the Series 2011A Bonds, all as set forth in the proceedings and documents relating to the issuance of and security for the Series 2011A Bonds (the "Covenants").

Based on the foregoing we are of the opinion that, under existing law:

1. The Authority is a political subdivision of the Commonwealth duly created by the Act and has the requisite authority and power under the Act to issue and sell the Series 2011A Bonds.

2. The Series 2011A Bonds have been duly authorized, executed and delivered in accordance with the Act and the Indenture, constitute valid and binding limited obligations of the Authority, and are enforceable against the Authority in accordance with their terms, subject to the provisions of Paragraph 5. The Series 2011A Bonds are payable as to principal, premium, if any, and interest solely from the revenues, receipts and funds appropriated from time to time by the General Assembly therefor and paid to the Trustee in accordance with the Payment Agreement and from certain funds held under the Indenture, all as provided in the Indenture. The obligations to make payments of principal, premium, if any, and interest on the Series 2011A Bonds are subject to and dependent on annual and biennial appropriations by the General Assembly, which is not obligated to make such appropriations. The Series 2011A Bonds and the premium, if any, and the interest thereon do not constitute a debt of the Commonwealth or of any political subdivision thereof other than the Authority. Neither the faith and credit nor the taxing power of the Common¬wealth or any political subdivision thereof is pledged to the payment of the principal of, or premium, if any, or interest on the Series 2011A Bonds.

3. The Indenture has been duly authorized, executed and delivered by the Authority, and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms, subject to the provisions of Paragraph 5. The Supplemental Indenture is authorized or permitted by the Master Indenture and complies with the requirements of the Master Indenture. Execution of the Supplemental Indenture will not cause the interest on any bonds previously issued under the Master Indenture as tax-exempt bonds to become includable in the gross income of the holders thereof for federal income tax purposes; provided that this opinion is not meant to bring down or otherwise update the bond counsel opinion as to tax exemption delivered in connection with the issuance of any such bonds.

4. The Payment Agreement has been duly authorized, executed and delivered by the Authority, and constitutes a valid and binding obligation of the Authority, enforceable in accordance with its terms.

5. The obligations of the Authority under the Series 2011A Bonds and the Indenture are subject to the provisions of applicable bankruptcy, insolvency, reorganization, moratorium and other laws, now or hereafter in effect, relating to or affecting the rights of creditors generally. Such obligations also are subject to usual equitable principles, which may limit the specific enforcement of certain remedies but which do not affect the validity of such obligations.

6. Under existing law, interest on the Series 2011A Bonds [, including accrued original issue discount ("OID") properly allocable to an owner thereof,] (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes) subject to the alternative minimum income tax, such interest [, including accrued OID,] is taken into account in determining adjusted current earnings for purposes of computing such tax. The opinion in the preceding sentence is subject to the condition that there is compliance subsequent to the issuance of the Series 2011A Bonds with all requirements of the Code that must be satisfied in order that interest thereon not be included in gross income for federal income tax

purposes. Failure by the Authority or the Commonwealth to comply with the Covenants could cause interest on the Series 2011A Bonds [including accrued OID] to be included in gross income for federal income tax purposes retroactively to their date of issue. [In the case of the Series 2011A Bonds maturing on August 1 in the years _____ (the "OID Bonds"), the difference between (i) the stated principal amount of each maturity of the OID Bonds, and (ii) the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of such maturity of OID Bonds is sold will constitute OID; OID will accrue for federal income tax purposes on a constant yield-to-maturity method; and a holder's basis in such a Series 2011A Bond will be increased by the amount of OID treated for federal income tax purposes as having accrued on the Series 2011A Bond while the holder holds the Series 2011A Bond.] We express no opinion regarding other federal tax consequences of the ownership of or receipt or accrual of interest on the Series 2011A Bonds.

7. Under existing law, in accordance with Section 2.2-2278 of the Code of Virginia of 1950, as amended, the Series 2011A Bonds, their transfer and the income therefrom (including any profit made on the sale thereof) are exempt from taxation within the Commonwealth. We express no opinion regarding (i) other Commonwealth of Virginia tax consequences arising with respect to the Series 2011A Bonds, or (ii) consequences arising with respect to the Series 2011A Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth of Virginia.

Our services as bond counsel to the Authority have been limited to rendering the foregoing opinion based on our review of such proceedings and documents as we deem necessary to approve the validity of the Series 2011A Bonds, including the tax status of interest thereon, as described herein. We express no opinion herein as to the financial resources of the Authority or the Commonwealth, their respective ability or willingness to provide for payment of the Series 2011A Bonds or the accuracy or completeness of any information, including the Authority's Preliminary Official Statement dated September __, 2011, and its Official Statement dated September __, 2011, that may have been relied upon by anyone in making the decision to purchase the Series 2011A Bonds. The opinions expressed herein are given as of the date hereof only, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that hereafter may come to our attention or any changes in law that hereafter may occur or become effective. We have not been asked to, and we do not, render any opinion as to any matter except as specifically set forth herein.

Very truly yours,

PROPOSED FORM OF BOND COUNSEL OPINION

Set forth below is the proposed form of the opinion of Christian & Barton, L.L.P., bond counsel, with respect to the Series 2011B Bonds. It is preliminary and subject to change prior to delivery of the Series 2011B Bonds.

October __, 2011

Virginia Public Building Authority
101 North 14th Street
Richmond, Virginia 23219

Virginia Public Building Authority
$__________ Public Facilities Revenue Bonds, Series 2011B (Federally Taxable)

Ladies and Gentlemen:

We have examined applicable law, including the Virginia Public Building Authority Act of 1981 (Sections 2.2-2260 et seq. of the Code of Virginia of 1950, as amended) (the "Act"), and certified copies of proceedings and documents relating to the issuance and sale by the Virginia Public Building Authority (the "Authority") of its $__________ Public Facilities Revenue Bonds, Series 2011B (Federally Taxable) (the "Series 2011B Bonds"). Reference is made to the Series 2011B Bonds for information concerning their details, including payment and redemption provisions, their purpose and the proceedings pursuant to which they are issued.

The Series 2011B Bonds are issued under and are equally and ratably secured by a Master Indenture of Trust, dated as of April 15, 1997, as previously supplemented and amended (the "Master Indenture"), as further supplemented by a Twenty-Ninth Supplemental Indenture of Trust, dated as of October 1, 2011 (the "Supplemental Indenture," and together with the Master Indenture, the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., Richmond, Virginia, as successor trustee (the "Trustee"). Additional bonds may be issued on parity with the Series 2011B Bonds on terms provided in the Master Indenture.

The Authority and the Treasury Board of the Commonwealth of Virginia (the "Commonwealth") have entered into a Payment Agreement dated as of April 15, 1997 (the "Payment Agreement"), which provides, among other things, for the procedures for requesting appropriations of funds by the General Assembly of the Commonwealth (the "General Assembly") sufficient to pay debt service on the Series 2011B Bonds and on bonds previously issued under the Master Indenture and paying such debt service to the Trustee.

Without undertaking to verify the same by independent investigation, we have relied upon representations of the Authority and the Commonwealth as to certain facts relevant to our opinion.

Based on the foregoing we are of the opinion that, under existing law:

1. The Authority is a political subdivision of the Commonwealth duly created by the Act and has the requisite authority and power under the Act to issue and sell the Series 2011B Bonds.

2. The Series 2011B Bonds have been duly authorized, executed and delivered in accordance with the Act and the Indenture, constitute valid and binding limited obligations of the Authority, and are enforceable against the Authority in accordance with their terms, subject to the provisions of Paragraph 5. The Series 2011B Bonds are payable as to principal, premium, if any, and interest solely from the revenues, receipts and funds appropriated from time to time by the General Assembly therefor and paid to the Trustee in accordance with the Payment Agreement and from certain funds held under the Indenture, all as provided in the Indenture. The obligations to make payments of principal, premium, if any, and interest on the Series 2011B Bonds are subject to and dependent on annual and biennial appropriations by the General Assembly, which is not obligated to make such appropriations. The Series 2011B Bonds and the premium, if any, and the interest thereon do not constitute a debt of the Commonwealth or of any political subdivision thereof other than the Authority. Neither the faith and credit nor the taxing power of the Commonwealth or any political subdivision thereof is pledged to the payment of the principal of, or premium, if any, or interest on the Series 2011B Bonds.

3. The Indenture has been duly authorized, executed and delivered by the Authority, and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms, subject to the provisions of Paragraph 5. The Supplemental Indenture is authorized or permitted by the Master Indenture and complies with the requirements of the Master Indenture. Execution of the Supplemental Indenture will not cause the interest on any bonds previously issued under the Master Indenture as tax-exempt bonds to become includable in the gross income of the holders thereof for federal income tax purposes; provided that this opinion is not meant to bring down or otherwise update the bond counsel opinion as to tax exemption delivered in connection with the issuance of any such bonds.

4. The Payment Agreement has been duly authorized, executed and delivered by the Authority, and constitutes a valid and binding obligation of the Authority, enforceable in accordance with its terms.

5. The obligations of the Authority under the Series 2011B Bonds and the Indenture are subject to the provisions of applicable bankruptcy, insolvency, reorganization, moratorium and other laws, now or hereafter in effect, relating to or affecting the rights of creditors generally. Such obligations also are subject to usual equitable principles, which may limit the specific enforcement of certain remedies but which do not affect the validity of such obligations.

6. Interest on the Series 2011B Bonds is includible in the gross income of the holders thereof for purposes of federal income taxation. *This opinion is not intended or provided by us to be used, and cannot be used, by an owner of the Series 2011B Bonds for the purposes of avoiding Federal taxpayer penalties that may be imposed on such owner under the Code. The opinion in this paragraph is provided to support the promotion or marketing of the Series 2011B Bonds and this notice is intended to comply with the provisions of United States Treasury Publication Circular 230.* We express no opinion regarding other federal tax consequences arising with respect to the Series 2011B Bonds, and each owner of Series 2011B Bonds should seek advice based on its particular circumstances from an independent tax advisor.

7. Under existing law, in accordance with Section 2.2-2278 of the Code of Virginia of 1950, as amended, the Series 2011B Bonds, their transfer and the income therefrom (including any profit made on the sale thereof) are exempt from taxation within the Commonwealth. We express no opinion regarding (i) other Commonwealth of Virginia tax consequences arising with respect to the Series 2011B Bonds, or (ii) consequences arising with respect to the Series 2011B

Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth of Virginia.

Our services as bond counsel to the Authority have been limited to rendering the foregoing opinion based on our review of such proceedings and documents as we deem necessary to approve the validity of the Series 2011B Bonds, including the tax status of interest thereon, as described herein. We express no opinion herein as to the financial resources of the Authority or the Commonwealth, their respective ability or willingness to provide for payment of the Series 2011B Bonds or the accuracy or completeness of any information, including the Authority's Preliminary Official Statement dated September __, 2011, and its Official Statement dated September __, 2011, that may have been relied upon by anyone in making the decision to purchase the Series 2011B Bonds. The opinions expressed herein are given as of the date hereof only, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that hereafter may come to our attention or any changes in law that hereafter may occur or become effective. We have not been asked to, and we do not, render any opinion as to any matter except as specifically set forth herein.

Very truly yours,

APPENDIX E

CONTINUING DISCLOSURE UNDERTAKINGS OF THE VIRGINIA PUBLIC BUILDING AUTHORITY AND THE COMMONWEALTH OF VIRGINIA

APPENDIX E

Table of Contents

CONTINUING DISCLOSURE UNDERTAKINGS OF THE VIRGINIA PUBLIC BUILDING AUTHORITY PURSUANT TO THE TWENTY-NINTH SUPPLEMENTAL INDENTURE OF TRUST DATED AS OF OCTOBER 1, 2011

The following continuing disclosure undertaking was adopted by the Virginia Public Building Authority pursuant to its Twenty-Ninth Supplemental Indenture dated as of October 1, 2011 and contained therein in Article VI of the Twenty-Ninth Supplemental Indenture, except for the definitions which are contained in Article I of the Twenty-Ninth Supplemental Indenture.

Continuing Disclosure Undertaking

Definitions.

"Annual Report" means any annual report provided by the Authority as described below.

"EMMA" shall mean the MSRB's Electronic Municipal Market Access system, the internet address of which is http://emma.msrb.org/, and any successor thereto.

"Fiscal Year" 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. The Authority's Fiscal Year currently begins July 1 and continues through June 30 of the next calendar year.

"Holder" shall mean, for purposes of this Appendix E to the Official Statement, any person who is a record owner or beneficial owner of a 2011 Bond.

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

(1) Principal and interest payment delinquencies;
(2) Non-payment related defaults, if material;
(3) Unscheduled draws on debt service reserves reflecting financial difficulties;
(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers, or their failure to perform;
(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the 2011 Bonds, or other material events affecting the tax status of the 2011 Bonds;
(7) Modifications to rights of Holders of the 2011 Bonds, if material;
(8) Bond calls, if material, and tender offers;
(9) Defeasances;
(10) Release, substitution, or sale of property securing repayment of the 2011 Bonds, if material;
(11) Rating changes;
(12) Bankruptcy, insolvency, receivership or similar event of the Authority;*
(13) The consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or

* This event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Authority in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court of governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court of governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority.

the termination of a definitive agreement relating to any such actions; other than pursuant to its terms, if material; and

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Participating Underwriter" shall mean any or all of the original underwriters of the Authority's 2011 Bonds required to comply with the Rule in connection with the offering of such 2011 Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended and officially interpreted from time to time.

"SEC" shall mean the Securities and Exchange Commission

"Undertaking" shall mean the continuing disclosure undertaking assumed by the Authority in the Twenty-Ninth Supplemental Indenture.

The Authority has covenanted in the Twenty-Ninth Supplemental Indenture, for the benefit of the Holders of the 2011 Bonds and in order to assist the Participating Underwriters in complying with the Rule, to submit to EMMA an Annual Report with respect to itself, as issuer, not later than 10 months (currently May 1) after the end of each Fiscal Year, commencing May 1, 2012, and notice of any of the Listed Events with respect to the 2011 Bonds.

Content of Annual Report. Each Annual Report of the Authority required to be filed shall contain or incorporate by reference, at a minimum, a summary of information respecting appropriations made by the Virginia General Assembly to provide for the payment of debt service on the 2011 Bonds, all with a view toward assisting the Participating Underwriters in complying with the Rule.

Any information 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 SEC. 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.

Audited Annual Financial Statements. The Authority has also covenanted to submit its audited annual financial statements, prepared on the basis of generally accepted accounting principles, audited by either the Auditor of Public Accounts or a firm of independent certified public accountants, to EMMA when they become publicly available.

Failure to Provide Annual Report. If the Authority fails to provide an Annual Report to EMMA when due or to file its audited annual financial statements with EMMA when they become publicly available, the Authority shall send an appropriate notice to the MSRB via EMMA.

Reporting of Listed Events. The Authority will submit in a timely manner, not in excess of ten business days after the occurrence of the event, to the MSRB notice of any of the Listed Events with respect to the 2011 Bonds. 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 for the 2011 Bonds, (ii) the only open issue is when the 2011 Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Holders as under the terms of the Indenture, 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 redemption or 2011 Bond purchases.

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.

Amendment. Notwithstanding any other provision of the Twenty-Ninth Supplemental Indenture, or the Master Indenture, the Authority may amend its 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.

Additional Information. Nothing in the Undertaking shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in the 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 the 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 the Undertaking, the Authority shall have no obligation to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Default. Any Holder or Participating Underwriter may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligation of the Authority to file such Annual Report or to give notice of a Listed Event. In addition, the Holders of not less than a majority in aggregate principal amount of 2011 Bonds outstanding may take such actions as may be permitted by law to challenge the adequacy of any information provided pursuant to its Undertaking, or to enforce any other obligation of the Authority. A default of the Undertaking shall not be deemed an event of default under the Twenty-Ninth Supplemental Indenture or the 2011 Bonds, and the sole remedy under the Twenty-Ninth Supplemental Indenture in the event of any failure of the Authority to comply therewith 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.

Beneficiaries. This undertaking shall inure solely to the benefit of the Authority, the Participating Underwriters, and Holders from time to time of the 2011 Bonds, and shall create no rights in any other person or entity.

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 2011 Bonds. The Commonwealth has concurred in such determination and has covenanted and agreed to provide its Annual Reports, annual financial statements and notice of any Listed Events, as required by the Rule.

Termination. The obligations of the Authority pursuant to the Undertaking shall terminate upon the earlier to occur of legal defeasance or final retirement of all of the 2011 Bonds.

EMMA. All filings made pursuant to the Rule and the Undertaking shall be made solely by transmitting such filings to the MSRB via EMMA, as described in 1934 Act Release No. 59062. Should the SEC approve any additional or subsequent internet-based electronic filing system for satisfying the continuing disclosure filing requirements of the Rule, any filings required pursuant to the Undertaking may be made by transmitting such filing to such system, as described in the applicable SEC regulation or release approving such filing system.

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

VIRGINIA PUBLIC BUILDING AUTHORITY

in connection with
Virginia Public Building Authority's
$__________ Public Facilities Revenue Bonds, Series 2011A

Virginia Public Building Authority's
$__________ Public Facilities Revenue Bonds, Series 2011B (Federally Taxable)

CUSIP Numbers: 928172 _____ to _____

Dated Date of 2011 Bonds: October __, 2011

NOTICE IS HEREBY GIVEN that the Virginia Public Building Authority (the "Authority") has not provided an Annual Report [Audited Annual Financial Statements] as required by Article VI of the Twenty-Ninth Supplemental Indenture of Trust dated as of October 1, 2011, between the Authority and The Bank of New York Mellon Trust Company, N.A., as successor Trustee (the "Trustee"), supplementing that certain Master Indenture of Trust, dated as of April 15, 1997, between the Authority and the Trustee, pursuant to which the above referenced bonds were issued. The Authority anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by ____________________.

Dated:_______________

VIRGINIA PUBLIC BUILDING AUTHORITY

By: ____

Its: ____

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Commonwealth of Virginia (the "Commonwealth") in connection with the issuance by the Virginia Public Building Authority (the "Authority") of $__________ aggregate principal amount of its $__________ Public Facilities Revenue Bonds, Series 2011A and $__________ Public Facilities Revenue Bonds, Series 2011B (Federally Taxable) (collectively, the "2011 Bonds") pursuant to the provisions of the Twenty-Ninth Supplemental Indenture of Trust dated as of October 1, 2011 (the "Supplemental Indenture") between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee. The proceeds of the 2011 Bonds are being used by the Authority (i) finance the acquisition, construction, improvement, rehabilitation, furnishing and equipping of various public facilities for use by the Commonwealth and its agencies, (ii) finance the Commonwealth's share of the costs of certain grants and regional and local jail and juvenile detention facility projects, and (iii) pay costs of issuing the 2011 Bonds. 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 2011 Bonds and the Commonwealth concurs in such determination. The Commonwealth represents that it is in compliance with its prior undertakings regarding the Rule. The Commonwealth hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Commonwealth for the benefit of the Holders and in order to assist the Participating Underwriters in complying with the Rule. The Commonwealth acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Disclosure Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the Supplemental Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Commonwealth pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

"EMMA" shall mean the MSRB's Electronic Municipal Market Access system, the internet address of which is http://emma.msrb.org/, and any successor thereto.

"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 Bond.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Participating Underwriter" shall mean any of the original underwriters of the 2011 Bonds required to comply with the Rule in connection with the offering of such 2011 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; Audited Financial Statements.

(a) Not later than seven months following the end of each Fiscal Year of the Commonwealth, commencing with the Fiscal Year ending June 30, 2011 the Commonwealth shall, or shall cause the Dissemination Agent (if different from the Commonwealth) to, submit to EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than 10 days prior to said date, the 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 submitted to EMMA when they become publicly available.

(c) If the Commonwealth fails to submit an Annual Report to EMMA by the date required in subsection (a) hereof, or to submit its audited annual financial statements to EMMA when they become publicly available, the Commonwealth shall send an appropriate notice to the MSRB in substantially the form attached hereto as Exhibit A.

SECTION 4. Content of Annual Reports. Each Annual Report required to be filed hereunder shall include, at a minimum, the information referred to in Exhibit B as it relates to the Commonwealth, all with a view toward assisting Participating Underwriters in complying with the Rule. Any or all of such information may be incorporated by reference from other documents, including official statements containing information with respect to the Commonwealth, which have been filed with 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 Rating Changes. The Commonwealth will provide in a timely manner not in excess of ten business days after the occurrence of the event to the Authority and to EMMA notice of any changes in the ratings of the Commonwealth's general obligation bonds by the rating agencies requested by the Commonwealth to rate such bonds.

SECTION 6. Notice of Bankruptcy, Insolvency, Receivership or Similar Event. The Commonwealth will provide in a timely manner not in excess of ten business days after the occurrence of the event to the Authority and to EMMA notice of any bankruptcy, insolvency, receivership or similar event of the Commonwealth. For purposes of this Section, a bankruptcy, insolvency, receivership or similar event of the Commonwealth is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Commonwealth in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Commonwealth, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Commonwealth.

SECTION 7. Notice of Merger, Consolidation, Acquisition or Similar Event. The Commonwealth will provide in a timely manner not in excess of ten business days after the occurrence of the event to the Authority and to EMMA notice of any consummation of a merger, consolidation, or acquisition involving the Commonwealth or the sale of all or substantially all of the assets of the Commonwealth, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

SECTION 8. 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 2011 Bonds, and the Authority shall notify the Commonwealth promptly upon the occurrence of either such event.

SECTION 9. 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 10. 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 11. 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 notices described in Section 5 and Section 6 above, in addition to that which is required by this Disclosure Agreement. If the Commonwealth chooses to include any information in any Annual Report or notices described in Section 5 and Section 6 above, in addition to that which is specifically required by this Disclosure Agreement, the Commonwealth shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice.

SECTION 12. Default. Any person referred to in Section 13 (other than the Commonwealth) may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligation of the Commonwealth to file its Annual Report or to give notices as described in Section 5 and Section 6 hereinabove. In addition, Holders of not less than a majority in aggregate principal amount of Bonds outstanding may take such actions as may be permitted by law to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the Commonwealth hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under any applicable resolution or other debt authorization of the Commonwealth, and the sole remedy under this Disclosure Agreement in the event of any failure of the Commonwealth to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any Holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

SECTION 13. 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 2011 Bonds, and shall create no rights in any other person or entity.

SECTION 14. 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.

SECTION 15. EMMA. All filings under this Disclosure Agreement shall be made solely by transmitting such filings to the MSRB via EMMA, as described in 1934 Act Release No. 59062. Should the Securities and Exchange Commission approve any additional or subsequent internet-based electronic filing system for satisfying the continuing disclosure filing requirements of the Rule, any filings required under this Disclosure Agreement may be made by transmitting such filing to such system, as described in the applicable Securities and Exchange Commission regulation or release approving such filing system.

Date: October __, 2011

COMMONWEALTH OF VIRGINIA

By: ______________________________
State Treasurer

AGREED TO & ACKNOWLEDGED:

VIRGINIA PUBLIC BUILDING AUTHORITY

By: ______________________________
Assistant Secretary/Treasurer

Attachments:
Exhibit A - Notice of Failure to File Annual Report [Audited Annual Financial Statements]
Exhibit B - Content of Annual Report

EXHIBIT A

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

COMMONWEALTH OF VIRGINIA

in connection with
Virginia Public Building Authority's
$___________ Public Facilities Revenue Bonds, Series 2011A
$___________ Public Facilities Revenue Bonds, Series 2011B (Federally Taxable)

CUSIP Numbers: 928172 _____ to _____

Dated Date of Series 2011 Bonds: October __, 2011

NOTICE IS HEREBY GIVEN that the Commonwealth of Virginia has not provided an Annual Report [Audited Annual Financial Statements] as required by Section 3 of the Continuing Disclosure Agreement, which was entered into in connection with the above-named bonds issued pursuant to the Twenty-Ninth Supplemental Indenture dated as of October 1, 2011, between the Virginia Public Building Authority and The Bank of New York Mellon Trust Company, N.A., as trustee. The Commonwealth anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by _____.

Dated: ________

COMMONWEALTH OF VIRGINIA

By: ______________________________
State Treasurer

EXHIBIT B

CONTENT OF ANNUAL REPORT

General Fund. Information concerning revenues, sources of revenues, expenditures, categories of expenditures and balances of the General Fund of the Commonwealth for the preceding fiscal year.

Appropriation Act. A summary of the material budgetary aspects of the Appropriation Act for the current biennium.

Debt. Updated information respecting tax-supported and other outstanding debt of the Commonwealth including a historical summary of outstanding tax-supported debt; a summary of authorized but unissued tax-supported debt and a summary of annual debt service on outstanding tax-supported debt.

Retirement Plans. Updated information (to the extent not shown in the latest audited annual financial statements) respecting pension and retirement plans administered by the Commonwealth including a summary of membership, revenues, expenses and actuarial valuation(s) of such plans.

Litigation. A summary of material litigation pending against the Commonwealth.

Demographic Information. Updated demographic information respecting the Commonwealth such as its population and tax base.

Economic Information. Updated economic information respecting the Commonwealth such as income, employment, industry and infrastructure data.

In general, the foregoing will include information as of the end of the most recent fiscal year or as of the most recent practicable date. Where information for the fiscal year just ended is provided, it may be preliminary and unaudited. Where information has historically been provided for more than a single period, comparable information will in general be provided for the same number of periods where valid and available. Where comparative demographic or economic information for the Commonwealth and the United States as a whole is contemporaneously available and, in the judgment of the Commonwealth, informative, such information may be included. Where, in the judgment of the Commonwealth, an accompanying narrative is required to make data presented not misleading, such narrative will be provided.

APPENDIX F

2011A BONDS NOTICE OF SALE

APPENDIX F

NOTICE OF SALE

$280,000,000*
VIRGINIA PUBLIC BUILDING AUTHORITY
PUBLIC FACILITIES REVENUE BONDS
SERIES 2011A

Electronic Bids, via the PARITY® Competitive Bidding System ("PARITY®") only, for the purchase of all, and not less than all, of the $280,000,000* Virginia Public Building Authority Public Facilities Revenue Bonds Series 2011A (the "2011A Bonds"), will be received until 11:00 A.M., RICHMOND, VIRGINIA TIME, on Wednesday, October 5, 2011 (unless changed as described herein), by the Virginia Public Building Authority (the "Authority").

Preliminary Official Statement

The Authority has authorized the preparation and distribution of a Preliminary Official Statement dated September 27, 2011 (the "Preliminary Official Statement") containing information relating to the 2011A Bonds. This Notice of Sale and the Preliminary Official Statement referred to above are available on the Internet at www.iDealProspectus.com. This Preliminary Official Statement in its entirety is available in physical form and may be obtained by contacting Public Resources Advisory Group at (212) 566-7800.

The 2011A Bonds

Authorization and Security

The 2011A Bonds will be issued pursuant to a Master Indenture of Trust (as previously supplemented and amended, the "Master Indenture"), dated as of April 15, 1997, as supplemented by a Twenty-Ninth Supplemental Indenture of Trust (the "Twenty-Ninth Supplemental Indenture"), dated as of October 1, 2011, between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Together, the Master Indenture, the Twenty-Ninth Supplemental Indenture and any further supplements are referred to collectively as the "Indenture." The Bonds currently outstanding under the Indenture are collectively referred to as the "Prior Bonds." The 2011A Bonds, the Prior Bonds, and all other parity or additional bonds hereafter issued from time to time under and secured equally and ratably by the Indenture (the "Additional Bonds") are collectively called the "Bonds."

THE 2011A BONDS WILL BE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE REVENUES, RECEIPTS AND FUNDS PLEDGED OR AVAILABLE FOR THE PAYMENT THEREOF AND ARE NOT A DEBT OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE COMMONWEALTH OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY.

THE GENERAL ASSEMBLY IS NOT REQUIRED, AND IS UNDER NO LEGAL OBLIGATION, TO MAKE AN APPROPRIATION FOR ANY AMOUNTS DUE UNDER THE PAYMENT AGREEMENT.

Details of 2011A Bonds; Book Entry Only

The 2011A Bonds will be dated the date of their original issuance and delivery (the "Dated Date"). Interest on the 2011A Bonds from the Dated Date will be calculated on a 30/360 day basis and will be payable semiannually on February 1 and August 1, commencing February 1, 2012. The 2011A Bonds will be issued as fully registered bonds in book entry form, payable to the nominee of The Depository Trust Company, New York, New York, ("DTC"), as securities depository for the 2011A Bonds. Reference is made to the Preliminary Official Statement relating to the 2011A 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 the book entry only system.

---

* Preliminary, subject to change.

Maturity Schedule

Principal on the 2011A Bonds will be due (subject to the right of prior redemption) through serial maturities on the following dates and in the following amounts:

August 1*	Preliminary Annual Principal Amounts*
2012	8,695,000
2013	8,940,000
2014	9,260,000
2015	9,685,000
2016	10,180,000
2017	10,705,000
2018	11,255,000
2019	11,835,000
2020	12,440,000
2021	13,075,000
2022	13,745,000
2023	14,450,000
2024	15,190,000
2025	15,975,000
2026	16,790,000
2027	17,650,000
2028	18,555,000
2029	19,510,000
2030	20,505,000
2031	21,560,000

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

Serial and/or Term Bonds

All of the 2011A Bonds will be serial bonds unless the successful bidder shall designate consecutive principal maturities to be combined into one or more term bonds. Such term bonds shall be subject to mandatory sinking fund redemption commencing on August 1 of the first year which has been combined to form such term bond and continuing on August 1 in each year thereafter until the stated maturity date of that term bond. The amount redeemed in any year shall be equal to the principal amount for each such year set forth in the appropriate amortization schedule. The 2011A Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from among 2011A Bonds of the same maturity, as described in the Preliminary Official Statement relating to the 2011A Bonds.

Redemption Provisions

The 2011A Bonds maturing on or after August 1, 2021 are subject to redemption prior to maturity on or after August 1, 2022, from any money available for such purpose, in whole or in part (if in part, in multiples of $5,000), at any time, upon payment of the redemption price of 100% of the principal amount of the 2011A Bonds to be redeemed, plus accrued interest to the redemption date.

Changes to Bid Date, Closing Date, and Principal Amounts

Change of Bid Date and Closing Date

The Authority reserves the right to change, from time to time, the date and/or time established for the receipt of bids and will undertake to notify registered prospective bidders via notification published on www.tm3.com ("TM3"). Prospective bidders may request notification of any such changes in the date or time for the receipt of bids by so advising Public Resources Advisory Group at (212) 566-7800 by no later than 12 NOON, RICHMOND, VIRGINIA TIME, on the day prior to the announced date for receipt of bids.

A change of the bid date and/or time will be announced via TM3 not later than one hour prior to any announced date for receipt of bids, and an alternative sale date and time will be announced via TM3 at least 18 hours prior to such alternative date and/or time for receipt of bids.

On any such alternative date and/or time for receipt of bids, the Authority will accept electronic bids for the purchase of the 2011A Bonds, such bids to conform in all respects to the provisions of this Notice of Sale, except for the changes in the date and/or 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 2011A Bonds by notice given in the same manner as that set forth for a change in the date for the receipt of bids. See "Delivery of the 2011A Bonds" below.

Changes to Preliminary Principal Amounts

The preliminary aggregate principal amount of the 2011A Bonds and the preliminary annual principal amounts as set forth in this Notice of Sale (the "Preliminary Aggregate Principal Amount" and the "Preliminary Annual Principal Amounts," respectively; collectively, the "Preliminary Amounts") may be revised before the viewing of electronic bids for the purchase of the 2011A Bonds. Any such revisions (the "Revised Aggregate Principal Amount" and the "Revised Annual Principal Amounts," respectively; collectively, the "Revised Amounts") WILL BE PUBLISHED AS AN AMENDMENT TO THE NOTICE OF SALE AND ANNOUNCED ON TM3 NOT LATER THAN 9:30 A.M. RICHMOND, VIRGINIA TIME ON ANY ANNOUNCED DATE FOR RECEIPT OF BIDS.

In the event that no such revisions are made, the Preliminary Amounts will constitute the Revised Amounts. BIDDERS SHALL SUBMIT BIDS BASED ON THE REVISED AMOUNTS. Prospective bidders may request notification by facsimile transmission of any revisions in Preliminary Amounts by so advising and furnishing, in writing, the name of the contact person and both their telephone and telecopier numbers to Public Resources Advisory Group at (212) 566-7800 by 12 NOON, RICHMOND, VIRGINIA TIME, at least one day prior to the receipt of bids.

Changes to Revised Principal Amounts

After selecting the winning bid, the Authority reserves the right to change the final aggregate principal amount of the 2011A Bonds and each final annual principal amount (the "Final Aggregate Principal Amount" and the "Final Annual Principal Amounts," respectively; collectively, the "Final Amounts"). In determining the Final Amounts, the Authority will not reduce or increase the Revised Aggregate Principal Amount by more than 10% of such amount. THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES (AS HEREIN DEFINED) AS A RESULT OF ANY CHANGES MADE TO THE REVISED AMOUNTS WITHIN THESE LIMITS. The dollar amount bid by the successful bidder will be adjusted to reflect any adjustment in the aggregate principal amount of the 2011A Bonds. Such adjusted bid price will reflect changes in the dollar amount of the underwriter's discount and original issue discount/premium, if any, but will not change the selling compensation per $1,000 of par amount of bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the Initial Reoffering Prices. The interest rate specified by the successful bidder for each maturity and the Initial Reoffering Prices will not change. The Authority anticipates that the Final Amounts and the adjusted bid price will be communicated to the successful bidder by 10:00 A.M., RICHMOND, VIRGINIA TIME, on the day following the sale date.

Electronic Bidding and Bidding Procedures

Registration to Bid

All prospective bidders must be contracted customers of PARITY®. If you do not have a contract with PARITY®, call (212) 404-8102 to become a customer. By submitting a bid for the 2011A Bonds, a prospective bidder represents and warrants to the Authority that such bidder's bid for the purchase of the 2011A Bonds 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 2011A Bonds. By registering to bid for the 2011A Bonds, 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 PARITY® AS APPROVED PROVIDER OF ELECTRONIC BIDDING SERVICES, THIS NOTICE OF SALE (INCLUDING ANY AMENDMENTS OR SUPPLEMENTS) SHALL CONTROL. Further information about PARITY®, including qualification, registration, rules and any fee charged, may be obtained from PARITY®, telephone (212) 404-8102, email at parity@i-deal.com.

Disclaimer

Each prospective bidder shall be solely responsible to register to bid via PARITY® as described in the attached instructions. Each qualified prospective bidder shall be solely responsible to make necessary arrangements to access 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 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 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 PARITY®. The Authority is using 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 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 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 PARITY® at (212) 404-8102 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 PARITY® will indicate the apparent successful bidder. Such message is a courtesy only for viewers, and does not constitute the award of the 2011A 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 and to award the 2011A Bonds.

Good Faith Deposit

A good faith deposit in the amount of $2,800,000* (the "Deposit") is required in connection with the sale and bid for the 2011A Bonds. The Deposit may be provided for by (i) a certified check, bank cashier's, treasurer's or official check drawn upon or certified by a responsible banking institution and made payable to the order of the Virginia Public Building Authority delivered at or prior to the time of bid, or (ii) a Federal funds wire transfer to be submitted to the Authority by the successful bidder not later than 4:00 p.m. (Richmond Time) on the date of sale (the "Wire Transfer Deadline") as set forth below under "Wire Transfers". The Deposit of the successful bidder will be collected and the proceeds thereof retained by the Authority to be applied in partial payment for the 2011A Bonds and no interest will be allowed or paid upon the amount thereof, but in the event the successful bidder shall fail to comply with the terms of the respective bid, the proceeds thereof will be retained as and for full liquidated damages. Checks of unsuccessful bidders will be returned promptly after the bonds are awarded.

Wire Transfers

If the successful bidder chooses to deliver its good faith deposit by Federal funds wire transfer, the Authority will distribute wiring instructions for the Deposit to the successful bidder upon verification of the bids submitted by the bidders and prior to the Wire Transfer Deadline. If the Deposit is not received by the Wire Transfer Deadline, the award of the sale of the Bonds to the successful bidder may be cancelled by the Authority in its discretion without any financial liability of the Authority to the successful bidder or any limitation whatsoever on the Authority's right to sell the Bonds to a different purchaser upon such terms and conditions as the Authority shall deem appropriate.

Bidding Procedures

Bids must be submitted electronically for the purchase of the 2011A Bonds (all or none) by means of the Virginia Public Building Authority AON Bid Form (the "Bid Form") via PARITY® by 11:00 A.M., RICHMOND, VIRGINIA TIME, on Wednesday, October 5, 2011 unless postponed as described herein (see "Change of Bid Date and Closing Date"). Prior to that time, a prospective bidder may input and save the proposed terms of its bid in PARITY®. Once the final bid has been saved in PARITY®, the bidder may select the final bid button in

* Preliminary, subject to change.

PARITY® to submit the bid to PARITY®. Once the bids are communicated electronically via PARITY® to the State Treasurer, each bid will constitute an irrevocable offer to purchase the 2011A Bonds on the terms therein and herein provided. For purposes of the electronic bidding process, the time as maintained on PARITY® shall constitute the official RICHMOND, VIRGINIA TIME. For information purposes only, bidders are requested to state in their bids the true interest cost to the Authority, as described under "Award of the Bonds" below, represented by the rate or rates of interest and the bid price specified in their respective bids.

No bids will be accepted in written form, by facsimile transmission or in any other medium or on any system other than by means of the Bid Form via PARITY®. No bid will be received after the time for receiving such bids specified above.

Bid Specifications

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 2011A Bonds. Bidders are invited to name the rate or rates of interest that the 2011A Bonds are to bear, in multiples of 1/8 or 1/20 of one percent. Each bidder must specify in its bid a single rate for each maturity of the 2011A Bonds. Any number of rates may be named, provided that (a) the difference between the highest interest rate and the lowest interest rate shall not exceed 400 basis points, (b) no interest rate may exceed 5.00%, and (c) the price bid for the 2011A Bonds shall not be less than the par amount of the aggregate principal amount thereof. No bid for other than all of the 2011A Bonds will be considered.

Award of the Bonds

The Authority will notify the apparent successful bidder electronically (via PARITY®), as soon as possible after the receipt of bids, that such bidder's bid appears to be the lowest and best bid received that conforms to the requirements of this Notice of Sale, subject to verification. 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 2011A Bonds as described below. Such reoffering prices and yields, among other things, will be used by the Authority to calculate the Final Annual Principal Amounts and the Final Aggregate Principal Amount of the 2011A Bonds.

ALL BIDS SHALL REMAIN FIRM UNTIL 4:00 P.M., RICHMOND, VIRGINIA TIME, ON THE DATE OF RECEIPT OF BIDS. An award of the 2011A Bonds, if made, will be made by the Authority within such five-hour period of time. Unless all bids are rejected, the 2011A 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, that, when applied against each semi-annual debt service payment (interest, or principal and interest, as due, including any mandatory sinking fund payment) will equate the sum of such discounted semi-annual payments to the total purchase price. The true interest cost shall be calculated from the Dated Date. In case of a tie, the State Treasurer on behalf of the Authority, in its sole discretion, may select the successful bidder. THE AUTHORITY RESERVES THE RIGHT TO WAIVE IRREGULARTIES IN ANY BID AND TO REJECT ANY OR ALL BIDS.

Closing; Miscellaneous

Undertakings of the Successful Bidder

The successful bidder shall make a bona fide public offering of all of the 2011A 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 in writing of the initial public offering prices of the 2011A Bonds (the "Initial Reoffering Prices"). The successful bidder must provide the initial public offering prices, as the Authority will not include in the Official Statement an "NRO" ("not reoffered") designation to or for any maturity of the 2011A Bonds. The successful bidder will be responsible to the Authority in all respects for the accuracy and completeness of any information it provides with respect to such reoffering. The successful bidder must, within 24 hours after notification of the Final Amounts, furnish the following information to the Authority to complete the Official Statement in final form, as described below:

A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all 2011A Bonds are sold at the prices or yields at which the successful bidder advised the Authority that the 2011A Bonds were initially offered to the public).

B. The identity of the other underwriters if the successful bidder is part of a group or syndicate.

C. Any other material information that the Authority determines is necessary or desirable to complete the Official Statement in final form.

Prior to the delivery of the 2011A Bonds, the successful bidder shall furnish to the Authority a certificate in form and substance acceptable to Bond Counsel regarding "issue price," and generally to the effect that as of October 5, 2011 (the "Sale Date"), the successful bidder had made a *bona fide* public offering of the 2011A Bonds and that as of the bid date, a substantial amount of the 2011A Bonds of each maturity was sold or was expected to be sold to the public (excluding bond houses, brokers and other intermediaries) at the Initial Reoffering Prices. Questions regarding the issue price certificate should be directed to Eric Ballou, Bond Counsel, at (804) 697-4122. The issue price certificate must be made on the best knowledge, information and belief of the successful bidder, and reliance on facts other than those specified above as a basis for any certification in the issue price certificate will require evaluation by the Authority and Bond Counsel to assure compliance with the statutory requirement to avoid the establishment of an artificial price for the 2011A Bonds.

It will be the responsibility of the successful bidder to institute such syndicate reporting requirements to make the appropriate investigation or otherwise determine the facts necessary to enable it to make the foregoing certifications.

The Authority expects the successful bidder to deliver copies of such Official Statement in final form (the "final Official Statement") to persons to whom such bidder initially sells the 2011A Bonds, the Municipal Securities Rulemaking Board ("MSRB") and to the MSRB's Electronic Municipal Market Access System ("EMMA"). The successful bidder will be required to acknowledge receipt of such final Official Statement, to certify that it has made delivery of the final Official Statement to such repositories, to acknowledge that the Authority expects the successful bidder to deliver copies of such final Official Statement to persons to whom such bidder initially sells the 2011A Bonds and to certify that the 2011A Bonds will only be offered pursuant to the final Official Statement and only in states where the offer is legal.

It is the policy of the Commonwealth of Virginia pursuant to Executive Order 33 to ensure that small businesses and businesses owned by women and minorities receive every opportunity to compete for the Commonwealth's business. Following award of the 2011A 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.

Delivery of the Bonds

The 2011A Bonds are expected to be delivered on or about October 19, 2011 (UNLESS A NOTICE OF A CHANGE IN THE DELIVERY DATE IS ANNOUNCED ON TM3 NOT LATER THAN ONE HOUR PRIOR TO ANY ANNOUNCED DATE FOR RECEIPT OF BIDS) in New York, New York, through the facilities at DTC against payment of the purchase price therefor (less the amount of the good faith Deposit) in Federal Funds.

There will also be furnished the usual closing papers, including certificates signed by appropriate Authority officers stating that (i) no litigation of any kind is now pending or, to their information, knowledge or belief, threatened to restrain or enjoin the issuance or delivery of the 2011A Bonds or in any manner questioning the proceedings and authority under which the 2011A Bonds are issued, or affecting the validity of the 2011A Bonds, and (ii) relating to the Official Statement, as described in the Preliminary Official Statement.

Legal Opinion

The approving opinion of Christian & Barton, L.L.P., Richmond, Virginia, Bond Counsel, in substantially the form set forth in the Preliminary Official Statement, will be furnished without cost to the successful bidder. The Preliminary Official Statement contains a discussion of the effect of the Internal Revenue Code of 1986, as amended, on the exclusion from gross income of interest on the 2011A Bonds and a discussion of Bond Counsel's opinion insofar as it concerns such exclusion.

CUSIP Numbers

CUSIP numbers will be applied for by the successful bidder with respect to the 2011A Bonds, but the Authority will assume no obligation for the assignment or printing of such numbers on the 2011A Bonds or for the correctness of such numbers, and neither the failure to print such numbers on any of the 2011A Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and make payment for the 2011A Bonds.

Amendments

In addition to any changes in the bid date, time or amounts of the 2011A Bonds provided for herein, the Authority otherwise reserves the right to amend this Notice of Sale. The Authority expects it would publish notification of such amendment via TM3 NOT LATER THAN 9:30 A.M. RICHMOND, VIRGINIA TIME ON ANY ANNOUNCED DATE FOR RECEIPT OF BIDS and would provide notification to prospective bidders who have so requested such notification to Public Resources Advisory Group.

Official Statement

The Preliminary Official Statement dated September 27, 2011 and the information contained therein have been deemed final by the Authority as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the final Official Statement.

The Authority, at its expense, will make available to the successful bidder a reasonable number of final Official Statements, for delivery to each potential investor requesting a copy of the final Official Statement and to each person to whom such bidder and members of its bidding group initially sell the 2011A Bonds, within seven (7) business days of the award of the 2011A Bonds, provided that the successful bidder cooperates in a timely manner providing the information required to complete the final Official Statement.

The successful bidder shall comply with the requirements of Rule 15c2-12 and the rules of the MSRB, including an obligation to provide information to the Treasury Board on a timely basis for the final Official Statement.

Continuing Disclosure

In order to assist bidders in complying with Rule 15c2-12, the Authority and the Commonwealth will undertake to provide certain annual financial information and operating data and notices of the occurrence of certain events, if material. A description of such undertakings is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

Additional Information

For further information relating to the 2011A Bonds, reference is made to the Preliminary Official Statement, dated September 27, 2011 prepared for and authorized by the Authority. The Preliminary Official Statement may be obtained via the Internet at www.i-dealprospectus.com. Physical copies are available upon request by calling I-Deal Prospectus LLP at (212) 404-8104, or from the undersigned through the Office of the State Treasurer, Third Floor, James Monroe Building, 101 North 14th Street, Richmond, VA 23219 (telephone (804) 225-4929; telecopy (804) 225-3187), or from the financial advisor, Public Resources Advisory Group (telephone (212) 566-7800; telecopy (212) 566-7816).

Dated: September 27, 2011

Virginia Public Building Authority
By: Sarah B. Williams, *Chairman*

APPENDIX G

2011B BONDS NOTICE OF SALE

APPENDIX G

NOTICE OF SALE

$18,500,000*
VIRGINIA PUBLIC BUILDING AUTHORITY
PUBLIC FACILITIES REVENUE BONDS
SERIES 201B (FEDERALLY TAXABLE)

Electronic Bids, via the PARITY® Competitive Bidding System ("PARITY®") only, for the purchase of all, and not less than all, of the $18,500,000* Virginia Public Building Authority Public Facilities Revenue Bonds Series 2011B (Federally Taxable) (the "2011B Bonds"), will be received until 11:30 A.M., RICHMOND, VIRGINIA TIME, on Wednesday, October 5, 2011 (unless changed as described herein), by the Virginia Public Building Authority (the "Authority").

Preliminary Official Statement

The Authority has authorized the preparation and distribution of a Preliminary Official Statement dated September 27, 2011 (the "Preliminary Official Statement") containing information relating to the 2011B Bonds. This Notice of Sale and the Preliminary Official Statement referred to above are available on the Internet at www.iDealProspectus.com. This Preliminary Official Statement in its entirety is available in physical form and may be obtained by contacting Public Resources Advisory Group at (212) 566-7800.

The Bonds

Authorization and Security

The 2011B Bonds will be issued pursuant to a Master Indenture of Trust (as previously supplemented and amended, the "Master Indenture"), dated as of April 15, 1997, as supplemented by a Twenty-Ninth Supplemental Indenture of Trust (the "Twenty-Ninth Supplemental Indenture"), dated as of October 1, 2011, between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Together, the Master Indenture, the Twenty-Ninth Supplemental Indenture and any further supplements are referred to collectively as the "Indenture." The Bonds currently outstanding under the Indenture are collectively referred to as the "Prior Bonds." The 2011B Bonds, the Prior Bonds, and all other parity or additional bonds hereafter issued from time to time under and secured equally and ratably by the Indenture (the "Additional Bonds") are collectively called the "Bonds."

THE 2011B BONDS WILL BE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE REVENUES, RECEIPTS AND FUNDS PLEDGED OR AVAILABLE FOR THE PAYMENT THEREOF AND ARE NOT A DEBT OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE COMMONWEALTH OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY.

THE GENERAL ASSEMBLY IS NOT REQUIRED, AND IS UNDER NO LEGAL OBLIGATION, TO MAKE AN APPROPRIATION FOR ANY AMOUNTS DUE UNDER THE PAYMENT AGREEMENT.

Details of 2011B Bonds; Book Entry Only

The 2011B Bonds will be dated the date of their original issuance and delivery (the "Dated Date"). Interest on the 2011B Bonds from the Dated Date will be calculated on a 30/360 day basis and will be payable semiannually on February 1 and August 1, commencing February 1, 2012. The 2011B Bonds will be issued as fully registered bonds in book entry form, payable to the nominee of The Depository Trust Company, New York, New York, ("DTC"), as securities depository for the 2011B Bonds. Reference is made to the Preliminary Official Statement relating to the 2011B 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 the book entry only system.

* Preliminary, subject to change.

Maturity Schedule

Principal on the 2011B Bonds will be due (subject to the right of prior redemption) through serial maturities on the following dates and in the following amounts:

August 1*	Preliminary Annual Principal Amounts*
2012	720,000
2013	725,000
2014	735,000
2015	745,000
2016	760,000
2017	775,000
2018	795,000
2019	815,000
2020	840,000
2021	865,000
2022	895,000
2023	925,000
2024	960,000
2025	995,000
2026	1,035,000
2027	1,080,000
2028	1,130,000
2029	1,180,000
2030	1,235,000
2031	1,290,000

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

Serial and/or Term Bonds

All of the 2011B Bonds will be serial bonds unless the successful bidder shall designate consecutive principal maturities to be combined into one or more term bonds. Such term bonds shall be subject to mandatory sinking fund redemption commencing on August 1 of the first year which has been combined to form such term bond and continuing on August 1 in each year thereafter until the stated maturity date of that term bond. The amount redeemed in any year shall be equal to the principal amount for each such year set forth in the appropriate amortization schedule. The 2011B Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from among 2011B Bonds of the same maturity, as described in the Preliminary Official Statement relating to the 2011B Bonds.

Redemption Provisions

The 2011B Bonds maturing on or after August 1, 2021 are subject to redemption prior to maturity on or after August 1, 2022, from any money available for such purpose, in whole or in part (if in part, in multiples of $5,000), at any time, upon payment of the redemption price of 100% of the principal amount of the 2011B Bonds to be redeemed, plus accrued interest to the redemption date.

Changes to Bid Date, Closing Date, and Principal Amounts

Change of Bid Date and Closing Date

The Authority reserves the right to change, from time to time, the date and/or time established for the receipt of bids and will undertake to notify registered prospective bidders via notification published on www.tm3.com ("TM3"). Prospective bidders may request notification of any such changes in the date or time for the receipt of bids by so advising Public Resources Advisory Group at (212) 566-7800 by no later than 12 NOON, RICHMOND, VIRGINIA TIME, on the day prior to the announced date for receipt of bids.

A change of the bid date and/or time will be announced via TM3 not later than one hour prior to any announced date for receipt of bids, and an alternative sale date and time will be announced via TM3 at least 18 hours prior to such alternative date and/or time for receipt of bids.

On any such alternative date and/or time for receipt of bids, the Authority will accept electronic bids for the purchase of the 2011B Bonds, such bids to conform in all respects to the provisions of this Notice of Sale, except for the changes in the date and/or 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 2011B Bonds by notice given in the same manner as that set forth for a change in the date for the receipt of bids. See "Delivery of the 2011B Bonds" below.

Changes to Preliminary Principal Amounts

The preliminary aggregate principal amount of the 2011B Bonds and the preliminary annual principal amounts as set forth in this Notice of Sale (the "Preliminary Aggregate Principal Amount" and the "Preliminary Annual Principal Amounts," respectively; collectively, the "Preliminary Amounts") may be revised before the viewing of electronic bids for the purchase of the 2011B Bonds. Any such revisions (the "Revised Aggregate Principal Amount" and the "Revised Annual Principal Amounts," respectively; collectively, the "Revised Amounts") WILL BE PUBLISHED AS AN AMENDMENT TO THE NOTICE OF SALE AND ANNOUNCED ON TM3 NOT LATER THAN 9:30 A.M. RICHMOND, VIRGINIA TIME ON ANY ANNOUNCED DATE FOR RECEIPT OF BIDS.

In the event that no such revisions are made, the Preliminary Amounts will constitute the Revised Amounts. BIDDERS SHALL SUBMIT BIDS BASED ON THE REVISED AMOUNTS. Prospective bidders may request notification by facsimile transmission of any revisions in Preliminary Amounts by so advising and furnishing, in writing, the name of the contact person and both their telephone and telecopier numbers to Public Resources Advisory Group at (212) 566-7800 by 12 NOON, RICHMOND, VIRGINIA TIME, at least one day prior to the receipt of bids.

Changes to Revised Principal Amounts

After selecting the winning bid, the Authority reserves the right to change the final aggregate principal amount of the 2011B Bonds and each final annual principal amount (the "Final Aggregate Principal Amount" and the "Final Annual Principal Amounts," respectively; collectively, the "Final Amounts"). In determining the Final Amounts, the Authority will not reduce or increase the Revised Aggregate Principal Amount by more than 10% of such amount. THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES (AS HEREIN DEFINED) AS A RESULT OF ANY CHANGES MADE TO THE REVISED AMOUNTS WITHIN THESE LIMITS. The dollar amount bid by the successful bidder will be adjusted to reflect any adjustment in the aggregate principal amount of the 2011B Bonds. Such adjusted bid price will reflect changes in the dollar amount of the underwriter's discount and original issue discount/premium, if any, but will not change the selling compensation per $1,000 of par amount of bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the Initial Reoffering Prices. The interest rate specified by the successful bidder for each maturity and the Initial Reoffering Prices will not change. The Authority anticipates that the Final Amounts and the adjusted bid price will be communicated to the successful bidder by 10:00 A.M., RICHMOND, VIRGINIA TIME, on the day following the sale date.

Electronic Bidding and Bidding Procedures

Registration to Bid

All prospective bidders must be contracted customers of PARITY®. If you do not have a contract with PARITY®, call (212) 404-8102 to become a customer. By submitting a bid for the 2011B Bonds, a prospective bidder represents and warrants to the Authority that such bidder's bid for the purchase of the 2011B Bonds 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 2011B Bonds. By registering to bid for the 2011B Bonds, 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 PARITY® AS APPROVED PROVIDER OF ELECTRONIC BIDDING SERVICES, THIS NOTICE OF SALE (INCLUDING ANY AMENDMENTS OR SUPPLEMENTS) SHALL CONTROL. Further information about PARITY®, including qualification, registration, rules and any fee charged, may be obtained from PARITY®, telephone (212) 404-8102, email at parity@i-deal.com.

Disclaimer

Each prospective bidder shall be solely responsible to register to bid via PARITY® as described in the attached instructions. Each qualified prospective bidder shall be solely responsible to make necessary arrangements to access 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 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 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 PARITY®. The Authority is using 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 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 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 PARITY® at (212) 404-8102 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 PARITY® will indicate the apparent successful bidder. Such message is a courtesy only for viewers, and does not constitute the award of the 2011B 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 and to award the 2011B Bonds.

Good Faith Deposit

A good faith deposit in the amount of $185,000* (the "Deposit") is required in connection with the sale and bid for the 2011B Bonds. The Deposit may be provided for by (i) a certified check, bank cashier's, treasurer's or official check drawn upon or certified by a responsible banking institution and made payable to the order of the Virginia Public Building Authority delivered at or prior to the time of bid, or (ii) a Federal funds wire transfer to be submitted to the Authority by the successful bidder not later than 4:00 p.m. (Richmond Time) on the date of sale (the "Wire Transfer Deadline") as set forth below under "Wire Transfers". The Deposit of the successful bidder will be collected and the proceeds thereof retained by the Authority to be applied in partial payment for the 2011B Bonds and no interest will be allowed or paid upon the amount thereof, but in the event the successful bidder shall fail to comply with the terms of the respective bid, the proceeds thereof will be retained as and for full liquidated damages. Checks of unsuccessful bidders will be returned promptly after the bonds are awarded.

Wire Transfers

If the successful bidder chooses to deliver its good faith deposit by Federal funds wire transfer, the Authority will distribute wiring instructions for the Deposit to the successful bidder upon verification of the bids submitted by the bidders and prior to the Wire Transfer Deadline. If the Deposit is not received by the Wire Transfer Deadline, the award of the sale of the 2011B Bonds to the successful bidder may be cancelled by the Authority in its discretion without any financial liability of the Authority to the successful bidder or any limitation whatsoever on the Authority's right to sell the 2011B Bonds to a different purchaser upon such terms and conditions as the Authority shall deem appropriate.

Bidding Procedures

Bids must be submitted electronically for the purchase of the 2011B Bonds (all or none) by means of the Virginia Public Building Authority AON Bid Form (the "Bid Form") via PARITY® by 11:30 A.M., RICHMOND, VIRGINIA TIME, on Wednesday, October 5, 2011 unless postponed as described herein (see "Change of Bid Date and Closing Date"). Prior to that time, a prospective bidder may input and save the proposed terms of its bid in PARITY®. Once the final bid has been saved in PARITY®, the bidder may select the final bid button in PARITY® to submit the bid to PARITY®. Once the bids are communicated electronically via PARITY® to the State Treasurer, each bid will constitute an irrevocable offer to purchase the 2011B Bonds on the terms therein and herein provided. For purposes of the electronic bidding process, the time as maintained on PARITY® shall constitute the official RICHMOND, VIRGINIA TIME. For information purposes only, bidders are requested to state in their bids the true interest cost to the Authority, as described under "Award of the Bonds" below, represented by the rate or rates of interest and the bid price specified in their respective bids.

No bids will be accepted in written form, by facsimile transmission or in any other medium or on any system other than by means of the Bid Form via PARITY®. No bid will be received after the time for receiving such bids specified above.

Bid Specifications

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 2011B Bonds. Bidders are invited to name the rate or rates of interest that the 2011B Bonds are to bear, in multiples of 1/8, 1/20 or 1/100 of one percent. Each bidder must specify in its bid a single rate for each maturity of the 2011B Bonds. Bids must be for not less than 100% of the par value of the revised aggregate principal amount of the 2011B Bonds. No bid for other than all of the 2011B Bonds will be considered. The public offering price for any maturity of the 2011B Bonds shall not be less than 98% of the par value of such maturity.

---

* Preliminary, subject to change.

Award of the Bonds

The Authority will notify the apparent successful bidder electronically (via PARITY®), as soon as possible after the receipt of bids, that such bidder's bid appears to be the lowest and best bid received that conforms to the requirements of this Notice of Sale, subject to verification. 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 2011B Bonds as described below. Such reoffering prices and yields, among other things, will be used by the Authority to calculate the Final Annual Principal Amounts and the Final Aggregate Principal Amount of the 2011B Bonds.

ALL BIDS SHALL REMAIN FIRM UNTIL 4:00 P.M., RICHMOND, VIRGINIA TIME, ON THE DATE OF RECEIPT OF BIDS. An award of the 2011B Bonds, if made, will be made by the Authority within such five-hour period of time. Unless all bids are rejected, the 2011B 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, that, when applied against each semi-annual debt service payment (interest, or principal and interest, as due, including any mandatory sinking fund payment) will equate the sum of such discounted semi-annual payments to the total purchase price. The true interest cost shall be calculated from the Dated Date. In case of a tie, the State Treasurer on behalf of the Authority, in its sole discretion, may select the successful bidder. THE AUTHORITY RESERVES THE RIGHT TO WAIVE IRREGULARTIES IN ANY BID AND TO REJECT ANY OR ALL BIDS.

Closing; Miscellaneous

Undertakings of the Successful Bidder

The successful bidder shall make a bona fide public offering of all of the 2011B 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 in writing of the initial public offering prices of the 2011B Bonds (the "Initial Reoffering Prices"). The successful bidder must provide the initial public offering prices, as the Authority will not include in the Official Statement an "NRO" ("not reoffered") designation to or for any maturity of the 2011B Bonds. The successful bidder will be responsible to the Authority in all respects for the accuracy and completeness of any information it provides with respect to such reoffering. The successful bidder must, within 24 hours after notification of the Final Amounts, furnish the following information to the Authority to complete the Official Statement in final form, as described below:

A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all 2011B Bonds are sold at the prices or yields at which the successful bidder advised the Authority that the 2011B Bonds were initially offered to the public).

B. The identity of the other underwriters if the successful bidder is part of a group or syndicate.

C. Any other material information that the Authority determines is necessary or desirable to complete the Official Statement in final form.

Prior to the delivery of the 2011B Bonds, the successful bidder shall furnish to the Authority a certificate in form and substance acceptable to Bond Counsel regarding "issue price," and generally to the effect that as of October 5, 2011 (the "Sale Date"), the successful bidder had made a *bona fide* public offering of the 2011B Bonds and that as of the bid date, a substantial amount of the 2011B Bonds of each maturity was sold or was expected to be sold to the public (excluding bond houses, brokers and other intermediaries) at the Initial Reoffering Prices. Questions regarding the issue price certificate should be directed to Eric Ballou, Bond Counsel, at (804) 697-4122. The issue price certificate must be made on the best knowledge, information and belief of the successful bidder, and reliance on facts other than those specified above as a basis for any certification in the issue price certificate will require evaluation by the Authority and Bond Counsel to assure compliance with the statutory requirement to avoid the establishment of an artificial price for the 2011B Bonds.

It will be the responsibility of the successful bidder to institute such syndicate reporting requirements to make the appropriate investigation or otherwise determine the facts necessary to enable it to make the foregoing certifications.

The Authority expects the successful bidder to deliver copies of such Official Statement in final form (the "final Official Statement") to persons to whom such bidder initially sells the 2011B Bonds, the Municipal Securities Rulemaking Board ("MSRB") and to the MSRB's Electronic Municipal Market Access System ("EMMA"). The successful bidder will be required to acknowledge receipt of such final Official Statement, to certify that it has made delivery of the final Official Statement to such repositories, to acknowledge that the Authority expects the successful bidder to deliver copies of such final Official Statement to persons to whom such bidder initially sells the 2011B Bonds and to certify that the 2011B Bonds will only be offered pursuant to the final Official Statement and only in states where the offer is legal.

It is the policy of the Commonwealth of Virginia pursuant to Executive Order 33 to ensure that small businesses and businesses owned by women and minorities receive every opportunity to compete for the Commonwealth's business.

Following award of the 2011B 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.

Delivery of the Bonds

The 2011B Bonds are expected to be delivered on or about October 19, 2011 (UNLESS A NOTICE OF A CHANGE IN THE DELIVERY DATE IS ANNOUNCED ON TM3 NOT LATER THAN ONE HOUR PRIOR TO ANY ANNOUNCED DATE FOR RECEIPT OF BIDS) in New York, New York, through the facilities at DTC against payment of the purchase price therefor (less the amount of the good faith Deposit) in Federal Funds.

There will also be furnished the usual closing papers, including certificates signed by appropriate Authority officers stating that (i) no litigation of any kind is now pending or, to their information, knowledge or belief, threatened to restrain or enjoin the issuance or delivery of the 2011B Bonds or in any manner questioning the proceedings and authority under which the 2011B Bonds are issued, or affecting the validity of the 2011B Bonds, and (ii) relating to the Official Statement, as described in the Preliminary Official Statement.

Legal Opinion

The approving opinion of Christian & Barton, L.L.P., Richmond, Virginia, Bond Counsel, in substantially the form set forth in the Preliminary Official Statement, will be furnished without cost to the successful bidder.

Federal Tax Status of 2011B Bonds

Interest on the 2011B Bonds is not excludable from gross income of the owners hereof for Federal income tax purposes.

CUSIP Numbers

CUSIP numbers will be applied for by the successful bidder with respect to the 2011B Bonds, but the Authority will assume no obligation for the assignment or printing of such numbers on the 2011B Bonds or for the correctness of such numbers, and neither the failure to print such numbers on any of the 2011B Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and make payment for the 2011B Bonds.

Amendments

In addition to any changes in the bid date, time or amounts of the 2011B Bonds provided for herein, the Authority otherwise reserves the right to amend this Notice of Sale. The Authority expects it would publish notification of such amendment via TM3 NOT LATER THAN 9:30 A.M. RICHMOND, VIRGINIA TIME ON ANY ANNOUNCED DATE FOR RECEIPT OF BIDS and would provide notification to prospective bidders who have so requested such notification to Public Resources Advisory Group.

Official Statement

The Preliminary Official Statement dated September 27, 2011 and the information contained therein have been deemed final by the Authority as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the final Official Statement.

The Authority, at its expense, will make available to the successful bidder a reasonable number of final Official Statements, for delivery to each potential investor requesting a copy of the final Official Statement and to each person to whom such bidder and members of its bidding group initially sell the 2011B Bonds, within seven (7) business days of the award of the 2011B Bonds, provided that the successful bidder cooperates in a timely manner providing the information required to complete the final Official Statement.

The successful bidder shall comply with the requirements of Rule 15c2-12 and the rules of the MSRB, including an obligation to provide information to the Treasury Board on a timely basis for the final Official Statement.

Continuing Disclosure

In order to assist bidders in complying with Rule 15c2-12, the Authority and the Commonwealth will undertake to provide certain annual financial information and operating data and notices of the occurrence of certain events, if material. A description of such undertakings is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

Additional Information

For further information relating to the 2011B Bonds, reference is made to the Preliminary Official Statement, dated September 27, 2011 prepared for and authorized by the Authority. The Preliminary Official Statement may be obtained via the Internet at www.i-dealprospectus.com. Physical copies are available upon request by calling I-Deal Prospectus LLP at (212) 404-8104, or from the undersigned through the Office of the State Treasurer, Third Floor, James Monroe Building, 101 North 14th Street, Richmond, VA 23219 (telephone (804) 225-4929; telecopy (804) 225-3187), or from the financial advisor, Public Resources Advisory Group (telephone (212) 566-7800; telecopy (212) 566-7816).

Dated: September 27, 2011

Virginia Public Building Authority
By: Sarah B. Williams, *Chairman*