

Index to the Notes to the Financial Statements

1.	Summary of Significant Accounting Policies	74	18.	Other Employment Benefits	148
A.	Basis of Presentation	74	19.	Other Postemployment Benefits (OPEB)	
B.	Reporting Entity	74	A.	Virginia Retirement System (System-Administered) OPEB Plans	149
C.	Government-wide and Fund Financial Statements	80	1.	Administration and Significant Accounting Policies	149
D.	Measurement Focus, Basis of Accounting and Financial Statement Presentation	81	2.	Plan Descriptions	149
E.	Budgetary Process	83	3.	Funding	151
F.	Cash, Cash Equivalents, Investments and Derivative Instruments	83	4.	Changes in Net OPEB Liability and Proportionate Share of Net OPEB Liability	151
G.	Assets Held Pending Distribution	84	5.	Changes to and Sensitivity of Discount Rate	153
H.	Receivables	84	6.	OPEB Related Deferred Outflows and Deferred Inflows	155
I.	Contributions Receivable, Net	84	B.	Department of Human Resource Management (DHRM-Administered) OPEB Plan	158
J.	Internal Balances	84	1.	Administration	158
K.	Inventory	84	2.	Plan Description	158
L.	Prepaid Items	85	3.	Funding	159
M.	Loans Receivable/Payable	85	4.	Changes in Total OPEB Liability	159
N.	Other Assets	85	5.	Changes to and Sensitivity of Discount Rate	161
O.	Capital Assets	85	6.	OPEB Related Deferred Outflows and Deferred Inflows	161
P.	Deferred Outflows of Resources	86	7.	Other OPEB Plans	162
Q.	Accounts Payable	86	20.	Deferred Compensation Plans	162
R.	Unearned Revenue	86	21.	State Non-Arbitrage Pool	163
S.	Unearned Taxes	86	22.	Commitments	
T.	Obligations Under Securities Lending Program	86	A.	Construction Projects	163
U.	Due to Claimants, Participants, Escrows and Providers	86	B.	Long-term Leases	164
V.	Other Liabilities	87	C.	Long-term Subscription-Based Information Technology Arrangements (SBITAs)	164
W.	Claims Payable	87	D.	Investment Commitments - Virginia Retirement System	164
X.	Long-term Liabilities	87	E.	Virginia Transportation Infrastructure Bank	164
Y.	Deferred Inflows of Resources	87	F.	Tobacco Grants	164
Z.	Nonspendable Fund Balances	87	G.	Other Commitments	165
AA.	Restricted Fund Balances	87	23.	Accrued Liability for Compensated Absences	165
BB.	Committed Fund Balances	87	24.	Pollution Remediation Obligations	166
CC.	Assigned Fund Balances	87	25.	Insurance	
DD.	Unassigned Fund Balances	88	A.	Self-Insurance	167
EE.	Cash Management Improvement Act	88	B.	Public Entity Risk Pools	168
FF.	Investment Income	88	26.	Accounts Payable	170
GG.	Intrafund Eliminations	88	27.	Other Liabilities	171
HH.	Interfund Activity	88	28.	Long-term Liabilities	173
2.	Restatement of Beginning Balances	88	29.	Other Revenue	190
3.	Net Position/Fund Balance Classifications	90	30.	Tax Abatements	191
4.	Deficit Fund Balances/Net Position	92	31.	Prizes and Claims	193
5.	Revenue Stabilization Fund	92	32.	Depreciation and Amortization	193
6.	Revenue Reserve Fund	92	33.	Other Expenses	193
7.	2023 Individual Income Tax Rebate	93	34.	Other Non-Operating Revenue/Expenses	194
8.	Cash, Cash Equivalents, and Investments	93	35.	Transfers	194
9.	Receivables	114	36.	Endowments	195
10.	Contributions Receivable, Net	116	37.	Cash Flows - Additional Detailed Information	195
11.	Interfund and Inter-Entity Assets/Liabilities	116	38.	Tobacco Settlement and Securitization	196
12.	Other Assets	120	39.	Public-Private and Public-Public Partnership Arrangements (PPPs)	196
13.	Restricted Assets	121	40.	Information Technology Infrastructure	200
14.	Capital Assets	124	41.	Contingencies	
15.	Deferred Outflows and Deferred Inflows of Resources	127	A.	Grants and Contracts	200
16.	Derivative Instruments	129	B.	Litigation	200
17.	Retirement and Pension Systems		C.	Subject to Appropriation	200
A.	Administration	137	D.	Bailment Inventory	201
B.	Summary of Significant Accounting Policies (Virginia Retirement System)	138	E.	Loan Guarantees	201
C.	Plan Description	138	F.	Regional Wet Weather Management Plan	201
D.	Funding Policy	140	42.	Subsequent Events	202
E.	Changes in Net Pension Liability	140			
F.	Changes to and Sensitivity of Discount Rate	143			
G.	Pension Related Deferred Outflows and Deferred Inflows	144			
H.	Defined Contribution Plan for Political Appointees	147			
I.	Defined Contribution Plan for Public School Superintendents	147			
J.	Virginia Supplemental Retirement Plan	147			
K.	Higher Education (Nonmajor Component Units)	147			
L.	Other Component Units	148			

Notes to the Financial Statements

June 30, 2023

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 or for which the resources of the component unit primarily benefit the primary government (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, 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 standards require 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. Additionally, in instances where the voting majority is not appointed, the above benefit/burden criteria apply. If the organization's assets are also held for, or can be accessed by, the Commonwealth, the organization is considered part of the reporting entity.

(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 units serve or benefit the primary government almost exclusively. Financial information from these units is combined with that of the primary government. The Commonwealth's blended component units are:

Virginia Public Building Authority (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 7-member board, and the primary government is able to impose its will on the Authority. The Auditor of Public Accounts (APA) audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Hampton Roads Transportation Accountability Commission (nonmajor governmental fund) – The Commission is a political subdivision of the Commonwealth of Virginia, created by the Hampton Roads Transportation Accountability Commission Act. The Commission has a 23-member board comprised primarily of representatives from participating localities in Planning District 23. Its primary function is determining how the Hampton Roads Transportation Fund regional sales and use tax and fuel tax monies will be invested in new construction projects to provide the greatest impact on reducing congestion for the greatest number of citizens residing within Planning District 23. Based on the projects that the Commission is presently funding, the majority of capital assets constructed by the Commission are reported as Commonwealth assets by the Virginia Department of Transportation (VDOT) (part of primary government). Accordingly, while the Commonwealth is not obligated to pay the Commission's debt, it would be misleading to exclude the Commission from the Commonwealth's financial statements. The administrative offices of the Commission are located at 723 Woodlake Drive, Chesapeake, Virginia 23320. The Commission is audited by PBMares, LLP.

Virginia Alcoholic Beverage Control Authority (nonmajor enterprise fund) – The Authority was created as an independent political subdivision of the Commonwealth, exclusive of

the legislative, executive, or judicial branches of state government. A government instrumentality, the Authority controls the possession, sale, transportation, distribution, and delivery of alcoholic beverages in the Commonwealth. The Governor appoints the 5-member board, and while an independent entity, the Authority works in concert with all branches of the government. Additionally, all net profits of the Authority are transferred to the General Fund of the Commonwealth after required disbursements are made in accordance with the Appropriations Act. The administrative offices of the Authority are located at 7450 Freight Way, Mechanicsville, Virginia 23116. The Auditor of Public Accounts (APA) audits the Authority, and a separate report is issued.

- (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. These discrete component units serve or benefit those outside of the primary government.

GASB statements generally require 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 nonprofit charitable organizations and exist solely to support the Commonwealth's higher education institutions and certain state agencies. The higher education institution nonprofit organizations are included in the applicable higher education institution's column in the accompanying financial statements. In all instances where separate disclosure of these nonprofit organizations is required in the accompanying footnotes, the entities' totals are aggregated and disclosed as "foundations".

The criteria for reporting certain component units as major component units focuses on the nature and significance of the component unit's relationship to the primary government versus other component units.

Discretely presented component units are:

Virginia Housing Development Authority (major) – The Authority was created as a political subdivision and instrumentality of the Commonwealth and is granted both political 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 the financing for the acquisition, construction, and rehabilitation of affordable housing for home ownership or occupancy by low or moderate income Virginians. The administrative offices of the Authority are located at 601 South Belvidere Street, Richmond, Virginia 23220. CliftonLarsonAllen, LLP audits the Authority, and a separate report is issued.

Virginia Public School Authority (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 (APA) audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Virginia Resources Authority (major) – The Authority was created as a public body corporate and a 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 other infrastructure projects. 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 Authority, however, the Authority has outstanding bonds that are backed by the moral obligation of the Commonwealth. The administrative offices of the Authority are located at 1111 East Main Street, Suite 1920, Richmond, Virginia 23219. CliftonLarsonAllen, LLP audits the Authority, and a separate report is issued.

The Authority issued bonds through the Virginia Green Communities Program (VGCP), which uses the Commonwealth's allocation of Qualified Energy Conservation Bonds to provide subsidized financing for energy efficiency, renewable energy, alternative fueling, and other qualified conservation purposes. The Authority is a conduit issuer for public borrowers with a third-party funding source providing financing for eligible projects. The terms of the VGCP bonds stipulate that the Authority does not guarantee repayment of principal and interest to the bondholders. In accordance with GASB 91, conduit debt liabilities and the associated loan assets are not recorded on the Statement of Net Position.

Virginia College Building Authority (major) – 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 (APA) 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 accompanying financial statements. The state-supported colleges and universities reported revenue from the Authority of \$568.7 million as Program Revenue Capital Grants and Contributions for the 21st Century Program and \$80.5 million as Program Revenue Operating Grants and Contributions for equipment. The Authority reported Operating Appropriations from Primary Government of approximately \$530.6 million. In addition, the Authority reported approximately \$31.5 million in payments from the state-supported colleges and universities for 21st Century and Equipment Program debt service costs and approximately \$3.2 million in interest on Build America Bonds.

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 \$566.5 million, is not included in the accompanying financial statements.

Higher Education Institutions (nonmajor) – 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 \$2.9 billion and Program Revenue Capital Grants and Contributions of approximately \$576.5 million. Therefore, there is a financial benefit/burden to the primary government. The higher education institutions are: the University of Virginia, including the University of Virginia Medical

Center and the University of Virginia's College at Wise; Virginia Polytechnic Institute and State University; Virginia Commonwealth University, including the Virginia Commonwealth University Health System Authority; 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 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' separately issued 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 her 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 Department of Accounts, 101 North 14th Street, Richmond, Virginia 23219-3638.

Virginia Innovation Partnership Authority (nonmajor) - The Authority provides a collaborative, consistent, and consolidated approach that assists the Commonwealth in identifying its entrepreneurial strengths, including the identification of talents and resources that make Virginia a unique place to grow and attract technology-based business. The Governor and Joint Rules Committee appoint the 11-member board, and the primary government can impose its will on the Authority. The Authority's combined financial statements include the accounts of the Virginia Innovation Partnership Corporation (VIPC) after elimination of all significant intercompany balances and transactions. VIPC 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 2214 Rock Hill Road, Suite 600, Herndon, Virginia 20170. The Auditor of Public

Accounts (APA) audits the Authority, and a separate report is issued.

Virginia Economic Development Partnership (nonmajor) – The Partnership was created as a body corporate and operates to encourage, stimulate, and support the development and expansion of both domestic and international commerce in the Commonwealth. The Governor and the General Assembly appoints the 17-member board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Cary Street, Suite 900, Richmond, Virginia 23219. The Auditor of Public Accounts (APA) 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 7-member board of trustees, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 39 Garrett Street, Suite 200, Warrenton, Virginia 20186. Hicok, Brown & Company CPAs audits the Foundation, and a separate report is issued.

Virginia Port Authority (nonmajor) – The Authority was established as a political subdivision of the Commonwealth of Virginia and operates to serve the citizens and promote, develop and increase commerce at the ports of Virginia and other port related industries in the Commonwealth. The Governor appoints a majority of the 13-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. PBMares, LLP, audits the Authority, and a separate report is issued.

Virginia Passenger Rail Authority (nonmajor) – The Authority is responsible for promoting, sustaining, and expanding the availability of passenger and commuter rail service including the administration of the capital expansion, infrastructure, and land acquisitions related to the Commonwealth's Transforming Rail in Virginia initiative. The Governor appoints the majority of the board, and the primary government is able to impose its will on the Authority. The address for the administrative offices of the Authority is 919 East Main Street, Suite 2400 Richmond, Virginia 23219. Cherry

Bekaert, 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 Cary Street, Suite 900, Richmond, Virginia 23219. The Auditor of Public Accounts (APA) audits the Authority.

Virginia Foundation for Healthy Youth (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 500, Richmond, Virginia 23219. The Auditor of Public Accounts (APA) audits the Foundation.

Tobacco Region 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 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 (APA) audits the Commission.

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 wastewater treatment system for 20 localities in

the Chesapeake Bay area. The address for the administrative offices of the Commission is 1434 Air Rail Avenue, Virginia Beach, Virginia 23455. Cherry Bekaert, 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 (APA) audits the Authority, and a separate report is issued.

The Authority issued Series 2002 revenue bonds for specific customers. The Series 2002 revenue bonds were for a facility built specifically for the United Network for Organ Sharing. This bond is secured by a letter of credit and is payable solely from the payments made by the borrower under the loan agreement. None of these bonds constitutes 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 (nonmajor) – Section 2.2-2280 of the *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 provides financial assistance to small businesses by providing loans, guarantees, insurance, and other assistance, thereby assisting small businesses in the Commonwealth with access to financing. The Authority provides direct loans to small businesses as defined by the *Code of Virginia* and to local governments for economic development purposes. The Authority also guarantees loans and provides credit support for loans made to small businesses by banks. The administrative offices of the Authority are located at 101 North 14th Street, 11th Floor, Richmond, Virginia 23218-0446. The Auditor of Public Accounts (APA) audits the Authority.

The Authority issues tax-exempt and taxable private activity bonds to provide financial assistance to private sector entities for the acquisition, construction, and expansion of capital projects 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. Neither the Authority nor the Commonwealth is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities on the accompanying financial statements.

Virginia School for the Deaf and Blind Foundation (nonmajor) – The Foundation operates as a nonprofit educational and fundraising organization solely in connection with, and exclusively for the benefit of, the Virginia School for the Deaf and Blind (part of primary government). The Foundation uses a December 31 calendar year-end. The administrative offices are located at Post Office Box 2069, Staunton, Virginia 24402. Didawick & Company, P.C. audits the Foundation and a separate report is issued.

Science Museum of Virginia Foundation (nonmajor) – The Foundation is a non-stock, nonprofit 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). There is a financial benefit/burden relationship to the primary government, and the economic resources of the Foundation are entirely for the direct benefit of the Commonwealth and its citizens. The administrative offices of the Foundation are located at 2500 West Broad Street, Richmond, Virginia, 23220. Keiter, CPAs, audits the Foundation, and a separate report is issued.

Virginia Commercial Space Flight Authority (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. The Governor appoints the 9-member board, and there is a potential financial benefit/burden to the primary government. The Commonwealth plans to transfer 1.0 percent of the Transportation Trust Fund revenue to the Authority annually. The administrative offices of the Authority are located at 101 W Main Street, Suite 602, Norfolk, VA 23510. Brown Edwards & Company, LLP, audits the Authority, and a separate report is issued.

Danville Science Center, Inc. (nonmajor) – The Center is a nonprofit corporation formed in 1994, 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 (part of primary government). There is a financial benefit/burden to the primary government, and the economic resources of the Center are entirely for the direct benefit of the Commonwealth and its citizens. The administrative offices of the Center are

located at 677 Craghead Street, Danville, Virginia 24541. Harris, Harvey, Neal & Company, LLP, audits the Organization, and a separate report is issued.

Virginia Museum of Fine Arts Foundation (nonmajor) – The Foundation operates as a nonprofit 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. There is a financial benefit/burden to the primary government, and the economic resources of the Foundation are entirely for the direct benefit of the Commonwealth and its citizens. The administrative offices of the Foundation are located at 200 N. Arthur Ashe Boulevard, Richmond, Virginia 23220. FORVIS audits the Foundation, and a separate report is issued.

A. L. Philpott Manufacturing Extension Partnership (nonmajor) – The Partnership (operating as GENEDGE Alliance) has the mission to foster economic growth by enhancing the competitiveness of Virginia's manufacturers. GENEDGE provides manufacturing firms with fee-based technology consulting services, access to business modernization resources, and support for interfirm collaboration. Further, GENEDGE provides direct assistance to increase sales, decrease costs, and improve quality, productivity, and competitiveness. GENEDGE has a 24-member board of trustees, of which 21 are currently serving. The board consists of the presidents of two public four-year institutions of higher education; three community college presidents; one president of a private four-year institution of higher education; the director of Virginia Innovation Partnership Corporation; two members of the Governor's cabinet; and 15 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 32 Bridge Street South, Suite 200B, Martinsville, Virginia 24112-6216. The Joachim Group CPAs & Consultants, LLC audits GENEDGE and a separate report is issued.

Fort Monroe Authority (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in implementing a reuse plan for Fort Monroe. The Governor appoints a majority of the 14-member board, and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at 20 Ingalls Road, Fort Monroe, Virginia 23651. CliftonLarsonAllen 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*, and the primary government is able to impose its will on the Authority. The Authority manages a fund to provide loans to Virginians with disabilities to acquire assistive technology, other equipment, or other authorized purposes designed to help these individuals become more independent. The administrative offices are located at 1602 Rolling Hills Drive, Suite 107, Richmond, Virginia 23229. The Auditor of Public Accounts (APA) audits the Authority.

Virginia Land Conservation Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (DCR) (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 19-member board, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 600 East Main Street, 24th Floor, Richmond, Virginia 23219. The Auditor of Public Accounts (APA) audits the Foundation as part of DCR.

Library of Virginia Foundation (nonmajor) – The Foundation was created as a private, nonprofit 501(c)(3) corporation supporting the Library of Virginia (part of primary government). 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. Frank Barcalow CPA, PLLC, audits the Foundation, and a separate report is issued.

Virginia Health Workforce Development Authority (nonmajor) – The Authority is a legally separate public body corporate and a political subdivision of the Commonwealth created by the General Assembly. The Authority facilitates the development of statewide health professions pathways. The Governor appoints a majority of the board members, and the primary government is able to impose its will on the Authority. The administrative offices of the Authority are located at 7818 E. Parham Road, Richmond, Virginia 23294. The Auditor of Public Accounts (APA) audits the Authority.

(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 6-member board, including the State Treasurer. The Corporation purchased all of the future tobacco settlement revenue allocated to the Tobacco Region Revitalization Commission (nonmajor component unit). Neither the Commonwealth's nor the Virginia Foundation for Healthy Youth's (nonmajor component unit) tobacco revenue was securitized. The administrative offices of the Corporation are located at 101 North 14th Street, 3rd Floor, Post Office Box 1879, Richmond, Virginia 23218-1879. CliftonLarsonAllen, LLP, audits the Corporation, and a separate report is issued.

Jamestown-Yorktown Educational Trust –

The Trust was created as a nonprofit corporation by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The Trust board consists of no more than six members selected by 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 American Revolution Museum at Yorktown gift shops and café. The address for the administrative offices of the Trust is Post Office Box 3605, Williamsburg, Virginia 23187. Keiter, CPAs 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 9-member board. The administrative offices of the Program are located at 7501 Boulders View Drive, Suite 210, Richmond, Virginia 23225. Yount, Hyde & Barbour, PC, 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. Cherry

Bekaert, 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 Position 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.

Fund equity is restricted when constraints are placed on them that are imposed by external parties or constitutional provisions. When both restricted and unrestricted resources are available for use, the Commonwealth's policy is to use the restricted resources first. Some component units may follow a different policy. When committed, assigned, and unassigned resources are available for use, the Commonwealth's policy is to use the committed resources first, assigned resources next, and unassigned resources last.

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 in 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 behavioral 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, including COVID-19 funding, received by the

Commonwealth except those received by the Commonwealth Transportation Fund, the Unemployment Compensation Fund, certain Medicaid reimbursements recorded in the General Fund, the Grant Anticipation Revenue Notes and Build America Bond Subsidies reported in the Debt Service Fund, and component units.

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.

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.

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 an August 31st, 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 August 31, 2022, December 31, 2022, or March 31, 2023. Significant intrafund activity/balances between each higher education institution and their foundations have been eliminated.

The following amounts could not be eliminated due to the differing year-ends:

- University of Virginia (nonmajor component unit):
 - institution revenue of \$12.3 million
 - foundation assets of \$2.5 million
 - foundation liabilities of \$1.7 million
 - foundation expenses of \$24.0 million

- Old Dominion University (nonmajor component unit):
 - institution liabilities of \$39.6 million
 - foundation assets of \$33.4 million
- George Mason University (nonmajor component unit):
 - institution assets of \$22.9 million
 - institution expenses of \$18.0 million
 - foundation liabilities of \$41.2 million
- Longwood University (nonmajor component unit):
 - foundation assets of \$21.6 million
 - institution liabilities of \$21.3 million

The primary government reports the following major enterprise funds:

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

Virginia College Savings Plan Fund – Administers the Defined Benefit 529 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, committed, or specific purposes.

Debt Service Funds – Account for transactions related to resources retained and used for the payment of interest and principal on bonds. Additionally, this fund includes the activity of the Hampton Roads Transportation Accountability Commission (blended component unit).

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 with the exception of certain Virginia Public Building Authority (blended component unit) disbursements. 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 behavioral health facilities, and parks. Additionally, this fund includes the activity of the Hampton Roads Transportation Accountability Commission (blended component unit) for construction

projects related to new or existing highways, bridges or tunnels in the localities comprising Planning District 23.

Permanent Funds – Account for transactions of the Commonwealth Health Research Fund and the Behavioral Health Endowment Funds whose principal must remain intact and whose income is used to benefit the Commonwealth's citizens and behavioral 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, engineering and payroll services.

Fiduciary Fund Types:

Private Purpose Trust Funds – Account for transactions that benefit individuals, organizations, and other governments; have a trust that meets GASB Statement No. 84 criteria; and are not required to be reported in another fiduciary fund type. These trusts include those for the Commonwealth-sponsored educational savings plan and other purposes.

Pension and Other Employee Benefit Trust Funds – Account for transactions of the Virginia Retirement System administered pension plans, other postemployment and employee benefit plans with trusts that meet GASB Statement No. 84 criteria.

Custodial Funds - External Investment Pool – Accounts for the external portion of the Local Government Investment Pool (LGIP) that is sponsored by the Commonwealth and does not have a trust that meets GASB Statement No. 84 criteria.

Custodial Funds - Other - Accounts for transactions similar to Private Purpose Trust Funds except they do not have a trust that meets GASB Statement No. 84 criteria. These funds include collection of sales tax and fees imposed by and distributed to localities, 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) and Unclaimed Property (nonmajor special revenue) Funds. Formal budgetary integration is not employed for the Capital Projects (nonmajor governmental), Debt Service (nonmajor governmental), Permanent (nonmajor governmental), Literary (major special revenue) and Unclaimed Property (nonmajor special revenue) Funds 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 lowest level of budgetary control is 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 without further General Assembly action. Additionally, the Governor may reduce appropriations up to 15.0 percent without further General Assembly action. 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, Investments and Derivative Instruments

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, 2023, the General Fund had a negative cash balance of \$13.7 billion. In order to properly reflect the general account position, this negative cash balance has been eliminated in the accompanying statements and offset against the primary government's cash equivalents and investments (see Note 8).

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, the Virginia Retirement System (the System), and monies held by the State Treasurer in both the general account and other fiduciary accounts. The System aggregates all funds that the Board of Trustees is responsible for investing and commingles these amounts for investing purposes. The System's pooled investments represent all cash and investment amounts reported in the Pension and Other Employee Benefit Trust Funds, the VRS Investment Portfolio and Volunteer Firefighters Rescue Squad Workers (custodial funds - other), the Commonwealth Health Research Board (permanent), and Federal Special Revenue (major).

The primary government's policy for managing interest rate risk, with the exception of the Virginia College Savings Plan (Virginia529) and the System, uses the segmented time distribution method.

Virginia529, for its investment portfolio reported as Defined Benefit 529 Program (major enterprise fund) and Defined Contribution 529 Program (private purpose trust fund), and the System, for the System's pooled investments, manage the interest rate risk using the effective duration methodology. To be consistent with management practices for each portfolio, the Commonwealth has elected to disclose the interest rate risk exposures, using the segmented time distribution for the primary government (excluding Defined Benefit 529, Defined Contribution 529, and the System's pooled investments) and the effective duration method for Defined Benefit 529, Defined Contribution 529, and the System's pooled investments. The Commonwealth discloses the component unit's interest rate risk using the segmented time distribution method (see Note 8).

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, including investments in the Commonwealth sponsored Extended Maturity portfolio, are reported

at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining fair value measurements using the level of fair value hierarchy and valuation techniques (see Note 8).

Investments administered by the System are reported at fair value, except for certain cash equivalents and other short-term, highly liquid investments are reported at amortized cost. The cost of investments sold is the average cost of the aggregate holding of the specific investment sold. For investments in limited partnerships, the System's share of the partnership's earnings or losses for the period are included in investment income.

Derivative Instruments

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes (see Note 16).

G. Assets Held Pending Distribution

Assets held pending distribution include various assets that have been placed in safekeeping until final disposition has been determined.

H. Receivables

Receivables in the governmental funds consist primarily of the accrual of taxes and amounts relating to the Opioid Settlement, as well as receivables of the primary government's Medicaid program and up-front amounts to be received for a Service Concession Arrangement. Additionally, receivables include amounts to be received for debt service payments related to certain bonds. Receivables in the proprietary funds consist primarily of educational contribution receivables and unemployment compensation. Receivables of fiduciary funds are primarily the accrual of security transactions in the Pension and Other Employee Benefit Trust Funds. Receivables of the component units consist primarily of mortgage receivables, loans receivable, patient receivables, student receivables, and lease receivables, for further details see the individually published financial statements. Receivables are recorded net of allowances for doubtful accounts (see Note 9). Restricted interest due within one year is included in receivables rather than Restricted Assets (Note 13) due to their liquidity.

I. Contributions Receivable, Net

Contributions Receivable reported by the foundations (component units) represents pledges or unconditional promises to give that have been discounted (see Note 10).

J. Internal Balances

Interfund receivables and payables have been eliminated from the Statement of Net Position, except for the residual amounts due between governmental and business-type activities (see Note 11).

K. Inventory

Inventories consist of materials and supplies and are reported as expenditures when consumed. These assets are classified as nonspendable fund balance. Inventories exceeding \$1.0 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 Emergency Management (VDEM)
- Department of Health (VDH)
- Department of State Police (VSP)
- Virginia Department of Transportation (VDOT)

VDEM supply inventories are recorded in the Federal Trust Fund (major special revenue) using the average cost methodology and maintained at average cost. VDH supply inventories are recorded in the General (major), Federal Trust (major special revenue), and Health and Social Services (nonmajor special revenue) Funds using the FIFO methodology and are maintained at either cost or current market cost. VSP inventories are recorded in the General (major) and Other (nonmajor special revenue) Funds using the average cost methodology and are maintained at cost. VDOT inventories are recorded in the Commonwealth Transportation Fund (major special revenue) using the FIFO and average cost methodologies and are maintained at either cost or average cost.

In addition to inventories maintained as stated above, the following agencies reported donated inventory balances on hand as of June 30, 2023:

- Department of Behavioral Health and Developmental Services (DBHDS)
- Department of Health (VDH)
- Department of Juvenile Justice (DJJ)
- Virginia Department of Transportation (VDOT)

Inventories maintained by the Virginia Lottery (major enterprise fund) and the Virginia Industries for the Blind (nonmajor enterprise fund) are stated at cost using the average cost methodology.

Inventories maintained by the Virginia Museum of Fine Arts and the Consolidated Laboratory (nonmajor enterprise funds) are stated at cost using FIFO.

Inventories maintained by the Science Museum of Virginia (nonmajor enterprise fund) are stated at cost using LIFO.

Inventories maintained by the Alcoholic Beverage Control (nonmajor enterprise fund) are stated at average cost using the weighted average method.

Inventories maintained by Virginia Correctional Enterprises (internal service fund) are stated at the lower of cost or market using FIFO. Inventories maintained by the internal service funds except for Virginia Correctional Enterprises are stated at cost using FIFO.

Institutions of higher education (nonmajor 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 Port Authority and the Danville Science Center (nonmajor component units) are reported using the moving average unit cost methodology. Inventories at the gift shop run by the Library of Virginia Foundation and at the Hampton Roads Sanitation District Commission (nonmajor component units) are stated at lower of cost or market using the average cost methodology.

L. Prepaid Items

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

M. Loans Receivable/Payable

Loans Receivable/Payable represents working capital advances between the primary government and component units (see Note 11).

N. Other Assets

Other Assets include those balances of a miscellaneous nature that are not specifically classified elsewhere. Additionally, it includes the Virginia Sickness and Disability Program Net Other Postemployment Benefit Plan Asset applicable to the proprietary funds (see Note 12).

O. 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 Position. Capital assets of the other funds and component units are capitalized in the fund in which they are utilized. All other capital assets are depreciated/amortized on the straight-line basis over their useful lives (see Note 14).

Capital assets are stated at historical cost or, in some instances, estimated historical cost. Assets received pursuant to service concession arrangements and donated capital assets from entities external to the reporting entity are stated at acquisition value when they are placed in service or at the time of donation, respectively. 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. In addition, the primary government reports right-to-use intangible assets of equipment, land, and buildings with a present value of \$50,000 or greater and subscription-based information technology arrangements with a present value of \$5,000 or greater, all of which have an expected useful life of more than one year. 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 amortization of long-term lease and SBITA contracts related to right-to-use intangible assets are reported separately from other capital assets as required by GASB Statement No. 87, *Leases* and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.

Intangible right-to-use lease assets are amortized over the shorter of the lease term or the useful life of the underlying asset. Land leases are amortized over the lease term. Leases with purchase options that are reasonably certain to be exercised are amortized over the useful life of the underlying asset, in circumstances where the underlying asset is nondepreciable, such as land, the lease asset should not be amortized.

Intangible right-to-use subscription assets are amortized over the shorter of the subscription term or the useful life of the underlying IT asset.

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.

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:

	<u>Years</u>
Buildings	10–75
Equipment	2–50
Infrastructure	5–50
Software	5–35
Right-to-Use Lease Assets	See Above
Right to-Use Subscription Assets	See Above

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

P. Deferred Outflows of Resources

Deferred outflows of resources are a consumption of net assets by the government that is applicable to a future reporting period. Deferred outflows have a natural debit balance and, therefore increase net position similar to assets (see Notes 15, 17, and 19).

Q. 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 fiscal year-end (see Note 26).

R. Unearned Revenue

Unearned revenue represents monies received or revenues accrued but not earned as of June 30, 2023.

In the special revenue funds, unearned revenue is composed primarily of prepaid toll revenue, contributions from localities and private sectors for highway construction projects, multi-year vehicle registrations recorded in the Commonwealth Transportation Fund (major); federal grants (including COVID-19 funding) in the Federal Trust Fund (major); and multi-year motor vehicle safety inspections, emission inspections, mining permits, and casino,

hunting, fishing, and trapping licenses recorded in the Other and Health and Social Services Funds (nonmajor).

In the enterprise funds, a majority of unearned revenue represents online ticket monies received by the Virginia Lottery (major) for which corresponding drawings have not been held; test kits and certifications from Consolidated Labs (nonmajor) which are paid for prior to shipping and certification being performed; and online sales of product where customers prepay before picking up and gift cards in the Alcoholic Beverage Control (nonmajor).

Unearned revenue in the internal service funds primarily represents unearned premiums in the Risk Management Fund; advanced customer receipts in the Technology and Data Services Fund; and prepaid rent and work orders in the Property Management Fund.

Unearned revenue reported by higher education institutions (nonmajor component units) is primarily composed of revenue for student tuition accrued in advance of the semester and advance payments on grants and contracts. Unearned revenues in the other component units consist primarily of prepaid fees related to various future activities.

S. Unearned Taxes

Unearned taxes represent income taxes related to the period January through June 2023. 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 \$1.7 billion and estimated underpayments total \$1.4 billion. This results in unearned taxes of \$238.9 million.

Corporate income tax estimated overpayments total \$63.6 million and estimated underpayments total \$163.7 million. When underpayments exceed overpayments, revenue on the fund statements is only recognized to the extent of estimated overpayments. Since underpayments exceed overpayments for the corporate income taxes, the unearned tax amount is zero for the fiscal year.

T. 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.

U. Due to Claimants, Participants, Escrows and Providers

Due to claimants, participants, escrows and providers represent monies that the Commonwealth is holding on behalf of third parties as of June 30, 2023. In governmental funds, the majority of the amount

represents unemployment benefit claims and estimated unclaimed and escheat property that the Commonwealth is holding until claimed by the rightful owner.

In the enterprise funds, the amounts represent payments due to benefit claimants and employers for tax overpayments in the Unemployment Compensation Fund (major) and to participants of the Defined Benefit 529 Program in the Virginia College Savings Plan (major).

In the private purpose trust funds, the amounts represent payments due to participants in the Defined Contribution 529 Program offered by the Virginia College Savings Plan.

In the Custodial Funds - Other, the amounts represent accounts of inmates, residents, and patients of the Commonwealth's correctional, and behavioral health facilities.

V. 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 27).

W. Claims Payable

Claims payable, reported in the proprietary funds of the primary government, represent both health and liability insurance claims payable as of June 30, 2023. 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, the Local Choice Health Care - nonmajor enterprise fund and Line of Duty - internal service fund and nonmajor enterprise fund (see Notes 25.A. and 25.B.). Claims payable reported by the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – nonmajor component unit) represents estimated malpractice, workers' compensation, and other insurance coverages claims payable amounts.

X. 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, 2023. 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 28).

Bond premiums and discounts are amortized over the life of the bond. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, excluding prepaid insurance, are expensed.

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 the General Fund (major) and special revenue funds, expenditures for principal and interest payments are recognized for long-term leases, long-term SBITAs and installment purchases. In the 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 28).

Y. Deferred Inflows of Resources

Deferred inflows of resources are an acquisition of net assets by the government that is applicable to a future reporting period. Deferred inflows have a natural credit balance and, therefore decrease net position similar to liabilities (see Notes 15, 16, 17, 19 and 39).

Z. Nonspendable Fund Balances

Nonspendable fund balances indicate that portion of fund balance that cannot be spent because it is either not in spendable form or is legally or contractually required to be maintained intact.

AA. Restricted Fund Balances

Restricted fund balances are amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

BB. Committed Fund Balances

Committed fund balance includes amounts that must be spent for specific purposes that have been legislatively mandated by the Governor and General Assembly. Further action by the Governor and the General Assembly would be required to modify these commitments.

CC. Assigned Fund Balances

Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Assignments are identified by Commonwealth management pursuant to the

delegation of authority granted by the General Assembly and Governor specified in the Appropriation Act.

DD. Unassigned Fund Balances

Unassigned fund balance is the amount of fund balance that has not been assigned to other funds and has not been restricted, committed or assigned to specific purposes within the General Fund (major). The General Fund is the only fund that could potentially report a positive unassigned fund balance amount. For fiscal year 2023, there are no unassigned balances in the governmental funds.

EE. Cash Management Improvement Act

Included in Amounts 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 Bureau of the Fiscal Service (BFS) of the U.S. Treasury. If required, the payment is to be made on March 31 of the following year. 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 BFS.

FF. 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 State Treasurer's Portfolio in the General Fund.

GG. 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.

HH. Interfund Activity

Generally, the effect of interfund activity has been eliminated from the government-wide statements, with the exception of interfund services provided and used between functions. 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 or the accrual to move 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 beginning balance restatements resulted from the following:

Government-wide Activities

Governmental Activities

- The Commonwealth implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs), for the fiscal year ended June 30, 2023. This implementation resulted in the restatement for SBITAs of \$20.4 million for the Governmental Activities.
- Capital Asset balances were overstated by \$32.8 million of errors predominantly by the Virginia Department of Military Affairs, Department of General Services, and the Science Museum of Virginia.
- The Commonwealth Transportation Fund (major special revenue) has been restated by \$11.0 million resulting from an understatement of receivables associated with I-95 Express Lane Service concession arrangement in the prior year.
- Governmental Activities have been restated by \$160.8 million for an understatement of deferred outflows of resources in the prior year related to pension and OPEB plans.

Business-Type Activities

- As a result of the implementation of GASB Statement No. 96 as discussed previously the Virginia College Savings Plan Fund (major) has a restated beginning balance by \$289,786.

Fund Statements

- The Commonwealth Transportation Fund (major special revenue) has been restated by \$11.0 million as previously discussed.
- The Virginia College Savings Plan Fund (major enterprise) has been restated due to GASB Statement No. 96, by \$289,786, as previously discussed.
- The Property Management Fund (internal service) has been restated due to GASB Statement No. 96, by \$38,340, as previously discussed.

Component Units

The government-wide and fund statements were restated for GASB Statement No. 96 as mentioned previously.

- Virginia Housing Development Authority (major) has been restated by \$582,654.
- Various nonmajor component units have been restated by \$6.7 million.

University of Virginia (nonmajor) has been restated by \$65.8 million for correction of prior year errors that overstated net position primarily related to the Community Health acquisition. In addition, the following higher education institutions (nonmajor) have been restated for correction of prior year errors: University of Virginia by \$14.5 million for foundation interest rate swaps and \$33.7 million for UVA benefit plan fund reclassification; Virginia State University (nonmajor) by \$7.1 million primarily related to capital assets and unearned revenue; Radford University (nonmajor) by \$6.0 million primarily related to

pension expense, capital assets, and eliminations between the University and a foundation; Old Dominion University (nonmajor) by \$4.3 million primarily related to receivables, capital assets, payables, and investment in a foundation.

The Virginia Passenger Rail Authority has been restated by \$46.6 million for a correction of the prior year error resulting from incorrect revenue classification.

Beginning Net Position/Fund Balance Restatement

(Dollars in Thousands)

	Balance as of June 30, 2022	GASBS No. 96, SBITAs	Correction of Prior Year Errors	Balance as of June 30, 2022, as restated
Government-wide Activities:				
Primary Government:				
Governmental Activities	\$ 39,183,638	\$ 20,392	\$ 138,998	\$ 39,343,028
Business-Type Activities	3,051,713	290	—	3,052,003
Total Primary Government	<u>\$ 42,235,351</u>	<u>\$ 20,682</u>	<u>\$ 138,998</u>	<u>\$ 42,395,031</u>
Component Units	<u>\$ 40,065,359</u>	<u>\$ (6,164)</u>	<u>\$ 46,330</u>	<u>\$ 40,105,525</u>
Fund Statements:				
Governmental Funds				
Major Governmental Funds:				
General	\$ 11,679,634	\$ —	\$ —	\$ 11,679,634
Special Revenue Funds:				
Commonwealth Transportation	4,469,259	—	10,959	4,480,218
Federal Trust	354,855	—	—	354,855
Literary	143,042	—	—	143,042
Nonmajor Governmental Funds	4,218,161	—	—	4,218,161
Total Governmental Funds	<u>\$ 20,864,951</u>	<u>\$ —</u>	<u>\$ 10,959</u>	<u>\$ 20,875,910</u>
Proprietary Funds				
Major Enterprise Funds:				
Virginia Lottery	\$ (27,597)	\$ —	\$ —	\$ (27,597)
Virginia College Savings Plan	1,455,978	290	—	1,456,268
Unemployment Compensation	1,410,150	—	—	1,410,150
Nonmajor Enterprise Funds	201,639	—	—	201,639
Total Enterprise Funds	<u>\$ 3,040,170</u>	<u>\$ 290</u>	<u>\$ —</u>	<u>\$ 3,040,460</u>
Internal Service	<u>\$ 304,343</u>	<u>\$ 38</u>	<u>\$ —</u>	<u>\$ 304,381</u>
Component Units:				
Virginia Housing Development Authority	\$ 3,746,902	\$ 583	\$ —	\$ 3,747,485
Virginia Public School Authority	35,006	—	—	35,006
Virginia Resources Authority	2,003,347	—	—	2,003,347
Virginia College Building Authority	(5,064,640)	—	—	(5,064,640)
Nonmajor Component Units	39,344,744	(6,747)	46,330	39,384,327
Total Component Units	<u>\$ 40,065,359</u>	<u>\$ (6,164)</u>	<u>\$ 46,330</u>	<u>\$ 40,105,525</u>

3. NET POSITION/FUND BALANCE CLASSIFICATIONS

Fund Balance

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, improved the reporting of fund balance so that classifications are more easily understood and can be applied consistently between information reported in the government-wide financial statements and the governmental fund financial statements. The governmental fund balance classifications defined in GASB Statement No. 54 are: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

Nonspendable fund balance includes inventories, prepaid items, and the principal of a permanent fund. These funds are not available for expenditure in the current or following period.

Restricted fund balance includes amounts that have constraints placed on the use of resources by the Constitution of Virginia or a party external to the Commonwealth.

Committed fund balance includes amounts that must be spent for specific purposes that have been legislatively mandated by the Governor and General Assembly.

Assigned fund balance represents amounts that the Commonwealth has identified for planned purposes but for which the intended use is not legislatively mandated. The assignments are identified by Commonwealth management pursuant to the delegation of authority granted by the General Assembly and Governor specified in the Appropriation Act. The following schedule includes committed and assigned amounts that share the same purpose and title. The distinction between these classifications results from whether there is a statutory restriction on certain amounts contained within the fund.

Unassigned fund balance for the General Fund represents the residual classification. As of June 30, no unassigned fund balance is reported for the General Fund (major). Additionally, a negative amount indicates that restricted and committed amounts exceed the available modified accrual basis fund balance. For fiscal year 2023, there are no unassigned balances in the governmental funds.

The governmental fund balance classifications and amounts as of June 30, 2023, are shown in the following table.

Governmental Fund Balance Classifications

(Dollars in Thousands)

	General Fund	Commonwealth Transportation	Federal Trust	Literary	Nonmajor Governmental	Total
Nonspendable						
Inventory	\$ 49,985	\$ 114,707	\$ 96,552	\$ —	\$ 6,988	\$ 268,232
Prepaid Items	113,058	1,081	4,158	—	5,667	123,964
Permanent Funds	—	—	—	—	46,462	46,462
Total Nonspendable	163,043	115,788	100,710	—	59,117	438,658
Restricted						
Agriculture and Forestry	—	—	—	—	11,646	11,646
Capital Projects/Construction/Capital Acquisition	—	—	—	—	1,998,840	1,998,840
Contract and Debt Administration	—	8,271	—	—	—	8,271
COVID-19	—	51	8,376	—	—	8,427
Debt Service	—	—	—	—	47,826	47,826
Economic and Technological Development	—	—	—	—	127	127
Educational and Training Programs	—	—	—	—	6,044	6,044
Employee Benefit Administration	—	—	—	—	12,176	12,176
Environmental Quality and Natural Resource Preservation	—	—	—	—	15,748	15,748
Gifts and Grants	—	84,033	99,448	—	2,234	185,715
Government Operations:						
Administrative Services	—	—	—	—	2,373	2,373
Health and Public Safety	—	—	—	—	100,995	100,995
Literary Fund	—	—	—	330,558	—	330,558
Lottery Proceeds Fund	104,102	—	—	—	—	104,102
Revenue Stabilization Fund	2,686,657	—	—	—	—	2,686,657
Transportation Activities	—	430,811	—	—	—	430,811
Unclaimed and Escheats	—	—	—	—	49,120	49,120
Virginia Water Supply Assistance Grant Fund	6,937	—	—	—	—	6,937
Total Restricted	2,797,696	523,166	107,824	330,558	2,247,129	6,006,373
Committed						
Agriculture and Forestry	2,086	—	—	—	51,368	53,454
Amount Required for Mandatory Reappropriation	695,305	—	—	—	—	695,305
Amount Required for Reappropriation of 2023 Unexpended Balances for Capital Outlay and Restoration Projects	2,460,339	—	—	—	—	2,460,339
Capital Projects/Construction/Capital Acquisition	4,442	—	—	—	678	5,120
Central Capital Planning Fund	13,528	—	—	—	—	13,528
Commonwealth's Development Opportunity Fund	102,302	—	—	—	—	102,302
Contract and Debt Administration	213	3,347	—	—	3,161	6,721
COVID-19	—	—	—	—	4,366	4,366
Economic and Technological Development	471,030	—	—	—	395,521	866,551
Educational and Training Programs	558,541	4,240	—	—	17,267	580,048
Environmental Quality and Natural Resource Preservation	63,915	—	—	—	296,214	360,129
Gifts and Grants	—	—	—	—	4,417	4,417
Government Operations:						
Administrative Services	289	—	—	—	87,339	87,628
Legislative Services	—	—	—	—	424	424
Health and Public Safety	61,759	1,928	—	—	368,704	432,391
Interstate 64	150,000	—	—	—	—	150,000
Local Government Fiscal Distress	750	—	—	—	—	750
Major Headquarters Workforce Grant	35,500	—	—	—	—	35,500
Natural Disaster Sum Sufficient	20,165	—	—	—	—	20,165
Regulatory Oversight	—	—	—	—	223,523	223,523
Revenue Reserve Fund	1,835,357	—	—	—	—	1,835,357
Taxpayer Relief Fund	70	—	—	—	—	70
Transportation Activities	—	4,675,342	—	—	1,687	4,677,029
Virginia Business Ready Sites	50,000	—	—	—	—	50,000
Virginia Communication Sales and Use Tax	5,379	—	—	—	—	5,379
Virginia Health Care Fund	230,692	—	—	—	—	230,692
Virginia Water Quality Improvement Fund	334,085	—	—	—	—	334,085
Virginia Water Quality Improvement Fund - Part A	497,538	—	—	—	—	497,538
Virginia Water Quality Improvement Fund - Part B	146,950	—	—	—	—	146,950
Total Committed	7,740,235	4,684,857	—	—	1,454,669	13,879,761
Assigned						
Agriculture and Forestry	3	—	—	—	694	697
Amount Required by Chapter 769	1,449,577	—	—	—	—	1,449,577
Amount Required for Discretionary Reappropriations	277,274	—	—	—	—	277,274
Economic and Technological Development	8,572	—	—	—	3,027	11,599
Educational and Training Programs	6,784	—	—	—	10,895	17,679
Employee Benefit Administration	2,544	—	—	—	—	2,544
Environmental Quality and Natural Resource Preservation	16,193	—	—	—	14,533	30,726
Capital Projects/Construction/Capital Acquisition	1,076	—	—	—	—	1,076
COVID-19	837	—	—	—	—	837
Government Operations:						
Administrative Services	10,494	—	—	—	—	10,494
Legislative Services	5,262	—	—	—	—	5,262
Health and Public Safety	38,121	—	—	—	16,682	54,803
Regulatory Oversight	—	—	—	—	4	4
Transportation Activities	4	948	—	—	—	952
Total Assigned	1,816,741	948	—	—	45,835	1,863,524
Total Fund Balance	\$ 12,517,715	\$ 5,324,759	\$ 208,534	\$ 330,558	\$ 3,806,750	\$ 22,188,316

4. DEFICIT FUND BALANCES/NET POSITION

The Virginia Lottery (major enterprise fund), the Department of General Services' Consolidated Laboratory Services Fund, the Department of Environmental Quality's Title V Air Pollution Permit Fund, the Virginia Museum of Fine Arts Gift Shop (nonmajor enterprise funds), and the Payroll Service Bureau (internal service funds) ended the year with deficit net positions of \$23.4 million, \$2.7 million, \$7.7 million, \$1.7 million, and \$2.1 million, respectively. This was solely attributable to the net pension liability resulting from GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and the other postemployment benefits (OPEB) obligation resulting from GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The Risk Management Fund (nonmajor enterprise fund) ended the year with a deficit net position balance of \$2.0 million. The deficit was a result of previous increases in claims liability for constitutional officers' programs exceeding premiums collected.

The Enterprise Application Fund (internal service fund) ended the year with a deficit net position balance of \$24.3 million. The deficit was a result of working capital advances for the Human Capital Management System and noncurrent liabilities related to net pension liabilities and other postemployment benefit obligations.

The Property Management Fund (internal service fund) ended the year with a deficit net position balance of \$36.6 million. The deficit was a result of long-term lease liabilities exceeded the amortized lease assets. Further, there are noncurrent liabilities related to net pension liabilities and other postemployment benefit obligations.

The Risk Management Fund (internal service fund) ended the year with a deficit net position balance of \$162.3 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. Further, there are noncurrent liabilities related to net pension liabilities and other postemployment benefit obligations.

The Virginia College Building Authority (major component unit) ended the year with a deficit net position balance of \$5.3 billion. This deficit occurs 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. These future appropriations are not included as assets of the Authority. The General Assembly has never failed to appropriate funds to the Authority for payment of debt service on the Authority's bonds.

The Southern Virginia Higher Education Center (nonmajor component unit) ended the year with a deficit net position balance of \$1.2 million. This deficit is solely attributable

to net pension liability and other postemployment benefit obligations.

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.

Under the provisions of Article X, Section 8 of the Constitution of Virginia, a deposit of \$904.7 million is required during fiscal year 2024 based on fiscal year 2022 revenue collections reduced by the estimated rebate provided to taxpayers as required by Chapter 1, Item 3-5.24. No deposit is required based on fiscal year 2023 revenue collections, adjusted to include the prior year estimated rebate to taxpayers.

In addition, Chapter 769, Item 267. D2, appropriates \$498.7 million from the Revenue Reserve Fund to be deposited to the Revenue Stabilization Fund during fiscal year 2024. This amount was provided in Chapter 1, 2022 Acts of Assembly Special Session I, as an advanced reservation for the fiscal year 2024 mandatory deposit. This amount is included as part of the 2024 restricted component of fund balance.

Section 2.2-1829(b) of the Code of Virginia requires an additional deposit into the Fund when specific criteria have been met. No such deposit is required since the specified criteria were not met for fiscal year 2023.

The Revenue Stabilization Fund has principal and interest on deposit of \$1.8 billion restricted as a part of General Fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed 15.0 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. As of June 30, 2023, the constitutional maximum is \$3.9 billion.

6. REVENUE RESERVE FUND

As of June 30, 2023, the fund has principal and interest on deposit of \$2.0 billion recorded in the Commonwealth's general ledger and reported as cash on the Balance Sheet. Pursuant to Chapter 769, Item 267. D2, the general ledger balance includes the advance reservation of \$498.7 million for the fiscal year 2024 deposit to the Revenue Stabilization Fund (see Note 5). Accordingly, only \$1.5 billion of the general ledger cash balance is included as a committed component of fund balance. This amount is set aside to mitigate certain anticipated revenue shortfalls when appropriations based on previous revenue forecasts exceed expected revenues in subsequent forecasts.

Section 2.2-1831.2 and 2.2-1831.3 of the *Code of Virginia* established the Revenue Reserve Fund and specified required deposits to the fund. Whenever there is a fiscal year in which there is not a mandatory deposit to the Revenue Stabilization Fund, a deposit is required if the

general fund revenue exceeds the official estimate. The amount to be deposited shall not exceed one percent of the general fund revenues collected in the prior fiscal year. The Department of Planning and Budget has identified a deposit of \$289.6 million to be made during fiscal year 2024. This amount represents the fiscal year 2023 revenue collected in excess of the estimate reduced by the statutory deposit to the Water Quality Fund for excess revenues. Additionally, this amount is subject to the one percent statutory limit adjusted to eliminate the impact of the prior year estimated rebate provided to taxpayers and is reported as part of the committed fund balance.

Additionally, the combined balance of the Revenue Reserve Fund and the Revenue Stabilization Fund cannot exceed 20.0 percent of the total Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. As of June 30, 2023, the constitutional maximum is \$5.1 billion.

7. 2023 INDIVIDUAL INCOME TAX REBATE

The 2023 Individual Income Tax Rebate is authorized by Chapter 1, 2023 Acts of Assembly Special Session I, Item 3-5.28 and is in addition to any refund pursuant to §58.1-309 of the *Code of Virginia*. Qualifying individuals and married persons filing jointly are entitled to an additional tax rebate of \$200 or \$400, respectively. The rebates were disbursed subsequent to June 30. Accordingly, \$906.8 million is reported as a liability in the accompanying financial statements.

8. CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of June 30, 2023, the carrying amount of cash for the primary government (including the Virginia Retirement System Pooled Investments) was \$12.6 billion and the bank balance was \$861.3 million. The carrying amount of cash for component units was \$3.3 billion and the bank balance was \$1.3 billion. Cash equivalents are investments with an original maturity of 90 days or less. Cash and cash equivalents for foundations (component units) totaled \$755.8 million 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. Note 8 includes investment derivatives for the primary government and excludes derivatives for the component units. For additional information concerning derivative instruments, see Note 16.

For purposes of this note, primary government includes governmental, business-type activities, and fiduciary funds. The majority of 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 et seq. 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 50.0 percent to 100.0 percent for financial institutions choosing the pooled method of collateralization, and from 105.0 percent to 130.0 percent for financial institutions choosing the dedicated method of collateralization. As stated in Note 1.FF, unrealized gains or losses for the State Treasurer's Portfolio are recorded in the General Fund. Public Depositors are required to secure their deposits pursuant to several applicable provisions of the law.

The Local Government Investment Pool Act, Section 2.2-4600 of the *Code of Virginia*, created the Local Government Investment Pool (Pool) program for the benefit of public entities of the Commonwealth. The Treasury Board of Virginia is granted administration of the Local Government Investment Pool (LGIP) and Local Government Investment Pool – Extended Maturity (LGIP EM) on behalf of the participating public entities of the Commonwealth. Participation in this pool is voluntary. Both LGIP and LGIP EM offer two professionally managed investment portfolios in accordance with the Investment of Public Funds Act. The LGIP portfolio is a diversified portfolio structured to provide public entities an investment alternative that seeks to minimize the risk of principal loss while offering daily liquidity, a stable Net Asset Value (NAV), and a competitive rate of return. The LGIP is not registered with the Securities Exchange Commission (SEC) as an investment company. The LGIP EM portfolio is a diversified portfolio with fluctuating NAV structured to provide an investment alternative to public entities who wish to invest monies not needed for daily liquidity. The fair value of the Commonwealth's position in the Pool is the same as the value of the Pool shares for all except for the LGIP EM whose shares fluctuate with changes in the market value of the portfolio.

Certain deposits are held by trustees in accordance with the Trust Subsidiary Act, Section 6.2-1057 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.

As of June 30, 2023, the State Treasurer held no security that was in default as to principal or interest. The State Treasurer held two securities with a maturity date of November 1, 2029 and one security in one component unit portfolio with a maturity of April 1, 2027 that were out of compliance with guidelines.

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 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 State Treasurer in accordance with bond indentures and resolutions may have more restrictive investment policies. Investment policies of component units are established by the entity's governing boards.

The information presented for the external investment pool was obtained from audited financial statements. Copies of the LGIP report may be obtained from the Department of the Treasury website at www.trs.virginia.gov.

The Board of Trustees (the Board) 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 interests of members, retirees, and beneficiaries. It also requires the Board 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 Board 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's investment portfolio is intended to be managed through diversification and prudent judgment, rather than through specific policy restrictions.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a depository bank failure, the Commonwealth may not be able to recover deposits or collateral securities that are in the possession of an outside party. Custodial credit risk for investments 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 custodial credit risk pertaining to the Commonwealth's securities lending program are found in the securities lending section of this note.

As of June 30, 2023, the primary government (excluding the System's pooled investments) had \$12.9 million in bank balances that were uninsured and uncollateralized. There is no deposit policy that addresses custodial credit risk.

As of June 30, 2023, investment securities for the System (excluding cash equivalents and repurchase agreements held as securities lending collateral) were registered and held in the name of the System for the benefit of the System's trust and custodial funds and were not exposed to custodial credit risk. It is the standard practice and policy of the System, through the relevant provisions in its contracts and agreements with third parties, to minimize all known and reasonably foreseeable custodial credit risks.

As of June 30, 2023, component units had \$135.1 million in bank balances that were uninsured and uncollateralized, and \$36.6 million in bank balances that were uninsured and collateralized with securities held by the pledging financial institution. In addition, the Virginia Housing Development Authority (major) and Virginia Port Authority (nonmajor) held \$247.4 million and \$902.5 million, respectively, of investments, primarily U.S. Treasury and Agency Securities and Commercial Paper, that were uninsured and held by the counterparty as of June 30, 2023.

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. As discussed in Note 1.F., the Commonwealth discloses the risk for its debt investments using the segmented time distribution method for the primary government (excluding the Virginia College Savings Plan's Defined Benefit 529 and Defined Contribution 529 programs and the Virginia Retirement System Pooled Investments) and component units and the effective duration method for Virginia College Savings Plan (Defined Benefit 529 and Defined Contribution 529 programs) and the System (Virginia Retirement System Pooled Investments).

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 Virginia College Savings Plan (Virginia529) manages the risk for fixed income investment securities held in its Defined Benefit 529 and Defined Contribution 529 programs using the effective duration methodology. Virginia529’s Statements of Investment Policy and Guidelines do not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Although not an explicit requirement, duration of fixed income portfolios, if applicable, is expected to be within 20.0 percent of each portfolio’s designated benchmark.

The System also manages the risk within its portfolio using the effective duration 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 on 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.

As of June 30, 2023, the System’s investments included \$2.2 billion, primarily in U.S. Treasury and agency securities, corporate bonds and notes, and supranational and non-U.S. Government bonds and notes, which are highly sensitive to interest rate fluctuations in that they have an option adjusted duration of greater than ten years. The resulting reduction in expected total cash flows affects the fair value of these securities.

As of June 30, 2023, the Commonwealth’s investments subject to interest rate risk had the following maturities and weighted average effective durations.

Primary Government Investments

(Excluding Virginia College Savings Plan and Virginia Retirement System Pooled Investments)

(Dollars in Thousands)

<u>Investment Type</u>	<u>June 30, 2023</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
<u>Debt Securities</u>					
U. S. Treasury and Agency Securities	\$ 4,709,600	\$ 1,866,659	\$ 2,052,229	\$ 419,344	\$ 371,368
Corporate Bonds and Notes	2,175,424	144,946	1,208,583	596,837	225,058
Supranational and Non-U.S. Government Bonds and Notes	159,243	157,219	2,024	—	—
Commercial Paper	9,466,017	9,466,017	—	—	—
Negotiable Certificates of Deposit	14,124,048	14,122,735	1,313	—	—
Repurchase Agreements	5,092,918	5,092,918	—	—	—
Municipal Securities	82,555	—	36,815	14,879	30,861
Asset-Backed Securities	696,916	74	309,346	113,726	273,770
Agency Mortgage-Backed Securities	988,831	4,312	34,579	75,275	874,665
Agency Unsecured Bonds and Notes	6,520,390	2,776,956	3,733,420	3,984	6,030
Mutual and Money Market Funds (Includes SNAP)	2,194,126	2,194,126	—	—	—
Fixed Income and Commingled Funds	9,558	2,103	7,295	160	—
Other Debt Securities	353	353	—	—	—
Total	\$ 46,219,979	\$ 35,828,418	\$ 7,385,604	\$ 1,224,205	\$ 1,781,752

Primary Government - Virginia College Savings Plan Investments

(Dollars in Thousands)

<u>Investment Type</u>	<u>Defined Benefit 529 (Major Enterprise Fund)</u>		<u>Defined Contribution 529 (Private Purpose Trust Fund)</u>	
	<u>June 30, 2023</u>	<u>Weighted Avg. Effective Duration</u>	<u>June 30, 2023</u>	<u>Weighted Avg. Effective Duration</u>
<u>Debt Securities</u>				
U. S. Treasury and Agency Securities	\$ 109,775	12.7	\$ 10,276	1.8
Corporate Bonds and Notes	414,456	3.7	230,744	4.8
Convertible Bonds and Notes*	527	3.5	—	—
Supranational and Non-U.S. Government Bonds and Notes	37,149	6.0	215,784	7.4
Asset Backed Securities	136,275	1.7	9,886	<0.1
Agency Mortgage Backed Securities	161,166	5.9	—	—
Mutual and Money Market Funds	107,220	<0.1	76,730	<0.1
Guaranteed Investment Contracts	—	—	1,665,481	3.6
Fixed Income and Commingled Funds*	625,616	5.9	956,619	6.6
Total	\$ 1,592,184	5.1	\$ 3,165,520	4.7

*Effective duration is calculated using a methodology that takes into account the duration impact of equity warrants and rate-sensitive instruments.

Primary Government - Virginia Retirement System Pooled Investments
(Dollars in Thousands)

<u>Investment Type</u>	<u>June 30, 2023</u>	<u>Weighted Avg. Effective Duration</u>
<u>Debt Securities</u>		
U. S. Treasury and Agency Securities	\$ 5,377,812	6.0
Corporate Bonds and Notes	6,553,780	3.6
Collateralized Mortgage Obligations	466,318	6.8
Commercial Mortgages	143,406	2.3
Supranational and Non-U.S. Government Bonds and Notes	693,628	7.4
Mutual and Money Market Funds	85,984	7.2
Commercial Paper	2,380,310	0.2
Negotiable Certificates of Deposit	990,507	0.2
Repurchase Agreements	872,964	< 0.1
Municipal Securities	65,451	7.7
Asset Backed Securities	236,647	2.7
Agencies	4,591,542	6.4
Fixed Income and Commingled Funds	823,876	5.7
Fixed Income Derivatives	(8,668)	-3.0
Time Deposits	315,439	< 0.1
Term Loans	17,425	0.2
 <u>Debt Securities - No Effective Duration</u>		
U.S. Treasury and Agency Securities	3,136	N/A
Corporate Bonds and Notes	3,144	N/A
Collateralized Mortgage Obligations	3,851	N/A
Commercial Mortgages	2,215	N/A
Supranational and Non-U.S. Government Bonds and Notes	2,856	N/A
Mutual and Money Market Funds	41,611	N/A
Term Loans	2,558	N/A
Fixed Income Derivatives	(14,452)	N/A
Total	<u>\$ 23,651,340</u>	<u>4.3</u>

Component Unit Investments
(Dollars in Thousands)

<u>Investment Type</u>	<u>June 30, 2023</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
<u>Debt Securities</u>					
U. S. Treasury and Agency Securities	\$ 1,629,885	\$ 1,043,105	\$ 467,948	\$ 52,099	\$ 66,733
Supranational and Non-U.S. Government Bonds and Notes	4,275	978	3,297	—	—
Corporate Bonds and Notes	615,911	134,926	448,443	19,852	12,690
Commercial Paper	380,259	380,259	—	—	—
Negotiable Certificates of Deposit	92,440	78,437	14,003	—	—
Repurchase Agreements	656,274	656,274	—	—	—
Municipal Securities	172,349	21,242	57,530	61,121	32,456
Asset-Backed Securities	471,476	38,446	351,572	13,918	67,540
Agency Unsecured Bonds and Notes	227,681	220,426	7,255	—	—
Agency Mortgage-Backed Securities	1,028,789	65,006	136,644	7,887	819,252
Mutual and Money Market Funds (Includes SNAP)	1,595,307	1,523,892	65,120	6,295	—
Guaranteed Investment Contracts	18,967	2,734	11,789	4,444	—
International and Emerging Markets Funds	4,989	1,531	1,321	—	2,137
Fixed Income and Commingled Funds	71,863	15,808	45,328	5,212	5,515
Other Debt Securities	73,228	50,385	192	—	22,651
Total	\$ 7,043,693	\$ 4,233,449	\$ 1,610,442	\$ 170,828	\$ 1,028,974

Foundation Investments
(Dollars in Thousands)

<u>Investment Type</u>	<u>Amount</u>
U.S. Treasury and Agency Securities	\$ 776,704
Common and Preferred Stocks	872,363
Corporate Bonds and Notes	260,859
Commercial Paper	6,815
Negotiable Certificates of Deposit	9,400
Municipal Securities	114,579
Repurchase Agreements	207,180
Asset Backed Securities	58,875
Agency Mortgage Backed Securities	28,983
Mutual and Money Market Funds	712,005
Bankers' Acceptance	92,346
Real Estate	864,299
Index Funds	389,610
Hedge Funds	2,288,169
Partnerships	1,577,588
Venture Capital	1,417,240
Institutional Commingled Funds	5,283,363
Private Equity	3,011,023
Fixed Income	491,660
Other	2,510,486
Total	\$ 20,973,547

Note: Foundations represent FASB reporting entities defined in Note 1.B. A portion of these amounts is 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 places emphasis on securities of high credit quality and marketability. At the time of purchase, the following limitations are in place:

- Bankers acceptances: At least two ratings of P-1/A-1/F1 by Moody's Investors Service (Moody's), Standard & Poor's (S&P), or Fitch
- Negotiable CDs and bank notes:
 - maturities of one year or less: At least two ratings of P-1/A-1/F1 by Moody's, S&P, or Fitch
 - maturities over one year: At least two ratings of Aa/AA/AA by Moody's, S&P, or Fitch
- Commercial paper: At least two ratings of P-1/A-1/F1 by Moody's, S&P, or Fitch
- Corporate Notes and Bonds: At least two ratings of A-3/A-/A- by Moody's, S&P, or Fitch. However, each external investment manager may invest up to 10.0 percent of their portfolio in Baa2/BBB rated bonds which, must be rated by two rating agencies and one of the two qualifying ratings shall be at least Baa2/BBB/BBB by Moody's, S&P, or Fitch.
- Municipal Bonds: A-3/A- or equivalent by two nationally recognized rating agencies, one of which must be Moody's or S&P
- Asset-backed securities: One of the two qualifying ratings shall be at least Aaa/AAA/AAA by Moody's, S&P, or Fitch
- Dollar denominated obligations of sovereign governments: Must be rated by two rating agencies with two qualifying ratings of at least Aaa/AAA/AAA by Moody's, S&P, or Fitch
- Commercial Mortgage-Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMOs): Must be rated at least Aaa or AAA by two rating agencies. One of the two qualifying ratings shall be at least Aaa/AAA/AAA by Moody's, S&P, or Fitch.

The System's policy for credit risk is based on the concept of a risk budget rather than specific limitations related to the rating of an individual security. The System's risk budget is allocated among the different investment strategies.

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 Note 16.

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

The following tables present the credit ratings for the investments of the primary government (excluding the Virginia Retirement System Pooled Investments), the System (Virginia Retirement System Pooled Investments), and component units as of June 30, 2023. The ratings presented are using Moody's, S&P, and Fitch rating scales. They are displayed from short-term to long-term.

Primary Government (Excluding Virginia Retirement System Pooled Investments)

(Dollars in Thousands)

Investment Type (1)	P-1 / A-1 / F1	Percent of Portfolio	P-2 / A-2 / F2	Percent of Portfolio	P-3 / A-3 / F3	Percent of Portfolio	Aaa / AAA
Agency Mortgage Backed Securities	\$ —	0.0 %	\$ —	0.0 %	\$ —	0.0%	\$ 6,328
Agency Unsecured Bonds and Notes	738,738	1.6 %	—	0.0 %	—	0.0%	8,914
Asset Backed Securities	—	0.0 %	—	0.0 %	1	0.0%	774,657
Commercial Paper	9,466,017	20.6 %	—	0.0 %	—	0.0%	—
Convertible Bonds and Notes	—	0.0 %	—	0.0 %	—	0.0%	—
Corporate Bonds and Notes	916	0.0 %	454	0.0 %	520	0.0%	19,991
Fixed Income and Commingled Funds	—	0.0 %	—	0.0 %	—	0.0%	160
Guaranteed Investment Contracts	—	0.0 %	—	0.0 %	—	0.0%	—
Municipal Securities	—	0.0 %	—	0.0 %	—	0.0%	5,560
Mutual and Money Market Funds (Includes SNAP)	—	0.0 %	—	0.0 %	—	0.0%	2,272,053
Negotiable Certificates of Deposit	13,843,812	30.1 %	278,923	0.6 %	—	0.0%	—
Other Debt Securities	—	0.0 %	—	0.0 %	—	0.0%	—
Repurchase Agreements	3,645,000	7.9 %	952,000	2.1 %	—	0.0%	—
Supranational and Non-U.S. Government Bonds and Notes	—	0.0 %	—	0.0 %	—	0.0%	160,792
Total	\$ 27,694,483	60.2 %	\$ 1,231,377	2.7 %	\$ 521	0.0%	\$ 3,248,455

Primary Government – Virginia Retirement System Pooled Investments

(Dollars in Thousands)

Investment Type (1)	P-1 / A-1 / F1	Percent of Portfolio	P-2 / A-2 / F2	Percent of Portfolio	P-3 / A-3 / F3	Percent of Portfolio	Aaa / AAA
Corporate Bonds and Notes	\$ 68,718	0.4%	\$ —	0.0%	\$ —	0.0%	\$ 18,317
Collateralized Mortgage Obligations	—	0.0%	—	0.0%	—	0.0%	229,949
Commercial Mortgages	—	0.0%	—	0.0%	—	0.0%	95,662
Supranational and Non-U.S. Government Bonds and Notes	7,070	0.0%	—	0.0%	—	0.0%	24,805
Mutual and Money Market Funds	—	0.0%	59	0.0%	—	0.0%	—
Commercial Paper	1,536,490	8.9%	579,873	3.3%	—	0.0%	—
Negotiable Certificates of Deposit	739,702	4.2%	—	0.0%	—	0.0%	—
Repurchase Agreements	—	0.0%	—	0.0%	—	0.0%	6,530
Municipal Securities	—	0.0%	—	0.0%	—	0.0%	—
Asset Backed Securities	—	0.0%	—	0.0%	—	0.0%	94,081
Agencies	—	0.0%	—	0.0%	—	0.0%	—
Fixed Income and Commingled Funds	—	0.0%	—	0.0%	—	0.0%	—
Fixed Income Derivatives	—	0.0%	—	0.0%	—	0.0%	—
Term Loans	—	0.0%	—	0.0%	—	0.0%	—
Time Deposits	79,605	0.5%	—	0.0%	—	0.0%	—
Total	\$ 2,431,585	14.0%	\$ 579,932	3.3%	\$ —	0.0%	\$ 469,344

Component Units

(Dollars in Thousands)

Investment Type (1)	P-1 / A-1 / F1	Percent of Portfolio	P-2 / A-2 / F2	Percent of Portfolio	P-3 / A-3 / F3	Percent of Portfolio	Aaa / AAA
Agency Mortgage Backed Securities	\$ —	0.0%	\$ —	0.0%	\$ —	0.0%	\$ 838,987
Agency Unsecured Bonds and Notes	2,970	0.1%	—	0.0%	—	0.0%	207,825
Asset Backed Securities	—	0.0%	—	0.0%	—	0.0%	353,231
Commercial Paper	307,173	5.7%	—	0.0%	—	0.0%	71,367
Corporate Bonds and Notes	14,784	0.3%	—	0.0%	—	0.0%	5,190
Fixed Income and Commingled Funds	—	0.0%	—	0.0%	—	0.0%	6,967
International and Emerging Markets Funds	—	0.0%	—	0.0%	—	0.0%	—
Municipal Securities	—	0.0%	—	0.0%	—	0.0%	18,071
Mutual and Money Market Funds (Includes SNAP)	922	0.0%	—	0.0%	—	0.0%	1,469,678
Negotiable Certificates of Deposit	5,493	0.1%	—	0.0%	—	0.0%	67,646
Other Debt Securities	—	0.0%	—	0.0%	—	0.0%	22,652
Repurchase Agreements	10,698	0.2%	—	0.0%	—	0.0%	—
Supranational and Non-U.S. Government Bonds and Notes	—	0.0%	—	0.0%	—	0.0%	341
Total	\$ 342,040	6.4%	\$ —	0.0%	\$ —	0.0%	\$ 3,061,955

- (1) Excludes investments of \$4.9 billion for primary government (excluding Virginia Retirement System Pooled Investments), \$6.2 billion for the System (Virginia Retirement System Pooled Investments), and \$1.7 billion for component units because obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government, Guaranteed Investment Contracts, United States Treasury Notes, or Repurchase Agreements which are collateralized by equity securities but not considered obligations of the U.S. Government and money market funds invested in Federated Hermes Government Obligations are not considered to have credit risk.

Amount by Credit Rating - Moody's / S&P / Fitch

Percent of Portfolio	Aa / AA	Percent of Portfolio	A	Percent of Portfolio	Baa / BBB	Percent of Portfolio	Less Than Investment Grade	Percent of Portfolio	Unrated	Percent of Portfolio	Grand Total
0.0 %	\$ 1,143,215	2.5 %	\$ —	0.0 %	\$ —	0.0 %	\$ —	0.0 %	\$ 454	0.0 %	\$ 1,149,997
0.0 %	5,772,617	12.5 %	21	0.0 %	3	0.0 %	22	0.0 %	75	0.0 %	6,520,390
1.7 %	7,889	0.0 %	23,210	0.1 %	20,883	0.1 %	30	0.0 %	16,407	0.0 %	843,077
0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	9,466,017
0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	527	0.0 %	527
0.0 %	162,587	0.4 %	1,270,392	2.8 %	933,298	2.0 %	424,337	0.9 %	8,129	0.0 %	2,820,624
0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	1,591,633	3.4 %	1,591,793
0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	1,665,481	3.6 %	1,665,481
0.0 %	68,256	0.2 %	2,391	0.0 %	—	0.0 %	5,420	0.0 %	928	0.0 %	82,555
4.9 %	—	0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	106,023	0.2 %	2,378,076
0.0 %	1,313	0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	14,124,048
0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	353	0.0 %	353
0.0 %	—	0.0 %	—	0.0 %	1	0.0 %	—	0.0 %	395,917	0.9 %	4,992,918
0.4 %	10,487	0.0 %	10,555	0.0 %	61,682	0.1 %	159,077	0.4 %	9,583	0.0 %	412,176
7.0 %	\$ 7,166,364	15.6 %	\$ 1,306,569	2.9 %	\$ 1,015,867	2.2 %	\$ 588,886	1.3 %	\$ 3,795,510	8.1 %	\$ 46,048,032

Amount by Credit Rating - Moody's / S&P / Fitch

Percent of Portfolio	Aa / AA	Percent of Portfolio	A	Percent of Portfolio	Baa / BBB	Percent of Portfolio	Less Than Investment Grade	Percent of Portfolio	Unrated	Percent of Portfolio	Grand Total
0.1%	\$ 611,124	3.5%	\$ 2,853,997	16.4%	\$ 1,574,430	9.0%	\$ 1,273,940	7.3%	\$ 156,398	0.9%	\$ 6,556,924
1.3%	27,309	0.2%	16,176	0.1%	11,855	0.1%	—	0.0%	184,880	1.1%	470,169
0.5%	17,813	0.1%	6,001	0.0%	—	0.0%	1	0.0%	26,144	0.1%	145,621
0.1%	43,149	0.3%	89,763	0.5%	155,381	0.9%	364,663	2.1%	11,653	0.1%	696,484
0.0%	—	0.0%	—	0.0%	—	0.0%	78,288	0.5%	49,248	0.3%	127,595
0.0%	—	0.0%	196,576	1.1%	67,371	0.4%	—	0.0%	—	0.0%	2,380,310
0.0%	42,910	0.3%	152,880	0.9%	—	0.0%	—	0.0%	55,015	0.3%	990,507
0.0%	32,650	0.2%	16,325	0.1%	—	0.0%	—	0.0%	—	0.0%	55,505
0.0%	56,788	0.3%	5,425	0.0%	—	0.0%	—	0.0%	3,238	0.0%	65,451
0.5%	32,176	0.2%	100,602	0.6%	5,101	0.0%	4,687	0.0%	—	0.0%	236,647
0.0%	162,911	0.9%	—	0.0%	—	0.0%	—	0.0%	4,428,631	25.4%	4,591,542
0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	823,876	4.7%	823,876
0.0%	—	0.0%	—	0.0%	—	0.0%	—	0.0%	(23,120)	-0.1%	(23,120)
0.0%	—	0.0%	100	0.0%	—	0.0%	19,883	0.1%	—	0.0%	19,983
0.0%	—	0.0%	140,834	0.8%	—	0.0%	—	0.0%	95,000	0.5%	315,439
2.5%	\$ 1,026,830	6.0%	\$ 3,578,679	20.5%	\$ 1,814,138	10.4%	\$ 1,741,462	10.0%	\$ 5,810,963	33.3%	\$ 17,452,933

Amount by Credit Rating - Moody's / S&P / Fitch

Percent of Portfolio	Aa / AA	Percent of Portfolio	A	Percent of Portfolio	Baa / BBB	Percent of Portfolio	Less Than Investment Grade	Percent of Portfolio	Unrated	Percent of Portfolio	Grand Total
15.2 %	\$ 160,863	3.0%	\$ —	0.0%	\$ 14,387	0.3%	\$ —	0.0%	\$ 14,552	0.3%	\$ 1,028,789
3.9 %	13,911	0.3%	—	0.0%	—	0.0%	—	0.0%	2,975	0.1%	227,681
6.6 %	15,900	0.3%	8,000	0.2%	48,026	0.9%	13,765	0.3%	32,554	0.6%	471,476
1.3 %	—	0.0%	—	0.0%	—	0.0%	—	0.0%	1,719	0.0%	380,259
0.1 %	84,165	1.6%	472,488	8.8%	36,315	0.7%	—	0.0%	2,969	0.1%	615,911
0.1 %	1,370	0.0%	15,732	0.3%	—	0.0%	—	0.0%	44,753	0.8%	68,822
0.0 %	488	0.0%	2,364	0.0%	—	0.0%	—	0.0%	2,137	0.0%	4,989
0.3 %	109,457	2.0%	36,386	0.7%	2,604	0.1%	1,014	0.0%	4,817	0.1%	172,349
27.2 %	63,074	1.2%	—	0.0%	—	0.0%	—	0.0%	60,523	1.1%	1,594,197
1.3 %	4,270	0.1%	2,589	0.1%	—	0.0%	—	0.0%	12,442	0.2%	92,440
0.4 %	45	0.0%	192	0.0%	—	0.0%	—	0.0%	50,339	0.9%	73,228
0.0 %	—	0.0%	—	0.0%	625,000	11.6%	—	0.0%	20,576	0.4%	656,274
0.0 %	3,755	0.1%	—	0.0%	179	0.0%	—	0.0%	—	0.0%	4,275
56.4 %	\$ 457,298	8.6%	\$ 537,751	10.1%	\$ 726,511	13.6%	\$ 14,779	0.3%	\$ 250,356	4.6%	\$ 5,390,690

Concentration of Credit Risk

Primary Government

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 State 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 4.0 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 4.0 percent of the value of the fund invested in the securities of any single issuer. As of June 30, 2023, more than 5.0 percent of the Commonwealth's investments were in the Federal Farm Credit Bank, which totaled \$2.6 billion. Since these securities are exempted from the State Treasury investment policies, all investments are compliant with investment policies.

The System's investment guidelines for each specific portfolio also limit 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. The System has no investments in any commercial or industrial organization whose fair value equals 5.0 percent or more of the System's fiduciary net position.

Foreign Currency Risk

Primary Government

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. All primary government investments exposed to foreign currency risk were part of the System, the Virginia College Savings Plan's (Virginia529) Defined Benefit 529 Program (major enterprise fund) and Defined Contribution 529 Program (fiduciary fund), and the Unclaimed Property (nonmajor special revenue fund) portfolios as of June 30, 2023. There is no investment policy related to foreign currency risk for the Unclaimed Property portfolio. Virginia529 has direct exposure to foreign currency risk through several investment mandates. Investment managers use currency forward contracts to hedge risks associated with currency fluctuations.

The System's foreign currency risk exposures, or exchange rate risk, primarily exist in the international and global equity investment holdings. The net realized gains and losses resulting from the settlement of foreign currency transactions and unrealized gains and losses associated with unsettled transactions are recorded in Investment Income in the Statement of Changes in Fiduciary Net Position. The Commonwealth's exposure to foreign currency risk as of June 30, 2023 is highlighted in the following tables.

Component Units

All nonmajor component unit investments exposed to foreign currency risk were part of James Madison University, the Virginia Economic Development Partnership, and the Virginia School for the Deaf and Blind Foundation as of June 30, 2023. None of these entities have investment policies related to foreign currency risk.

Foreign Currency Exposures by Asset Class - Primary Government
(Excluding Virginia Retirement System Pooled Investments)
(Dollars in Thousands)

Currency	Deposits	Common and Preferred Stocks	Fixed Income and Commingled Funds	Equity Index and Pooled Funds	Corporate Bonds	Private Equity	Total
Euro Currency Unit	\$ 9,625	\$ 32,406	\$ 51,372	\$ —	\$ 304	\$ 4,536	\$ 98,243
Japanese Yen	92	18,792	—	—	—	—	18,884
Swiss Franc	2	8,632	—	—	—	—	8,634
Australian Dollar	53	12,022	—	—	—	—	12,075
British Pound Sterling	21	6,747	213	—	—	1,232	8,213
Colombian Peso	161	—	1,921	—	—	—	2,082
Swedish Krona	—	2,324	—	—	—	—	2,324
Danish Krone	—	8,204	—	—	—	—	8,204
Hong Kong Dollar	6	1,379	—	—	—	—	1,385
Israeli Shekel	—	669	—	—	—	—	669
US Dollar	—	—	—	500	—	—	500
Polish Zloty	—	—	965	—	—	—	965
Singapore Dollar	—	3,142	—	—	—	—	3,142
Norwegian Krone	—	1,591	—	—	—	—	1,591
Canadian Dollar	—	675	—	—	—	—	675
South African Rand	151	—	1,503	—	—	—	1,654
Mexican Peso	135	—	1,844	—	—	—	1,979
Brazil Real	112	—	2,037	—	—	—	2,149
Indonesian Rupiah	109	—	1,651	—	—	—	1,760
Chilean Peso	—	—	1,650	—	—	—	1,650
Total	\$ 10,467	\$ 96,583	\$ 63,156	\$ 500	\$ 304	\$ 5,768	\$ 176,778

Foreign Currency Exposures by Asset Class
Primary Government - Virginia Retirement System Pooled Investments
(Dollars in Thousands)

Currency	Cash and Short-term Investments	Equity	Fixed Income	Private Equity	Real Assets	International Funds	Forward Contracts	Total
U.S. Dollar	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,636,953	\$ —	\$ 2,636,953
Euro Currency Unit	822,110	2,124,977	24,092	1,262,645	404,496	—	216,820	4,855,140
Japanese Yen	22,001	1,558,250	—	—	1,191	215,892	405,735	2,203,069
Hong Kong Dollar	6,512	784,346	—	—	—	—	(53,249)	737,609
British Pound Sterling	10,381	1,172,471	(3)	—	15,591	—	75,574	1,274,014
South Korean Won	1,084	343,407	—	—	—	—	5,677	350,168
Swiss Franc	21,767	499,602	—	—	—	—	(80,997)	440,372
New Zealand Dollar	20	4,921	—	—	—	—	(175,944)	(171,003)
Canadian Dollar	3,520	566,057	—	—	15,398	—	243,851	828,826
Brazil Real	1,446	184,175	5,480	—	11,160	—	1,285	203,546
Australian Dollar	1,628	415,677	—	—	918	—	53,248	471,471
Indian Rupee	3,582	364,985	—	—	—	—	7,119	375,686
South African Rand	670	53,097	6,764	—	4,798	—	(5,614)	59,715
New Taiwan Dollar	1,187	443,040	—	—	—	—	1,456	445,683
Thailand Baht	89	58,954	1,038	—	—	—	736	60,817
Swedish Krona	1,617	180,151	—	—	812	—	130,782	313,362
Indonesian Rupiah	1,751	62,899	3,417	—	—	—	(4,386)	63,681
Mexican Peso	114	46,589	226	—	4,332	—	(3,350)	47,911
Turkish Lira	321	25,527	—	—	477	—	922	27,247
Polish Zloty	(630)	24,961	—	—	—	—	(3,377)	20,954
Russian Ruble	—	759	—	—	—	—	—	759
Malaysian Ringgit	331	15,984	1,693	—	—	—	(1,836)	16,172
Danish Krone	6,845	225,287	—	—	—	—	(18,802)	213,330
Colombian Peso	74	201	—	—	—	—	(728)	(453)
Peruvian Sol	2	—	5,176	—	—	—	(2,284)	2,894
Czech Koruna	1,022	1,944	2,289	—	—	—	2,880	8,135
Hungarian Forint	418	15,473	1,190	—	—	—	1,579	18,660
Chinese Yuan Renminbi	394	108,399	—	—	—	—	(12,241)	96,552
Israeli Shekel	2,331	91,949	1,516	—	1,193	—	(40,180)	56,809
Chilean Peso	752	6,795	1,411	—	—	—	1,126	10,084
Egyptian Pound	123	1,169	—	—	—	—	(3)	1,289
Philippines Peso	15	4,996	—	—	—	—	(4,397)	614
Dominican Republic Peso	—	—	682	—	—	—	—	682
UAE Dirham	56	24,186	—	—	—	—	526	24,768
Argentine Peso	759	—	—	—	—	—	—	759
Qatari Riyal	9	14,911	—	—	—	—	—	14,920
Uruguayan Peso	—	—	2,284	—	—	—	—	2,284
Ukraine Hryvnia	—	—	1,578	—	—	—	—	1,578
Romanian Leu	91	—	1,398	—	—	—	(693)	796
Chinese Yuan HK	—	—	—	—	—	—	(2,201)	(2,201)
Moroccan Dirham	1	—	—	—	—	—	—	1
Saudi Arabian Riyal	319	80,144	—	—	—	—	—	80,463
Singapore Dollar	272	97,169	—	—	—	—	(90,548)	6,893
Norwegian Krone	2,468	130,340	—	—	—	—	(294,105)	(161,297)
Kenyan Shilling	—	730	—	—	—	—	—	730
Kazakhstan Tenge	—	—	—	—	—	—	1,115	1,115
Total	\$ 915,452	\$ 9,734,522	\$ 60,231	\$ 1,262,645	\$ 460,366	\$ 2,852,845	\$ 355,496	\$ 15,641,557

Foreign Currency Exposures by Asset Class - Component Units
(Dollars in Thousands)

Currency	Common and Preferred Stock	Deposits	Total
British Pound Sterling	\$ 105	\$ 716	\$ 821
Euro Currency Unit	1,117	1,675	2,792
Swiss Franc	118	—	118
Japanese Yen	150	—	150
South Korean Won	9	—	9
Canadian Dollar	19	—	19
Brazil Real	7	—	7
New Taiwan Dollar	40	—	40
Indian Rupee	41	—	41
South African Rand	2	—	2
Norwegian Krone	10	—	10
Mexican Peso	11	—	11
Australian Dollar	5	—	5
Thailand Baht	6	—	6
Singapore Dollar	18	—	18
Danish Krone	76	—	76
Israeli Shekel	6	—	6
Uruguayan Peso	8	—	8
United Arab Emirates Dollar	2	—	2
Chinese Yuan Renminbi	69	—	69
Peruvian Sol	3	—	3
Chilean Peso	5	—	5
Cayman Islands	2	—	2
US Dollar	2,974	—	2,974
Hong Kong Dollar	46	—	46
Total	\$ 4,849	\$ 2,391	\$ 7,240

Fair Value Measurements

Primary Government

GASB Statement No. 72, *Fair Value Measurement and Application*, requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The fair value hierarchy is based on the valuation inputs used to measure the fair value of assets.

- Level 1 inputs are quoted prices in active markets for identical assets;
- Level 2 inputs are significant other observable inputs and may include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or model-driven valuations;
- Level 3 inputs are derived using valuation techniques that have significant unobservable inputs.

Investments that do not have a readily determinable fair value are excluded from the fair value hierarchy and instead are valued by using the net asset value (NAV) per share (or its equivalent). In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant in the valuation.

The following tables summarize recurring fair value measurements for the cash equivalents and investments reported by the primary government (excluding Virginia Retirement System Pooled Investments) and the System (Virginia Retirement System Pooled Investments) as of June 30, 2023.

Fair Value Measurements - Primary Government (Excluding Virginia Retirement System Pooled Investments) (Dollars in Thousands)

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value Measured Using Fair Value Hierarchy				
Debt Securities (1)				
U. S. Treasury and Agency Securities	\$ 3,602,636	\$ 3,321,876	\$ 280,760	\$ —
Corporate Bonds and Notes	2,820,624	2,239	2,818,385	—
Supranational and Non-U.S. Government Bonds and Notes	412,176	—	412,176	—
Commercial Paper	5,757,699	—	5,757,699	—
Convertible Bonds and Notes	527	—	527	—
Negotiable Certificates of Deposit	9,648,753	—	9,648,753	—
Municipal Securities	82,555	929	81,626	—
Asset Backed Securities	843,076	—	843,076	—
Agency Mortgage Backed Securities	1,149,997	—	1,149,997	—
Agency Unsecured Bonds and Notes	5,339,193	8,914	5,330,279	—
Mutual and Money Market Funds (Includes SNAP)	3,338	3,154	—	184
Fixed Income and Commingled Funds	968,635	968,635	—	—
Other Debt Securities	353	353	—	—
Total Debt Securities	30,629,562	4,306,100	26,323,278	184
Equity Securities (2)				
Common and Preferred Stocks	252,866	252,321	545	—
Foreign Currencies	945	945	—	—
Equity Index and Pooled Funds	3,670,108	3,670,098	—	10
Equity Mutual Funds	274,538	274,538	—	—
Real Estate	9,109	1,159	—	7,950
International and Emerging Markets Funds	406,552	406,552	—	—
Other Equity Securities	2,935	2,480	455	—
Total Equity Securities	4,617,053	4,608,093	1,000	7,960
Total by Fair Value Level	\$ 35,246,615	\$ 8,914,193	\$ 26,324,278	\$ 8,144
Fair value established using the net asset value (NAV) (3)				
Fixed Income and Commingled Funds	623,158			
Equity Index and Pooled Funds	604,993			
Real Estate	318,910			
Other Equity Securities	556,280			
Total Fair Value Established Using the Net Asset Value (NAV) (3)	2,103,341			
Total Fair Value	\$ 37,349,956			

- (1) Debt securities are classified as follows:
- Level 1 - valued using unadjusted quoted prices in active markets for those securities.
 - Level 2 - valued using a matrix pricing model and observable prices using dealer quotes for similar securities traded in active markets.
- (2) Equity securities are classified as follows:
- Level 1 - valued using unadjusted quoted prices in active markets for those securities.
 - Level 2 - valued using dealer quotes for similar securities traded in active markets.
 - Level 3 - valued using independent appraisals.
- (3) Investments reported at fair value established using the NAV were all part of the Virginia College Savings Plan's (Virginia529) Defined Benefit 529 and Defined Contribution 529 programs. The following tables (dollars in thousands) summarizes Defined Benefit 529 and Defined Contribution 529's investments measured at the NAV and related disclosures as of June 30, 2023. In some cases, the actual NAV has not been determined by the external fund or investment managers as of the fiscal year end and must be projected using a roll-forward process. The projected NAV is the value at the end of the prior quarter, adjusted for any contributions or distributions. There is no adjustment for realized and unrealized gains and losses. Additional information, including investment strategies, is available in the Virginia529 individually published financial statements, which may be obtained at www.virginia529.com.

Description of Defined Benefit 529 Investments Measured at the NAV:

Investments Measured at NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Index and Pooled Funds				
Blackrock MSCI	\$ 368,212	\$ —	Daily	5 Days
Real Estate				
Related Real Estate	17,977	19,281		
UBS Trumbull	48,731	—		
Bain Capital	15,886	16,016		
Morgan Stanley	80,417	—	Quarterly	90 Days
Starwood Capital	6,620	24,000		
Stockbridge Real Estate	65,845	—		
Other Equity Securities - Private Equity				
Private Advisors	28,867	6,947		
Adams Street	243,833	38,379		
LGT Capital Partners	6,832	2,060		
Neuberger Berman	32,900	7,200		
Aether Investment Partners	43,526	6,943		
Commonfund	14,720	940		
Horsley Bridge	18,740	5,694		
Hamilton Lane*	87,564	58,795		
Asia Alternatives	7,944	16,213		
Carlyle Global Credit	18,604	3,087		
Eagle Point Credit	19,242	—		
Sands	33,509	—	Monthly	10 Days
Fixed Income and Commingled Funds				
Ares Management	25,815	11,295		
Wellington Emerging Market	159,915	—	Monthly	10 Days
Ares Global	69,588	—	Monthly	30 Days
Brigade Capital	67,369	—	Quarterly	60 Days
Chorus Capital	7,802	2,051		
Golub Capital	62,125	7,875		
Hamilton Lane	1,056	13,944		
Monarch Alternative Capital	4,043	16,000		
Schroder Focus II	94,687	10,249		
Wellington Multi-Asset Credit	130,758	—	Monthly	15 Days
Total Investments Measured at the NAV	\$ 1,783,127			

*In addition to the above commitments, as part of its agreement with Hamilton Lane, Virginia529 entered into agreements with two private equity funds but had not yet funded these investments as of June 30, 2023. Commitments to each of these funds was \$7.5 million for a total of \$15 million.

- **Equity Index and Pooled Funds** – This investment type includes one index fund. The fair value of investments in this type have been determined using the NAV per share of the investments.
- **Real Estate** – This investment type includes five limited partnerships and one limited liability company. For Bain Capital, Starwood Capital and Related Real Estate, capital is generally expected to be called during the initial four to five years and is expected to be returned through liquidations of underlying fund investments during the 3rd through 15th years. For the remaining real estate funds, capital is generally contributed up front and can be redeemed as requested, subject to the funds' redemption terms. The fair values of investments in this type have been determined using the NAV per share of the investments.
- **Other Equity Securities** – This investment type includes private equity funds of funds managed by 12 managers and several different funds. These investments cannot be redeemed from the fund. Capital is generally expected to be called during the initial four to five years and is expected to be returned through liquidations of underlying fund investments during the 3rd through 15th years. Secondary funds of funds may have an accelerated capital call and return of capital profile. Virginia529 invests in multiple funds with 12 of its private equity investment managers and is also diversified by vintage year with respect to these investments. The fair values of investments in this type have been determined using the March 31, 2023 NAV of Virginia529's ownership of the partnership, adjusted for cash flows (capital calls and distributions) through June 30, 2023.
- **Fixed Income and Commingled Funds** – This investment type includes eight limited partnerships and two investments in collective trusts. The fair values of investments in this type have been determined using the NAV per share of the investments. With the exception of funds held by Ares Global, Brigade Capital and Wellington, capital is generally expected to be called during the initial four to five years and is expected to be returned through liquidations of underlying fund investments during the 3rd through 15th years. For Ares Global, Brigade Capital and Wellington, capital can be redeemed subject to the fund redemption terms shown in the table above.

Description of Defined Contribution 529 Investments Measured at the NAV:

<u>Investments Measured at NAV</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Equity Index and Pooled Funds				
Wellington Management Co., LLP	\$ 236,780	\$ —	Daily	N/A
Real Estate				
UBS Realty Investors	25,108	—	Quarterly	60 Days
Blackstone Property Partners	58,326	—	Quarterly	90 Days
Total Investments Measured at the NAV	<u>\$ 320,214</u>			

- **Equity Index and Pooled Funds** – This investment type includes one common trust fund. The Wellington Management Co., LLP invests in developed markets international equities through the Wellington International Contrarian Value Fund. The fair value of investments in this type have been determined using the NAV per share of the investments.
- **Real Estate** – This investment type includes two limited partnerships. The UBS Trumbull Property Fund's investment strategy is to invest primarily through direct equity-owned real estate assets. The fund also has flexibility to invest in joint venture and debt investments. Investments are generally acquired on an all-cash basis, however, debt may be used where UBS determines leverage is prudent and is expected to enhance total return without undue risk. Blackstone Property Partners is an open ended commingled fund seeking core plus real estate investments in the U.S. and Canada. The fair values of investments in this type have been determined using the NAV per share of Virginia529's ownership of the partnership.

Fair Value Measurements
Primary Government - Virginia Retirement System Pooled Investments
(Dollars in Thousands)

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value Measured Using Fair Value Hierarchy				
<u>Debt Securities (1)</u>				
U. S. Treasury and Agency Securities	\$ 5,141,575	\$ 4,696,419	\$ 445,156	\$ —
Corporate Bonds and Notes	4,854,039	—	4,854,039	—
Collateralized Mortgage Obligations	470,169	—	470,169	—
Commercial Mortgages	145,621	—	145,621	—
Supranational and Non-U.S. Government Bonds and Notes	694,679	—	694,679	—
Mutual and Money Market Funds	85,984	85,984	—	—
Commercial Paper	364,727	—	364,727	—
Negotiable Certificates of Deposit	238,171	—	238,171	—
Repurchase Agreements	872,964	—	872,964	—
Municipal Securities	65,451	—	65,451	—
Asset Backed Securities	236,647	—	236,647	—
Agencies	4,591,542	—	4,591,542	—
Term Loans	19,983	—	—	19,983
Fixed Income Derivatives	(23,120)	(11,166)	(11,954)	—
Time Deposits	220,439	—	220,439	—
Total Debt Securities	17,978,871	4,771,237	13,187,651	19,983
<u>Equity Securities (2)</u>				
Common and Preferred Stocks	24,764,544	24,762,599	195	1,750
Equity Index and Pooled Funds	62,319	—	—	62,319
Real Assets	996,551	—	—	996,551
Equity Futures and Swaps	141,996	9,296	132,700	—
Total Equity Securities	25,965,410	24,771,895	132,895	1,060,620
Total by Fair Value Level	<u>\$ 43,944,281</u>	<u>\$ 29,543,132</u>	<u>\$ 13,320,546</u>	<u>\$ 1,080,603</u>
Total Fair Value Established Using the Net Asset Value (NAV) (3)	62,619,799			
Total Fair Value	\$ 106,564,080			

(1) Debt securities are classified as follows:

- Level 1 - valued using unadjusted quoted prices in active markets for those securities.
- Level 2 - valued using bid evaluations or matrix pricing techniques. Inputs to the valuation techniques may include market participants' assumptions, quoted prices for similar assets, benchmark yield curves, market corroborated inputs, and other data inputs.
- Level 3 - valued using proprietary information.

(2) Equity securities are classified as follows:

- Level 1 - valued using unadjusted quoted prices in active markets for those securities.
- Level 2 - valued using quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or model-driven valuations in which all significant inputs are observable.
- Level 3 - valued using proprietary information or single source pricing. When observable inputs are not available, this results in using one or more valuation techniques, such as the market approach, the income approach, and/or the cost approach, for which sufficient and reliable data is available. Within this level, the use of the market approach generally consists of using comparable market transactions or other data, while the use of the income approach generally consists of the net present value of estimated future cash flows. The cost approach is often based on the amount that would currently be required to replace an asset with one of comparable utility.

- (3) The following table (dollars in thousands) summarizes the System's investments measured at the NAV per share (or its equivalent) and as a practical expedient are not classified in the fair value hierarchy. Cash equivalents and certain other short-term, highly liquid investments that are measured at amortized cost are also not classified in the fair value hierarchy. In some cases, the actual NAV has not been determined by the external fund or investment managers as of the System's fiscal year end and must be projected using a roll-forward process. The projected NAV is the value at the end of the prior quarter, adjusted for any contributions or distributions and an estimate of income and management fees. There is no adjustment for realized or unrealized gains and losses.

Description of Investments Measured at the NAV:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Hedge funds				
Equity long/short funds	\$ 5,070,936	\$ 219,130	Monthly, quarterly, semi-annually, annually	30-90 days
Equity long only funds	1,725,890	—	Quarterly, annually	90 days
Credit funds	128,624	—	Quarterly, semi-annually	90 days
Multi-strategy funds	2,646,947	—	Monthly, quarterly, semi-annually	20-90 days
Total hedge funds	9,572,397	219,130		
Credit strategies funds				
Bank loan and direct lending funds	4,437,213	2,403,949		
Distressed debt funds	1,839,809	959,693		
Diversified private credit funds	2,096,230	1,216,560		
Mezzanine debt funds	1,417,868	1,272,110		
Multi-strategy funds	2,775,572	908,826		
Opportunistic funds	2,732,077	732,758		
Other Funds	791,997	442,616		
Total credit strategies funds	16,090,766	7,936,512		
Private equity funds				
Buyout funds	10,918,888	2,470,583		
Energy funds	540,061	79,942		
Growth funds	2,947,665	700,489		
International buyout funds	2,378,427	754,215		
Special situations funds	1,763,480	1,030,201		
Subordinated debt funds	301,420	275,577		
Turnaround funds	567,271	242,150		
Venture capital funds	104,081	37,966		
Total private equity funds	19,521,293	5,591,123		
Equity international commingled funds	3,321,061	—	Daily, semi-monthly	None, 6-14 days
Fixed-income commingled funds	823,876	—	Daily	None
Real estate and real asset funds				
Infrastructure funds	2,615,149	1,075,684		
Natural resources funds	1,917,097	442,029		
Private investment real estate funds	8,371,397	1,772,235		
Private real estate investment trusts	99,559	—		
Total real estate and real asset funds	13,003,202	3,289,948		
U. S. Equity commingled funds	287,204	—	Daily	None
Total investments measured at the NAV	\$ 62,619,799	\$ 17,036,713		

- Equity Long/Short Hedge Funds** – This type included investments in eleven hedge funds at June 30, 2023, which invest in global long and short equity positions. Management of each hedge fund has the ability to invest from value to growth strategies, from small to large capitalization stocks and may vary net exposure considerably. The fair values of the investments in this type have been determined using the NAV per share of the investments. Investments representing approximately 29.0 percent of the value of the investments in this type of fund cannot be redeemed because the investments include restrictions that do not allow redemption in the first 12 to 60 months after acquisition. The remaining restriction period for these investments was less than 12 months at June 30, 2023.
- Equity Long-Only Hedge Funds** – This type included an investment in three hedge funds at June 30, 2023, which invest in global long-only equity positions. These hedge funds are generally fully invested and only very occasionally may take short positions for hedging purposes. The fair value of the investment in this type has been determined using the NAV per share of the investments. Investments representing approximately 70.0 percent of the value of the investments in this type of fund cannot be redeemed because the investments include restrictions that do not allow redemption in the first 12 to 36 months after acquisition. The remaining restriction period for these investments was less than 12 months at June 30, 2023.
- Credit Hedge Funds** – This type included investments in one hedge fund at June 30, 2023, which invests in event-driven, distressed and special situation credit opportunities. The fair values of the investments in this type have been determined using the NAV per share of the investments. At June 30, 2023, there were no restrictions preventing the redemption of any of the investments in this category during the next 12 months.
- Multi-Strategy Hedge Funds** – This type included investments in ten hedge funds at June 30, 2023, which invest in multiple asset classes, combining exposure to balance risks. Such exposure can include traditional and alternative investments. The fair values of the investments in this type have been determined using the NAV per share of the investments. Investments representing approximately 7.0 percent of the value of the investments in this type of fund cannot be redeemed because the investments include restrictions that do not allow redemption in the first 12 to 60 months after acquisition. The remaining restriction period for these investments was 1 to 12 months at June 30, 2023.

- **Credit Strategies Funds** – This type consists of many fund categories, including bank loan and direct lending funds, distressed debt funds, diversified private credit, mezzanine debt funds, multi-strategy funds and opportunistic funds. The fair value of the investments in these funds have been determined using the NAV per share of the investments. The nature of the investments in this type is that distributions are received through the liquidation of the underlying assets in the fund. It is expected that hold periods for the underlying fund assets will range from three to eight years.
- **Private Equity Funds** – This type consists of many fund categories including Venture Capital, Buyout, Subordinated Debt, Growth Capital, Turnaround, Energy and Special Situations. The fair value of the investments in these funds have been determined using the NAV per share of the investments. The nature of the investments involves receiving distributions through liquidation of the underlying fund assets. It is expected that hold periods for the underlying fund assets will range from three to eight years.
- **Equity International Commingled Funds** – This type includes investments in six institutional investment funds at June 30, 2023, which invest in international equities. These funds employ a variety of investment strategies in global developed and emerging markets. The funds are regulated by either the Securities and Exchange Commission or the Office of the Comptroller of the Currency. The fair values of the investments in these funds have been determined using the NAV per share of the investments. Redemptions can be made from these funds, given the appropriate notice, any regular trading day on the NYSE.
- **Fixed Income Commingled Funds** – This type consists of ten institutional investment funds that invest in U.S. and multi-national fixed income markets. The funds are regulated by either the Securities and Exchange Commission or the Office of the Comptroller of the Currency. The fair values of the investments in these funds have been determined using the NAV per share of the investments.
- **Real Asset Funds** – This type includes investments in many fund categories including Private Investment Real Estate, Private Real Estate Investment Trusts, Infrastructure and Natural Resources. The fair value of the investments in these funds have been determined using the NAV per share of the investments. The nature of the investments in this type is that distributions are received through income as well as the liquidation of the underlying assets in the fund. If these investments were held, it is expected that the underlying assets of the funds would be liquidated over 1 to 14 years.
- **U.S. Equity Commingled Funds** - This type includes an investment in six institutional investment funds at June 30, 2023, which invest in domestic equities. The funds are regulated by the Office of the Comptroller of the Currency. The fair values of the investments in these funds have been determined using the NAV per share of the investment. Redemptions can be made from these funds, given the appropriate notice, any regular trading day on the NYSE.

Component Units

The following table summarizes fair value measurements for the cash equivalents and investments reported by the component units as of June 30, 2023. The table excludes cash equivalents and investments measured at fair value by the foundations that follow FASB standards.

Fair Value Measurements - Component Units (Dollars in Thousands)

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value Measured Using Fair Value Hierarchy				
Debt Securities (1)				
U. S. Treasury and Agency Securities	\$ 953,424	\$ 684,363	\$ 269,061	\$ —
Corporate Bonds and Notes	615,910	153,373	462,537	—
Supranational and Non-U.S. Government Bonds and Notes	4,276	—	4,276	—
International and Emerging Markets Funds	4,989	2,665	2,324	—
Commercial Paper	138,557	71,367	67,190	—
Negotiable Certificates of Deposit	92,441	67,646	24,795	—
Repurchase Agreements	31,274	—	31,274	—
Municipal Securities	172,349	5,318	167,031	—
Asset-Backed Securities	471,475	69,307	402,168	—
Agency Mortgage-Backed Securities	1,028,789	152,128	876,661	—
Agency Unsecured Bonds and Notes	227,682	15,311	212,371	—
Mutual and Money Market Funds	279,335	277,596	1,739	—
Fixed Income and Commingled Funds	34,980	34,980	—	—
Other Debt Securities	23,024	135	22,889	—
Total Debt Securities	4,078,505	1,534,189	2,544,316	—
Equity Securities (2)				
Common and Preferred Stocks	61,397	61,397	—	—
Equity Index and Pooled Funds	90,530	90,530	—	—
Real Estate	1,415	1,304	—	111
International and Emerging Markets Fund	10,420	10,420	—	—
Other Equity Securities	3,993	467	3,519	7
Total Equity Securities	167,755	164,118	3,519	118
Total by Fair Value Level	\$ 4,246,260	\$ 1,698,307	\$ 2,547,835	\$ 118
Fair Value Established Using the Net Asset Value (NAV) (3)				
Common and Preferred Stocks	16,103			
Fixed Income and Commingled Funds	36,883			
Other Debt Securities	50,152			
Equity Index and Pooled Funds	90,951			
Real Estate	2,957			
Other Equity Securities	1,484,862			
Total Fair Value Established Using the NAV	1,681,908			
Total Fair Value	\$ 5,928,168			

(1) Debt securities are classified as follows:

- Level 1 - valued using unadjusted quoted prices in active markets for those securities.
- Level 2 - valued based on quoted prices for similar securities in active markets or quoted prices for identical or similar securities in markets that are not active.

(2) Equity securities are classified as follows:

- Level 1 - valued using unadjusted quoted prices in active markets for those securities.
- Level 2 - valued using significant other observable inputs.
- Level 3 - valued using unobservable inputs and may include assumptions of management.

(3) The following nonmajor component units reported investments at fair value established using the NAV: Old Dominion University, Virginia Commonwealth University (VCU), Virginia Commonwealth University Health System Authority (blended component unit of VCU), College of William and Mary, Virginia Military Institute, Virginia State University, Virginia Biotechnology Research Partnership Authority, Virginia Outdoors Foundation, and Virginia Polytechnic Institute and State University. Additional information is available in the separately issued financial statements.

Securities Lending

The State Treasury's securities lending program is managed by Deutsche Bank AG, New York (Deutsche Bank), under a contract dated March 28, 2014, amended February 22, 2022. The enabling legislation for the securities lending program is Section 2.2-4506 of the *Code of Virginia*. No violations of legal or contractual provisions were noted during the year. The general account participated in a securities lending program for the entire fiscal year.

All securities lending loans are on an open-ended or one-day basis and may be terminated by the State Treasury with a 24-hour notice or are term loans with the right of substitution. While all securities may be recalled on a daily basis, securities are often on loan for much longer periods. Generally, cash reinvestments security maturities do not match the maturities of loans. Per the contract with Deutsche Bank, all cash collateral reinvestment securities attributable to loans made on the Commonwealth's behalf shall be maintained by Deutsche Bank, and the State 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 (Repurchase Agreements) 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. There were no realized losses resulting from default during this reporting period.

When securities are loaned, the collateral received is at least 100.0 percent of fair value of the securities loaned and must be maintained at 100.0 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 last fiscal year, approximately 10.4 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. As of June 30, 2023, all collateral received was in the form of cash.

Securities loaned for the State Treasurer's cash collateral reinvestment pool, which consisted of 98.4 percent general account funds and 1.6 percent Virginia Lottery funds as of June 30, 2023, had a carrying value of \$3.03 billion and a fair value of \$2.86 billion. The fair value of the collateral received was \$2.92 billion providing for coverage of 102.1 percent. At year-end, the State Treasury's securities lending program had no credit risk exposure to borrowers because the amounts it owed the borrowers exceeded the amounts the borrowers owed Treasury's securities lending program. All securities are marked to market daily. The carrying value of the cash collateral reinvestment pool received was \$2.92 billion and the cost of the investments purchased with the cash collateral was \$2.92 billion. As of June 30, 2023, the State Treasurer's cash collateral reinvestment pool had an unrealized gain of \$2.2 million, and is recorded in the General Fund as stated in Note 1.FF. This amount is included in the total State Treasurer's Portfolio discussed earlier in this note.

Cash collateral reinvestment guidelines were amended effective April 16, 2014. Approved investment instruments include Indemnified Repurchase Agreements marked to market daily and preapproved Government Money Market Funds. Term repurchase agreements are limited to 93 days. As of June 30, 2023, 93.8 percent of cash collateral reinvestments were in indemnified repurchase agreements and 6.2 percent were in BlackRock Liquidity Fund FedFund Constant NAV Money Market fund.

As of June 30, 2023, the cash collateral reinvestment portfolio had a weighted average maturity to reset date of three days. Using the expected maturity date, the weighted average maturity was 42 days and using the final maturity date, which assumes no pay downs on any asset-backed or mortgage-backed securities, the weighted average maturity was 42 days.

As of June 30, 2023, the cash collateral reinvestment portfolio was in compliance with the State Treasury's current cash collateral reinvestment guidelines. On February 6, 2023, the 10.0 percent money market limit was breached when excess cash from a late failed trade was invested in the pre-approved government backed money fund but was back in compliance the next day.

Under authorization of the Board, 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 fair value equal to at least 102.0 percent of the fair value for domestic securities and 105.0 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 8.2 days. At year-end, the System had no credit risk exposure to borrowers because the amounts it owes the borrowers exceeded the amounts the borrowers owe the System. All securities are marked to market daily and carried at fair value. The fair value of securities on loan as of June 30, 2023, was \$7.9 billion. The June 30, 2023, balance was composed of U.S. Government and agency securities of \$3.6 billion, corporate and other bonds of \$724.7 million, common and preferred stocks of \$3.6 billion and supranational and non-U.S. Government bonds of \$41.7 million. The value of collateral (cash and non-cash) as of June 30, 2023, was \$8.5 billion.

As of June 30, 2023, the invested cash collateral had a fair value of \$3.7 billion and was composed of negotiable certificates of deposit of \$167.7 million, floating rate notes of \$2.1 billion, commercial paper of \$388.7 million, time deposits of \$220.4 million, supranational and non-U.S. government bonds of \$7.1 million, and repurchase agreements of \$873.0 million.

9. RECEIVABLES

The following schedule (dollars in thousands) details the accounts, loans, interest, taxes, educational contributions, security transactions, service concession arrangement upfront payments, 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, 2023.

	Accounts Receivable	Loans / Mortgage Receivable	Interest Receivable	Taxes Receivable
Primary Government:				
General (1)	\$ 1,323,016	\$ 155	\$ 844,171	\$ 3,365,415
Major Special Revenue Funds:				
Commonwealth Transportation (2)	260,848	266,375	4,780	430,638
Federal Trust	3,309,219	—	—	—
Literary	285,276	45,936	38,014	—
Nonmajor Governmental Funds (2) (3)	622,355	7,543	28,442	22,462
Major Enterprise Funds:				
Virginia Lottery	75,964	—	—	—
Virginia College Savings Plan	12,878	—	9,182	—
Unemployment Compensation	384,938	—	—	—
Nonmajor Enterprise Funds	74,307	—	—	—
Internal Service Funds	14,769	—	—	—
Private Purpose Trust Funds	44	—	14,442	—
Pension and Other Employee Benefit Trust Funds (4)	297,734	—	309,293	—
Custodial Funds - External Investment Pool	—	—	44,374	—
Custodial Funds - Other (4)	6	76	217	258,308
Total Primary Government (5)	<u>\$ 6,661,354</u>	<u>\$ 320,085</u>	<u>\$ 1,292,915</u>	<u>\$ 4,076,823</u>
Discrete Component Units:				
Virginia Housing Development Authority (6)	\$ —	\$ 335,469	\$ 35,695	\$ —
Virginia Public School Authority (7)	—	—	60,552	—
Virginia Resources Authority (8)	—	—	34,911	—
Virginia College Building Authority	—	—	19,147	—
Nonmajor Component Units (9)	2,970,292	68,610	24,551	727
Total Component Units	<u>\$ 2,970,292</u>	<u>\$ 404,079</u>	<u>\$ 174,856</u>	<u>\$ 727</u>

Note (1): The General Fund (major) reports pending investment transactions of \$6,868 (dollars in thousands) as Other Receivables.

Note (2): The loans receivable in the Commonwealth Transportation Fund (major) includes \$227.0 million from the Virginia Transportation Infrastructure Bank as discussed in Note 22.E. In the nonmajor governmental funds, it represents the amounts to be received for current debt service requirements. The amount to be received for long-term debt service requirements of \$36.9 million is included in the government-wide statements but excluded from the above amounts.

Note (3): Nonmajor governmental funds includes \$297.0 million in account receivables, which includes \$258.3 million that will be received greater than one year. This receivable represents the Commonwealth's share of the National Opioid Settlement that will assist with the abatement of the opioid epidemic.

Note (4): In the Pension and Other Employee Benefit Trust Funds and Custodial Funds - Other, Interest Receivable of \$309,510 (dollars in thousands) also includes dividends receivable. Additionally, of the total reported as Other Receivables, \$320,523 (dollars in thousands) are made up of \$287,430 (dollars in thousands) in pending investment transactions, which includes \$2,428 (dollars in thousands) in external investment manager receivable, \$28,268 (dollars in thousands) in foreign exchange receivable, \$249,718 (dollars in thousands) in private equity receivable, \$4,628 (dollars in thousands) in real assets, and \$2,388 (dollars in thousands) in securities lending; and \$33,093 (dollars in thousands) in other receivables.

Note (5): Fiduciary net receivables in the amount of \$5,654,501 (dollars in thousands) are not included in the Government-wide Statement of Net Position.

Note (6): The Virginia Housing Development Authority (major component unit) reports \$32,411 (dollars in thousands) as Restricted Interest Receivable.

Note (7): The Virginia Public School Authority (major component unit) reports \$60,408 (dollars in thousands) as Restricted Interest Receivable.

Note (8): The Virginia Resources Authority (major component unit) reports \$34,741 (dollars in thousands) as Restricted Interest Receivable.

Note (9): Other Receivables of the nonmajor component units are primarily comprised of the following (dollars in thousands): pledges receivable of \$44,996 reported by the University of Virginia; third-party settlements and non-patient receivables of \$87,832 reported by Virginia Commonwealth University Health System Authority (blended component unit of Virginia Commonwealth University-VCUHSA); \$85,082 reported by foundations of the higher education institutions representing FASB reporting entities defined in Note 1.B which includes lease receivables of \$34,239 under FASB standards; and \$131,526 reported by the Virginia Port Authority (VPA), \$13,125 reported by Fort Monroe Authority (FMA), and \$4,428 reported by the Virginia Museum of Fine Arts Foundation which includes \$57,418 and \$13,125 reported by VPA and FMA, respectively, for lease receivables. Other receivables also include lease receivables of \$55,291 reported by various higher education institutions, excluding foundations.

Educational Benefits Receivable	Security Transactions	Service Concession Arrangement Upfront Payments	Other Receivables	Allowance for Doubtful Accounts	Net Accounts Receivable	Amounts to be Collected Greater than One Year
\$ —	\$ —	\$ —	\$ 6,868	\$ (2,167,760)	\$ 3,371,865	\$ 531,878
—	—	1,721,046	—	(92,754)	2,590,933	1,902,063
—	—	—	—	(511,830)	2,797,389	69,108
—	—	—	—	(289,970)	79,256	43,650
—	—	—	60	(82,366)	598,496	262,526
—	—	—	—	—	75,964	—
69,498	—	—	25,517	—	117,075	51,670
—	—	—	—	(322,329)	62,609	—
—	—	—	982	—	75,289	—
—	—	—	—	—	14,769	—
—	—	—	475	—	14,961	—
—	4,470,953	—	320,216	—	5,398,196	—
—	—	—	—	—	44,374	—
—	3,137	—	307	(65,081)	196,970	11,187
<u>\$ 69,498</u>	<u>\$ 4,474,090</u>	<u>\$ 1,721,046</u>	<u>\$ 354,425</u>	<u>\$ (3,532,090)</u>	<u>\$ 15,438,146</u>	<u>\$ 2,872,082</u>
\$ —	\$ —	\$ —	\$ 21,762	\$ (38,922)	\$ 354,004	\$ 325,927
—	—	—	—	—	60,552	—
—	—	—	—	—	34,911	—
—	—	—	—	—	19,147	—
—	—	—	442,894	(1,417,461)	2,089,613	199,289
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 464,656</u>	<u>\$ (1,456,383)</u>	<u>\$ 2,558,227</u>	<u>\$ 525,216</u>

10. CONTRIBUTIONS RECEIVABLE, NET

The following schedule details the contributions receivable for foundations⁽¹⁾ included with the nonmajor component units, as of June 30, 2023. The major component units reported no contributions receivable for fiscal year 2023.

(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:							
Nonmajor Component Units	\$ 226,355	\$ 285,530	\$ 116,423	\$ 628,308	\$ (67,608)	\$ (28,141)	\$ 532,559
Total Component Units	<u>\$ 226,355</u>	<u>\$ 285,530</u>	<u>\$ 116,423</u>	<u>\$ 628,308</u>	<u>\$ (67,608)</u>	<u>\$ (28,141)</u>	<u>\$ 532,559</u>

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

Note (2): The discount rate used to determine present value ranges from 0.1 percent to 8.2 percent.

11. 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.

The following line items are included in the category "Due from Other Funds":

- Due from Other Funds
- Due from Internal Parties (Governmental Funds and Business-type Activities)
- Due from External Parties (Fiduciary Funds)

The following line items are included in the category "Due to Other Funds":

- Due to Other Funds
- Due to Internal Parties (Governmental Funds and Business-type Activities)
- Due to External Parties (Fiduciary Funds)

The following schedule shows the Due from/to Other Funds as of June 30, 2023.

Schedule of Due from/to Other Funds

June 30, 2023

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		Primary Government	
General Fund	\$ 103,179	Major Special Revenue Funds:	
		Federal Trust	1,800
		Nonmajor Governmental Funds	375
		Major Enterprise Funds:	
		Virginia Lottery	86,171
		Nonmajor Enterprise Funds	10,425
		Internal Service Funds	4,408
Major Special Revenue Funds:		Major Special Revenue Funds:	
Commonwealth Transportation	112,480	Federal Trust	2,332
		Nonmajor Governmental Funds	110,148
Federal Trust	220	General Fund	201
		Nonmajor Governmental Funds	19
Literary	1,000	Major Enterprise Funds:	
		Virginia Lottery	1,000
Nonmajor Governmental Funds	64,490	Major Special Revenue Funds:	
		Commonwealth Transportation	59,144
		Federal Trust	4,246
		Major Enterprise Funds:	
		Unemployment Compensation	231
		Nonmajor Enterprise Funds	863
		Internal Service Funds	6
Major Enterprise Funds:		Nonmajor Governmental Funds	324
Virginia Lottery	324		
Unemployment Compensation	3,897	General Fund	989
		Major Special Revenue Funds:	
		Commonwealth Transportation	342
		Federal Trust	2,456
		Nonmajor Governmental Funds	84
		Major Enterprise Funds:	
		Virginia Lottery	10
		Virginia College Savings Plan	1
		Nonmajor Enterprise Funds	9
		Internal Service Funds	6
Nonmajor Enterprise Funds	1,047	General Fund	270
		Major Special Revenue Funds:	
		Commonwealth Transportation	275
		Federal Trust	433
		Nonmajor Governmental Funds	52
		Nonmajor Enterprise Funds	17
Internal Service Funds	78,208	General Fund	46,811
		Major Special Revenue Funds:	
		Commonwealth Transportation	16,387
		Federal Trust	7,658
		Nonmajor Governmental Funds	4,491
		Major Enterprise Funds:	
		Virginia Lottery	233
		Virginia College Savings Plan	116
		Nonmajor Enterprise Funds	1,456
		Internal Service Funds	1,056
Total Primary Government	<u><u>\$ 364,845</u></u>	Total Primary Government	<u><u>\$ 364,845</u></u>

Schedule of Due from/to Internal/External Parties

June 30, 2023

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		Primary Government	
General Fund	\$ 112	Custodial Funds - External Investment Pool	\$ 9
		Custodial Funds - Other	103
Nonmajor Governmental Funds	193	Custodial Funds - Other	193
Internal Service Funds	262	Pension and Other Employee Benefit Trust Funds	262
Pension and Other Employee Benefit Trust Funds	41,336	General Fund	25,777
		Major Special Revenue Funds:	
		Commonwealth Transportation	6,721
		Federal Trust	3,571
		Nonmajor Governmental Funds	3,109
		Major Enterprise Funds:	
		Virginia Lottery	255
		Virginia College Savings Plan	131
		Nonmajor Enterprise Funds	1,176
		Internal Service Funds	596
Custodial Funds - Other	266	General Fund	239
		Major Special Revenue Funds:	
		Commonwealth Transportation	22
		Nonmajor Governmental Funds	5
Total Primary Government	<u>\$ 42,169</u>	Total Primary Government	<u>\$ 42,169</u>

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, 2023. There were no Interfund Receivables/Payables for the component units as of June 30, 2023.

Interfund Receivables/Payables

June 30, 2023

(Dollars in Thousands)

Receivable From	Amount	Payable To	Amount
Primary Government		Primary Government	
Nonmajor Governmental Funds	\$ 319,441	General Fund	\$ 6,000
		Major Special Revenue Funds:	
		Commonwealth Transportation	4,700
		Federal Trust	68,556
		Nonmajor Governmental Funds	6,000
		Major Enterprise Funds:	
		Virginia College Savings Plan	4,000
		Nonmajor Enterprise Funds	58,007
		Internal Service Funds	172,178
Total Primary Government	<u>\$ 319,441</u>	Total Primary Government	<u>\$ 319,441</u>

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.

A due from primary government amount that is due from the Federal Trust Fund (major special revenue) to the Virginia College Building Authority (major component unit) of \$923,513 is for interest on Build America Bonds (BABs).

A due from primary government amount that is due from the Commonwealth Transportation Fund (major special revenue) to the Virginia Passenger Rail Authority (nonmajor component unit) of \$28.5 million is for Commonwealth Rail Funds.

A \$637.0 million due from primary government amount that is due from the General Fund (major governmental) to the higher education institutions (nonmajor component units) is for payments awaiting disbursements and appropriations available for capital projects and other programs. The General Fund reports \$29.4 million in the fund financial statements and an additional \$607.6 million in the government-wide financial statements.

A \$70,035 due from primary government amount represents an amount due from a nonmajor governmental fund related to the Department of Treasury's reimbursement programs to the Virginia Community College System (nonmajor component unit).

A due from primary government amount that is due from the Virginia Public Building Authority (capital projects fund - nonmajor governmental fund) to the Virginia Port Authority (nonmajor component unit) of \$11.6 million represents bond revenue to be used for capital projects.

A \$28.9 million due from component units in the Health Care Fund (internal service fund) represents amounts due from the nonmajor component units.

A \$1.9 million due from component units represents monies owed for administrative and project 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 \$144.5 million due from component units amount represents amounts due from the Virginia College Building Authority (major component unit) for the Department of the Treasury's reimbursement programs to higher education institutions (nonmajor component units).

Due from/to Component Units and Fiduciary Funds

A \$41.0 million due from component units in the Pension and Other Employee Benefit Trust Funds (fiduciary funds) represents amounts due from nonmajor component units.

Loans Receivable/Payable Between Primary Government and Component Units

The \$191.8 million in loans receivable from primary government represents loans from the Virginia Public School Authority (VPSA) (major component unit) to the Literary Special Revenue Fund (major governmental fund). The VPSA makes grants to local school divisions to finance the purchase of educational technology and security 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).

12. OTHER ASSETS

The following table summarizes Other Assets as of June 30, 2023.

(Dollars in Thousands)

	Cash and Travel Advances	Net OPEB Asset (1)	Other Assets	Total Other Assets
Primary Government:				
General	\$ 1,496	\$ —	\$ 323	\$ 1,819
Major Special Revenue Funds:				
Commonwealth Transportation	281	—	—	281
Federal Trust	2,362	—	—	2,362
Nonmajor Governmental Funds	671	—	—	671
Major Enterprise Funds:				
Virginia Lottery	1	1,378	—	1,379
Virginia College Savings Plan	—	706	—	706
Nonmajor Enterprise Funds	429	6,078	28	6,535
Internal Service Funds (2)	—	3,127	37,307	40,434
Custodial Funds - Other (3)	—	—	1	1
Total Primary Government	<u>\$ 5,240</u>	<u>\$ 11,289</u>	<u>\$ 37,659</u>	<u>\$ 54,188</u>
Discrete Component Units:				
Virginia Housing Development Authority (4)	\$ —	\$ —	\$ 45,386	\$ 45,386
Virginia Resources Authority	—	—	477	477
Nonmajor Component Units (5)	466	—	196,268	196,734
Total Component Units	<u>\$ 466</u>	<u>\$ —</u>	<u>\$ 242,131</u>	<u>\$ 242,597</u>

Note (1): Other noncurrent assets in the proprietary funds represent the Virginia Sickness and Disability Program Net OPEB Asset applicable to the respective fund. The proprietary fund amounts are reclassified to Other Restricted Assets in the Government-wide Statement of Net Position.

Note (2): Of the \$37,307 (dollars in thousands) shown above, \$33,899 (dollars in thousands) and \$3,408 (dollars in thousands) represent Technology and Data Services and Virginia Correctional Enterprises, respectively, amounts due from various governmental funds that will not be received within 60 days. These amounts are reclassified to an internal balance on the Government-wide Statement of Net Position.

Note (3): Custodial Funds - Other amount of \$1,000 shown above is not included in the Government-wide Statement of Net Position.

Note (4): Other Assets of the Virginia Housing Development Authority are comprised primarily of mortgage servicing rights and other real estate owned.

Note (5): Other Assets of the nonmajor component units are primarily comprised of miscellaneous items spread among the higher education institutions and related foundations as well as the nonmajor component units as follows:

- University of Virginia includes primarily \$12.2 million of Licensing & Ventures Group (LVG) seed funds at cost; and
- Related foundations of Longwood University, Virginia Polytechnic Institute and State University, and the University of Virginia include \$22.0 million, \$45.7 million, and \$70.2 million, respectively, primarily for cash surrender value of life insurance policies, deferred tax assets, net investment in direct financing leases, intangibles, and right-of-use assets, and a derivative asset.

13. RESTRICTED ASSETS

Restricted Cash and Cash Equivalents, Restricted Investments, and Other Restricted Assets

Restricted assets represent monies or other resources that must be used for specific legal or contractual requirements. The governmental funds reported \$2.5 billion in restricted cash, cash equivalents, and investments primarily related to bond agreements. Of this amount, \$2.2 billion relates to transportation projects, \$250.4 million pertains to capital projects, and \$45.1 million pertains to debt service requirements. The governmental and business-type activities funds reported other restricted assets of \$175.5 million and \$8.2 million, respectively, for the Virginia Sickness and Disability Program Net OPEB Asset. See Note 12, Other Assets, for more information related to the Enterprise and Internal Service Funds.

The Virginia Housing Development Authority, the Virginia Public School Authority, and the Virginia College Building Authority (all major component units) reported restricted assets totaling \$2.1 billion, \$392.1 million, and \$573.4 million, respectively. These major component units' assets are restricted for debt service under a bond indenture or other agreement, or for construction and equipment.

The Virginia Resources Authority (major component unit) reported restricted assets of \$1.0 billion. Of this amount, \$1.0 billion is restricted for loans to local governments, bond indentures, or federal and state regulations for various revolving funds, and \$7.9 million is restricted for the Operating Reserve Fund for the Virginia Pooled Financing Program.

The Virginia Port Authority (nonmajor component unit) reported restricted assets of \$642.2 million primarily for debt service under bond agreements, construction and other project funds.

The Tobacco Region Revitalization Commission (nonmajor component unit) reported restricted assets of \$163.1 million to be used for financial aid to tobacco growers and to foster community economic growth. This includes Other Restricted Assets of \$46,841 for the Virginia Sickness and Disability Program Net OPEB asset.

The Hampton Roads Sanitation District Commission (nonmajor component unit) reported restricted assets of \$33.8 million to be used for debt service.

The Virginia Small Business Financing Authority (nonmajor component unit) reported restricted assets of \$87.5 million for gifts and grants. This includes Other Restricted Assets of \$45,163 for the Virginia Sickness and Disability Program Net OPEB asset.

The higher education institutions (nonmajor component units) reported restricted assets totaling approximately \$8.7 billion primarily for endowment and other contractual obligations. Included in this amount is approximately \$7.4 billion of foundations' restricted assets. This includes Other Restricted Assets of \$109.9 million for the Virginia Sickness and Disability Program Net OPEB asset. The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of Virginia Commonwealth University—nonmajor component unit) includes \$19.9 million for a beneficial trust and \$5.1 million for an equity interest in a foundation as Other Restricted Assets. These Authority assets are classified as Level 3 on the fair value hierarchy. For additional information, see the Authority's separately issued financial statements.

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 \$261.3 million and \$27.7 million, respectively, primarily for donor-imposed restricted endowments.

The remaining \$15.7 million is spread among the following nonmajor component units: the Virginia Outdoors Foundation, the Virginia Passenger Rail Authority, the Danville Science Center, the Fort Monroe Authority, the Virginia Biotechnology Research Partnership Authority, the Virginia Economic Development Partnership, the Virginia Tourism Authority, the Virginia Foundation for Healthy Youth, and the Library of Virginia Foundation. Included in this amount is approximately \$1.4 million for the Virginia Sickness and Disability Program Net OPEB asset.

Restricted Receivables, Net

The following schedule (dollars in thousands) details the restricted receivables reported by component units as of June 30, 2023.

The restricted receivables are generally expected to be collected in greater than one year.

Restricted Receivables, Net

(Dollars in Thousands)

	Restricted Accounts Receivable	Restricted Loans / Mortgage Receivable	Restricted Local School Bonds Receivable	Restricted Other Receivables
Discrete Component Units:				
Virginia Housing Development Authority	\$ —	\$ 6,746,170	\$ —	\$ 235
Virginia Public School Authority	—	—	3,746,179	—
Virginia Resources Authority	—	4,394,456	—	15,890
Virginia College Building Authority	—	—	—	—
Nonmajor Component Units (Note 1)	152,618	28,916	—	133,631
Total Component Units	<u>\$ 152,618</u>	<u>\$ 11,169,542</u>	<u>\$ 3,746,179</u>	<u>\$ 149,756</u>

Note (1): Restricted Other Receivables of the nonmajor component units are primarily comprised of the following: restricted pledges receivable of \$108,083 (dollars in thousands) reported by the University of Virginia.

<u>Allowance for Doubtful Accounts</u>	<u>Restricted Receivables, Net</u>	<u>Amounts to be Collected Greater than One Year</u>
\$ (74,635)	\$ 6,671,770	\$ 6,390,371
—	3,746,179	3,447,477
(392)	4,409,954	4,030,244
—	—	—
(12,902)	302,263	287,108
<u>\$ (87,929)</u>	<u>\$ 15,130,166</u>	<u>\$ 14,155,200</u>

14. CAPITAL ASSETS

The following schedule presents the changes in the Capital Assets as of June 30, 2023 (dollars in thousands).

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	\$ 3,761,886	\$ 225,472	\$ (2,807)	\$ 3,984,551
Construction-in-Progress	4,616,641	1,773,460	(2,069,422)	4,320,679
Intangible Assets with Indefinite Useful Life				
Water Rights and/or Easements	121,743	715	—	122,458
Infrastructure	1,308,220	—	—	1,308,220
Total Nondepreciable Capital Assets	<u>9,808,490</u>	<u>1,999,647</u>	<u>(2,072,229)</u>	<u>9,735,908</u>
Other Capital Assets:				
Buildings (2)	4,751,345	32,553	(10,137)	4,773,761
Equipment	1,460,914	82,069	(33,691)	1,509,292
Infrastructure	36,727,105	4,546,131	(318,285)	40,954,951
Intangible Assets				
Computer Software (Including websites)	1,118,295	126,540	(9,606)	1,235,229
Patents/Trademarks/Copyrights	30,880	—	—	30,880
Right-to-Use Intangible Assets				
Land	3,182	—	—	3,182
Buildings	374,116	49,041	(10,769)	412,388
Equipment	49,694	28,155	(10,043)	67,806
Subscription-based Information Technology Arrangements	172,659	95,486	—	268,145
Total Other Capital Assets at Historical Cost	<u>44,688,190</u>	<u>4,959,975</u>	<u>(392,531)</u>	<u>49,255,634</u>
Less Accumulated Depreciation for:				
Buildings	2,012,201	111,941	(7,471)	2,116,671
Equipment	916,351	78,184	(31,222)	963,313
Infrastructure	14,437,435	1,329,600	(328,110)	15,438,925
Intangible Assets				
Computer Software (Including websites)	644,548	88,344	(1,624)	731,268
Patents/Trademarks/Copyrights	21,918	1,459	—	23,377
Total Accumulated Depreciation	<u>18,032,453</u>	<u>1,609,528</u>	<u>(368,427)</u>	<u>19,273,554</u>
Less Accumulated Amortization for:				
Right-to-Use Intangible Assets				
Land	287	287	—	574
Buildings	31,493	35,166	(3,184)	63,475
Equipment	15,922	20,072	(9,975)	26,019
Subscription-based Information Technology Arrangements	—	70,269	—	70,269
Total Accumulated Amortization	<u>47,702</u>	<u>125,794</u>	<u>(13,159)</u>	<u>160,337</u>
Total Accumulated Depreciation and Amortization	<u>18,080,155</u>	<u>1,735,322</u>	<u>(381,586)</u>	<u>19,433,891</u>
Total Other Capital Assets, Net	<u>26,608,035</u>	<u>3,224,653</u>	<u>(10,945)</u>	<u>29,821,743</u>
Total Capital Assets, Net	<u>\$ 36,416,525</u>	<u>\$ 5,224,300</u>	<u>\$ (2,083,174)</u>	<u>\$ 39,557,651</u>

Note (1): Beginning balances have been restated by \$51.9 million predominately as a result of \$32.8 million of errors by the Department of Military Affairs, Department of General Services, and the Science Museum of Virginia, offset by restatements of \$100.7 million as a result of the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* and a reclassification of \$16.0 million from prepayments.

Note (2): Includes temporary impaired assets with a carrying value of \$15.3 million.

Depreciation/Amortization Expense Charged to Functions of the Primary Government

June 30, 2023

(Dollars in Thousands)

Governmental Activities:

General Government	\$	56,083
Education		13,676
Transportation		1,386,748
Resources and Economic Development		32,594
Individual and Family Services		79,202
Administration of Justice		69,810
Capital Assets held by the Internal Service		
Funds are charged to various functions		97,209
Total	\$	1,735,322

Schedule of Changes in Capital Assets Business-type Activities

(Dollars in Thousands)

	Balance July 1 as restated (1)	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	\$ 11,033	\$ —	\$ —	\$ 11,033
Construction-in-Progress	6,225	13,028	(1,078)	18,175
Total Nondepreciable Capital Assets	17,258	13,028	(1,078)	29,208
Other Capital Assets:				
Buildings	69,995	—	—	69,995
Equipment	84,924	3,947	(435)	88,436
Intangible Assets				
Computer Software (Including websites)	45,054	1,753	(1,310)	45,497
Right-to-Use Intangible Assets				
Buildings	213,758	26,478	—	240,236
Equipment	139	138	—	277
Other Intangible Assets	—	7,817	—	7,817
Subscription-Based Information Technology Arrangements	22,846	207,618	(5,866)	224,598
Total Other Capital Assets at Historical Cost	436,716	247,751	(7,611)	676,856
Less Accumulated Depreciation for:				
Buildings	9,959	2,148	—	12,107
Equipment	39,737	8,659	(420)	47,976
Intangible Assets				
Computer Software (Including websites)	16,498	7,137	(262)	23,373
Total Accumulated Depreciation	66,194	17,944	(682)	83,456
Less Accumulated Amortization for:				
Right-to-Use Intangible Assets				
Buildings	24,353	26,304	—	50,657
Equipment	51	85	—	136
Other Intangible Assets	—	3,908	—	3,908
Subscription-Based Information Technology Arrangements	—	11,494	(553)	10,941
Total Accumulated Amortization	24,404	41,791	(553)	65,642
Total Accumulated Depreciation and Amortization	90,598	59,735	(1,235)	149,098
Total Other Capital Assets, Net	346,118	188,016	(6,376)	527,758
Total Capital Assets, Net	\$ 363,376	\$ 201,044	\$ (7,454)	\$ 556,966

Note (1): Beginning balances have been restated by \$22.8 million as a result of the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.

**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	\$ 1,021,821	\$ 90,893	\$ (2,965)	\$ 1,109,749	\$ 425,589	\$ 1,535,338
Construction-in-Progress	2,263,025	1,995,312	(1,331,469)	2,926,868	88,635	3,015,503
Inexhaustible Works of Art/ Historical Treasures	87,244	1,526	(46)	88,724	21,964	110,688
Inexhaustible Easements	299,673	4,001	(70,189)	233,485	—	233,485
Livestock	327	65	—	392	562	954
Total Nondepreciable Capital Assets	<u>3,672,090</u>	<u>2,091,797</u>	<u>(1,404,669)</u>	<u>4,359,218</u>	<u>536,750</u>	<u>4,895,968</u>
Other Capital Assets:						
Buildings	21,768,099	1,019,292	(47,317)	22,740,074	1,536,940	24,277,014
Infrastructure	4,832,780	89,771	(480)	4,922,071	29,342	4,951,413
Equipment	4,953,362	455,667	(128,566)	5,280,463	217,643	5,498,106
Improvements Other Than Buildings	713,695	21,245	(2,044)	732,896	122,318	855,214
Library Books	753,768	16,815	(5,391)	765,192	—	765,192
Software	756,876	33,130	(59,611)	730,395	—	730,395
Other Intangible Assets	2,616	1,195	—	3,811	—	3,811
Right-to-Use Intangible Assets:						
Land	19,008	6,570	(2,993)	22,585	—	22,585
Buildings	767,430	151,365	(22,134)	896,661	—	896,661
Equipment	130,962	136,955	(2,162)	265,755	—	265,755
Infrastructure	181	—	—	181	—	181
Other Intangibles	4,059,532	—	—	4,059,532	—	4,059,532
Subscription-based Information Technology Arrangements	272,246	133,163	(2,914)	402,495	—	402,495
Total Other Capital Assets	<u>39,030,555</u>	<u>2,065,168</u>	<u>(273,612)</u>	<u>40,822,111</u>	<u>1,906,243</u>	<u>42,728,354</u>
Less Accumulated Depreciation for:						
Buildings	7,958,543	569,559	(35,310)	8,492,792	525,295	9,018,087
Infrastructure	2,265,489	127,449	(33)	2,392,905	3,896	2,396,801
Equipment	3,424,758	319,190	(109,789)	3,634,159	140,798	3,774,957
Improvements Other Than Buildings	452,409	24,391	(1,831)	474,969	67,312	542,281
Library Books	697,811	21,216	(5,377)	713,650	—	713,650
Software	563,884	45,953	(51,274)	558,563	—	558,563
Other Intangible Assets	2,231	385	—	2,616	—	2,616
Total Accumulated Depreciation	<u>15,365,125</u>	<u>1,108,143</u>	<u>(203,614)</u>	<u>16,269,654</u>	<u>737,301</u>	<u>17,006,955</u>
Less Accumulated Amortization for:						
Right-to-Use Intangible Assets:						
Land	18,657	12,258	(69)	30,846	—	30,846
Buildings	112,208	80,987	(8,018)	185,177	—	185,177
Equipment	20,937	29,752	(2,001)	48,688	—	48,688
Infrastructure	62	30	—	92	—	92
Other Intangibles	92,123	92,499	—	184,622	—	184,622
Subscription-based Information Technology Arrangements	56,803	95,644	(2,767)	149,680	—	149,680
Total Accumulated Amortization	<u>300,790</u>	<u>311,170</u>	<u>(12,855)</u>	<u>599,105</u>	<u>—</u>	<u>599,105</u>
Total Accumulated Depreciation and Amortization	<u>15,665,915</u>	<u>1,419,313</u>	<u>(216,469)</u>	<u>16,868,759</u>	<u>737,301</u>	<u>17,606,060</u>
Total Other Capital Assets, Net	<u>23,364,640</u>	<u>645,855</u>	<u>(57,143)</u>	<u>23,953,352</u>	<u>1,168,942</u>	<u>25,122,294</u>
Total Capital Assets, Net	<u>\$ 27,036,730</u>	<u>\$ 2,737,652</u>	<u>\$ (1,461,812)</u>	<u>\$ 28,312,570</u>	<u>\$ 1,705,692</u>	<u>\$ 30,018,262</u>

Note (1): Beginning balances have been restated by \$194.1 million predominately related to the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, of \$214.2 million. Various component units had an implementation date of July 1, 2021, because the separately issued financial statements include comparative statements. In addition, beginning balances have been restated by negative \$3.2 million for correction of prior year errors by various higher education institutions (nonmajor) and by negative \$16.9 million related to the Community Health acquisition by University of Virginia (nonmajor).

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.

15. DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, requires certain items to be classified as either deferred outflows or deferred inflows of resources. Additionally, deferred outflows or deferred inflows of resources are also required by other GASB statements. While all deferred outflows or deferred inflows of resources applicable to the Commonwealth are listed below, see Notes 16, 17, 19, and 39 for additional information regarding these items.

Deferred Outflows

Deferred outflows of resources are a consumption of net assets by the government that is applicable to a future reporting period.

Deferred Inflows

Deferred inflows of resources are an acquisition of net assets by the government that is applicable to a future reporting period.

The following tables summarize deferred outflows and deferred inflows of resources as of June 30, 2023.

Government-wide Statements

(Dollars in Thousands)

	Primary Government			Total Component Units
	Governmental Activities	Business-type Activities	Total	
Deferred Outflows of Resources				
Loss on Refunding of Debt	\$ 29,104	\$ —	\$ 29,104	\$ 217,065
Nonexchange Transactions Not Meeting Time Requirements	203	—	203	—
Pension Related	1,344,318	42,430	1,386,748	466,115
Other Postemployment Benefit Related	433,772	13,480	447,252	233,695
Total Deferred Outflows of Resources	<u>\$ 1,807,397</u>	<u>\$ 55,910</u>	<u>\$ 1,863,307</u>	<u>\$ 916,875</u>
Deferred Inflows of Resources				
Effective Hedges in a Gain Position	\$ —	\$ —	\$ —	\$ 17,183
Public-Private and Public-Public Partnerships	7,770,629	—	7,770,629	156,619
Gain on Refunding of Debt	78,172	—	78,172	70,308
Pension Related	1,179,294	26,022	1,205,316	510,256
Other Postemployment Benefit Related	669,422	17,539	686,961	408,736
Irrevocable Split-Interest Agreements Related	—	—	—	20,858
Mortgage Banking Activities	—	—	—	64,900
Leases	—	—	—	134,173
Total Deferred Inflows of Resources	<u>\$ 9,697,517</u>	<u>\$ 43,561</u>	<u>\$ 9,741,078</u>	<u>\$ 1,383,033</u>

Fund Statements

(Dollars in Thousands)

	Primary Government - Governmental Funds					
	General	Commonwealth Transportation	Federal Trust	Literary	Nonmajor Governmental Funds	Total Governmental Funds
Deferred Outflows of Resources						
Nonexchange Transactions Not Meeting Time Requirements	\$ 203	\$ —	\$ —	\$ —	\$ —	\$ 203
Total Deferred Outflows of Resources	<u>\$ 203</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 203</u>
Deferred Inflows of Resources						
Public-Private and Public-Public Partnerships	\$ —	\$ 2,383,906	\$ —	\$ —	\$ —	\$ 2,383,906
Revenues Considered Unavailable	1,458,347	105,048	343,132	25,443	313,814	2,245,784
Total Deferred Inflows of Resources	<u>\$ 1,458,347</u>	<u>\$ 2,488,954</u>	<u>\$ 343,132</u>	<u>\$ 25,443</u>	<u>\$ 313,814</u>	<u>\$ 4,629,690</u>

Fund Statements

(Dollars in Thousands)	Business-type Activities				Governmental Activities
	Enterprise Funds				Internal Service Funds
	Virginia Lottery	Virginia College Savings Plan	Nonmajor	Total Business-type Activities	
Deferred Outflows of Resources					
Pension Related	\$ 6,630	\$ 2,972	\$ 32,828	\$ 42,430	\$ 11,017
Other Postemployment Benefit Related	2,247	1,153	10,080	13,480	3,465
Total Deferred Outflows of Resources	\$ 8,877	\$ 4,125	\$ 42,908	\$ 55,910	\$ 14,482
Deferred Inflows of Resources					
Pension Related	\$ 4,577	\$ 2,271	\$ 19,174	\$ 26,022	\$ 12,208
Other Postemployment Benefit Related	2,577	1,233	13,729	17,539	6,677
Total Deferred Inflows of Resources	\$ 7,154	\$ 3,504	\$ 32,903	\$ 43,561	\$ 18,885

(Dollars in Thousands)	Component Units					
	Virginia Housing Development Authority	Virginia Public School Authority	Virginia Resources Authority	Virginia College Building Authority	Nonmajor Component Units	Total Component Units
Deferred Outflows of Resources						
Loss on Refunding of Debt	\$ —	\$ 59,188	\$ 33,747	\$ 17,283	\$ 106,847	\$ 217,065
Government Acquisition-Goodwill	—	—	—	—	—	—
Pension Related	—	—	104	—	466,011	466,115
Other Postemployment Benefit Related	11,258	—	23	—	222,414	233,695
Total Deferred Outflows of Resources	\$ 11,258	\$ 59,188	\$ 33,874	\$ 17,283	\$ 795,272	\$ 916,875
Deferred Inflows of Resources						
Effective Hedges in a Gain Position	\$ —	\$ —	\$ —	\$ —	\$ 17,183	\$ 17,183
Public-Private and Public-Public Partnerships	—	—	—	—	156,619	156,619
Gain on Refunding of Debt	—	—	28,217	27,479	14,612	70,308
Pension Related	—	—	201	—	510,055	510,256
Other Postemployment Benefit Related	1,528	—	26	—	407,182	408,736
Irrevocable Split-Interest Agreements Related	—	—	—	—	20,858	20,858
Mortgage Banking Activities	64,900	—	—	—	—	64,900
Leases	—	—	—	—	134,173	134,173
Total Deferred Inflows of Resources	\$ 66,428	\$ —	\$ 28,444	\$ 27,479	\$ 1,260,682	\$ 1,383,033

16. DERIVATIVE INSTRUMENTS

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires additional reporting and disclosures for derivative instruments.

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.

Virginia College Savings Plan (Virginia529)

GASB Statement No. 53 defines stable value investment vehicles as synthetic guaranteed investment contracts. Stable value funds are invested in a high quality, diversified, intermediate term, fixed income portfolio that is protected against interest rate volatility by wrap or investment contracts from banks and insurance companies that guarantee the payment of benefits at book value (cost plus accrued interest), which enables the entire investment to be carried at its book value. The Virginia529 utilizes stable value investments in the Defined Contribution 529 and Access and Affordability Programs (Private Purpose Trust Fund). Virginia529's stable value investments meet the definition of fully benefit-responsive synthetic guaranteed investment contracts and are reported at contract value. As of June 30, 2023, Virginia529 had the following stable value investments outstanding (dollars in thousands) in the respective programs as shown in the table below.

Stable Value Investments

Fund	Wrap Provider	Notional	Effective	Maturity Date	Credit	June 30, 2023	June 30, 2022
		Amount	Date		Rate	Fair Value	Fair Value
Private Purpose	American General Life	\$ 277,159	1/16/2014	Open ended	2.6 %	\$ 1,539,111	\$ 1,577,653
	Nationwide Life Insurance	279,440	1/29/2018	Open ended	3.2 %		
	Prudential Retirement Insurance & Annuity	277,397	1/30/2014	Open ended	2.6 %		
	RGA	277,136	8/28/2015	Open ended	2.6 %		
	State Street Bank	277,144	5/1/2002	Open ended	2.6 %		
	Voya Retirement And Annuity	277,205	10/5/2012	Open ended	2.6 %		

At June 30, 2023, the fair value of the underlying investments for the Private Purpose Trust Fund was less than the book value (notional amount) of the wrap contracts. The book value of the wrap contracts provides a guaranteed minimum value that program participants would receive upon liquidation, and therefore has a separate fair value only in the circumstance that the fair

value of the associated underlying investment pool is below the book value of the wrap contracts. The fair value of the wrap contracts is the amount required to bring the total value of the stable value investments up to the book value of the wrap contracts. In the Private Purpose Trust Fund, the fair value of the wrapped stable value investments at June 30, 2023, was \$1.5 billion.

As of June 30, 2023, PGIM High Yield Fixed Income also held futures contracts, which are permissible to hedge duration and excluded from the 10.0 percent limit. The following table (dollars in thousands) contains information relating to fair value, changes in fair value and notional value of these derivative instruments. Credit risk is mitigated with these instruments as they are exchange traded.

Investment Derivative Instruments - U.S. Treasury Futures Contracts					
Fund	Changes in Fair Value		Fair Value at June 30, 2023		
	Classification	Amount	Classification	Amount	Notional Amount
Enterprise	Revenue	\$ (303)	Investment	\$ (303)	\$ 14,934
Private Purpose	Revenue	(417)	Investment	(417)	23,380

At June 30, 2023, PGIM High Yield Fixed Income also held total return swaps, which are permissible to gain exposure to assets with minimal cash outlay. The following table (dollars in thousands) contains information relating to fair value, changes in fair value and notional value of these derivative instruments. Credit risk is mitigated with these instruments as they are exchange traded.

Investment Derivative Instruments - Total Return Swaps					
Fund	Changes in Fair Value		Fair Value at June 30, 2023		
	Classification	Amount	Classification	Amount	Notional Amount
Enterprise	Revenue	\$ (2)	Investment	\$ 4	\$ 1,150
Private Purpose	Revenue	—	Investment	17	3,325

The enterprise fund's PGIM Core Bond Fixed Income accounts held zero coupon swaps at June 30, 2023. The following table (dollars in thousands) contains information relating to fair value, changes in fair value and notional value. Credit risk is mitigated with these instruments as they are centrally cleared derivative instruments.

Investment Derivative Instruments - Zero Coupon Swaps					
Fund	Changes in Fair Value		Fair Value at June 30, 2023		
	Classification	Amount	Classification	Amount	Notional Amount
Enterprise	Revenue	\$ 3	Investment	\$ 3	\$ 5,512

Pursuant to its investment management agreement, Loomis, Sayles & Company may invest in derivative instruments for hedging, and duration management. The portfolio's notional exposure to derivative instruments, as measured on a net market value basis, is limited to 10.0 percent of the market value of the account. The Defined Benefit 529 Programs' Loomis, Sayles & Company (Loomis) Multi-Asset Credit Accounts held futures contracts, which are permissible to hedge duration. The following table (dollars in thousands) contains information relating to fair value, changes in fair value and notional value of these derivative instruments. U.S. Treasury futures used to hedge duration are excluded from the 10.0 percent limit. Credit risk is mitigated with these instruments as they are exchange traded.

Investment Derivative Instruments - U.S. Treasury Futures Contracts

Fund	Changes in Fair Value		Fair Value at June 30, 2023		
	Classification	Amount	Classification	Amount	Notional Amount
Enterprise	Revenue	\$ (76)	Investment	\$ (76)	\$ 6,511

The enterprise fund's Loomis Multi-Asset Credit account held credit default swaps at June 30, 2023. The following table (dollars in thousands) contain information relating to fair value, changes in fair value and notional value. Credit risk is mitigated with these instruments as they are centrally cleared derivative instruments.

Investment Derivative Instruments - Credit Default Swaps

Fund	Changes in Fair Value		Fair Value at June 30, 2023		
	Classification	Amount	Classification	Amount	Notional Amount
Enterprise	Revenue	\$ (187)	Investment	\$ 125	\$ 10,740

Pursuant to its investment management agreement, Neuberger Berman may invest in derivative instruments for hedging, and duration management. The portfolio's notional exposure to derivative instruments, as measured on a net market value basis, is limited to 10.0 percent of the market value of the account. The Defined Contributions 529 Programs' Neuberger Berman Core Bond account held futures contracts, which are permissible to hedge duration. The following table (dollars in thousands) contains information relating to fair value, changes in fair value and notional value of these derivative instruments. U.S. Treasury futures used to hedge duration are excluded from the 10.0 percent limit. Credit risk is mitigated with these instruments as they are exchange traded.

Investment Derivative Instruments - U.S. Treasury Futures Contracts

Fund	Changes in Fair Value		Fair Value at June 30, 2023		
	Classification	Amount	Classification	Amount	Notional Amount
Enterprise	Revenue	\$ (1,034)	Investment	\$ (1,034)	\$ 55,198

Pursuant to their investment management agreements, Loomis, Sayles & Company and PGIM may invest in derivative instruments for hedging purposes or for efficient portfolio management. Synthetic positions are not allowed and the use of derivative instruments should not be considered as an alpha generator. Loomis primarily uses forward foreign exchange contracts to hedge the value of investments denominated in non-U.S. dollar currencies. Similarly, the PGIM Core Bond accounts are permitted to use these instruments. Credit risk of exchange traded currency contracts lies with the clearinghouse of the exchange at which the contracts are traded, while credit risk of currency contracts traded over the counter lies with the counterparty. Counterparty risk exposure is generally equal to the unrealized gain on in-the-money contracts. The following table (dollars in thousands) contains a breakdown of these forward contracts by currency.

Enterprise Fund Foreign Currency Forwards

Currency	Cost	Foreign Exchange Purchases	Foreign Exchange Sales	Market Value
Australian Dollar	\$ (136)	\$ —	\$ (136)	\$ (136)
Brazil Real	9	1,864	(1,864)	—
Chilean Peso	12	1,619	(1,619)	—
Danish Krone	(312)	—	(313)	(313)
Euro Currency Unit	(7,130)	4,253	(11,445)	(7,192)
Indonesian Rupiah	2	1,638	(1,638)	—
Japanese Yen	(12)	—	(12)	(12)
Norwegian Krone	(333)	—	(336)	(336)
Polish Zloty	5	954	(954)	—
Pound Sterling	333	550	(216)	334
Swedish Krona	357	361	(3)	358
Swiss Franc	918	922	—	922
U.S. Dollar	6,287	17,807	(11,520)	6,287
Total	<u>\$ —</u>	<u>\$ 29,968</u>	<u>\$ (30,056)</u>	<u>\$ (88)</u>

Pursuant to its investment agreement, PGIM Fixed Income may invest in derivative instruments for hedging, duration and cash management. The portfolio's exposure to derivative instruments, as measured on a net market value basis, is limited to 10.0 percent of the market value of the high-yield account. Both the Defined Benefit and Defined Contribution 529 Programs' PGIM Fixed Income accounts held credit default swaps at June 30, 2023. The following table (dollars in thousands) contains information relating to fair value, changes in fair value and notional value for credit default swaps. Credit risk is mitigated with these instruments as they are centrally cleared derivatives.

Investment Derivative Instruments - Credit Default Swaps

Fund	Changes in Fair Value		Fair Value at June 30, 2023		Notional Amount
	Classification	Amount	Classification	Amount	
Enterprise	Revenue	\$ (56)	Investment	\$ (143)	\$ 7,015
Private Purpose	Revenue	156	Investment	20	18,779

At June 30, 2023, PGIM Core Bond Fixed Income also held total return swaps, which are permissible to gain exposure to assets with minimal cash outlay. The following table (dollars in thousands) contains information relating to fair value, changes in fair value and notional value of these derivative instruments. Credit risk is mitigated with these instruments as they are exchange traded.

Investment Derivative Instruments - Total Return Swaps

Fund	Changes in Fair Value		Fair Value at June 30, 2023		Notional Amount
	Classification	Amount	Classification	Amount	
Enterprise	Revenue	\$ 29	Investment	\$ 29	\$ 1,654

At June 30, 2023, PGIM Core Bond Fixed Income also held futures contracts, which are permissible to hedge duration and excluded from the 10.0 percent limit. The following table (dollars in thousands) contains information relating to fair value, changes in fair value and notional value of these derivative instruments. Credit risk is mitigated with these instruments as they are exchange traded.

Investment Derivative Instruments - U.S. Treasury Futures Contracts

Fund	Changes in Fair Value		Fair Value at June 30, 2023		
	Classification	Amount	Classification	Amount	Notional Amount
Enterprise	Revenue	\$ (777)	Investment	\$ (777)	\$ 36,269

Pursuant to its investment management agreement, Neuberger Berman may invest in derivative instruments for hedging and duration management. The portfolio's notional exposure to derivative instruments, as measured on a net market value basis, is limited to 10.0 percent of the market value of the account. The Defined Contributions 529 Programs' Neuberger Berman Emerging Markets Debt account held U.S. Treasury futures contracts, which are permissible to hedge duration. The following table (dollars in thousands) contains information relating to fair value, changes in fair value and notional value of these derivative instruments. U.S. Treasury futures contracts used to hedge duration are excluded from the 10.0 percent limit. Credit risk is mitigated with these instruments as they are exchange traded.

Investment Derivative Instruments - U.S. Treasury Futures Contracts

Fund	Changes in Fair Value		Fair Value at June 30, 2023		
	Classification	Amount	Classification	Amount	Notional Amount
Private Purpose	Revenue	\$ (413)	Investment	\$ (413)	\$ 32,729

Additional information is available in the Virginia529 separately issued financial statements, which may be obtained at www.virginia529.com.

Virginia Retirement System

All derivative instruments held by the Virginia Retirement System (the System) are considered investments. The fair value of all derivative financial instruments is reported on a net basis on the Statement of Fiduciary Net Position. The derivative instruments are either subject to an enforceable master netting arrangement or similar agreement. The master netting arrangements allow the System to net applicable liabilities or payment obligations to counterparties to the derivative instrument contracts against amounts owed to the System by the counterparties.

The System holds investments in swaps, futures and options and enters into forward foreign currency exchange contracts. Swaps, futures, options and currency forwards 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. Derivative instruments that are exchange-traded are not subject to credit risk, but all over-the-counter derivative instruments, such as swaps and currency forwards, do expose the System to counterparty credit risk. Counterparty credit risk for the System's investments in derivatives instruments (inclusive of foreign currency forwards) is summarized in the table on page 132. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates.

The System's level of exposure to interest rate risk through derivative instruments and the System's investments in derivative instruments as of June 30, 2023, are summarized in the tables below (dollars in thousands).

Derivative Instruments Summary

Investment	Net Appreciation/ (Depreciation) in Fair Value for the Fiscal Year Ended June 30, 2023	Classification	Fair Value June 30, 2023	
			Amount	Notional (Dollars)
Commodity Futures Long	\$ (172)	Equity Securities	\$ —	\$ —
Credit Default Swaps Bought	(56)	Debt Securities	11	1,600
Credit Default Swaps Written	(20)	Debt Securities	(20)	20,000
Currency Futures Long	74	Debt Securities	74	5,676
Currency Futures Short	(144)	Debt Securities	—	—
Fixed-Income Futures Long	992	Debt Securities	(16,758)	1,531,513
Fixed-Income Futures Short	(2,896)	Debt Securities	5,519	(910,595)
Fixed Income Options	(1)	Debt Securities	(1)	—
FX Forwards	(20,596)	Investment Sales/Purchases	(14,589)	(391,437)
Index Futures Long	14,391	Equity Securities	10,143	409,395
Index Futures Short	(1,762)	Equity Securities	(847)	(24,049)
Pay Fixed-Interest Rate Swaps	2,737	Debt Securities	2,737	69,582
Receive Fixed-Interest Rate Swaps	(294)	Debt Securities	(295)	24,472
Swaptions	(8)	Debt Securities	(8)	(2,600)
Total Return Equity Index Swaps	117,967	Equity Securities	118,313	2,400,506
Total	\$ 110,212		\$ 104,279	

Derivative Instruments Subject to Interest Rate Risk

Investment Type	Fair Value June 30, 2023	Investment Maturities (in years)			
		Under 1	1-5	6-10	Greater than 10
Credit Default Swaps Bought	\$ 11	\$ —	\$ 11	\$ —	\$ —
Credit Default Swaps Written	(20)	(15)	70	(75)	—
Pay Fixed-Interest Rate Swaps	2,737	—	474	322	1,941
Receive Fixed-Interest Rate Swaps	(294)	(250)	21	(65)	—
Total Return Equity Index Swaps	(14,388)	—	(14,388)	—	—
Total	\$ (11,954)	\$ (265)	\$ (13,812)	\$ 182	\$ 1,941

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 Statement of Changes in Fiduciary Net Position. 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. Information on the System's investments in fixed income, currency, and equity index futures as of June 30, 2023, is shown in the Summary table to the left.

Currency Forwards

Currency forwards represent foreign exchange contracts and are used by the System to effect settlements and to protect the base currency (\$U.S.) 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. The net realized gains or losses arising from the differences between the original values of the foreign currency contracts and the closing values of such contracts are included in the net appreciation/depreciation in fair value of investments in the Statement of Changes in Fiduciary Net Position. Information on the currency forward contracts as of June 30, 2023, is shown in the following table and in the Summary table to the left.

Currency Forwards

as of June 30

(Dollars in Thousands)

Currency	Cost	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Fair Value 2023	Fair Value 2022
Australian Dollar	\$ 48,879	\$ 225,429	\$ (172,181)	\$ 53,248	\$ (7,969)
Brazilian Real	178	6,874	(6,943)	(69)	4,356
British Pound Sterling	71,931	233,459	(158,742)	74,717	16,341
Canadian Dollar	237,333	476,177	(231,386)	244,791	111,791
Chilean Peso	1,153	4,956	(3,830)	1,126	1,528
Chinese Yuan Renminbi	(12,775)	—	(12,114)	(12,114)	(60,961)
Chinese Yuan Renminbi HK	(2,279)	—	(2,201)	(2,201)	—
Colombian Peso	(558)	2,067	(2,795)	(728)	(1,380)
Czech Koruna	2,852	2,880	—	2,880	(4,048)
Danish Krone	(18,752)	—	(18,802)	(18,802)	(17,753)
Egyptian Pound	(49)	396	(399)	(3)	—
Euro Currency Unit	211,988	815,719	(598,868)	216,851	179,851
Hong Kong Dollar	(53,191)	—	(53,143)	(53,143)	(55,356)
Hungarian Forint	1,564	2,887	(1,308)	1,579	1,945
Indian Rupee	7,119	9,325	(2,206)	7,119	(4,533)
Indonesian Rupiah	(4,531)	1,740	(6,232)	(4,492)	(1,695)
Israeli Shekel	(39,794)	22	(38,470)	(38,448)	(26,069)
Japanese Yen	426,158	620,771	(215,166)	405,605	(286,160)
Kazakhstan Tenge	1,124	1,115	—	1,115	—
Malaysian Ringgit	(1,995)	2,389	(4,225)	(1,836)	1,298
Mexican Peso	(2,911)	4,319	(7,348)	(3,029)	1,062
New Taiwan Dollar	1,456	2,873	(1,417)	1,456	(11,198)
New Zealand Dollar	(175,548)	47,799	(223,743)	(175,944)	(68,396)
Nigerian Naira	(26)	81	(81)	—	—
Norwegian Krone	(281,046)	138,865	(432,970)	(294,105)	(21,455)
Peruvian Sol	(2,269)	—	(2,284)	(2,284)	(4,611)
Philippines Peso	(4,369)	2,105	(6,502)	(4,397)	(607)
Polish Zloty	(3,322)	—	(3,369)	(3,369)	3,779
Romanian Leu	(696)	1,466	(2,159)	(693)	(1,161)
Singapore Dollar	(90,922)	42,296	(132,844)	(90,548)	(75,951)
South African Rand	(6,117)	855	(6,917)	(6,062)	(2,408)
South Korean Won	5,124	6,456	(1,423)	5,033	18
Swedish Krona	129,364	294,216	(163,463)	130,753	97,416
Swiss Franc	(77,506)	286,738	(367,735)	(80,997)	(343,508)
Thai Baht	768	3,511	(2,775)	736	4,945
Turkish Lira	—	—	—	—	(1,461)
U.S. Dollar	(368,334)	2,861,346	(3,229,680)	(368,334)	578,357
Total Forwards Subject to Foreign Currency Risk				<u>\$ (14,589)</u>	<u>\$ 6,007</u>

Options

Options may either be 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. Information on the System's investments in options on interest rate swaps (swaptions) and fixed income futures contracts as of June 30, 2023 is shown in the Summary table on page 135.

Swap Agreements

Swaps are negotiated contracts between two counterparties for the exchange of payments at certain intervals over a predetermined timeframe. The payments are based on a notional principal amount and calculated using either fixed or floating interest rates or total returns from certain instruments or indexes. 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 2023, the System had activity in credit default, total return, and interest rate swaps. Gains and losses on swaps are determined based on fair values and are recorded in the Statement of Changes in Fiduciary Net Position. Information on the System's swap balances as of June 30, 2023, is shown in the Summary table on page 135, and the terms, fair values and notional values of the System's investments in swap agreements that are highly sensitive to interest rate changes are disclosed in the following tables (dollars in thousands).

Derivatives Instruments Highly Sensitive to Interest Rate Changes

Investment Type	Reference Rate	Fair Value June 30, 2023	Notional Amount
Interest Rate Swaps	Receive Fixed 8.34%, Pay Variable 28-day MTIIE	\$ 16	\$ 1,090
Interest Rate Swaps	Receive Fixed 8.39%, Pay Variable 28-day MTIIE	15	819
Interest Rate Swaps	Receive Fixed 11.42%, Pay Variable Brazil 1-day CDI	16	705
Interest Rate Swaps	Receive Variable Brazil 1-day CDI, Pay Fixed 13.02%	(26)	415
Interest Rate Swaps	Receive Variable Brazil 1-day CDI, Pay Fixed 13.65%	—	2,011
Interest Rate Swaps	Receive Variable Brazil 1-day CDI, Pay Fixed 13.65%	—	5,307
Interest Rate Swaps	Receive Fixed 4.61%, Pay Variable Czech Krona 6-month PRIBOR	8	3,090
Interest Rate Swaps	Receive Variable Poland 6-month WIBOR, Pay Fixed 5.46%	(7)	837
Interest Rate Swaps	Receive Variable Daily Compound SOFR, Pay Fixed 1.00%	507	6,600
Interest Rate Swaps	Receive Fixed 1.75%, Pay Variable Daily Compound SOFR	(250)	7,100
interest Rate Swaps	Receive Fixed 8.15%, Pay Variable 28-day MTIIE	4	1,236
interest Rate Swaps	Receive Variable Euro short term rate (€STR), Pay Fixed 1.34%	75	709
interest Rate Swaps	Receive Variable Euro short term rate (€STR), Pay Fixed 1.74%	123	1,549
interest Rate Swaps	Receive Variable Euro short term rate (€STR), Pay Fixed 2.05%	33	573
interest Rate Swaps	Receive Variable Euro short term rate (€STR), Pay Fixed 2.08%	90	1,582
interest Rate Swaps	Receive Fixed 8.8%, Pay Variable 28-day MTIIE	184	4,198
interest Rate Swaps	Receive Fixed 2.78%, Pay Variable Daily Compound SOFR	(51)	732
interest Rate Swaps	Receive Fixed 2.77%, Pay Variable Daily Compound SOFR	(103)	1,621
interest Rate Swaps	Receive Fixed 2.92%, Pay Variable Daily Compound SOFR	(30)	560
interest Rate Swaps	Receive Fixed 2.92%, Pay Variable Daily Compound SOFR	(101)	1,540
Interest Rate Swaps	Receive Fixed 5.59%, Pay Variable Pound Sterling SONIA overnight rate	(3)	1,780
Interest Rate Swaps	Receive Variable Daily SOFR, Pay Fixed 2.889%	628	10,000
Interest Rate Swaps	Receive Variable Fed Funds Effective Rate, Pay Fixed 2.857%	317	5,000
Interest Rate Swaps	Receive Variable Fed Funds Effective Rate, Pay Fixed 2.8425%	333	5,000
Interest Rate Swaps	Receive Variable Fed Funds Effective Rate, Pay Fixed 3.1555%	59	10,000
Interest Rate Swaps	Receive Variable Fed Funds Effective Rate, Pay Fixed 3.166%	5	10,000
Interest Rate Swaps	Receive Variable Fed Funds Effective Rate, Pay Fixed 2.896%	288	5,000
Interest Rate Swaps	Receive Variable Fed Funds Effective Rate, Pay Fixed 2.87%	312	5,000
Subtotal Interest Rate Swaps		\$ 2,442	\$ 94,054
Total Return Equity Index Swaps	Receive Variable MSCI US Total Return Index, Pay Variable 3-month SOFR + 33 bps	\$ 6,445	\$ 105,832
Total Return Equity Index Swaps	Receive Variable MSCI US Total Return Index, Pay Variable 3-month SOFR + 39 bps	44,879	517,081
Total Return Equity Index Swaps	Receive Variable MSCI US Total Return Index, Pay Variable 3-month SOFR + 33 bps	13,958	160,814
Total Return Equity Index Swaps	Receive Variable GDUEACWF Index, Pay Variable 1-day SOFR + 42.5 bps	5,413	112,966
Total Return Equity Index Swaps	Receive Variable GDUEACWF Index, Pay Variable 1-day SOFR + 39 bps	5,931	101,376
Total Return Equity Index Swaps	Receive Variable MSCI US Total Return Index, Pay Variable 3-month SOFR + 50 bps	13,958	160,815
Total Return Equity Index Swaps	Receive Variable GDUEACWF Index, Pay Variable 1-day SOFR + 42.5 bps	6,278	107,309
Total Return Equity Index Swaps	Receive Variable GDUEACWF Index, Pay Variable 1-day SOFR + 44 bps	10,239	209,384
Total Return Equity Index Swaps	Receive Variable GDUEACWF Index, Pay Variable 1-day SOFR + 42.5 bps	6,558	353,796
Total Return Equity Index Swaps	Receive Variable GDDUUS Index, Pay Variable 1-day SOFR Cmpd + 35.5 bps	19,042	285,564
Total Return Equity Index Swaps	Receive Variable 1-day SOFR Cmpd + 31.5 bps, Pay Variable FTEPNAUS Index	(14,388)	285,569
Subtotal Total Return Swaps		\$ 118,313	\$ 2,400,506
TOTAL		\$ 120,755	\$ 2,494,560

Derivative Instruments Subject to Counterparty Credit Risk

Counterparty	Percentage of Net Exposure	Moody's Ratings	S&P Ratings	Fitch Ratings
Barclays Bank PLC	45.0%	A1	A+	A+
JPMorgan Chase Bank NA	21.0%	Aa2	A+	AA
Goldman Sachs International	15.8%	A1	A+	A+
UBS AG/Stamford CT	8.7%	A3	—	A
BNP Paribas SA	3.7%	Aa3	A+	A+
HSBC Bank USA NA/New York NY	3.0%	A3	—	A+
BNP Paribas Securities Corp.	2.6%	—	A+	—
Goldman Sachs Bank USA-New York NY	0.2%	A1	A+	A+
Total	100.0%			

Derivative instruments are classified as Level 1 and Level 2 in the fair value hierarchy. Derivative instruments classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. The derivative instruments in Level 1 consist of futures contracts on currencies, U.S. Treasury bonds and notes, non-U.S. government bonds, and U.S. and non-U.S. equity indexes and options on futures contracts on U.S. Treasury notes. Derivative instruments classified as Level 2 are valued using a number of modeling approaches that take into account observable market levels, benchmark rates, and foreign exchange rates.

Additional information is available in the System's separately issued financial statements, which may be obtained from www.varetire.org.

Component Units

Investment Derivative Instruments

The Virginia Housing Development Authority (major component unit) enters into forward sales contracts for the delivery of GNMA and FNMA securities in order to lock in the sales price for the securitization of certain homeownership mortgage loans. The contracts offset changes in interest rates between the time of the loan reservations and the securitization of such loans into GNMA and FNMA securities. These contracts are considered investment derivative instruments, such that their change in fair value is reported as investment derivative instrument gains or losses in the accompanying financial statements. Fair values of the forwards are based on observable market prices for similar instruments traded on the secondary mortgage loan markets. The Authority's portfolio of investment derivative instruments are classified as Level 2 in the fair value hierarchy. The outstanding forward contracts, summarized by counterparty rating as of June 30, 2023, were as follows:

Counterparty Rating	Par	Concentration	Notional Amount	Market Value	Fair Value Asset (Liability)
A-1+/AA+	\$ 29,000,000	11.0 %	\$ 29,460,313	\$ 29,345,625	\$ 114,688
A-1/A+	66,700,000	25.4 %	67,307,703	67,200,234	107,469
A-1/A+	60,600,000	23.0 %	61,276,418	61,086,625	189,793
A-1/A+	56,000,000	21.3 %	56,674,844	56,477,188	197,656
A-1/A+	37,500,000	14.3 %	38,070,000	38,042,266	27,734
A-2/BBB+	9,000,000	3.4 %	9,142,344	9,108,125	34,219
A-2/BBB+	4,200,000	1.6 %	4,240,851	4,234,781	6,070
	<u>\$ 263,000,000</u>	<u>100 %</u>	<u>\$ 266,172,473</u>	<u>\$ 265,494,844</u>	<u>\$ 677,629</u>

Investment Derivative Instruments – Ineffective Hedges

During fiscal year 2015, the University of Virginia (UVA) (nonmajor) refunded the Series 2003A bonds and the commercial paper associated with the fixed-payer interest rate swaps which terminated hedge accounting. The fixed-payer interest rate swaps were no longer effective hedges. As of June 30, 2023, the negative fair value of the swaps of \$12.6 million is included in other liabilities and the change in fair value of positive \$4.4 million was reported as investment earnings in the accompanying financial statements. The derivative instruments are classified as Level 2 of the fair value hierarchy. Additional information regarding the institution's derivative instruments is available at www.virginia.edu.

Hedging Derivative Instruments

As of June 30, 2023, Virginia Commonwealth University Medical Center (VCUMC), which is a division of the Virginia Commonwealth University Health System Authority (a blended component unit of VCU - nonmajor), had two interest rate swap agreements with a notional amount of \$110.9 million. The swaps are used as cash flow hedges by VCUMC in order to provide a hedge against changes in interest rates on variable rate Series 2013B bonds. As of June 30, 2023, the negative fair value of VCUMC's two swaps of \$13.2 million is included in other liabilities and the cumulative change in fair value of these swaps of \$17.2 million is included in deferred inflows of resources in the accompanying financial statements. The derivative instruments are classified as Level 2 in the fair value hierarchy. Additional information regarding the institution's derivative instruments is available at www.vcu.edu.

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

17. RETIREMENT AND PENSION SYSTEMS

A separately issued financial report that includes financial statements and required supplementary information for each of the individual plans discussed below is publicly available. Copies may be obtained from the Virginia Retirement System website at www.varetire.org.

A. Administration

The Virginia Retirement System (the System) is an independent agency of the Commonwealth that administers 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 BNY Mellon as the custodian of designated assets of the System.

The System administers four pension trust funds: 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 five Other Employee Benefit Plans: Group Life Insurance Fund; Retiree Health Insurance Credit Fund; the Virginia Sickness and Disability Program (VSDP); the Line of Duty Act Trust Fund; and the Virginia Local Disability Program (VLDP).

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 consistent with the plans. 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, BNY Mellon, 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 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 position available for benefits.

C. Plan Description

The Virginia Retirement System (VRS) is a qualified governmental retirement plan that administers three retirement benefit structures: Plan 1, Plan 2, and Hybrid Plan, for state employees, public school board employees, employees of participating political subdivisions, and other qualifying employees. VRS is a combination of mixed-agent and cost-sharing, multiple-employer retirement plans. Each plan's accumulated assets may legally be used to pay all the plan benefits provided to any of the plan's members, retirees, and beneficiaries of each respective plan. Contributions for fiscal year 2023 were \$4.2 billion with a reserve balance available for benefits of \$98.1 billion. The contributions include one-time payments from the Commonwealth in June 2023 of \$73.1 million to the State Employee Plan and \$147.5 million to the Teacher Employee Plan. These special payments were authorized by Chapter 2 of the Acts of Assembly of 2022, Special Session I. As of June 30, 2023, VRS had 836 contributing employers.

The Commonwealth also administers the following single-employer retirement plans and benefit structures:

- State Police Officers' Retirement System (SPORS) – Plan 1 and Plan 2
- Virginia Law Officers' Retirement System (VaLORS) – Plan 1 and Plan 2
- Judicial Retirement System (JRS) – Plan 1, Plan 2, and Hybrid Plan

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*.

Benefits vest for all plans after five years of service credit. Vested VRS members in the VRS Plan 1 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 VRS members in the VRS Plan 2 and the Hybrid Plan are eligible for unreduced retirement benefits at normal social security retirement age with at least five years of service credit or when age and service credit equal 90. Vested SPORS and VaLORS members in both the VRS Plan 1 and the VRS Plan 2 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. Under the VRS Plan 2, the multiplier for general employees was reduced to 1.65 percent beginning January 1, 2013. Under the Hybrid Plan, the multiplier for the defined benefit component is 1.0 percent. AFC is the average of the member's 36 consecutive months of highest creditable compensation for members under the VRS Plan 1. Under the VRS Plan 2 and the Hybrid Plan, a member's AFC is the average of the member's 60 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 allowance (COLA), based on changes in the Consumer Price Index and limited to 5.0 percent per year for VRS Plan 1 and 3.0 percent for VRS Plan 2 and Hybrid Plan, is granted on July 1 of the second calendar year after retirement and is effective each July 1 thereafter. Beginning January 2013, a member who retires with less than 20 years of service must receive an allowance for one full calendar year after reaching unreduced retirement age to be eligible for a COLA. Members within five years of eligibility for an unreduced benefit as of January 1, 2013 were grandfathered.

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*, members contribute 5.0 percent of their annual compensation to the retirement plans. 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 2023 were \$58.5 million, \$30.1 million, and \$115.8 million, and reserved balances available for benefits were \$1.1 billion, \$678.0 million, and \$1.9 billion, for

SPORS, JRS, and VaLORS, respectively. Contributions include special one-time payments from the Commonwealth in June 2023 of approximately \$3.7 million, \$2.1 million and \$6.6 million to SPORS, JRS, and VaLORS, respectively. These special payments were authorized by Chapter 2 of the Acts of Assembly of 2022, Special Session I. State statute may be amended only by the General Assembly. To the extent that the employer's long-term obligation to provide pension benefits (total pension liability) is larger than the value of the assets available in the plan to pay these benefits (fiduciary net position), there is a net pension liability which is reported in the accompanying financial statements as a component of Long-term Liabilities Due in More than One Year.

The Hybrid Plan is the default benefit structure for new employees in the VRS and JRS plans. The Hybrid Plan benefit structure includes a defined benefit component and a defined contribution component. For Hybrid Plan members, 4.0 percent of the statutory member contribution of 5.0 percent is directed to the defined benefit component of the plan and 1.0 percent is directed to the mandatory defined contribution component of the plan. In addition, 1.0 percent of the total actuarially determined employer contribution is directed to the mandatory defined contribution component of the plan. The Hybrid Plan members may also elect to contribute an additional amount up to 4.0 percent to a voluntary defined contribution plan. The voluntary component also has a mandatory employer match of 0.5 to 2.5 percent that is deducted from the total actuarially determined employer contribution. For the fiscal year 2023, the mandatory and voluntary member contributions for the defined contribution component of the Hybrid Plan totaled \$220.8 million and related mandatory employer contributions totaled \$174.7 million. The statutory authority for the Hybrid plan is set out in the *Code of Virginia*, Section 51.1-169. This section also highlights the various plan provisions, including vesting and forfeiture. The total amount contributed by the employer shall vest to the employee's benefit according to the following schedule:

- a. Upon completion of two years of active participation, 50.0 percent.
- b. Upon completion of three years of active participation, 75.0 percent.
- c. Upon completion of four years of active participation, 100.0 percent.

If an employee ceases to be a member prior to achieving 100.0 percent vesting, contributions made by an employer on behalf of the employee under subdivision 2 that are not vested shall be forfeited. The Defined Contribution plan component of the Hybrid plan has a fixed employer contribution that is a percentage of covered payroll. There is no additional employer liability for this component at year end.

Further information about the benefits provided in these retirement plans and their different benefit structures can be found in the Virginia Retirement System's Annual Comprehensive Financial Report.

The following table provides participant information.

	VRS	SPORS	VaLORS	JRS	2023 Total
Retirees and Beneficiaries Receiving Benefits	62,292	1,533	5,853	553	70,231
Terminated Employees Entitled to Benefits but not Receiving Them	13,855	165	884	2	14,906
Total	<u>76,147</u>	<u>1,698</u>	<u>6,737</u>	<u>555</u>	<u>85,137</u>
Active Members:					
Vested	51,099	1,528	4,011	369	57,007
Non-Vested	27,965	389	3,513	88	31,955
Total	<u>79,064</u>	<u>1,917</u>	<u>7,524</u>	<u>457</u>	<u>88,962</u>

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 through fiscal year 2023 and 20 years or less starting in fiscal year 2024.

The System's former actuary, Cavanaugh MacDonald Consulting, LLC, computed the amount of contributions to be provided by state agency employers, state police and other Virginia law employers. The Commonwealth approved contribution rates for fiscal year 2023 based on the actuary's valuation as of June 30, 2021. Employer contributions by the Commonwealth to VRS, SPORS, VaLORS, and JRS were 14.5 percent, 30.0 percent, 24.6 percent, and 30.7 percent, respectively.

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. Changes in Net Pension Liability

The total pension liability was determined based on the actuarial valuation as of June 30, 2021, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022. The following tables (dollars in thousands) show the Commonwealth's total pension liability, plan fiduciary net position, and net pension liability in total and individually for the VRS, SPORS, JRS, and VaLORS for the current and prior year.

Primary Government

	Totals (1)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2022	\$ 19,198,087	\$ 16,374,516	\$ 2,823,571
Changes for the year			
Service cost	316,154	—	316,154
Interest	1,286,139	—	1,286,139
Differences between actual and expected experience	(107,318)	—	(107,318)
Assumption changes	—	—	—
Contributions - employer	—	644,255	(644,255)
Contributions - member	—	147,875	(147,875)
Net investment income	—	(15,073)	15,073
Benefit payments, including refunds	(1,024,596)	(1,036,575)	11,979
Administrative expense	—	(10,037)	10,037
Other changes	—	257	(257)
Net changes	470,379	(269,298)	739,677
Balances at June 30, 2023	<u>\$ 19,668,466</u>	<u>\$ 16,105,218</u>	<u>\$ 3,563,248</u>

	VRS		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2022	\$ 14,973,225	\$ 12,942,108	\$ 2,031,117
Changes for the year			
Service cost	233,775	—	233,775
Interest	1,005,321	—	1,005,321
Differences between actual and expected experience	(139,728)	—	(139,728)
Assumption changes	—	—	—
Contributions - employer	—	481,721	(481,721)
Contributions - member	—	123,097	(123,097)
Net investment income	—	(12,188)	12,188
Benefit payments, including refunds	(756,267)	(773,838)	17,571
Administrative expense	—	(8,078)	8,078
Other changes	—	167	(167)
Net changes	343,101	(189,119)	532,220
Balances at June 30, 2023	<u>\$ 15,316,326</u>	<u>\$ 12,752,989</u>	<u>\$ 2,563,337</u>

	SPORS		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2022	\$ 1,292,177	\$ 1,050,148	\$ 242,029
Changes for the year			
Service cost	23,688	—	23,688
Interest	86,396	—	86,396
Differences between actual and expected experience	25,538	—	25,538
Assumption changes	—	—	—
Contributions - employer	—	47,452	(47,452)
Contributions - member	—	7,131	(7,131)
Net investment income	—	(902)	902
Benefit payments, including refunds	(71,844)	(71,844)	—
Administrative expense	—	(602)	602
Other changes	—	—	—
Net changes	63,778	(18,765)	82,543
Balances at June 30, 2023	<u>\$ 1,355,955</u>	<u>\$ 1,031,383</u>	<u>\$ 324,572</u>

	JRS		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2022	\$ 746,502	\$ 673,151	\$ 73,351
Changes for the year			
Service cost	18,630	—	18,630
Interest	50,036	—	50,036
Differences between actual and expected experience	(7,256)	—	(7,256)
Assumption changes	—	—	—
Contributions - employer	—	30,266	(30,266)
Contributions - member	—	2,033	(2,033)
Net investment income	—	(477)	477
Benefit payments, including refunds	(47,720)	(47,719)	(1)
Administrative expense	—	(386)	386
Other changes	—	97	(97)
Net changes	13,690	(16,186)	29,876
Balances at June 30, 2023	<u>\$ 760,192</u>	<u>\$ 656,965</u>	<u>\$ 103,227</u>

	VaLORS		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2022	\$ 2,186,183	\$ 1,709,109	\$ 477,074
Changes for the year			
Service cost	40,061	—	40,061
Interest	144,386	—	144,386
Differences between actual and expected experience	14,128	—	14,128
Assumption changes	—	—	—
Contributions - employer	—	84,816	(84,816)
Contributions - member	—	15,614	(15,614)
Net investment income	—	(1,506)	1,506
Benefit payments, including refunds	(148,765)	(143,174)	(5,591)
Administrative expense	—	(971)	971
Other changes	—	(7)	7
Net changes	49,810	(45,228)	95,038
Balances at June 30, 2023	<u>\$ 2,235,993</u>	<u>\$ 1,663,881</u>	<u>\$ 572,112</u>

Component Units

	Totals		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2022	\$ 11,970,848	\$ 10,330,124	\$ 1,640,724
Changes for the year			
Service cost	184,392	—	184,392
Interest	789,985	—	789,985
Differences between actual and expected experience	(106,159)	—	(106,159)
Assumption changes	—	—	—
Contributions - employer	—	380,204	(380,204)
Contributions - member	—	96,510	(96,510)
Net investment income	—	(9,551)	9,551
Benefit payments, including refunds	(799,571)	(787,591)	(11,980)
Administrative expense	—	(6,327)	6,327
Other changes	—	128	(128)
Net changes	68,647	(326,627)	395,274
Balances at June 30, 2023	<u>\$ 12,039,495</u>	<u>\$ 10,003,497</u>	<u>\$ 2,035,998</u>

	VRS			VaLORS		
	Increase (Decrease)			Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2022	\$ 11,766,422	\$ 10,170,309	\$ 1,596,113	\$ 204,426	\$ 159,815	\$ 44,611
Changes for the year						
Service cost	180,127	—	180,127	4,265	—	4,265
Interest	774,612	—	774,612	15,373	—	15,373
Differences between actual and expected experience	(107,663)	—	(107,663)	1,504	—	1,504
Assumption changes	—	—	—	—	—	—
Contributions - employer	—	371,173	(371,173)	—	9,031	(9,031)
Contributions - member	—	94,848	(94,848)	—	1,662	(1,662)
Net investment income	—	(9,391)	9,391	—	(160)	160
Benefit payments, including refunds	(812,078)	(794,507)	(17,571)	12,507	6,916	5,591
Administrative expense	—	(6,224)	6,224	—	(103)	103
Other changes	—	129	(129)	—	(1)	1
Net changes	34,998	(343,972)	378,970	33,649	17,345	16,304
Balances at June 30, 2023	<u>\$ 11,801,420</u>	<u>\$ 9,826,337</u>	<u>\$ 1,975,083</u>	<u>\$ 238,075</u>	<u>\$ 177,160</u>	<u>\$ 60,915</u>

The amounts in the previous tables include governmental, business-type, and component unit activity for the Commonwealth's VRS State Plan. All component unit tables exclude the non-VRS State Plan net pension liability of \$29.8 million for all component units.

The 2021 actuarial valuations were prepared using the entry age normal cost method. The actuarial assumptions included (a) 6.8 percent investment rate of return, per year compounded annually; (b) projected salary increases ranging from 3.5 percent to 6.0 percent, including a 2.5 percent inflation component and (c) COLA of 2.5 percent for Plan 1

and 2.3 percent for Plan 2 and Hybrid. The actuarial assumption for mortality rates was based on the Pub-2010 with modified MP-2020 Improvement Scale. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

For more detailed actuarial information, refer to the Virginia Retirement System's financial statements, including mortality rates shown in the "Actuarial Assumptions and Methods – Pension Plans" schedule.

F. Changes to and Sensitivity of Discount Rate

The discount rate used to measure the total pension liability was 6.8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be based on the actuarially determined rates based on the Board’s funding policy, which certifies the required rates under Title 51.1 of the *Code of Virginia*. Beginning on July 1, 2018, all agencies are assumed to contribute 100.0 percent of the actuarially determined contribution rates. Based on those assumptions, the fiduciary net position was projected to be available to make all of the projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability. In accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the employers’ net pension liability for each of the plans calculated using the discount rate of 6.8 percent, as well as what the employers’ net pension liability would be if it were calculated using a discount rate that is 1.0 percent lower (5.8 percent) or 1.0 percent higher (7.8 percent) than the current rate. The following table (dollars in thousands) shows the Commonwealth’s changes in the discount rate.

Primary Government

VRS			SPORS		
Net Pension Liability			Net Pension Liability		
1.0% Decrease (5.8%)	Current Discount Rate (6.8%)	1.0% Increase (7.8%)	1.0% Decrease (5.8%)	Current Discount Rate (6.8%)	1.0% Increase (7.8%)
\$ 4,380,811	\$ 2,563,337	\$ 1,056,965	\$ 495,276	\$ 324,572	\$ 182,452

JRS			VaLORS		
Net Pension Liability			Net Pension Liability		
1.0% Decrease (5.8%)	Current Discount Rate (6.8%)	1.0% Increase (7.8%)	1.0% Decrease (5.8%)	Current Discount Rate (6.8%)	1.0% Increase (7.8%)
\$ 179,396	\$ 103,227	\$ 39,020	\$ 870,530	\$ 572,112	\$ 328,823

Component Units

VRS			VaLORS		
Net Pension Liability			Net Pension Liability		
1.0% Decrease (5.8%)	Current Discount Rate (6.8%)	1.0% Increase (7.8%)	1.0% Decrease (5.8%)	Current Discount Rate (6.8%)	1.0% Increase (7.8%)
\$ 3,375,469	\$ 1,975,083	\$ 814,405	\$ 92,689	\$ 60,915	\$ 35,011

The long-term expected rate of return on the System's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The long-term target allocations are based on the Strategic Asset Allocation Implementation Schedule and Allowable Ranges document, which was approved by the VRS Board of Trustees on October 10, 2019. Best estimates of arithmetic real rates of return for each major asset class included in the System's long-term target asset allocation are summarized in the following table.

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.0 %	5.7%	1.9 %
Fixed Income	15.0 %	2.0%	0.3 %
Credit Strategies	14.0 %	4.8%	0.7 %
Real Assets	14.0 %	4.5%	0.6 %
Private Equity	14.0 %	9.7%	1.4 %
MAPS - Multi-Asset			
Public Strategies	6.0 %	3.7%	0.2 %
PIP-Private Investment			
Partnerships	3.0 %	6.6%	0.2 %
Total	<u>100.0 %</u>		<u>5.3 %</u>
	Inflation		<u>2.5 %</u>
	Expected arithmetic nominal return		<u>7.8 %</u>

The allocation in the previous table provides a one-year expected return of 7.8 percent. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the pension system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.7 percent, including expected inflation of 2.5 percent. On October 10, 2019, the VRS Board of Trustees elected a long-term rate of return of 6.8 percent which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median of 7.1 percent, including expected inflation of 2.5 percent.

G. Pension Related Deferred Outflows and Deferred Inflows

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, requires certain pension related items to be reported as either deferred outflows or deferred inflows of resources. The following tables (dollars in thousands) summarize these amounts as of June 30, 2023, in total and by individual plan.

Primary Government (1)

	Totals (2)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 46,865	\$ 195,058
Changes of assumptions	191,539	7,273
Net difference between projected and actual earnings on plan investments	—	469,402
Changes in proportion and difference between employer contributions and proportionate share of contributions	565,460	533,583
Employer contributions subsequent to the Measurement Date	530,594	—
Total	\$ 1,334,458	\$ 1,205,316

	VRS		SPORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ 169,562	\$ 40,325	\$ 8,612
Changes of assumptions	102,854	—	51,253	7,270
Net difference between projected and actual earnings on plan investments	—	373,644	—	29,563
Changes in proportion and difference between employer contributions and proportionate share of contributions	537,855	502,524	—	—
Employer contributions subsequent to the Measurement Date	377,603	—	46,981	—
Total	\$ 1,018,312	\$ 1,045,730	\$ 138,559	\$ 45,445

	JRS		VaLORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ 13,839	\$ 6,532	\$ 2,995
Changes of assumptions	29,623	—	7,806	—
Net difference between projected and actual earnings on plan investments	—	19,268	—	46,920
Changes in proportion and difference between employer contributions and proportionate share of contributions	—	—	27,605	31,059
Employer contributions subsequent to the Measurement Date	24,304	—	81,653	—
Total	\$ 53,927	\$ 33,107	\$ 123,596	\$ 80,974

Component Units (1) (3)

	Totals	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 696	\$ 130,938
Changes of assumptions	80,064	—
Net difference between projected and actual earnings on plan investments	—	292,830
Changes in proportion and difference between employer contributions and proportionate share of contributions	28,624	62,727
Employer contributions subsequent to the Measurement Date	315,012	—
Total	\$ 424,396	\$ 486,495

	VRS		VaLORS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ 130,620	\$ 696	\$ 318
Changes of assumptions	79,233	—	831	—
Net difference between projected and actual earnings on plan investments	—	287,834	—	4,996
Changes in proportion and difference between employer contributions and proportionate share of contributions	24,640	62,303	3,984	424
Employer contributions subsequent to the Measurement Date	305,856	—	9,156	—
Total	\$ 409,729	\$ 480,757	\$ 14,667	\$ 5,738

- (1) During fiscal year 2023, the Commonwealth recognized pension expense for the primary government and component units of \$296,297 (dollars in thousands) and \$118,547 (dollars in thousands), respectively. The recognized pension expense by plan for the primary government was as follows (dollars in thousands): VRS \$179,909, SPORS \$34,078, JRS \$20,777, and VaLORS \$61,533. The recognized pension expense by plan for component units was as follows (dollars in thousands): VRS \$107,041 and VaLORS \$11,506.
- (2) This table includes deferred outflows of resources and deferred inflows of resources of \$63,697 and \$60,411, respectively, for the Hampton Roads Transportation Accountability Commission (nonmajor governmental), not related to the VRS State Plan. During fiscal year 2023, the Commonwealth made a payment of \$52,290 (dollars in thousands) to the System. This amount is reflected as deferred outflows of resources in the accompanying financial statements and excluded from this table.
- (3) The component unit amounts exclude deferred outflows of resources and deferred inflows of resources of \$41,719 (dollars in thousands) and \$23,761 (dollars in thousands), respectively, not related to the VRS State Plan.

Deferred Amounts to be Recognized in Fiscal Years Following Reporting Date

The following tables (dollars in thousands) provide the net estimated amount of the deferred inflows and deferred outflows of resources that will be recognized in the Commonwealth's pension expense for each of the next five fiscal years. These amounts exclude employer contributions made subsequent to the measurement date as those contributions will reduce the fiscal year 2024 net pension liability.

Primary Government

	VRS	SPORS	JRS	VaLORS
2024	\$ (153,271)	\$ 4,611	\$ (1,925)	\$ (7,621)
2025	(166,689)	12,454	(99)	(21,208)
2026	(247,131)	(3,135)	(9,703)	(35,442)
2027	162,070	26,620	8,243	25,240
2028	—	5,583	—	—

Component Units

	VRS	VaLORS
2024	\$ (142,623)	\$ (45)
2025	(155,110)	(123)
2026	(229,962)	(206)
2027	150,811	147
2028	—	—

H. 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 MissionSquare. This is a defined contribution plan where the retirement benefits are based upon the Commonwealth's 12.3 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, 2023, the total contributions to this plan were \$2.0 million. As of June 30, 2023, the amount to be paid to participants upon retirement is \$26.4 million. The summary of significant accounting policies for the plan is in accordance with those discussed in Note 17.B.

I. 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* and offered through the MissionSquare. 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. As of June 30, 2023, there were four participant accounts in this plan. During the year ended June 30, 2023, the total contributions to this plan were \$61,775. As of June 30, 2023, the amount to be paid to participants upon retirement is \$324,562.

J. Virginia Supplemental Retirement Plan

The Public School Teacher 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 Title 51.1-617 of the *Code of Virginia* and offered through the MissionSquare. 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. As of June 30, 2023, there were two participant accounts in this plan. There were no contributions to the plan for fiscal year 2023.

K. Higher Education (Nonmajor Component Units)

The Commonwealth's colleges and universities participate in the retirement plans administered by VRS. In addition, full-time faculty and certain administrative staff of the Commonwealth's colleges and universities may participate in optional retirement

plans as authorized by Section 51.1-126 of the *Code of Virginia* rather than the VRS retirement plans. These optional retirement plans are defined contribution plans offered through the Teachers Insurance and Annuity Association (TIAA) and DCP. There are two defined contribution plans. Plan 1 is for employees hired prior to July 1, 2010, and retirement benefits received are based upon the employer's 10.4 percent contributions, plus net investment gains. Plan 2 is for employees hired on or after July 1, 2010, and retirement benefits received are based upon the employer's contribution, not to exceed 8.9 percent, and the employee's 5.0 percent contribution, plus net investment gains. For Plan 2, the employer contributions for fiscal year 2023 were 8.5 percent except for the University of Virginia (nonmajor) which were 8.9 percent. Vesting is full and immediate for both employer and employee contributions, except UVA employees hired after July 1, 2014, are fully vested in the UVA contributions after two years of continuous employment. For fiscal year 2023, total pension expense recognized was \$190.3 million and contributions were calculated using the base salary amount of \$2.0 billion. As of June 30, 2023, the Commonwealth's colleges and universities had accrued \$12.7 million in employer liabilities related to these plans.

University of Virginia Medical Center (part of the University of Virginia – nonmajor) employees hired after July 1, 1999, cannot participate in Plan 1 or Plan 2 noted above, but have the option of participating in the Medical Center's Optional Retirement Plan. For information regarding this plan, see the institution's separately issued financial statements.

Certain employees of Virginia Commonwealth University (nonmajor) are participating in The Select Plan, which is a 401(a) defined contribution plan. Participation is limited to executives by invitation. For information regarding this plan, see the University's website at www.vcu.edu.

Prior to July 1, 1997, certain employees of the Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of Virginia Commonwealth University – nonmajor) were eligible to participate in the VRS defined benefit pension plan. Effective July 1, 1997, the Authority established the Virginia Commonwealth University Health System Authority Defined Contribution Plan (VCUHS 401(a) Plan) and the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (HCP Plan). The Authority and component units participate in the VCUHS 401(a) as well as sponsor the VCUHS Savings Plan (VCUHS 457(b) Plan). The Authority also provides an executive defined contribution plan and deferred compensation retirement benefits for select executives of the Health System. MCVAP and CMH Physicians sponsor 401(a) defined contribution plans and 403(b) salary deferral plans. For information regarding these plans, see the Authority's separately issued financial statements.

L. 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), and the Virginia College Building Authority (major), have no employees. The Virginia School for the Deaf and Blind Foundation (nonmajor) has one wage employee. Virginia Resources Authority (major) and the following nonmajor component units participate in the retirement plans administered by VRS: the Virginia Economic Development Partnership, the Virginia Small Business Financing Authority, the Hampton Roads Sanitation District Commission, the Virginia Biotechnology Research Partnership Authority, the Virginia Tourism Authority, the Tobacco Region Revitalization Commission, the Virginia Foundation for Healthy Youth, the Virginia Passenger Rail Authority, and the Fort Monroe Authority.

The Virginia Housing Development Authority (major) has three defined contribution plans. For additional information regarding these plans, see the Authority's website at www.vhda.com.

The Virginia Outdoors Foundation (nonmajor) maintains a 401(k) contribution plan and employees are eligible to participate in the retirement plan at six months for the first 4.0 percent (safe harbor match) and from 5.0 percent to 10.0 percent after a three year vesting period. For information regarding this plan, see the Foundation's website at www.vof.org.

The Virginia Commercial Space Flight Authority (nonmajor) maintains a 401(a) contribution plan and provides an employer contribution to all eligible employees of 11.0 percent of their base salary. For information regarding this plan, see the Authority's separately issued financial statements at www.vaspace.org.

The Virginia Port Authority (VPA) (nonmajor) maintains two defined benefit plans for its employees. Employees of record on July 1, 1997, had the option of continuing to maintain their benefit status as a State employee, and their benefits maintained under the VRS, or elect to be covered under a newly created pension plan (the VPA Defined Benefit Plan). The VPA Defined Benefit Plan covers all employees hired between July 1, 1997 and January 28, 2014. Employees hired after January 28, 2014, are eligible for a defined contribution plan only. On January 1, 2015, the plan was amended to add certain employees who transferred from the Virginia International Terminals (VIT) (referred to as "Legacy VIT Participants") to VPA. VIT (a blended component unit of VPA - nonmajor) has the Virginia International Terminals, LLC Pension Plan that is a single employer, noncontributory defined benefit pension plan administered by VIT. A stand-alone financial report is issued and is available upon request from VPA's administrative offices. For information regarding these plans, see the Authority's website at www.portofvirginia.com.

Employees of the Virginia Museum of Fine Arts Foundation (nonmajor) who are age 21 or older are eligible to participate in the Employee's Savings Plan, a 401(k) defined contribution profit sharing plan. 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 retirement plan, based on salary, and the amount based on the supplemental salary. For additional information regarding these plans, see the Foundation's separately issued financial statements.

The Science Museum of Virginia Foundation (nonmajor) has a 403(b) defined contribution pension plan through the TIAA-CREF Retirement Plan for employees meeting age and service requirements. For additional information regarding this plan, see the Foundation's separately issued financial statements.

18. 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 significant accounting policies are the same as those described in Note 17 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 from the Virginia Retirement System website at www.varetire.org.

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 member's 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 346,624 active members participate in the program as of June 30, 2023.

Participating employers and their covered employees are required by Title 51.1 of the *Code of Virginia* 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 \$800,000. 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 73,958 members were covered under this program as of June 30, 2023.

Optional group life insurance coverage ends for members when they retire or terminate their employment, or when their basic coverage ends. Optional life insurance amounts begin to reduce by 25.0 percent based on the retiree's age, beginning with the retiree's normal retirement age under his or her plan ending at age 80. Retirees may elect to continue coverage within 31 days of retirement. 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*. 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 60.0 percent to 100.0 percent of their compensation. After 125 work days of short-term disability, eligible employees receive long-term disability benefits equal to 60.0 percent of their compensation. If the employee's condition becomes catastrophic, income replacement increases to 80.0 percent until the condition is no longer catastrophic. Long-term disability benefits continue until employees 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. Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work related short-term disability coverage and certain income replacement levels. Approximately 82,381 members were covered under the program as of June 30, 2023.

19. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Virginia Retirement System (System-administered) OPEB Plans

1) Administration and Significant Accounting Policies

The System-administered defined benefit OPEB plans mentioned below have a trust that meets the requirements in GASB Statement No. 75, *Accounting and Financial Reporting for Post Employment Benefits Other than Pensions*. In addition, the net OPEB liability for these plans have a measurement date of June 30, 2022. As previously mentioned, a separately issued financial report that includes financial statements, notes and required supplementary information for each of the System-administered plans discussed below is publicly available. Copies may be obtained from the Virginia Retirement System website at www.varetire.org.

The administration and significant accounting policies for the System-administered OPEB plans are the same as those described in Note 17 for pension plans.

2) Plan Descriptions

Retiree Health Insurance Credit Program

The Retiree Health Insurance Credit Program is composed of a single-employer plan for state employees; a cost-sharing multiple-employer plan for teachers; three cost-sharing, multiple-employer plans for constitutional officers, social services employees and registrars; and an agent, multiple-employer plan for political subdivisions electing coverage. This note and the required supplementary information in this report is for the single-employer plan for state employees and also includes the state-funded noncontributing employer portion for constitutional officers, registrars, and their employees, as well as local social service employees.

The Retiree Health Insurance Credit (RHIC) for state employees provides benefits for retired state employees, state police officers, other state law enforcement, correctional officers, and judges who have at least 15 years of service credit under the retirement plans. 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. The program provides a credit reimbursement of \$4 per month per year of service credit against the monthly health insurance premiums of eligible retirees. There is no cap on the credit. Certain eligible employees who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program are eligible for a credit not to exceed \$120.

The following is the approximate number of employees covered by the RHIC plan for state employees on the measurement date of June 30, 2022:

	RHIC for State Employees
Inactive employees currently receiving benefit payments	50,134
Inactive employees entitled to but not yet receiving benefit payments	4,402
Active employees	<u>108,528</u>
Total	<u><u>163,064</u></u>

The health insurance credit plan for general registrars, constitutional officers, and their employees as well as local social service employees (RHIC Non-State) provides \$1.50 per month per year of service with a maximum monthly credit of \$45. The Commonwealth funds this credit. Benefit provisions and eligibility requirements are established by Title 51.1 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.

Virginia Sickness and Disability Program

The Virginia Sickness and Disability Program (VSDP) is a single-employer plan. It is also known as the Disability Insurance Trust Fund. The Commonwealth provides OPEB disability insurance benefits, in accordance with state statutes, to eligible retired and terminated employees. Eligible employees include state employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for VRS disability retirement and full-time and part-time, salaried state employees covered under VRS, SPORS, and VaLORS. 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. The following is

the approximate number of employees covered by this plan on the measurement date of June 30, 2022:

	VSDP
Inactive employees currently receiving benefit payments	5,757
Inactive employees entitled to but not yet receiving benefit payments	—
Active employees	<u>76,529</u>
Total	<u><u>82,286</u></u>

Group Life Insurance Program

The Group Life Insurance Program (GLI) is a cost-sharing, multiple employer plan. Members whose employers participate in the Group Life Insurance Program are covered automatically under the Basic Group Life Insurance Program upon employment. This program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including certain employers that do not participate in VRS for retirement. At retirement or termination, accidental death benefits cease and natural death coverage reduces at a rate equal to 25.0 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 25.0 percent of its original value. These group life insurance benefit provisions and requirements are established by Title 51.1 of the *Code of Virginia*. Participating employers and covered employees are required to contribute to the cost of group life insurance benefits. Employers may assume employees' contributions. A portion of the premium contributions collected during members' active careers is placed in an advance premium deposit reserve. This reserve is to fund the claims for eligible retired and deferred members.

Line of Duty Act Program

The Line of Duty Act Program (LODA) is a cost-sharing, multiple employer plan. It provides a one-time death benefit and premium-free health insurance to eligible public safety officers and eligible family members including volunteers, covered by resolutions, who as a result of the performance of their duties are permanently disabled or killed in the line of duty. There is limited health insurance reimbursement made to eligible individuals who no longer qualify for eligibility for employer subsidized coverage during the evaluation process. Benefit provisions and eligibility requirements are established by Title 9.1 of the *Code of Virginia*. The System is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in fiscal year 2012. The employer contribution rate was determined by the System's actuary using the anticipated costs and the number of covered individuals associated with all participating

employers. The Department of Human Resource Management administers the health benefits and payment of claims under this program. The System manages the death benefit payments.

3) Funding

The contribution requirements are governed by the *Code of Virginia*, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employer contributions by the Commonwealth for the RHIC and VSDP were 1.1 percent and 0.6 percent, respectively, of covered employee compensation. In addition, the contributions by the Commonwealth for the RHIC: Non-State for general registrars, constitutional officers, and their employees, and local social service employees were approximately 0.4 percent.

The total contribution rate for the GLI was 1.3 percent allocated into an employee and an employer component using a 60/40 split. The employee component was 0.8 percent and the employer component was 0.5 percent. Each employer's contractually required employer contribution rate for the year ended June 30, 2023, was 0.5 percent of covered employee compensation. Each employer's contractually required employer contribution rate for the LODA for the year ended June 30, 2023, was \$681.84 per covered full-time-equivalent employee.

The Commonwealth approved rates based on the results of the actuarial valuation as of June 30, 2021 with some rates being approved at a value greater than the actuarial rate. For RHIC and GLI, the actuarially determined rate was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. For VSDP, the actuarially determined rate was expected to finance the costs of benefits payable during the year, with an adjustment to amortize the accrued OPEB assets. For the LODA, the rate represents a pay-as-you-go funding rate and not the full actuarial cost of benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year.

Employer contributions by the Commonwealth to the RHIC, VSDP, GLI, LODA, and the RHIC Non-State plans were \$119.5 million, \$31.1 million, \$41.5 million, \$8.1 million, and \$6.2 million, respectively, for the year ended June 30, 2023. These contributions include special one-time payments made by the Commonwealth in June 2023 of approximately \$27.2 million, \$3.1 million and \$1.1 million for RHIC, GLI, and the RHIC Non-State plans, respectively. These special payments were authorized by Chapter 2 of the Acts of Assembly of 2022, Special Session I.

4) Changes in Net OPEB Liability and Proportionate Share of Net OPEB Liability

The total OPEB liability for each plan was determined based on the actuarial valuation as of June 30, 2021, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022. The following tables (dollars in thousands) show the Commonwealth's total OPEB liability, plan fiduciary net position, and net OPEB liability (asset) for the RHIC and VSDP for the current and prior year, and the Commonwealth's proportionate share of the net OPEB liability for GLI, LODA, and RHIC Non-State plans. Since the VSDP has a net OPEB asset rather than a net OPEB liability, the net OPEB asset amount is not included in the total balance amount. The Commonwealth's Proportion for the GLI, LODA, and RHIC Non-State plans of \$1.2 billion, \$378.5 million and \$39.0 million, respectively represents the portion of the Commonwealth's share of Net OPEB Liability amount compared to the Net OPEB Liability amount for all employers.

Primary Government

	RHIC			VSDP		
	Increase (Decrease)			Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (1) (a)-(b)
Balances at June 30, 2022	\$ 434,908	\$ 85,900	\$ 349,008	\$ 165,858	\$ 379,837	\$ (213,979)
Changes for the year						
Service cost	7,609	—	7,609	19,160	—	19,160
Interest	28,967	—	28,967	11,891	—	11,891
Benefit changes	—	—	—	—	—	—
Differences between actual and expected experience	(14,199)	—	(14,199)	12,611	—	12,611
Assumption changes	5,619	—	5,619	—	—	—
Contributions - employer	—	38,998	(38,998)	—	17,572	(17,572)
Contributions - member	—	—	—	—	—	—
Net investment income	—	(149)	149	—	(315)	315
Benefit payments	(29,175)	(31,115)	1,940	(18,074)	(17,619)	(455)
Third-party administrator charges	—	—	—	—	(4,508)	4,508
Administrative expense	—	(148)	148	—	(300)	300
Other changes	—	(164)	164	—	379	(379)
Net changes	(1,179)	7,422	(8,601)	25,588	(4,791)	30,379
Balances at June 30, 2023	\$ 433,729	\$ 93,322	\$ 340,407	\$ 191,446	\$ 375,046	\$ (183,600)
	Other Plans (3)					
			Commonwealth's Proportion	Proportionate Share of Net OPEB Liability		
Group Life Insurance			14.5 %	\$ 174,815		
Line of Duty Act			56.6 %	214,061		
Retiree Health Insurance Credit: Non-State			100.0 %	38,979		
Balance at June 30, 2023				\$ 427,855		
Total balance at June 30, 2023: (excludes VSDP net OPEB asset) (1) (2)				\$ 768,262		

Component Units

	RHIC			VSDP		
	Increase (Decrease)			Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (1) (a)-(b)
Balances at June 30, 2022	\$ 617,492	\$ 121,960	\$ 495,532	\$ 101,340	\$ 232,082	\$ (130,742)
Changes for the year						
Service cost	10,702	—	10,702	11,642	—	11,642
Interest	40,740	—	40,740	7,224	—	7,224
Benefit changes	—	—	—	—	—	—
Differences between actual and expected experience	(19,970)	—	(19,970)	7,663	—	7,663
Assumption changes	7,903	—	7,903	—	—	—
Contributions - employer	—	54,849	(54,849)	—	10,677	(10,677)
Contributions - member	—	—	—	—	—	—
Net investment income	—	(209)	209	—	(192)	192
Benefit payments	(46,848)	(44,908)	(1,940)	(11,551)	(12,006)	455
Third-party administrator charges	—	—	—	—	(2,739)	2,739
Administrative expense	—	(209)	209	—	(183)	183
Other changes	—	(230)	230	—	231	(231)
Net changes	(7,473)	9,293	(16,766)	14,978	(4,212)	19,190
Balances at June 30, 2023	\$ 610,019	\$ 131,253	\$ 478,766	\$ 116,318	\$ 227,870	\$ (111,552)
	Other Plans (3)					
			Commonwealth's Proportion	Proportionate Share of Net OPEB Liability		
Group Life Insurance			15.6 %	\$ 187,331		
Line of Duty Act			2.9 %	11,184		
Balance at June 30, 2023				\$ 198,515		
Total balance at June 30, 2023: (excludes VSDP net OPEB asset) (1) (4)				\$ 677,281		

- (1) The VSDP net OPEB asset is included in Other Restricted Assets in the accompanying government-wide financial statements.
- (2) The primary government's aggregate OPEB liability is \$975,700 (dollars in thousands) as of June 30, 2023. This includes amounts for both the VRS-administered and DHRM-administered plans.
- (3) The primary government's proportion for Group Life Insurance and Line of Duty changed by 0.0 percent and 0.3 percent, respectively, while the component units' proportion changed by 0.1 percent and -0.2 percent, respectively, when compared to the prior year. The Commonwealth's proportion of the Retiree Health Insurance Credit: Non-State for the primary government did not change from the prior year.
- (4) The component unit's aggregate OPEB liability is \$868,198 (dollars in thousands) as of June 30, 2023. This includes amounts for both the VRS-administered and DHRM-administered plans as well as other OPEB plans.

The amounts in the previous tables include governmental, business-type, and component unit activity for the Commonwealth's VRS OPEB plans. The table excludes other net OPEB liability amounts of \$14.4 million for all other component units.

The net OPEB liabilities were based on an actuarial valuation as of June 30, 2021, using the entry age normal actuarial cost method. The actuarial assumptions included the following: (a) investment rate of return, net of OPEB plan investment expenses, including inflation: 6.8 percent for RHIC, VSDP, and GLI, and 3.7 percent for LODA; and (b) projected salary increases, including a 2.5 percent inflation component, ranging from 3.5 percent to 6.0 percent for VRS state, JRS, SPORS, and VaLORS employees, and teachers and political subdivision employees. For these OPEB plans, the teachers and political subdivision employees are not Commonwealth employees and, therefore, are excluded from the accompanying tables.

For more detailed actuarial information, refer to the Virginia Retirement System's financial statements, including the "Actuarial Assumptions and Methods – Other Post-Employment Benefit Plan Funds" schedule.

5) Changes to and Sensitivity of Discount Rate

The discount rate used to measure the total OPEB liability was 6.8 percent for the prefunded plans. These include the Group Life Insurance Program, the Retiree Health Insurance Credit Program, and the Disability Insurance Program.

The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be based on the actuarially determined rates based on the Board's funding policy, which certifies the required rates under Title 51.1 of the *Code of Virginia*. Based on those assumptions, the fiduciary net position was projected to be available to make all of the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of the projected benefit payments to determine the total OPEB liability. In accordance with GASB Statement No. 75 regarding the disclosure of the sensitivity of the net OPEB liability to changes in the discount rate, the following table (dollars in thousands) presents the employers' net OPEB liability for each of the plans calculated using the discount rate of 6.8 percent, as well as what the employers' net OPEB liability would be if it were calculated using a discount rate that is 1.0 percent lower (5.8 percent) or 1.0 percent higher (7.8 percent) than the current rate.

The Line of Duty Act Program is funded on a pay-as-you-go basis. As a result, the liabilities are valued using a discount rate of 3.7 percent, which approximates the risk-free rate of return. This rate increased by 1.5 percent when compared to the prior year. The following table (dollars in thousands) shows the Commonwealth's changes in the discount rate and the healthcare trend rate.

Primary Government

Changes in Discount Rate					
RHIC			VSDP		
Net OPEB Liability			Net OPEB Liability (Asset) (1)		
1.0% Decrease (5.8%)	Current Discount Rate (6.8%)	1.0% Increase (7.8%)	1.0% Decrease (5.8%)	Current Discount Rate (6.8%)	1.0% Increase (7.8%)
\$ 382,247	\$ 340,407	\$ 304,485	\$ (168,987)	\$ (183,600)	\$ (196,440)
GLI			LODA		
Proportionate Share of Net OPEB Liability			Proportionate Share of Net OPEB Liability		
1.0% Decrease (5.8%)	Current Discount Rate (6.8%)	1.0% Increase (7.8%)	1.0% Decrease (2.7%)	Current Discount Rate (3.7%)	1.0% Increase (4.7%)
\$ 254,376	\$ 174,815	\$ 110,519	\$ 244,348	\$ 214,061	\$ 189,282
Changes in Discount Rate			Changes in Healthcare Cost Trend Rates		
RHIC: Non-State			LODA		
Proportionate Share of Net OPEB Liability			Proportionate Share of Net OPEB Liability		
1.0% Decrease (5.8%)	Current Discount Rate (6.8%)	1.0% Increase (7.8%)	1.0% Decrease (6.0% decreasing to 3.8%)	Healthcare Cost Trend Rates (7.0% decreasing to 4.8%)	1.0% Increase (8.0% decreasing to 5.8%)
\$ 44,102	\$ 38,979	\$ 34,625	\$ 180,393	\$ 214,061	\$ 256,320

Component Units

Changes in Discount Rate					
RHIC			VSDP		
Net OPEB Liability			Net OPEB Liability (Asset) (1)		
1.0% Decrease (5.8%)	Current Discount Rate (6.8%)	1.0% Increase (7.8%)	1.0% Decrease (5.8%)	Current Discount Rate (6.8%)	1.0% Increase (7.8%)
\$ 537,613	\$ 478,766	\$ 428,244	\$ (102,674)	\$ (111,552)	\$ (119,353)
GLI			LODA		
Proportionate Share of Net OPEB Liability			Proportionate Share of Net OPEB Liability		
1.0% Decrease (5.8%)	Current Discount Rate (6.8%)	1.0% Increase (7.8%)	1.0% Decrease (2.7%)	Current Discount Rate (3.7%)	1.0% Increase (4.7%)
\$ 272,588	\$ 187,331	\$ 118,431	\$ 12,766	\$ 11,184	\$ 9,889
Changes in Healthcare Cost Trend Rates			LODA		
Proportionate Share of Net OPEB Liability			Proportionate Share of Net OPEB Liability		
1.0% Decrease (6.0% decreasing to 3.8%)	Healthcare Cost Trend Rates (7.0% decreasing to 4.8%)	1.0% Increase (8.0% decreasing to 5.8%)	1.0% Decrease (6.0% decreasing to 3.8%)	Healthcare Cost Trend Rates (7.0% decreasing to 4.8%)	1.0% Increase (8.0% decreasing to 5.8%)
\$ 9,424	\$ 11,184	\$ 13,391	\$ 9,424	\$ 11,184	\$ 13,391

(1) The VSDP net OPEB asset is included in Other Restricted Assets in the accompanying government-wide financial statements.

The long-term expected rate of return on the System's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The long-term target allocations are based on the Strategic Asset Allocation Implementation Schedule and Allowable Ranges document, which was approved by the VRS Board of Trustees on October 10, 2019. Best estimates of arithmetic real rates of return for each major asset class included in the System's long-term target asset allocation are summarized in the following table.

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.0 %	5.7 %	1.9 %
Fixed Income	15.0 %	2.0 %	0.3 %
Credit Strategies	14.0 %	4.8 %	0.7 %
Real Assets	14.0 %	4.5 %	0.6 %
Private Equity	14.0 %	9.7 %	1.4 %
MAPS - Multi-Asset			
Public Strategies	6.0 %	3.7 %	0.2 %
PIP-Private Investment			
Partnerships	3.0 %	6.6 %	0.2 %
Total	<u>100.0 %</u>		<u>5.3 %</u>
	Inflation		<u>2.5 %</u>
	Expected arithmetic nominal return		<u>7.8 %</u>

The allocation in the previous table provides a one-year expected return of 7.8 percent. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the pension system, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.7 percent, including expected inflation of 2.5 percent. On October 10, 2019, the VRS Board of Trustees elected a long-term rate of return of 6.8 percent which is roughly at the 40th percentile of expected long-term results of VRS fund asset allocation at that time, providing a median of 7.1 percent, including expected inflation of 2.5 percent.

The long-term expected rate of return on the LODA OPEB Program's investments was set at 3.7 percent for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 6.8 percent assumption. Instead, the assumed annual rate of return of 3.7 percent was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Fidelity Fixed Income General Obligation 20-year Municipal Bond Index as of June 30, 2022.

6) OPEB Related Deferred Outflows and Deferred Inflows

GASB Statement No. 75 requires certain OPEB related items to be reported as either deferred outflows or deferred inflows of resources. The following tables (dollars in thousands) summarize these amounts as of June 30, 2023, in total and by individual plan.

Primary Government (3)

	Totals (1)					
	Deferred Outflows of Resources	Deferred Inflows of Resources				
Differences between expected and actual experience	\$ 49,176	\$ 191,604				
Changes of assumptions	80,300	265,723				
Net difference between projected and actual earnings on plan investments	214	22,161				
Changes in proportion and difference between employer contributions and proportionate share of contributions	192,114	207,473				
Employer contributions subsequent to the Measurement Date	89,374	—				
Amounts associated with transactions subsequent to the Measurement Date	22,692	—				
Total	\$ 433,870	\$ 686,961				
	RHIC		VSDP			
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources		
Differences between expected and actual experience	\$ 58	\$ 20,573	\$ 18,483	\$ 27,331		
Changes of assumptions	11,388	172	1,059	3,607		
Net difference between projected and actual earnings on plan investments	—	185	—	10,138		
Changes in proportion and difference between employer contributions and proportionate share of contributions	65,249	66,624	27,675	28,422		
Employer contributions subsequent to the Measurement Date	38,803	—	19,467	—		
Total	\$ 115,498	\$ 87,554	\$ 66,684	\$ 69,498		
	GLI		LODA			
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources		
Differences between expected and actual experience	\$ 13,844	\$ 7,013	\$ 16,446	\$ 40,009		
Changes of assumptions	6,520	17,028	59,696	52,797		
Net difference between projected and actual earnings on plan investments	—	10,923	—	915		
Changes in proportion and difference between employer contributions and proportionate share of contributions	37,596	39,583	25,841	27,242		
Employer contributions subsequent to the Measurement Date	18,967	—	7,756	—		
Total	\$ 76,927	\$ 74,547	\$ 109,739	\$ 120,963		
	RHIC: Non-State					
	Deferred Outflows of Resources	Deferred Inflows of Resources				
Differences between expected and actual experience	\$ 345	\$ 1,954				
Changes of assumptions	1,637	116				
Net difference between projected and actual earnings on plan investments	214	—				
Changes in proportion and difference between employer contributions and proportionate share of contributions	2,056	2,113				
Employer contributions subsequent to the Measurement Date	4,381	—				
Total	\$ 8,633	\$ 4,183				

Component Units (2) (3)

	Totals (1)					
	Deferred Outflows of Resources	Deferred Inflows of Resources				
Differences between expected and actual experience	\$ 27,004	\$ 126,387				
Changes of assumptions	26,766	167,835				
Net difference between projected and actual earnings on plan investments	—	18,172				
Changes in proportion and difference between employer contributions and proportionate share of contributions	52,529	42,353				
Employer contributions subsequent to the Measurement Date	85,070	—				
Amounts associated with transactions subsequent to the Measurement Date	17,045	—				
Total	\$ 208,414	\$ 354,747				
	RHIC		VSDP			
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources		
Differences between expected and actual experience	\$ 82	\$ 28,936	\$ 11,228	\$ 16,607		
Changes of assumptions	16,017	242	644	2,191		
Net difference between projected and actual earnings on plan investments	—	259	—	6,159		
Changes in proportion and difference between employer contributions and proportionate share of contributions	18,850	17,859	3,614	3,016		
Employer contributions subsequent to the Measurement Date	53,502	—	11,666	—		
Total	\$ 88,451	\$ 47,296	\$ 27,152	\$ 27,973		
	GLI		LODA			
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources		
Differences between expected and actual experience	\$ 14,834	\$ 7,516	\$ 860	\$ 2,089		
Changes of assumptions	6,987	18,246	3,118	2,758		
Net difference between projected and actual earnings on plan investments	—	11,706	—	48		
Changes in proportion and difference between employer contributions and proportionate share of contributions	6,656	7,724	1,935	2,072		
Employer contributions subsequent to the Measurement Date	19,514	—	388	—		
Total	\$ 47,991	\$ 45,192	\$ 6,301	\$ 6,967		

- (1) These tables aggregate the deferred inflows of resources and deferred outflows of resources for both the VRS-administered and DHRM-administered plans. During fiscal year 2023, the Commonwealth made a payment of \$13,382 (dollars in thousands) to the System. This amount is reflected as deferred outflows of resources in the accompanying financial statements and excluded from the primary government amounts on the previous page.
- (2) The component unit amounts in the accompanying financial statements include deferred outflows of resources and deferred inflows of resources of \$24,093 (dollars in thousands) and \$12,208 (dollars in thousands), respectively, for other OPEB plans.
- (3) Additionally, during fiscal year 2023, the Commonwealth recognized OPEB expense for the primary government and component units of negative \$60,303 (dollars in thousands) and negative \$35,678 (dollars in thousands), respectively, for the VRS-administered OPEB plans and the DHRM-administered OPEB plans. The recognized OPEB expense by plan for the primary government was as follows for the VRS-administered OPEB plans (dollars in thousands): RHIC \$26,014; VSDP \$1,481; GLI \$4,262; LODA \$28,470; and RHIC: Non-State \$4,005. The recognized OPEB expense by plan for component units was as follows (dollars in thousands): RHIC \$41,432; VSDP \$1,076; GLI \$6,026; and LODA \$1,519. The Commonwealth recognized OPEB expense for the primary government and component units of negative \$124,535 (dollars in thousands) and negative \$85,731 (dollars in thousands) respectively, for the DHRM-administered OPEB plan.

Deferred Amounts to be Recognized in Fiscal Years Following Reporting Date

The following tables (dollars in thousands) provide the net estimated amount of the deferred inflows and deferred outflows of resources that will be recognized in the Commonwealth's OPEB expense for each of the next five fiscal years and thereafter. These amounts exclude employer contributions made subsequent to the measurement date as those contributions will reduce the fiscal year 2024 net OPEB liability (asset).

Primary Government

	RHIC	VSDP	GLI	LODA
2024	\$ (2,436)	\$ (8,434)	\$ (3,322)	\$ (120)
2025	(2,363)	(8,366)	(3,228)	(99)
2026	(3,504)	(10,405)	(9,993)	(77)
2027	(850)	1,424	1,437	636
2028	(1,657)	439	(1,481)	(417)
Thereafter	(49)	3,061	—	(18,903)

	RHIC: Non-State
2024	\$ 144
2025	161
2026	(44)
2027	35
2028	(100)
Thereafter	(127)

Component Units

	RHIC	VSDP	GLI	LODA
2024	\$ (2,771)	\$ (4,727)	\$ (3,349)	\$ (6)
2025	(2,686)	(4,689)	(3,252)	(6)
2026	(3,985)	(5,831)	(10,070)	(4)
2027	(966)	798	1,449	35
2028	(1,883)	246	(1,493)	(23)
Thereafter	(56)	1,716	—	(1,050)

B. Department of Human Resource Management (DHRM-administered) OPEB Plan

1) Administration

The DHRM-administered defined benefit OPEB plan mentioned below does not have a trust that meets the requirements of GASB Statement No. 75. In addition, the total OPEB liability for this plan has a measurement date of June 30, 2022. A separately issued financial report for this DHRM-administered OPEB plan is not available.

2) Plan Description

The Commonwealth provides a Pre-Medicare Retiree Healthcare (PMRH) plan established by Title 2.2 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. It is the same health insurance program offered to active employees and managed by DHRM. After

retirement, the Commonwealth of Virginia no longer subsidizes the retiree's premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, retiree rates are effectively lower than what might otherwise be available outside of this benefit. Following are eligibility requirements for Virginia Retirement System (VRS) retirees:

- Retiring state employee who is eligible for a monthly retirement benefit from VRS;
- Start receiving (do not defer) retirement benefit immediately upon retirement;
- Last employer before retirement was the Commonwealth of Virginia;
- Eligible for (even if not enrolled) coverage as an active employee in the State Health Benefits Program until retirement date (not including Extended Coverage/COBRA); and
- Enroll no later than 31 days from retirement date.

Effective January 1, 2017, are the following eligibility requirements for Optional Retirement Plan (ORP) retirees:

- Terminating state employee who participates in one of the qualified Optional Retirement Plans;
- Last employer before termination was the Commonwealth of Virginia;
- Eligible for (even if not enrolled) coverage in the State Employee Health Benefits Program for active employees at the time of termination;
- Meet age and service requirements for an immediate retirement benefit under the non-ORP VRS plan that the retiree would have been eligible for on the date of hire had the retiree not elected the ORP; and
- Enroll in the State Retiree Health Benefits Program no later than 31 days from the date the retiree loses coverage (or loses eligibility for coverage) in the State Health Benefits Program for active employees due to termination of employment.

Eligibility for ORP retirees who terminated prior to January 1, 2017, would be based on the policy in place at the time of their termination.

This fund is reported as part of the Commonwealth's Health Care Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the Department of Human Resource Management. There were approximately 3,647 retirees and

92,839 active employees in the program as of June 30, 2022. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

3) Funding

The employer does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

4) Changes in Total OPEB Liability

The PMRH total OPEB liability of \$363.4 million as of June 30, 2023, was measured as of June 30, 2022, and was determined by an actuarial valuation as of June 30, 2022. The following tables (dollars in thousands) show the Commonwealth's total OPEB liability for the current and prior year:

Primary Government

	<u>PMRH</u>
	<u>Increase (Decrease)</u>
	<u>Total</u>
	<u>OPEB Liability</u>
Balances at June 30, 2022	\$ 257,325
Changes for the year	
Service cost	17,880
Interest cost	5,719
Changes of benefit terms	—
Differences between expected and actual experience	(13,759)
Changes of assumptions	(39,897)
Benefit payments	(19,830)
Net change	<u>(49,887)</u>
Balances at June 30, 2023	<u>\$ 207,438</u>

Component Units

	<u>PMRH</u>
	<u>Increase (Decrease)</u>
	<u>Total</u>
	<u>OPEB Liability</u>
Balances at June 30, 2022	\$ 191,567
Changes for the year	
Service cost	13,445
Interest cost	4,301
Changes of benefit terms	—
Differences between expected and actual experience	(10,346)
Changes of assumptions	(29,999)
Benefit payments	(12,990)
Net change	<u>(35,589)</u>
Balances at June 30, 2023	<u>\$ 155,978</u>

The amounts in the previous tables include governmental, business-type, and component unit activity for the DHRM-administered OPEB plan. The table excludes the non-DHRM OPEB plans' total OPEB liability of \$20.5 million for all other component units.

The PMRH total OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2022. The Department of Human Resource Management selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 8.0 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 4.5 percent for medical and pharmacy and 4.0 percent for dental.

Actuarial Assumptions and Methods

Valuation Date of June 30, 2022

Measurement Date	June 30, 2022 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	5.86 years
Discount Rate	3.5%
Projected Salary Increases	5.4% to 3.5% based on years of service from 1 year to 20 years or more
Medical Trend Under 65	Medical & Rx: 8.0% to 4.5% Dental: 4.0%
Year of Ultimate Trend	2033
Mortality	Mortality rates vary by participant status
Pre-Retirement:	Pub-2010 Benefits Weighted General Employee Rates projected generationally with a Modified MP-2021 Improvement Scale; females set forward 2 years
Post-Retirement:	Pub-2010 Benefits Weighted General Healthy Retiree Rates projected generationally with a Modified MP-2021 Improvement Scale; 110% of rates for females
Post-Disablement:	Pub-2010 Benefits Weighted General Disabled Rates projected generationally with a Modified MP-2021 Improvement Scale; males and females set forward 3 years
Beneficiaries and Survivors:	Pub-2010 Benefits Weighted General Contingent Annuitant Rates projected generationally with a Modified MP-2021 Improvement Scale; 110% of rates for males and females

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date which is June 30, 2022. The inflation rate used was 2.3 percent per year and there were no ad hoc postemployment benefit changes used to measure the total OPEB liability.

Changes of Assumptions

The following actuarial assumptions were updated since the June 30, 2021 valuation based on recent experience:

- Retiree participation - reduced the rate from 40.0 percent to 35.0 percent

Retiree participation was based on a blend of recent experience and the prior year assumptions. The trend rates were updated based on economic conditions as of June 30, 2022. Additionally, the discount rate was increased from 2.2 percent to 3.5 percent based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date of June 30, 2022. There were no plan changes in the valuation since the prior year.

5) Changes to and Sensitivity of Discount Rate

The following table (dollars in thousands) shows the Commonwealth's changes in discount rate and the healthcare cost trend rates.

Primary Government

Changes in Discount Rate		
PMRH		
Total OPEB Liability		
1.0% Decrease (2.5%)	Current Discount Rate (3.5%)	1.0% Increase (4.5%)
\$ 218,981	\$ 207,438	\$ 196,137
Changes in Healthcare Cost Trend Rates		
PMRH		
Total OPEB Liability		
1.0% Decrease	Healthcare Cost Trend Rates	1.0% Increase
(7.0% decreasing to 3.5%)	(8.0% decreasing to 4.5%)	(9.0% decreasing to 5.5%)
\$ 188,848	\$ 207,438	\$ 228,844

Component Units

Changes in Discount Rate		
PMRH		
Total OPEB Liability		
1.0% Decrease (2.5%)	Current Discount Rate (3.5%)	1.0% Increase (4.5%)
\$ 164,658	\$ 155,978	\$ 147,481
Changes in Healthcare Cost Trend Rates		
PMRH		
Total OPEB Liability		
1.0% Decrease	Healthcare Cost Trend Rates	1.0% Increase
(7.0% decreasing to 3.5%)	(8.0% decreasing to 4.5%)	(9.0% decreasing to 5.5%)
\$ 142,000	\$ 155,978	\$ 172,074

6) OPEB Related Deferred Outflows and Deferred Inflows

The following tables (dollars in thousands) summarize the OPEB related items reported as deferred outflows or deferred inflows of resources:

Primary Government (2)

	PMRH	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ 94,724
Changes of assumptions	—	192,003
Changes in proportion	33,697	43,489
Amounts associated with transactions subsequent to the Measurement Date	22,692	—
Total	\$ 56,389	\$ 330,216

Component Units (1) (2)

	PMRH	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ 71,239
Changes of assumptions	—	144,398
Changes in proportion	21,474	11,682
Amounts associated with transactions subsequent to the Measurement Date	17,045	—
Total	\$ 38,519	\$ 227,319

- (1) The component unit amounts exclude deferred outflows of resources and deferred inflows of resources of \$1,188 and \$41,781 (dollars in thousands), respectively, for other OPEB plans.
- (2) Additionally, during fiscal year 2023, the Commonwealth recognized OPEB expense for the primary government and component units of negative \$124,535 (dollars in thousands) and negative \$85,731 (dollars in thousands), respectively, for the DHRM-administered OPEB plan.

Deferred Amounts to be Recognized in Fiscal Years Following Reporting Date

The following tables (dollars in thousands) provide the net estimated amount of the deferred inflows and deferred outflows of resources that will be recognized in the Commonwealth's OPEB expense for each of the next five fiscal years. These amounts exclude amounts associated with transactions subsequent to the measurement date as those will reduce the fiscal year 2023 total OPEB liability.

Primary Government

	<u>PMRH</u>
2024	\$ (128,214)
2025	(81,793)
2026	(46,228)
2027	(27,336)
2028	(12,948)

Component Units

	<u>PMRH</u>
2024	\$ (89,007)
2025	(56,781)
2026	(32,092)
2027	(18,976)
2028	(8,989)

The Virginia Port Authority (nonmajor component unit) offers medical and dental benefits for retirees. The Authority reported a total OPEB Liability of \$804,000 a net OPEB Liability of \$910,000, deferred outflows of resources of \$514,142 and deferred inflows of resources of \$543,814 as of June 30, 2023. For additional information, please see the Authority's website at www.portofvirginia.com.

Hampton Roads Sanitation District (nonmajor component unit) offers a health and dental benefit plan for those employees who choose to participate. The District reported a net OPEB liability of \$13.2 million, deferred inflows of resources of \$10.4 million and deferred outflows of resources of \$12.3 million as of June 30, 2023. For additional information, please see the Authority's website at www.hrsd.com.

The Virginia Biotechnology Research Partnership Authority (nonmajor component unit) offers an Optional Retirement Life Insurance Plan for those employees who choose to participate. The Authority reported a net OPEB liability of \$47,810, deferred outflows of resources of \$26,441, and deferred inflows of resources of \$16,728 as of June 30, 2023.

7) Other OPEB Plans

Higher Education

The University of Virginia (nonmajor component unit) has an Optional Retirement Life Insurance Plan that is offered to University faculty and Medical Center employees who participate in the Optional Retirement Plans. The University reported a total OPEB liability of \$19.7 million, deferred outflows of resources of \$1.1 million, and deferred inflows of resources of \$41.4 million as of June 30, 2023. Additional information on these plans can be found at the University's website at www.virginia.edu.

The Roanoke Higher Education Authority (nonmajor component unit) reported a net OPEB liability of \$62,974, deferred outflows of resources of \$28,218, and deferred inflows of resources of \$34,315 for Group Life Insurance and Retiree Health Insurance Credit OPEB Plans. Additional information on these plans can be found at the Authority's website at www.education.edu/.

Other Component Units

The Virginia Housing Development Authority (major component unit) offers a medical, dental, and vision benefit plan, and reported deferred outflows of resources of \$11.3 million and deferred inflows of resources of \$1.5 million as of June 30, 2023. Additional information on these plans can be found at the Authority's website at www.virginiahousing.com.

The Virginia Resources Authority (major component unit) offers an optional Retirement Life Insurance Plan for those employees who choose to participate. The Authority reported a net OPEB liability of \$207,923, deferred outflows of resources of \$23,362, and deferred inflows of resources of \$25,836 as of June 30, 2023. Additional information on these plans can be found at the Authority's website at www.virginiareources.gov.

20. 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 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 72 or later. Since the System has no fiduciary relationship with plan participants, plan assets as of June 30, 2023, of \$4.1 billion are not included in the accompanying 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 50.0 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 as of June 30, 2023, was \$591.5 million, which is also excluded from the accompanying financial statements. Employer contributions under this plan were approximately \$14.3 million for fiscal year 2023.

Most employees of the Commonwealth's colleges and universities may participate in the Commonwealth's deferred compensation plan in accordance with Internal Revenue Code Section 457(b) and/or the institution's deferred compensation plan in accordance with Internal Revenue Code Section 403(b). Under either plan, the institution's cash match under the Internal Revenue Code Section 401(a) during fiscal year 2023 was a maximum match of up to \$20 per pay period or \$40 per month. This employer match is for either plan but not both plans. Employer contributions under these plans were approximately \$13.0 million for fiscal year 2023.

The deferred compensation plan for the University of Virginia Medical Center (part of the University of Virginia – nonmajor component unit) employees hired on or after September 30, 2002, allows employee contributions of up to 4.0 percent of their salary and the employer match is 50.0 percent of the 4.0 percent deferral not to exceed 2.0 percent of the employees' salary. Employer contributions under this plan were approximately \$7.1 million for fiscal year 2023. The University of Virginia provides executive deferred compensation retirement benefits for certain officers and executives of the University and the University Medical Center. The University makes contributions on behalf of each participant each plan year as determined by the Board of Visitors. The University contributed \$2.2 million to these accounts for fiscal year 2023.

The Virginia Housing Development Authority and the Virginia Resources Authority (major component units) have deferred compensation plans available to all employees created in accordance with Internal Revenue Section 457(b). The plan permits participants to defer a portion of their salary or wages until future years. The deferred compensation is not available to employees until termination, retirement, or death. The assets of the plan are in an irrevocable trust with an external trustee and, accordingly, no assets or liabilities are reflected in the accompanying financial statements. For additional information, please see the Authority's website at www.virginiahousing.com.

The Virginia Port Authority (VPA) (nonmajor component unit) offers two deferred compensation plans and a matching savings plan under Internal Revenue Code Sections 457 and 401(a), respectively. For additional information, please see the Authority's website at www.portofvirginia.com.

The Assistive Technology Loan Fund Authority (nonmajor component unit) employees contribute an amount of their choosing into Deferred Compensation Plans administered by the Virginia Retirement System and into a qualified 403(b) plan. For additional information, please see the Authority's website at www.atifa.org.

21. 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 Treasury Board is responsible for the oversight of SNAP, procuring the following services: investment management, program administration, arbitrage rebate and calculation, and custodial and depository services. The Commonwealth does not have fiduciary responsibility for SNAP.

The SNAP fund is a local government investment pool. 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 \$3.9 billion are not included in the financial statements.

22. COMMITMENTS

A. Construction Projects

Primary Government

Highway Projects

As of June 30, 2023, the Department of Transportation had contractual commitments of approximately \$5.4 billion for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) State funds - approximately 58.3 percent or \$3.1 billion; (2) Proceeds from Bonds - approximately 25 percent or \$1.4 billion; and, (3) Federal funds – approximately 16.7 percent or \$893.0 million.

Mass Transit Projects

As of June 30, 2023, the Department of Rail and Public Transportation had contractual commitments of approximately \$344.4 million for various public transportation and rail preservation projects. Funding of the future expenditures is expected to be as follows: 1) State funds – approximately 91.1 percent or \$313.6 million, and 2) Federal funds – approximately 8.9 percent or \$30.8 million.

Wastewater Treatment Projects

As of June 30, 2023, the Department of Environmental Quality was committed to grant contracts with localities to reimburse a portion of construction costs for nutrient reduction facilities at wastewater treatment plants totaling \$136.9 million provided by bond proceeds and the Water Quality Improvement Fund.

Other Construction Projects

As of June 30, 2023, the Department of Forensic Science had commitments of approximately \$166.1 million for construction projects.

As of June 30, 2023, the Department of Corrections had contractual commitments of \$ 83.3 million and non-contractual commitments of \$20.1 million for construction projects.

As of June 30, 2023, the Department of General Services had construction commitments of approximately \$119.7 million.

As of June 30, 2023, the Department of Behavioral Health and Developmental Services had construction contractual commitments of approximately \$21.6 million.

As of June 30, 2023, the Department of Conservation and Recreation had contractual commitments of \$15.0 million for construction projects.

As of June 30, 2023, the Department of Veterans Services had contractual commitments of \$16.8 million and non-contractual commitments of \$11.0 million for construction projects.

As of June 30, 2023, the Department of Military Affairs had construction contractual commitments of approximately \$48.7 million.

Component Units

Port Projects

As of June 30, 2023, the Virginia Port Authority (nonmajor) was committed to construction contracts totaling \$773.3 million.

Wallops Island Project

As of June 30, 2023, the Virginia Commercial Space Flight Authority (nonmajor) was committed to construction programs totaling \$6.9 million, approximately \$4.5 million of which will be reimbursable under separate private and federal contract agreements and approximately \$157,000 of which are funded by the Commonwealth.

Treatment Plant

As of June 30, 2023, the Hampton Roads Sanitation District Commission (nonmajor) was committed to construction contracts totaling \$1.3 billion.

Higher Education Institutions

Colleges and universities (nonmajor) had contractual commitments as of June 30, 2023, of approximately \$1.8 billion primarily for construction contracts. Higher education foundations' construction and other commitments total approximately \$44.4 million and \$9.8 million, respectively.

B. Long-term Leases

As of June 30, 2023, the Commonwealth has entered into long-term leases that have not yet commenced. Commitments for the primary government were \$27.8 million for lease payments due for governmental activities (including internal service funds). Business-type activities did not

have lease commitments at June 30, 2023. Commitments for component units total \$9.4 million for higher education institutions, excluding foundations.

Lease agreements are for various terms and contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

C. Long-term Subscription-Based Information Technology Arrangements (SBITAs)

As of June 30, 2023, the Commonwealth has entered into long-term SBITAs that have not yet commenced. Commitments for the primary government were \$1.3 million for SBITA payments due for governmental activities (including internal service funds). Business-type activities did not have SBITA commitments at June 30, 2023. Commitments for component units total \$2.4 million for higher education institutions, excluding foundations.

D. Investment Commitments – Virginia Retirement System

The Virginia Retirement System extends investment commitments in the normal course of business, which, as of June 30, 2023, amounted to \$19.1 billion.

E. Virginia Transportation Infrastructure Bank

Section 33.2-1500 of the *Code of Virginia* states the Virginia Transportation Infrastructure Bank is intended to help alleviate a critical financing need for present and future highways within the Commonwealth. This includes toll facilities; mass transit; freight, passenger, and commuter rail; and port, airport and other transportation facilities.

As of June 30, 2023, \$227.0 million included as Loans Receivable in the accompanying statements represents loans to the City of Chesapeake for the Dominion Boulevard Project, Loudoun County for the Pacific Boulevard Project, the Chesapeake Bay Bridge and Tunnel District for the Parallel Thimble Shoal Tunnel, and the 95 Express Lanes LLC for the 395 Express Lanes Northern Extension. A \$49 million loan to Capital Beltway Express, LLC for the I-495 Express Lanes loan has been approved, but no disbursements were made as of June 30, 2023. Payments were made by the City of Chesapeake for \$10.1 million, Chesapeake Bay Bridge and Tunnel District for \$730,105, the 95 Express Lanes LLC for \$827,624, and Loudoun County for \$278,493 for the Pacific Boulevard Project in July 2023. All loans are coordinated through the Virginia Resources Authority (major component unit).

F. Tobacco Grants

The Tobacco Region Revitalization Commission (nonmajor component unit) had \$66.3 million in grant award commitments not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2023, in accordance with GASB Statement No. 33.

G. Other Commitments

Primary Government

As of June 30, 2023, the Virginia Department of Transportation had contractual commitments of approximately \$951.6 million for individual contracts awarded with a contract value of \$1.0 million or more for operational services, facilities, tolling services and other non-highway construction type contracts.

As of June 30, 2023, the Department of Corrections had contractual commitments of approximately \$22.2 million for detention services and medical care.

As of June 30, 2023, the Department of Behavioral Health and Developmental Services had contractual commitments of approximately \$37.7 million.

As of June 30, 2023, the Department of Motor Vehicles had contractual commitments of approximately \$46.5 million for driver's licenses and technology services.

As of June 30, 2023, the Virginia Employment Commission had contractual commitments of approximately \$11.0 million for information systems modernization projects and approximately \$1.1 million for other non-contractual commitments.

As of June 30, 2023, the Virginia Department of Health had commitments of approximately \$25.1 million to localities, trauma centers, grants to rescue squads, and water supply assistance grants.

The Virginia College Savings Plan (major enterprise fund) administers the Defined Benefit 529 Program. As of June 30, 2023, the Program had \$282.0 million in private equity commitments.

The Virginia Wireless E-911 (nonmajor enterprise fund) had \$33.9 million in outstanding grants awarded but not yet disbursed to localities as of June 30, 2023, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

Component Units

The Virginia Housing Development Authority (major) and Virginia Resources Authority (major) had \$965.9 million and \$417.4 million, respectively, in commitments to fund new loans not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2023, in accordance with GASB Statement No. 33.

As of June 30, 2023, the Virginia Passenger Rail Authority (nonmajor) had capital grant commitments outstanding of \$247.1 million and other contractual commitments of \$93.8 million. The Authority also has \$17.1 million of funding

committed to reimburse the Department of Rail and Public Transportation (part of primary government) for planned expenses related to grants managed by the Department.

The Virginia Small Business Financing Authority (nonmajor) had \$4.1 million in loan commitments to banks and borrowers not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2023, in accordance with GASB Statement No. 33.

23. 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 at the end of the leave year. 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 upon separation.

All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program (VSDP) (see Note 18). 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 leave year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the traditional 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 traditional 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 25.0 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 leave year limit at their current earnings rate.

In conformance with Section C60 of the GASB Codification, the monetary value of accumulated vacation, compensatory, overtime, recognition, and sick leave payable upon termination is included in the accompanying financial statements and is reported as Compensated Absences. In the government-wide statements, proprietary fund statements, and discrete component unit fund statements, compensated absence amounts are segregated into two components – the amount due within one year and the amount due in more than one year. Compensated absences due within one year consist of an estimate of the amount that will be used by active employees for paid time off and/or paid upon termination, plus the actual amount paid after June 30 for employees terminating on or before June 30. 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 on or before June 30. Amounts not payable from expendable resources are reflected in the governmental activities column in the Government-wide Statement of Net Position (see Note 28). All amounts related to the fiduciary funds are recognized in those funds.

The liability as of June 30, 2023, was computed using salary rates effective at that date, and represents vacation, compensatory, overtime, recognition, and sick leave earned, or disability credits held by employees, up to the allowable ceilings.

24. POLLUTION REMEDIATION OBLIGATIONS

The Commonwealth has pollution remediation obligations of \$8.2 million, of which \$6.1 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 increases 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 cleanup relating to leakage of underground storage tanks, soil and groundwater contaminations, dump site cleanups, mold remediation and remediation relating to superfund state contracts.

Agencies involved in remediation include:

- Department of Conservation and Recreation (DCR)
- Department of Corrections (DOC)
- Department of Environmental Quality (DEQ)
- Department of Juvenile Justice (DJJ)
- Department of Transportation (VDOT)

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. 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.

The following pollution remediation outlays could not reasonably be estimated as of June 30, 2023:

- DJJ relating to petroleum storage tank removal
- VDOT relating to groundwater contamination

25. INSURANCE

A. Self-Insurance

The Commonwealth maintains three types of self-insurance plans. The first type of self-insurance is a health care plan administered by the Department of Human Resource Management (DHRM) 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. As of June 30, 2023, \$95.2 million is reported as the estimated claims payable for this fund, which is undiscounted as nearly all healthcare 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.W. 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)
2022-2023	\$ 117,657	\$ 1,602,583	\$ (1,625,051)	\$ 95,189
2021-2022	\$ 116,457	\$ 1,528,780	\$ (1,527,580)	\$ 117,657

(1) The entire ending balance shown above 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. As of June 30, 2023, \$393.6 million is reported as the estimated claims payable for the risk management plan. This amount is discounted to present value at rates of 4.0 percent for DHRM and 5.4 percent for Department of Treasury. Undiscounted claims payable as of June 30, 2023, is \$598.5 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)
2022-2023	\$ 451,148	\$ (4,056)	\$ (53,516)	\$ 393,576
2021-2022	\$ 799,256	\$ (294,219)	\$ (53,889)	\$ 451,148

(1) Of the balance shown above, \$67.3 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 \$2.0 million per occurrence. Medical malpractice is assumed at the maximum per occurrence recovery limited as 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 third type of plan, Line of Duty, is administered by the Department of Human Resource Management for Line of Duty recipients. Per the amended Line of Duty Act Section 9.1-401 of the *Code of Virginia*, the Department of Human Resource Management is responsible for administration of the premium-free health benefits provided to eligible Line of Duty recipients. The plan is accounted for in the Line of Duty Internal Service Fund. All eligible employees, former employees, and eligible family members will be covered under one program, the Line of Duty Health Benefit Plans. Participating or non-participating refers to whether the employer participates in the Line of Duty Death and Health Benefits Trust Fund, administered by VRS. All state agencies are participating employers, but localities can be either participating or non-participating. As of June 30, 2023, \$403,902 is reported as the claims payable for the fund for state employees and participating localities, which is undiscounted as nearly all healthcare claims are current in nature. 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)
2022-2023	\$ 407	\$ 9,173	\$ (9,176)	\$ 404
2021-2022	\$ 601	\$ 6,616	\$ (6,810)	\$ 407

(1) The entire ending balance shown above is due within one year.

The Commonwealth has not had any insurance settlements exceed the coverage during the past three years.

University of Virginia (nonmajor component unit) employees have the option to participate in the University's self-funded, comprehensive medical care benefits program. The cost of medical care is paid out of employee and employer contributions. Claims and expenses are reported when it is probable that a loss has occurred, and the amount

of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. The estimated liability for outstanding claims on June 30, 2023 was \$10.4 million. The University has contracted with several third-party claims administrators: Aetna for its medical and pharmacy claims and United Concordia for its dental claims.

As of June 30, 2023, the Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – nonmajor component unit) reports the following claims payable amounts: estimated workers' compensation claims of \$3.3 million and estimated losses on malpractice claims of \$3.5 million. Aries Insurance Captive (component unit of the Authority) reports claims payable of \$26.5 million for estimated losses on malpractice claims, \$4.2 million for estimated workers' compensation claims, and \$5.3 million for other insurance coverages. Additional information on claims payable can be found in the Authority's separately issued financial statements, which can be found at the University's website at www.vcu.edu.

Virginia International Terminals, LLC (VIT) (a blended component unit of the Virginia Port Authority – nonmajor) participates in a workers compensation insurance pool and shares risk with other members of the pool. VIT remains obligated under its former self-insured plan for future losses as a result of accidents that occurred prior to April 12, 1999. VIT bears some self-insurance risk for health/medical insurance claims cost in excess of employee premiums/contributions received. Pursuant to a joint arrangement with the Virginia Port Authority, (VPA) (nonmajor) the entity carries stop loss insurance to mitigate exposure to significant claims. The stop loss policy is on a calendar year basis, with renewals effective each January 1. During the calendar year 2023 and 2022, the individual claim cost limit (deductible) under the policy for the Authority was \$150,000. The aggregate deductible for VIT and VPA combined claims in excess of the individual limit was \$7.2 million for calendar year 2023 and \$6.1 million for calendar year 2022. For additional information, please see the Authority's website at www.portofvirginia.com.

B. Public Entity Risk Pools

The Commonwealth administers three types of public entity risk pools for the benefit of local governmental units: healthcare, risk management, and line of duty insurance. The Local Choice Health Care plan was established to make comprehensive healthcare insurance available to localities and political subdivisions at affordable rates and with stable premiums. During the fiscal year, there were 446 local government units participating in the pool. This includes 66 school

districts, 39 counties, 134 cities/towns, and 207 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. As of June 30, 2023, \$48.7 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 the VARisk and VARisk2 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. Participation is voluntary and open to those identified in Section 2.2-1839 of the *Code of Virginia*. As of June 30, 2023, there were 488 units of local government in the pool, including 13 towns and 23 counties. The remaining 452 units include a large variety of boards, commissions, authorities, and special districts.

The VARisk program is comprised of constitutional officers and regional jails, and participation is not mandated by the *Code of Virginia*. However, the Compensation Board (part of the primary government) requires participation by all constitutional officers.

The VARisk2 program is comprised of local governments and has a minimum membership period of one year. However, a member group can cancel membership and withdraw from the plan on their coverage anniversary date or at the end of the fiscal year with 30 days' notice.

No excess insurance or reinsurance is provided. The risk assumed by the VARisk and VARisk2 pool for liability is \$1.0 million per occurrence, with the

exception of sheriffs and their deputies, which is \$1.5 million per occurrence.

As of June 30, 2023, \$40.0 million and \$3.2 million is reported as estimated claims payable for the VARisk and the VARisk2 programs, respectively. These figures are actuarially determined for the funds in total and are reported at gross. They are based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. They do not reflect possible reimbursements for insurance recoveries.

Per the amended Line of Duty Act Section 9.1-401 of the *Code of Virginia*, the Virginia Department of

Human Resource Management (DHRM) is responsible for administration of the premium-free health benefits provided to eligible LODA recipients. All eligible employees, former employees, and eligible family members will be covered under one program, the LODA Health Benefits Plans. As of June 30, 2023, \$988,866 is reported as the actuarially determined estimated claims payable for the non-participating localities reported in this fund based on claims incurred but not reported.

The following schedule (dollars in thousands) shows the changes in claims liabilities for the past two fiscal years.

	Local Choice Health Care		Risk Management		Line of Duty	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Unpaid Claims and Claim						
Adjustment Expenses at Beginning of Fiscal Year	\$ 47,568	\$ 49,932	\$ 48,326	\$ 48,916	\$ 996	\$ 1,472
Incurred Claims and Claim Adjustment Expenses:						
Provision for Insured Events of the Current Fiscal Year	495,020	445,550	12,488	15,653	22,459	16,196
Changes in Provision for Insured Events of Prior Fiscal Years	—	—	(7,597)	(5,387)	—	—
Total Incurred Claims and Adjustment Expenses	495,020	445,550	4,891	10,266	22,459	16,196
Payments:						
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	493,877	447,914	1,628	1,949	22,467	16,672
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year	—	—	7,413	9,854	—	—
Total Payments	493,877	447,914	9,041	11,803	22,467	16,672
Change in Provision for Discounts	—	—	(1,007)	947	—	—
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted) (1) (2) (3)	\$ 48,711	\$ 47,568	\$ 43,169	\$ 48,326	\$ 988	\$ 996
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	\$ 48,711	\$ 47,568	\$ 48,750	\$ 51,559	\$ 988	\$ 996

Note (1): The entire balance for Local Choice Health Care, \$48,711 (dollars in thousands) is due within one year.

Note (2): Of the balance shown above for Risk Management, \$12,120 (dollars in thousands) is due within one year.

Note (3): The entire balance for Line of Duty, \$988,866 is due within one year.

26. ACCOUNTS PAYABLE

The following table (dollars in thousands) summarizes Accounts Payable as of June 30, 2023.

	<u>Vendor</u>	<u>Salary / Wage</u>	<u>Retainage</u>	<u>Other</u>	<u>Foundations (1)</u>	<u>Total</u>
Primary Government:						
General	\$ 807,001	\$ 153,437	\$ 1,075	\$ —	\$ —	\$ 961,513
Major Special Revenue Funds:						
Commonwealth Transportation	420,295	46,343	2,409	—	—	469,047
Federal Trust	136,956	27,801	4,538	—	—	169,295
Nonmajor Governmental Funds	54,710	21,186	23,907	459	—	100,262
Major Enterprise Funds:						
Virginia Lottery (2)	23,739	2,481	—	12,599	—	38,819
Virginia College Savings Plan	208	966	—	266	—	1,440
Unemployment Compensation	—	—	—	19	—	19
Nonmajor Enterprise Funds	97,231	11,264	—	55	—	108,550
Internal Service Funds	103,150	4,262	—	—	—	107,412
Private Purpose Trust Funds	—	—	—	868	—	868
Pension and Other Employee Benefit Trust Funds (3)	4,892	4,834	—	29,812	—	39,538
Custodial Funds - External Investment Pool (4)	—	—	—	66,518	—	66,518
Custodial Funds - Other	3,016	—	—	137	—	3,153
Total Primary Government (5)	\$ 1,651,198	\$ 272,574	\$ 31,929	\$ 110,733	\$ —	\$ 2,066,434
Discrete Component Units:						
Virginia Housing Development Authority (6)	\$ 1,132	\$ 6,431	\$ —	\$ 103,347	\$ —	\$ 110,910
Virginia Public School Authority	130	—	—	—	—	130
Virginia Resources Authority	91	3	—	—	—	94
Virginia College Building Authority	16	—	—	—	—	16
Nonmajor Component Units	968,608	596,869	93,239	358	132,841	1,791,915
Total Component Units	\$ 969,977	\$ 603,303	\$ 93,239	\$ 103,705	\$ 132,841	\$ 1,903,065

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

Note (2): Other Accounts Payable for the Virginia Lottery primarily represents unclaimed prizes attributable to multi-state games and player subscription wallets.

Note (3): Other Accounts Payable for the Pension and Other Employee Benefit Trust Fund consists of \$25,306 (dollars in thousands) in investment management fees and \$4,506 (dollars in thousands) in program benefit liabilities.

Note (4): Other Accounts Payable for the Custodial Funds - External Investment Pool consists of \$66,518 (dollars in thousands) of investments purchased during fiscal year 2023 but received after June 30.

Note (5): Fiduciary liabilities of \$43,559 (dollars in thousands) are not included in the Government-wide Statement of Net Position. In addition, governmental fund liabilities of \$166,590 (dollars in thousands) are included in the Government-wide Statement of Net Position, but excluded from the above amounts.

Note (6): Other Accounts Payable for the Virginia Housing Development Authority (major) of \$84,707 (dollars in thousands) predominantly represents federal pass-through grant awards that have not been disbursed to the recipients as of June 30.

27. OTHER LIABILITIES

The following tables (dollars in thousands) summarize Other Liabilities as of June 30, 2023.

	Primary Government					
	General	Commonwealth Transportation	Federal Trust	Nonmajor Governmental Funds	Virginia Lottery	Virginia College Savings Plan (1)
Lottery Prizes Payable	\$ —	\$ —	\$ —	\$ —	\$ 113,552	\$ —
Medicaid Payable	112,323	—	1,249,320	245,504	—	—
Family Access to Medical Insurance Security Payable	8,292	—	16,993	—	—	—
Tax Refunds Payable	2,539,295	—	—	—	—	—
Accrued Interest Payable	—	—	—	26,120	52	35
Deposits Pending Distribution	17,043	5,513	16	28,499	—	—
Car Tax Payable	263,025	—	—	—	—	—
Other Liabilities	7	27,548	164	16,920	—	32,527
Total Other Liabilities	\$ 2,939,985	\$ 33,061	\$ 1,266,493	\$ 317,043	\$ 113,604	\$ 32,562

	Primary Government				
	Nonmajor Enterprise Funds	Internal Service Funds	Pension and Other Employee Benefit Trust Funds (2)	Custodial Funds - Other	Total Primary Government (3)
Lottery Prizes Payable	\$ —	\$ —	\$ —	\$ —	\$ 113,552
Medicaid Payable	—	—	—	—	1,607,147
Family Access to Medical Insurance Security Payable	—	—	—	—	25,285
Tax Refunds Payable	—	—	—	—	2,539,295
Accrued Interest Payable	—	—	—	—	26,207
Deposits Pending Distribution	122	662	—	—	51,855
Car Tax Refund Payable	—	—	—	—	263,025
Other Liabilities	—	—	66,548	2,122	145,836
Total Other Liabilities	\$ 122	\$ 662	\$ 66,548	\$ 2,122	\$ 4,772,202

Note (1): Other Liabilities of \$32,527 (dollars in thousands) reported by the Virginia College Savings Plan (major) represent amounts associated with pending investment trades and program distributions payable.

Note (2): Other Liabilities of \$66,548 (dollars in thousands) reported in Pension and Other Employee Benefit Trust Funds are made up of \$2,098 (dollars in thousands) in other payables related to the System benefit plans; and \$64,450 (dollars in thousands) in pending investment transactions consisting of: \$43,085 (dollars in thousands) in net foreign exchange contracts payable; \$2,000 in call option payables; \$6,000 in put option payables; \$16,252 (dollars in thousands) in other miscellaneous payables; \$3,867 (dollars in thousands) in foreign taxes payable related to the System benefit plans; and \$1,238 (dollars in thousands) in dividends payable related to the System benefit plans.

Note (3): Fiduciary liabilities of \$68,670 (dollars in thousands) are not included in the Government-wide Statement of Net Position. Governmental fund liabilities of \$321,171 (dollars in thousands) are included in the Government-wide Statement of Net Position, but excluded from the above amounts.

	Component Units					
	Virginia Housing Development Authority	Virginia Public School Authority	Virginia Resources Authority	Virginia College Building Authority	Nonmajor Component Units (4)	Total Component Units
Accrued Interest Payable	\$ 35,392	\$ 56,613	\$ 20,820	\$ 92,473	\$ 99,303	\$ 304,601
Deposits Pending Distribution	—	—	—	—	580,553	580,553
Short-term Debt	400,000	—	—	—	90,121	490,121
Grants Payable	—	—	—	—	8,874	8,874
Other Liabilities	30,572	—	8,242	—	464,143	502,957
Total Other Liabilities	\$ 465,964	\$ 56,613	\$ 29,062	\$ 92,473	\$ 1,242,994	\$ 1,887,106

Note (4): Other Liabilities of nonmajor component units are predominantly comprised of the following (dollars in thousands); derivative instruments reported by University of Virginia of \$12,619, Virginia Commonwealth University Health System Authority (blended component unit of Virginia Commonwealth University) (VCUHSA) of \$13,193, and foundations of higher education institutions of \$8,412. Other Liabilities also includes third party settlements reported by VCUHSA of \$124,841 (dollars in thousands). Other Liabilities also includes \$248,574 installment payables reported by the Virginia Port Authority.

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. As of June 30, 2023, the estimated liability related to Medicaid claims totaled \$1.6 billion in the fund financial statements. Of this amount, \$112.3 million is reflected in the General Fund (major governmental), \$1.2 billion in the Federal Trust Special Revenue Fund (major governmental), and \$245.5 million in the Health and Social Services Fund (nonmajor special revenue).

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. As of June 30, 2023, the estimated liability related to claims totaled \$25.3 million. Of this amount, \$8.3 million is reflected in the General Fund (major governmental) and \$17.0 million in the Federal Trust Special Revenue Fund (major governmental).

Tax Refunds Payable

Tax refunds payable represent refunds due on individual tax returns filed for the calendar year ended on or before December 31, 2022, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2023. 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. In fiscal year 2023, included in the tax refunds payable amount is \$906.8 million relating to the individual income tax rebate provided to taxpayers as required by Chapter 1, 2023 Acts of Assembly Special Session I, Item 3-5.28, see Note 7.

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.

Termination Benefits

During fiscal year 2023, the Commonwealth laid off 50 employees. The affected employees had the option of volunteering for enhanced retirement benefits or severance benefits. The enhanced retirement benefits option was elected by nine employees, and the remaining 41 employees elected severance benefits. The severance benefits include salary payments based on years of service and insurance premium payments for health and life insurance. All severance benefits were initiated during fiscal year 2023 and will end no later than June 30, 2024. The benefit cost expended and the outstanding liability as of June 30, 2023 for governmental funds, are \$492,502 and \$375,185, 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 and actual costs.

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 2023, the primary government's agencies did not participate in short-term borrowings with external parties.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, requires the disclosure of any unused lines of credit. The primary government does not have any unused lines of credit at June 30, 2023.

The Hampton Roads Transportation Accountability Commission (nonmajor governmental) has unused lines of credit of \$415.8 million at June 30, 2023 for various Transportation Infrastructure Finance and Innovation Act (TIFIA) loans.

The Virginia Housing Development Authority (major component unit) has a direct borrowing from a line of credit of \$400.0 million. Virginia Polytechnic Institute and State University and Virginia Commonwealth University (nonmajor component units) have commercial paper of \$6.8 million and \$8.5 million, respectively, primarily for capital projects. Various higher education institution foundations (nonmajor component units) have lines of credit of \$72.9 million primarily for construction or property acquisition. The Virginia Museum of Fine Arts Foundation (nonmajor component unit) has borrowed \$1.9 million from a line of credit to purchase a building expected to be used by the Museum. Additionally, the Library of Virginia Foundation (nonmajor component unit) has a \$3,500 note with a related party. The balance of Other Liabilities is spread among various other funds.

The Virginia Housing Development Authority (major component unit) has an unused line of credit of \$250.0 million. The University of Virginia, Virginia Polytechnic Institute and State University, Virginia Commonwealth University Health System Authority (blended component unit of Virginia Commonwealth University), and Christopher Newport University (nonmajor component units) have unused lines of credit of \$500.0 million, \$373.0 million, \$100.0 million, and \$364,185, respectively. The Hampton Roads Sanitation District Commission and the Virginia Port Authority (nonmajor component units) have unused lines of credit of \$31.4 million and \$1.0 million, respectively. For the University of Virginia, in the event of default under revolving credit agreements, any outstanding advances, interest, and the value of the promissory note would be due and payable to the various banking institutions.

28. 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 and credit of the Commonwealth. No other long-term debt obligations are backed by the full faith and credit of the Commonwealth.

Section 9(d) bonds are revenue bonds that are not backed by the full faith and credit of the Commonwealth. These bonds are not general obligation bonds and are not deemed to constitute a legal liability of the Commonwealth. However, this debt may be supported by state appropriations in whole or in part, such as certain debt of the Commonwealth Transportation Board (primary government) and the Virginia Port Authority (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 (nonmajor component units).

Certain 9(d) bonds are considered, along with 9(a), 9(b), and 9(c) bonds, to be tax-supported debt of the Commonwealth. Tax-supported debt includes all bonds and short-term debt for which debt service payments are made or are ultimately pledged to be made from tax revenues (net of sinking fund requirements).

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. In certain limited cases, the Commonwealth has made a moral obligation pledge. A government's moral obligation pledge provides a deficiency make-up for bondholders in the event pledged revenues prove to be insufficient. If a revenue deficiency exists, monies held in a debt service reserve fund are used to pay bondholders. The issuer then requests that the legislative body provide an appropriation to replenish the reserve fund before subsequent debt service is due. The legislative body may, but is not legally required to, replenish the reserve fund.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, requires disclosures related to unused lines of credit (see Note 27), direct borrowings and placement debt, and specific disclosures related to debt default. Direct borrowings and placements have terms with an investor or lender and are not offered for public sale.

GASB Statement No. 91, *Conduit Debt Obligations*, was implemented in fiscal year 2023. The Commonwealth had no conduit debt to record in accordance with GASB No. 91.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, was implemented in fiscal year 2023 and resulted in significant changes to intangible right-to-use asset accounting and reporting requirements. Accordingly, beginning balances have been restated.

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 Position.

Total Long-term Liabilities

June 30, 2023

<i>(Dollars in Thousands)</i>	Balance At June 30	Amount Due Within One Year
Primary Government:		
Governmental Activities: (1)		
General Obligation Bonds: (2)		
9(b) Public Facilities (3)	\$ 173,122	\$ 44,390
9(c) Parking Facilities (3)	4,646	953
Total General Obligation Bonds	<u>177,768</u>	<u>45,343</u>
Nongeneral Obligation Bonds - 9(d):		
Transportation Debt (3) (4)	3,777,042	224,701
Virginia Public Building Authority (3)	3,519,630	223,880
Total Nongeneral Obligation Bonds	<u>7,296,672</u>	<u>448,581</u>
Other Long-term Obligations:		
Net Pension Liability	3,430,433	—
Net OPEB Liability	745,003	4,649
Total OPEB Liability	198,865	21,819
Compensated Absences	370,698	198,968
Long-term Lease Liabilities (12)	422,175	41,942
Long-term Subscription-Based Information Technology Arrangements (13)	145,101	62,543
Pollution Remediation Obligations	8,171	6,074
Installment Purchase Obligations from Direct Borrowings	88,575	14,056
Hampton Roads Transportation Accountability Commission (3) (5)	2,562,835	—
Other Liabilities	23,103	2,499
Total Other Long-term Obligations	<u>7,994,959</u>	<u>352,550</u>
Total Governmental Activities	<u>15,469,399</u>	<u>846,474</u>
Business-type Activities: (1) (5)		
Other Long-term Obligations:		
Net Pension Liability	132,815	—
Net OPEB Liability	23,259	42
Total OPEB Liability	8,573	863
Compensated Absences	15,244	11,775
Long-term Lease Liabilities	202,663	25,392
Long-term Subscription-Based Information Technology Arrangements	207,239	11,158
Installment Purchase Obligations from Direct Borrowings	—	—
Educational Benefits Payable	1,384,699	184,019
Lottery Prizes Payable	198,128	13,562
Total Other Long-term Obligations	<u>2,172,620</u>	<u>246,811</u>
Total Business-type Activities	<u>2,172,620</u>	<u>246,811</u>
Total Primary Government	<u>17,642,019</u>	<u>1,093,285</u>

Total Long-term Liabilities

June 30, 2023

<i>(Dollars in Thousands)</i>	Balance At June 30	Amount Due Within One Year
Component Units:		
General Obligation Bonds: (2)		
Higher Education Fund - 9(c) Bonds (3)	940,849	70,877
Nongeneral Obligation Bonds:		
Higher Education Institutions - 9(d) (3) (5)	4,154,882	15,530
Higher Education Institutions - 9(d) from Direct Placements (3) (5)	270,534	10,641
Virginia College Building Authority (3)	5,636,772	394,940
Virginia Port Authority - 9(d) (3) (6)	627,923	17,985
Virginia Housing Development Authority - 9(d) (3) (5)	4,547,880	120,322
Virginia Housing Development Authority from Direct Placements - 9(d) (3) (5)	215,835	7,670
Virginia Resources Authority - 9(d) (3) (7)	3,194,504	192,080
Virginia Resources Authority from Direct Placements (3) (9)	98,000	8,000
Virginia Public School Authority - 9(d) (3) (5)	3,961,308	270,575
Virginia Public School Authority from Direct Placements - 9(d) (3) (5)	87,286	4,010
Hampton Roads Sanitation District Commission (3) (5)	979,742	93,198
Foundations (5) (8)	999,422	37,917
Total Nongeneral Obligation Bonds	<u>24,774,088</u>	<u>1,172,868</u>
Other Long-term Obligations:		
Net Pension Liability (9)	2,065,850	—
Net OPEB Liability (10)	691,731	245
Total OPEB Liability (11)	176,467	17,053
Compensated Absences	419,401	314,146
Long-term Lease Liabilities (12)	4,916,709	90,076
Long-term Subscription-Based Information Technology Arrangements (13)	209,855	81,874
Notes Payable (5)	1,814,266	243,775
Notes Payable from Direct Borrowings (5)	167,559	4,823
Installment Purchase Obligations from Direct Borrowings	225,249	9,693
Trust and Annuity Obligations (5) (13)	93,474	—
Other Liabilities (5)	237,239	14,468
Total Other Long-term Obligations (Excluding Foundations)	<u>11,017,800</u>	<u>776,153</u>
Other Long-term Obligations (Foundations): (5) (8)		
Compensated Absences	30,875	20,146
Notes Payable	372,964	41,591
Trust and Annuity Obligations (14)	83,650	2,488
Other Liabilities	569,464	181,442
Total Other Long-term Obligations - Foundations	<u>1,056,953</u>	<u>245,667</u>
Total Other Long-term Obligations	<u>12,074,753</u>	<u>1,021,820</u>
Total Component Units	<u>37,789,690</u>	<u>2,265,565</u>
Total Long-term Liabilities	<u>\$ 55,431,709</u>	<u>\$ 3,358,850</u>

- Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.
- Total general obligation debt of the Commonwealth is \$1.1 billion.
- Amounts are net of any unamortized discounts and premiums.
- This debt includes \$974.6 million that is not supported by taxes.
- This debt is not supported by taxes.
- This debt includes \$259.0 million for bonds that is not supported by taxes.
- This debt is not supported by taxes; however, \$906.8 million is considered moral obligation debt.
- Foundations represent FASB reporting entities defined in Note 1.B.
- This includes net pension liabilities that do not relate to the Virginia Retirement System's State Plan from the Hampton Roads Sanitation District Commission and Virginia Port Authority of \$18.3 million and \$11.5 million, respectively. This debt is not supported by taxes.
- This includes OPEB obligations that do not relate to the Virginia Retirement System's State Plan from the Hampton Roads Sanitation District Commission, Virginia Port Authority, Virginia Resources Authority, Roanoke Higher Education Authority, and Virginia Biotechnology Research Partnership Authority, of \$13.2 million, \$910,000, \$207,923, \$62,974, and \$47,810 respectively. This debt is not supported by taxes.
- This includes OPEB obligations that do not relate to the Department of Human Resource Management from the University of Virginia of \$19.7 million and Virginia Port Authority of \$804,000. This debt is not supported by taxes.
- This includes \$330.7 million for governmental activities and \$273.4 million for component units that are supported by taxes.
- This includes \$137.1 million for governmental activities and \$46.4 million for component units that are supported by taxes.
- 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 \$3.8 billion of Transportation Facilities Section 9(d) debt. The Section 9(d) debt includes \$2.8 billion of Section 9(d) revenue bonds, \$873.8 million of Grant Anticipation Revenue Notes (GARVEES), and \$100.8 million of I-81 revenue bonds in addition to the outstanding Section 9(d) revenue bonds. There are no Section 9(c) bonds outstanding at June 30, 2023. Section 9(d) principal and interest requirements for the current year totaled \$368.4 million. 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, the Interstate 81 Improvement Program, and the costs of certain transportation projects throughout the Commonwealth. The interest rates for these bonds range from 2.5 percent to 5.4 percent and the issuance dates range from October 10, 2002 to June 22, 2023. The GARVEES were issued to finance various Federal Aid Transportation projects throughout the Commonwealth. The interest rates for these bonds range from 2.0 percent to 5.0 percent and the issuance dates range from November 9, 2016 to September 22, 2020.

The following schedule details the annual funding requirements necessary to amortize Transportation 9(d) debt. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth expects to receive an interest subsidy to reimburse interest payments of \$37.0 million for Build America Bonds (BABs) issued. The BABs are applicable to Commonwealth of Virginia Transportation Series 2010A Capital Project Revenue Bonds. The following schedule details the annual funding requirements necessary to repay the Transportation Facilities 9(d) debt. Additionally, the Commonwealth will receive the amounts required to pay the debt service on outstanding Series 2002 and Series 2012 bonds from the Route 28 Transportation Improvement District, annually. The Commonwealth will also receive a portion of the debt service amount for the Northern Virginia Transportation District from the localities where the projects are located, annually.

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

Maturity	Principal	Interest	Total
2024	\$ 224,700,602	\$ 150,122,237	\$ 374,822,839
2025	222,323,739	140,125,588	362,449,327
2026	232,794,277	129,117,925	361,912,202
2027	235,481,299	117,468,790	352,950,089
2028	229,310,000	105,670,637	334,980,637
2029-2033	1,013,035,000	376,885,527	1,389,920,527
2034-2038	714,865,000	171,534,829	886,399,829
2039-2043	351,055,000	69,082,768	420,137,768
2044-2048	123,225,000	22,240,975	145,465,975
2049-2053	16,940,000	6,839,750	23,779,750
2054-2058	16,865,000	2,159,750	19,024,750
Less:			
Unamortized Discount	(57,142)	—	(57,142)
Add:			
Accretion on Capital Appreciation			
Bonds	18,667,784	—	18,667,784
Unamortized Premium	377,836,530	—	377,836,530
Total	\$ 3,777,042,089	\$ 1,291,248,776	\$ 5,068,290,865

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 2012A Refunding, Series 2013B Refunding, Series 2015B Refunding, Series 2016B Refunding, and Series 2019C Refunding. Bonds were issued to fund construction projects for higher educational institutions, behavioral health, and/or park facilities. The Series 2012A bonds were issued to advance refund outstanding Series 2002, Series 2003A, Series 2004A, and Series 2005A bonds. The Series 2013B bonds were issued to advance refund outstanding Series 2005A, Series 2006B, Series 2007A, and Series 2007B bonds. The Series 2015B bonds were issued to advance refund certain maturities of outstanding Series 2007B, Series 2008A, and Series 2008B bonds. The Series 2016B bonds were issued to advance refund certain maturities of outstanding Series 2009A bonds. The Series 2019C bonds were issued to advance refund outstanding 2009E bonds. Principal and interest requirements for the current year totaled \$55.9 million. The interest rates for all bonds range from 2.0 percent to 5.0 percent and the issuance dates range from March 7, 2012, to August 14, 2019. The following schedule details the annual funding requirements necessary to repay these bonds.

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

Maturity	Principal	Interest	Total
2024	\$ 44,390,000	\$ 6,830,292	\$ 51,220,292
2025	36,280,000	4,807,314	41,087,314
2026	30,400,000	3,243,986	33,643,986
2027	24,430,000	1,874,093	26,304,093
2028	14,130,000	740,575	14,870,575
2029-2033	4,835,000	180,280	5,015,280
Add:			
Unamortized Premium	18,657,308	—	18,657,308
Total	\$ 173,122,308	\$ 17,676,540	\$ 190,798,848

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, Series 2012A Refunding and Series 2016B Refunding. The Series 2012A Refunding bonds were issued to advance refund outstanding Series 2002 Refunding and Series 2004A bonds. The Series 2016B Refunding bonds were issued to advance refund certain maturities of outstanding Series 2009B bonds. The interest rate for these bonds range from 2.0 percent to 5.0 percent, and the issuance dates range from March 7, 2012, to November 10, 2016. Current year principal and interest requirements totaled \$1.1 million. 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
2024	\$ 952,789	\$ 178,339	\$ 1,131,128
2025	575,000	130,700	705,700
2026	605,000	101,950	706,950
2027	630,000	71,700	701,700
2028	660,000	40,200	700,200
2029-2033	675,000	27,000	702,000
Add:			
Unamortized Premium	547,912	—	547,912
Total	<u>\$ 4,645,701</u>	<u>\$ 549,889</u>	<u>\$ 5,195,590</u>

Virginia Public Building Authority

Virginia Public Building Authority Section 9(d) bonds consist of 2010B-2 (Taxable Build America Bonds), 2010B-3 Refunding, 2012A Refunding, 2013A, 2013B Refunding, 2014A, 2014B (Taxable), 2014C Refunding, 2015A, 2015B Refunding, 2016A, 2016B Refunding, 2016C (AMT), 2016D (Taxable), 2017A Refunding, 2018A, 2018B (Taxable), 2019A, 2019B (AMT), 2019C (Taxable), 2020A, 2020B Refunding, 2020C (Taxable), 2021A, 2021B Refunding (Taxable), 2022A, and 2022B (Taxable). 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 combinations of localities under the Regional Jail Financing Program. The Series 2010B-3 bonds were issued to advance refund outstanding series 2002A and 2004B Revenue bonds. The Series 2012A bonds were issued to advance refund outstanding series 2004B and 2005C Revenue bonds. The Series 2013B bonds were issued to advance refund 2006A and 2006B revenue bonds. The Series 2014C bonds were issued to advance refund outstanding Series 2004A Refunding, 2004B, 2004C Refunding, and 2004D Refunding bonds, and certain maturities of the 2005C, 2006A, 2006B, and 2007A bonds. The Series 2015B bonds were issued to advance refund outstanding series 2005A Refunding, 2005B Refunding, and 2006A bonds and certain maturities of the series 2008B bonds. The Series 2016B bonds were issued to advance refund certain maturities of the series 2009B and 2011A bonds. The Series 2017A bonds were issued to advance refund certain maturities of the 2011A, 2013A, and 2014A bonds. The Series 2020B bonds were issued to advance refund outstanding Series 2005D, Series 2009D Refunding and 2010A bonds. The Series 2021B bonds were issued to advance refund outstanding Series 2011B bonds. The interest rates range from 0.3 percent to 5.9 percent and the issuance dates range from November 23, 2010, to April 26, 2022.

Current year principal and interest requirements for all VPBA bonds totaled \$336.2 million. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth expects to receive an interest subsidy to reimburse interest payments of \$10.4 million 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
2024	\$ 223,880,000	\$ 132,085,178	\$ 355,965,178
2025	234,485,000	121,243,304	355,728,304
2026	228,810,000	110,284,949	339,094,949
2027	224,600,000	99,613,798	324,213,798
2028	204,855,000	89,520,709	294,375,709
2029-2033	889,840,000	315,947,047	1,205,787,047
2034-2038	695,100,000	145,151,477	840,251,477
2039-2043	417,615,000	28,686,480	446,301,480
Add:			
Unamortized Premium	400,445,028	—	400,445,028
Total	<u>\$ 3,519,630,028</u>	<u>\$ 1,042,532,942</u>	<u>\$ 4,562,162,970</u>

Hampton Roads Transportation Accountability Commission

Hampton Roads Transportation Accountability Commission bonds consists of Senior Lien Revenue Bonds, Series 2018A, Senior Lien Revenue Bonds, Series 2020A, Senior Lien Revenue Bonds, Series 2022A, and a TIFIA loan, Series 2021A. The bonds were issued to pay for the costs of planning, design, and construction of transportation infrastructure in the localities comprising Planning District 23. The TIFIA loans were issued to refund the 2019A and 2021A bond anticipation notes. The interest rates for these bond and loan series range from 1.9 percent to 5.5 percent and the issue dates range from February 14, 2018 to March 27, 2023. Current year principal and interest requirements totaled \$496.9 million.

The following schedule details the annual funding requirements necessary to repay these bonds. This schedule includes future capitalized interest of \$54.0 million through June 30, 2025.

HAMPTON ROADS TRANSPORTATION ACCOUNTABILITY COMMISSION BONDS Debt Service Requirements to Maturity			
Maturity	Principal	Interest	Total
2024	\$ —	\$ 52,240,100	\$ 52,240,100
2025	—	56,405,215	56,405,215
2026	6,788,369	60,364,636	67,153,005
2027	7,505,354	68,033,901	75,539,255
2028	20,553,521	75,267,038	95,820,559
2029-2033	142,017,293	362,544,103	504,561,396
2034-2038	243,138,292	330,614,317	573,752,609
2039-2043	312,955,292	288,209,100	601,164,392
2044-2048	397,122,865	234,020,550	631,143,415
2049-2053	492,572,339	168,810,022	661,382,361
2054-2058	535,504,059	94,243,044	629,747,103
2059-2063	312,235,473	17,053,705	329,289,178
Add:			
Unamortized Premium	146,456,479	—	146,456,479
Total	<u>\$ 2,616,849,336</u>	<u>\$ 1,807,805,731</u>	<u>\$ 4,424,655,067</u>

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	\$ 3,884,222
College and university debt backed exclusively by pledged revenues of an institution	<u>541,194</u>
Total Higher Education Institution 9(d) debt	<u>\$ 4,425,416</u>

The interest rates for these bonds range from 0.4 percent to 6.2 percent and the issuance dates range from April 15, 2009, to February 1, 2023. The Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – nonmajor) Series 2013B 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 expects to receive an interest subsidy to reimburse interest payments of \$157.8 million for Build America Bonds (BABs) issued. The BABs are applicable to General Obligation Series 2010A Bonds, Series 2010B 21st Century Virginia College Building Authority Education Facilities Bonds, and the University of Virginia's Series 2009 and 2010 General Revenue Bonds. Virginia Commonwealth University (nonmajor component unit) and Virginia Commonwealth University Health System Authority (blended component unit of Virginia Commonwealth University - nonmajor component unit) (VCUHSA) have Direct Placement Bond Series. The VCUHSA bonds include event of default provisions that could change the timing of repayment of the outstanding amounts to become immediately due.

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

Maturity	Principal	Interest	Total
2024	\$ 70,877,211	\$ 31,274,844	\$ 102,152,055
2025	73,695,000	28,591,614	102,286,614
2026	75,550,000	25,819,908	101,369,908
2027	72,880,000	22,849,028	95,729,028
2028	68,935,000	19,911,696	88,846,696
2029-2033	292,050,000	64,723,111	356,773,111
2034-2038	163,025,000	25,014,758	188,039,758
2039-2043	50,315,000	7,187,568	57,502,568
2044-2048	7,020,000	2,743,625	9,763,625
2049-2053	6,920,000	886,250	7,806,250
Add:			
Unamortized Premium	59,581,978	—	59,581,978
Total	<u>\$ 940,849,189</u>	<u>\$ 229,002,402</u>	<u>\$ 1,169,851,591</u>

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

Maturity	Principal	Interest (1)	Total
2024	\$ 15,530,000	\$ 149,750,879	\$ 165,280,879
2025	16,355,000	149,156,466	165,511,466
2026	18,435,000	148,466,641	166,901,641
2027	27,325,000	147,592,484	174,917,484
2028	28,925,000	146,596,558	175,521,558
2029-2033	184,260,000	716,583,279	900,843,279
2034-2038	182,820,000	688,890,584	871,710,584
2039-2043	663,015,000	559,764,733	1,222,779,733
2044-2048	696,585,000	405,438,970	1,102,023,970
2049-2053	1,471,265,000	229,171,561	1,700,436,561
2054-2058	100,000,000	123,657,500	223,657,500
2059-2063	—	119,157,500	119,157,500
2064-2068	—	119,157,500	119,157,500
2069-2073	—	119,157,500	119,157,500
2074-2078	—	119,157,500	119,157,500
2079-2083	—	119,157,500	119,157,500
2084-2088	—	119,157,500	119,157,500
2089-2093	—	119,157,500	119,157,500
2094-2098	—	119,157,500	119,157,500
2099-2103	—	119,157,500	119,157,500
2104-2108	—	119,157,500	119,157,500
2109-2113	—	119,157,500	119,157,500
2114-2118	300,000,000	112,889,000	412,889,000
2119-2123	350,000,000	16,941,750	366,941,750
Add:			
Unamortized Premium	100,367,256	—	100,367,256
Total	<u>\$ 4,154,882,256</u>	<u>\$ 4,905,632,905</u>	<u>\$ 9,060,515,161</u>

Note (1): The future interest requirements exclude any net Payments associated with hedging derivative instruments. See Note 16 for more details on hedging derivative instruments.

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

Maturity	Principal	Interest	Total
2024	\$ 10,640,598	\$ 9,235,577	\$ 19,876,175
2025	15,011,169	8,896,234	23,907,403
2026	14,991,056	8,543,385	23,534,441
2027	14,356,518	8,190,675	22,547,193
2028	14,802,903	7,869,971	22,672,874
2029-2033	77,030,039	33,224,153	110,254,192
2034-2038	92,371,522	15,517,524	107,889,046
2039-2043	22,485,000	4,480,516	26,965,516
2044-2048	8,845,000	1,041,760	9,886,760
Total	<u>\$ 270,533,805</u>	<u>\$ 96,999,795</u>	<u>\$ 367,533,600</u>

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

Maturity	Principal	Interest	Total
2024	\$ 394,940,000	\$ 202,563,791	\$ 597,503,791
2025	376,970,000	201,136,858	578,106,858
2026	377,115,000	183,894,718	561,009,718
2027	369,275,000	167,495,508	536,770,508
2028	369,020,000	151,363,568	520,383,568
2029-2033	1,571,695,000	514,232,827	2,085,927,827
2034-2038	1,048,745,000	224,360,580	1,273,105,580
2039-2043	510,360,000	55,318,700	565,678,700
Add:			
Unamortized Premium	618,652,424	—	618,652,424
Total	<u>\$ 5,636,772,424</u>	<u>\$ 1,700,366,550</u>	<u>\$ 7,337,138,974</u>

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	
<i>Maturity</i>	<i>Principal</i>
2024	\$ 37,917,441
2025	38,905,608
2026	41,524,166
2027	40,472,142
2028	64,411,769
Thereafter	776,190,870
Total	<u>\$ 999,421,996</u>

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

Virginia Port Authority

The Virginia Port Authority (nonmajor) 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 0.6 percent to 5.3 percent, and the issuance dates range from January 25, 2012, to May 11, 2023. The following schedule details the annual funding requirements necessary to amortize these bonds.

9(d) VIRGINIA PORT AUTHORITY DEBT Debt Service Requirements to Maturity			
<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2024	\$ 17,985,000	\$ 20,940,772	\$ 38,925,772
2025	18,610,000	23,945,442	42,555,442
2026	19,275,000	23,261,386	42,536,386
2027	19,980,000	22,535,539	42,515,539
2028	20,725,000	21,767,026	42,492,026
2029-2033	108,295,000	97,921,142	206,216,142
2034-2038	104,345,000	76,674,062	181,019,062
2039-2043	130,170,000	52,128,638	182,298,638
2044-2048	127,700,000	19,161,051	146,861,051
2048-2052	18,515,000	486,019	19,001,019
Add:			
Unamortized Premium	42,322,547	—	42,322,547
Total	<u>\$ 627,922,547</u>	<u>\$ 358,821,077</u>	<u>\$ 986,743,624</u>

Virginia Housing Development Authority

The Virginia Housing Development Authority (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 2.1 percent to 6.6 percent and the issuance dates range from June 8, 2006, to June 1, 2023. The following schedule details the annual funding requirements necessary to amortize these bonds. VHDA has an option to redeem various bonds pursuant the terms of each bond issue. The redemptions generally cannot be exercised without condition until the bonds have been outstanding for nine years or more.

9(d) VIRGINIA HOUSING DEVELOPMENT AUTHORITY BONDS Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2024	\$ 120,321,788	\$ 141,935,347	\$ 262,257,135
2025	124,370,000	139,263,549	263,633,549
2026	104,470,000	137,039,762	241,509,762
2027	121,935,000	134,301,379	256,236,379
2028	105,685,000	131,479,886	237,164,886
2029-2033	547,690,000	613,929,496	1,161,619,496
2034-2038	629,707,587	525,511,469	1,155,219,056
2039-2043	789,735,009	409,169,039	1,198,904,048
2044-2048	743,605,540	266,531,093	1,010,136,633
2049-2053	879,679,641	142,035,299	1,021,714,940
2054-2058	328,325,000	29,579,991	357,904,991
2059-2063	33,850,000	6,268,755	40,118,755
2064-2068	19,575,000	1,173,434	20,748,434
Unamortized			
Discount	(1,069,805)	—	(1,069,805)
Total	\$ 4,547,879,760	\$ 2,678,218,499	\$ 7,226,098,259

9(d) VIRGINIA HOUSING DEVELOPMENT AUTHORITY DIRECT PLACEMENT BONDS Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2024	\$ 7,670,000	\$ 8,386,227	\$ 16,056,227
2025	7,930,000	8,083,470	16,013,470
2026	8,210,000	7,770,205	15,980,205
2027	8,490,000	7,445,935	15,935,935
2028	8,780,000	7,110,661	15,890,661
2029-2033	48,670,000	30,102,429	78,772,429
2034-2038	57,680,000	19,794,889	77,474,889
2039-2043	68,405,000	7,568,935	75,973,935
Total	\$ 215,835,000	\$ 96,262,751	\$ 312,097,751

Virginia Resources Authority

The Virginia Resources Authority (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.2 percent to 6.3 percent and the issuance dates range from July 31, 2002, to May 23, 2023. The following schedule details the annual funding requirements necessary to amortize these bonds.

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

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2024	\$ 192,080,000	\$ 110,585,251	\$ 302,665,251
2025	202,045,000	102,278,063	304,323,063
2026	208,515,000	93,531,084	302,046,084
2027	206,725,000	84,721,930	291,446,930
2028	207,725,000	76,281,467	284,006,467
2029-2033	870,915,000	269,800,240	1,140,715,240
2034-2038	587,230,000	139,813,587	727,043,587
2039-2043	377,820,000	57,320,249	435,140,249
2044-2048	115,470,000	16,413,689	131,883,689
2049-2053	38,900,000	3,046,803	41,946,803
2054-2058	760,000	15,441	775,441
Less: Unaccreted			
Capital Appreciation			
Bonds	(2,921,817)	—	(2,921,817)
Add:			
Unamortized			
Premium	189,240,370	—	189,240,370
Total	\$ 3,194,503,553	\$ 953,807,804	\$ 4,148,311,357

9(d) VIRGINIA RESOURCES AUTHORITY BONDS DIRECT PLACEMENT BONDS Debt Service Requirements to Maturity

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2024	\$ 8,000,000	\$ 2,955,200	\$ 10,955,200
2025	3,520,000	2,806,032	6,326,032
2026	3,635,000	2,692,268	6,327,268
2027	3,750,000	2,574,846	6,324,846
2028	3,870,000	2,453,688	6,323,688
2029-2033	21,270,000	10,312,263	31,582,263
2034-2038	24,875,000	6,650,732	31,525,732
2039-2043	29,080,000	2,369,577	31,449,577
Total	\$ 98,000,000	\$ 32,814,606	\$ 130,814,606

Virginia Public School Authority

The Virginia Public School Authority (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.0 percent to 5.5 percent, and the issuance dates range from November 13, 2009, to May 16, 2023. The following schedules detail the annual funding requirements necessary to amortize these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth expects to receive an interest subsidy to reimburse interest payments of \$78.9 million for Qualified School Construction Bonds (QSCBs) issued. The QSCBs are applicable to Series 2010-1, 2011-1, 2011-2, and 2012-1 Revenue Bonds. VPSA's 2014-1 QZAB Bond Series shall bear interest at the default rate, payable on demand by the owner of the Bonds.

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

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2024	\$ 270,575,000	\$ 141,770,142	\$ 412,345,142
2025	270,350,000	130,758,122	401,108,122
2026	266,695,000	119,384,695	386,079,695
2027	456,305,000	108,333,489	564,638,489
2028	241,835,000	90,900,745	332,735,745
2029-2033	1,115,900,000	311,138,571	1,427,038,571
2034-2038	717,085,000	147,290,317	864,375,317
2039-2043	376,760,000	58,328,782	435,088,782
2044-2048	92,640,000	20,866,984	113,506,984
2049-2053	62,670,000	5,434,100	68,104,100
Add:			
Unamortized Premium	90,493,255	—	90,493,255
Total	\$ 3,961,308,255	\$ 1,134,205,947	\$ 5,095,514,202

**9(d) VIRGINIA PUBLIC SCHOOL AUTHORITY DIRECT PLACEMENT BONDS
Debt Service Requirements to Maturity**

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2024	\$ 4,010,000	\$ 2,254,778	\$ 6,264,778
2025	7,871,000	2,139,851	10,010,851
2026	4,105,000	2,023,571	6,128,571
2027	4,160,000	1,905,795	6,065,795
2028	4,215,000	1,786,451	6,001,451
2029-2033	24,300,000	7,085,100	31,385,100
2034-2038	23,585,000	3,843,439	27,428,439
2039-2043	15,040,000	647,520	15,687,520
Total	\$ 87,286,000	\$ 21,686,505	\$ 108,972,505

Hampton Roads Sanitation District Commission

The Hampton Roads Sanitation District Commission (nonmajor) issues revenue bonds for various capital improvements including, but not limited to, wastewater treatment plants and interceptor system improvements. Bond issue dates range from November 12, 2009 to June 11, 2020. The interest cost for these bonds range from 1.0 percent to 5.9 percent. The following schedule details the annual funding requirements necessary to amortize these bonds. The fiscal year 2023 principal amount includes \$50.0 million for demand bonds, which are also classified as “due within one year” in the accompanying financial statements.

**HAMPTON ROADS SANITATION DISTRICT COMMISSION
Debt Service Requirements to Maturity**

<i>Maturity</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2024	\$ 93,198,000	\$ 29,402,000	\$ 122,600,000
2025	50,540,000	27,286,000	77,826,000
2026	51,812,000	26,710,000	78,522,000
2027	53,056,000	25,287,000	78,343,000
2028	51,042,000	23,853,000	74,895,000
2029-2033	263,638,000	96,224,000	359,862,000
2034-2038	223,550,000	55,552,000	279,102,000
2039-2043	88,292,000	28,235,000	116,527,000
2044-2048	16,136,000	19,679,000	35,815,000
2049-2053	74,759,000	14,085,000	88,844,000
Add:			
Unamortized Premium	13,719,000	—	13,719,000
Total	\$ 979,742,000	\$ 346,313,000	\$ 1,326,055,000

Total principal outstanding as of June 30, 2023, on all component unit bonds amounted to \$25.7 billion.

The following schedule summarizes the changes in long-term liabilities:

(Dollars in Thousands)

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

	Balance July 1, as restated (3)	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30
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	\$ 201,415	\$ —	\$ (46,950)	\$ 154,465
Parking Facilities Bonds	5,004	—	(906)	4,098
Add: Unamortized Premium	24,845	—	(5,640)	19,205
Total General Obligation Bonds	231,264	—	(53,496)	177,768
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Transportation Facilities Bonds	3,399,495	217,510	(236,410)	3,380,595
Virginia Public Building Authority Bonds	3,339,940	—	(220,755)	3,119,185
Hampton Roads Transportation Accountability Commission	2,490,826	1,157,887	(1,232,334)	2,416,379
Add: Unamortized Premium	1,133,606	19,885	(228,753)	924,738
Accretion on Capital Appreciation Bonds	22,113	1,700	(5,146)	18,667
Less: Unamortized Discount	(62)	5	—	(57)
Installment Purchase Obligations from Direct Borrowings	107,224	7,450	(26,099)	88,575
Compensated Absences	333,763	225,660	(188,725)	370,698
Long-term Lease Liabilities	396,390	74,899	(49,114)	422,175
Long-term Subscription-Based Information Technology Arrangements	144,782	81,702	(81,383)	145,101
Net Pension Liability*	2,728,430	702,003	—	3,430,433
Net OPEB Liability* (5)	784,210	—	(39,207)	745,003
Total OPEB Liability* (5)	247,471	—	(48,606)	198,865
Pollution Remediation Obligations	8,685	55	(569)	8,171
Other	28,411	2,453	(7,761)	23,103
Total Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	15,165,284	2,491,209	(2,364,862)	15,291,631
Total Governmental Activities	15,396,548	2,491,209	(2,418,358)	15,469,399
Business-type Activities:				
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Compensated Absences	13,699	4,470	(2,925)	15,244
Long-term Lease Liabilities	193,959	34,433	(25,729)	202,663
Long-term Subscription-Based Information Technology Arrangements	22,267	202,281	(17,309)	207,239
Net Pension Liability*	95,141	37,674	—	132,815
Net OPEB Liability* (5)	21,595	1,664	—	23,259
Total OPEB Liability* (5)	9,854	—	(1,281)	8,573
Installment Purchase Obligations from Direct Borrowings	572	—	(572)	—
Lottery Prizes Payable	112,828	91,446	(6,146)	198,128
Educational Benefits Payable	1,613,747	—	(229,048)	1,384,699
Total Business-type Activities	2,083,662	371,968	(283,010)	2,172,620
Total Primary Government	\$ 17,480,210	\$ 2,863,177	\$ (2,701,368)	\$ 17,642,019

*Net increase/decrease is shown.

Foundations (4)	Balance June 30	Due Within One Year
\$ —	\$ 154,465	\$ 44,390
—	4,098	953
—	19,205	—
—	<u>177,768</u>	<u>45,343</u>
—	3,380,595	224,701
—	3,119,185	223,880
—	2,416,379	—
—	924,738	—
—	18,667	—
—	(57)	—
—	88,575	14,056
—	370,698	198,968
—	422,175	41,942
—	145,101	62,543
—	3,430,433	—
—	745,003	4,649
—	198,865	21,819
—	8,171	6,074
—	23,103	2,499
—	<u>15,291,631</u>	<u>801,131</u>
—	<u>15,469,399</u>	<u>846,474</u>
—	15,244	11,775
—	202,663	25,392
—	207,239	11,158
—	132,815	—
—	23,259	42
—	8,573	863
—	—	—
—	198,128	13,562
—	1,384,699	184,019
—	2,172,620	246,811
<u>\$ —</u>	<u>\$ 17,642,019</u>	<u>\$ 1,093,285</u>

Continued on next page

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

(Dollars in Thousands)

(Continued from previous page)

	Balance July 1, as restated (3)	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30
Component Units				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - Higher Education 9(c) (6)	\$ 912,817	\$ 100,424	\$ (72,392)	\$ 940,849
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Bonds (7)	22,664,732	2,173,820	(1,735,541)	23,103,011
Bonds from Direct Placements (7)	525,561	157,469	(11,375)	671,655
Installment Purchase Obligations from Direct Borrowings (4)	232,324	6,161	(13,236)	225,249
Long-term Lease Liabilities	4,782,342	243,297	(108,930)	4,916,709
Long-term Subscription-Based Information Technology Arrangements (3)	168,370	130,471	(88,986)	209,855
Notes Payable	1,711,155	236,613	(133,502)	1,814,266
Notes Payable from Direct Borrowings	171,297	3,629	(7,367)	167,559
Compensated Absences	379,422	476,547	(436,568)	419,401
Net Pension Liability*	1,646,852	418,998	—	2,065,850
Net OPEB Liability* (6)	707,957	—	(16,226)	691,731
Total OPEB Liability* (6)	258,308	—	(81,841)	176,467
Trust and Annuity Obligations	96,431	6,365	(9,322)	93,474
Other	430,234	67,869	(260,864)	237,239
Total Component Units	\$ 34,687,802	\$ 4,021,663	\$ (2,976,150)	\$ 35,733,315

*Net increase/decrease is shown.

Note (1): Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.

Note (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, long-term leases, long-term SBITAs, pension, other post-employment benefits, and other obligations that pertain to the Commonwealth's governmental activities are made through the general and all special revenue funds, excluding the Literary Fund (major). 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.

Note (3): As a result of the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, the beginning balances associated with the implementation have been restated/reclassified by \$57.0 million due to a restatement amount of \$80.3 million in assets offset by a \$23.3 million reclassification of liabilities for governmental activities. Additionally, \$182.7 million has been restated for component units.

Note (4): Component Unit Installment Purchase Obligations from Direct Borrowing has been restated by \$1,218 (dollars in thousands) as a result of prior year error corrections.

Note (5): Foundations represent FASB reporting entities defined in Note 1.B.

Note (6): The Net OPEB Liability amount reported as due within one year pertains to the Commonwealth's Line of Duty (LODA) OPEB plan because the ending fiduciary net position is less than the benefit payments expected to be paid within one year. The Total OPEB Liability amount reported as due within one year represents the benefit payments expected to be paid within one year from the Pre-Medicare Retiree Healthcare (PMRH) OPEB plan. This plan does not have a trust.

Note (7): Amounts are net of any unamortized discounts and premiums.

Foundations (5)	Balance June 30	Due Within One Year
\$ —	\$ 940,849	\$ 70,877
999,422	24,102,433	1,142,547
—	671,655	30,321
—	225,249	9,693
—	4,916,709	90,076
—	209,855	81,874
372,964	2,187,230	285,366
—	167,559	4,823
30,875	450,276	334,292
—	2,065,850	—
—	691,731	245
—	176,467	17,053
83,650	177,124	2,488
569,464	806,703	195,910
<u>\$ 2,056,375</u>	<u>\$ 37,789,690</u>	<u>\$ 2,265,565</u>

Bond and Note Defeasance

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, 2023, there were \$936.2 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 \$1.2 billion in bonds and notes outstanding considered defeased from the component units.

Primary Government

In 2022, the Commonwealth Transportation Board of the Commonwealth of Virginia did an in-substance defeasance of \$25.4 million of Northern Virginia Transportation District Program Revenue Bonds Series 2012A and Route 28 Project Transportation Revenue Refunding Bonds Series 2012 along with \$4.7 million of the unamortized bond premium. VDOT used current resources for the defeasance and no new debt was issued. VDOT recognized an economic gain of \$1.1 million. None of these defeased bonds are outstanding at year end.

In November 2022, the Virginia Public Building Authority (VPBA) used General Fund appropriations to defease \$22.1 million of Public Facilities Revenue and Revenue Refunding Bonds Series 2010B-2, 2013A, 2014A, 2014C, 2015A, 2016A, 2016B, 2017A, 2018A, 2019A, 2020A, and 2020B. The funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the defeased bonds to their next available redemption

date. VPBA recognized an economic gain of \$1.3 million.

In 2023, the Hampton Roads Transportation Accountability Commission (HRTAC) did an in-substance defeasance of \$818.0 million of the Series 2021A Senior Lien Bond Anticipation Notes, along with \$50.9 million of the unamortized bond premium. HRTAC issued new debt in the form of a TIFIA Loan for the majority of the defeasance, along with current resources. Funds were placed in escrow to pay the bonds as they mature. HRTAC recognized a gain on the defeasance of \$84.7 million and the balance of the defeased bonds is \$817.9 million as of June 30, 2023.

On July 1, 2022, HRTAC paid in full \$414.3 million the Intermediate Lien Bond Anticipation Notes (BAN), Series 2019A, using the remaining balance of the BAN project fund held at the trustee, general funds and the proceeds from the new TIFIA loan.

Component Units

In February 2023, Virginia Commonwealth University (nonmajor) issued \$22.8 million of General Revenue Pledge Refunding Bonds, Series 2023A. These bonds were used to forward refund \$3.1 million of General Revenue Pledge Refunding Bonds, Series 2013A, and \$19.3 million of General Revenue Pledge Bonds, Series 2014A. For additional information, see the University's separately issued financial statements, which can be found at the University's website at www.vcu.edu.

In May 2023, the Virginia Port Authority (VPA) (nonmajor) issued \$52.7 million of Commonwealth Port Fund Revenue Refunding Bonds, Series 2023B (Non-AMT) to advance refund \$59.3 million in principal amount of the Authority's Commonwealth Port Fund Revenue Bonds, Series 2018 (Taxable) issued in the

original par amounts of \$60.3 million. The net proceeds from the issuance, along with other funds available from the Authority, were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are to be called. At June 30, 2023, \$59.3 million of these defeased bonds are still outstanding. The result of the refunding saved the Authority \$4.3 million in future debt service and resulted in \$3.2 million economic gain. For additional information, please see the Authority's website at www.portofvirginia.com.

In June 2023, the Virginia College Building Authority (VCBA) (major) issued \$341.8 million of Series 2023B 21st Century Program refunding bonds. The bonds were issued to refund \$401.9 million of its 2010B-2, 2014A, 2015A, 2015D, 2016A and 2020B bonds (selected maturities only). The net proceeds from the sale of the refunding bonds of \$397.5 million were deposited in an irrevocable trust with an escrow agent to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting gain of \$27.1 million. Total debt service payments over the next 12 years will be reduced by \$27.7 million resulting in a present value savings of \$20.6 million discounted at the rate of 3.0 percent.

Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt 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 earnings on investments purchased with bond proceeds in excess of the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, be subject to rebate 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 at the time of issuance elect to pay a penalty in lieu of rebate. Bonds may be exempt from the rebate requirements if they qualify for certain exceptions under the regulations. 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.

Rebate liability on bonds of the VPSA (major component unit) issued under its Pooled Bond Programs is payable from earnings on related bond funds and from local issuers whose local school bonds were purchased by the VPSA. During fiscal year 2023, no rebate payments were owed on VPSA bonds issued under its Pooled Bonds Programs. Rebate liability on notes of the VPSA issued under its School Technology and Security Notes Program is payable from earnings on related note funds and funds of the Commonwealth. During fiscal year 2023, a final arbitrage rebate calculation for VPSA's School Technology and Security Notes, Series VI identified an arbitrage rebate liability payment of \$48,422 due to the Federal government in fiscal year

2023. The liability was paid in fiscal year 2023 by the VPSA. The Virginia Department of Education reimbursed the VPSA in fiscal year 2023.

Rebatable arbitrage need only be calculated for tax purposes every fifth year that debt is outstanding. Consistent with the modified accrual basis of accounting, it is not recognized as a liability in governmental funds until amounts actually become due and payable; however, a liability is recognized in accrual basis government-wide statements as soon as the underlying event has occurred.

Amounts remitted to the Federal government for rebate liability are generally paid from earnings derived from the issue. However, if all proceeds have been expended and depending on the type of issue, it may be necessary to use project revenues or general or non-general fund appropriations to satisfy any rebate liability. During fiscal year 2023, no rebate payments were owed on the Commonwealth's General Obligation Bonds, Virginia Public Building Authority, Commonwealth Transportation Board, the Virginia College Building Authority 21st Century or Pooled Bond Programs, or the Virginia Port Authority.

Long-term Leases

The Commonwealth leases buildings, equipment, and land under various agreements that are accounted for as long-term leases under GASB Statement No. 87, *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. The Commonwealth has recorded \$26.1 million of variable payments for leases. These amounts are recognized as an expense in the period in which the obligation for those payments is incurred.

Presented in the following tables are repayment schedules for long-term lease liabilities as of June 30, 2023.

Long-term Lease Liabilities			
Governmental Funds			
June 30, 2023			
Maturity	Principal	Interest	Total
2024	\$ 41,942,411	\$ 30,595,038	\$ 72,537,449
2025	36,489,012	27,995,527	64,484,539
2026	30,914,361	25,608,428	56,522,789
2027	25,431,126	23,577,062	49,008,188
2028	24,431,526	21,651,112	46,082,638
2029-2033	109,846,632	82,301,173	192,147,805
2034-2038	98,176,948	39,923,901	138,100,849
2039-2043	42,599,021	10,891,814	53,490,835
2044-2048	6,291,998	2,566,753	8,858,751
2049-2053	4,052,550	855,416	4,907,966
2054-2058	927,994	252,863	1,180,857
2059-2063	882,273	105,188	987,461
2064-2068	189,539	3,353	192,892
Total	\$ 422,175,391	\$266,327,628	\$ 688,503,019

Long-term Lease Liabilities

Business-type Activities

June 30, 2023

Maturity	Principal	Interest	Total
2024	\$ 25,391,500	\$ 7,151,536	\$ 32,543,036
2025	20,373,389	6,338,041	26,711,430
2026	18,998,219	5,641,512	24,639,731
2027	16,750,799	4,993,440	21,744,239
2028	14,713,768	4,421,418	19,135,186
2029-2033	59,037,913	14,873,846	73,911,759
2034-2038	35,683,830	5,706,355	41,390,185
2039-2043	11,563,525	964,910	12,528,435
2044-2048	149,970	4,500	154,470
Total	<u>\$ 202,662,913</u>	<u>\$ 50,095,558</u>	<u>\$ 252,758,471</u>

Long-term Lease Liabilities

Component Units

June 30, 2023

Maturity	Principal	Interest	Total
2024	\$ 90,075,581	\$ 175,471,431	\$ 265,547,012
2025	(9,435,143)	174,121,201	164,686,058
2026	34,227,154	172,901,745	207,128,899
2027	33,649,706	171,695,632	205,345,338
2028	36,546,759	170,760,985	207,307,744
2029-2033	82,082,359	835,775,260	917,857,619
2034-2038	2,442,914	824,374,635	826,817,549
2039-2043	144,730,789	809,978,010	954,708,799
2044-2048	365,261,732	763,044,835	1,128,306,567
2049-2053	636,253,132	671,398,108	1,307,651,240
2054-2058	985,572,157	527,204,208	1,512,776,365
2059-2063	1,469,942,702	317,909,134	1,787,851,836
2064-2068	1,045,354,540	51,118,515	1,096,473,055
2069-2073	4,841	159	5,000
Total	<u>\$ 4,916,709,223</u>	<u>\$ 5,665,753,858</u>	<u>\$ 10,582,463,081</u>

Long-term Subscription-Based Information Technology Arrangements

The Commonwealth implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, for the fiscal year ended June 30, 2023. The Commonwealth has entered into contractual agreements with various vendors that convey control of the right-to-use another entity's IT asset, alone, or in conjunction with a tangible capital asset in an exchange or exchange-like transaction under GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The Commonwealth has a variety of variable payment clauses within its SBITAs, including variable payments based on future performance, usage of the underlying asset, number of software licenses, or hours of access necessary. Such amounts are recognized as an expense in the period in which the obligation for those payments is incurred. During the year, the Commonwealth recorded \$19.9 million for variable payments related to a SBITA.

Presented in the following tables are repayment schedules for long-term SBITA liabilities as of June 30, 2023.

Long-term Subscription-Based Information Technology Arrangements

Governmental Funds

June 30, 2023

Maturity	Principal	Interest	Total
2024	\$ 62,543,113	\$ 7,441,626	\$ 69,984,739
2025	26,903,532	3,719,917	30,623,449
2026	15,302,093	2,642,320	17,944,413
2027	13,306,978	1,928,921	15,235,899
2028	6,828,471	1,249,343	8,077,814
2029-2033	19,897,748	2,421,957	22,319,705
2034-2038	319,512	25,576	345,088
Total	<u>\$ 145,101,447</u>	<u>\$ 19,429,660</u>	<u>\$ 164,531,107</u>

Long-term Subscription-Based Information Technology Arrangements

Business-type Activities

June 30, 2023

Maturity	Principal	Interest	Total
2024	11,158,279	6,740,955	17,899,234
2025	10,395,453	6,415,088	16,810,541
2026	10,182,282	6,102,290	16,284,572
2027	9,876,891	5,591,151	15,468,042
2028	9,218,295	5,200,833	14,419,128
2029-2033	45,685,831	21,306,482	66,992,313
2034-2038	53,199,414	13,495,103	66,694,517
2039-2043	57,523,046	4,096,954	61,620,000
Total	<u>\$ 207,239,491</u>	<u>\$ 68,948,856</u>	<u>\$ 276,188,347</u>

Long-term Subscription-Based Information Technology Arrangements

Component Units

June 30, 2023

Maturity	Principal	Interest	Total
2024	81,873,713	4,931,388	86,805,101
2025	52,628,577	3,568,806	56,197,383
2026	33,426,168	2,418,016	35,844,184
2027	19,902,288	1,253,967	21,156,255
2028	10,085,920	720,239	10,806,159
2029-2033	11,619,168	695,362	12,314,530
2034-2038	319,355	9,968	329,323
Total	<u>\$ 209,855,189</u>	<u>\$ 13,597,746</u>	<u>\$ 223,452,935</u>

Notes Payable

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

Primary Government	
Installment Notes from Direct Borrowings	\$ 88,575
Total Primary Government	<u>88,575</u>
Component Units	
Virginia Public School Authority	191,765
Nonmajor Component Units	1,622,501
Nonmajor Component Units from Direct Borrowings	167,559
Installment Notes from Direct Borrowings	225,249
Subtotal (excluding Foundations)	<u>2,207,074</u>
Foundations:	
Notes Payable	372,964
Subtotal - Foundations	<u>372,964</u>
Total Component Units	<u>2,580,038</u>
Total Notes Payable	<u>\$ 2,668,613</u>

The Virginia Public School Authority (major component unit) notes of \$191.8 million are for the School Technology and Security Notes Program. The note proceeds were used to finance technology equipment purchases and to make grants to school divisions for the purchase of security equipment. The notes will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund (major special revenue).

An additional amount of \$1.6 billion is comprised primarily of higher education institutions' (nonmajor component units) promissory notes with the Virginia College Building Authority (VCBA) (major component unit) to finance the construction of various higher education facilities pursuant to the Pooled Bond Program. Interest rates range from 0.5 percent to 5.6 percent and shall be paid semi-annually and the planned interest payments total \$427.0 million. Additionally, in accordance with the American Recovery and Reinvestment Act, the Commonwealth expects to receive a Build America Bonds (BABs) interest subsidy to reimburse interest payments of \$13.7 million. The final principal payment is due in fiscal year 2053.

University of Virginia (nonmajor) and Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – nonmajor component unit) reported notes payable of \$6.2 million and \$161.3 million, respectively. For additional information pertaining to these direct borrowings, refer to the separately issued financial statements. In addition, the Hampton Roads Sanitation District Commission (nonmajor component unit) reported notes payable of \$68.6 million.

Various foundations (nonmajor 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, 2023, are shown in the following table (dollars in thousands).

Foundations' Notes Payable (Component Units) (1)

Maturity	Principal
2024	\$ 41,591
2025	67,701
2026	21,440
2027	13,925
2028	20,673
Thereafter	<u>207,634</u>
Total	<u>\$ 372,964</u>

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 \$313.8 million of the total outstanding debt of the Commonwealth. Presented in the following tables are repayment schedules for installment purchase obligations as of June 30, 2023.

Installment Purchase Obligations from Direct Borrowings

Governmental Funds

June 30, 2023

Maturity	Principal	Interest	Total
2024	\$ 14,056,250	\$ 1,896,447	\$ 15,952,697
2025	14,016,011	1,594,577	15,610,588
2026	13,157,266	1,290,290	14,447,556
2027	12,224,595	1,122,429	13,347,024
2028	11,893,388	925,790	12,819,178
2029-2033	17,930,752	1,767,382	19,698,134
2034-2038	5,296,759	191,429	5,488,188
Total	<u>\$ 88,575,021</u>	<u>\$ 8,788,344</u>	<u>\$ 97,363,365</u>

Installment Purchase Obligations from Direct Borrowings

Component Units

June 30, 2023

Maturity	Principal	Interest	Total
2024	\$ 9,694,097	\$ 10,280,428	\$ 19,974,525
2025	645,376	10,317,819	10,963,195
2026	3,796,840	10,375,578	14,172,418
2027	4,465,033	10,428,341	14,893,374
2028	5,032,841	10,424,323	15,457,164
2029-2033	15,780,208	52,222,495	68,002,703
2034-2038	(4,108,643)	53,842,012	49,733,369
2039-2043	(3,664,682)	56,155,051	52,490,369
2044-2048	4,829,321	56,436,654	61,265,975
2049-2053	18,983,568	53,218,083	72,201,651
2054-2058	41,340,754	44,619,492	85,960,246
2059-2063	74,351,998	27,988,650	102,340,648
2064-2068	54,102,467	4,269,078	58,371,545
Total	<u>\$ 225,249,178</u>	<u>\$ 400,578,004</u>	<u>\$ 625,827,182</u>

The foundations (nonmajor component units) had no installment purchase obligations as of June 30, 2023.

On May 23, 2016, the Virginia Department of Transportation (VDOT) (primary government) and Chesterfield County (County) signed a memorandum of understanding concerning payment of interest relating to the County's contribution to VDOT for the construction of the Powhite Parkway Extension Project. The parties agreed that the interest to be paid by VDOT on the County's contribution to the construction of the Powhite Parkway Extension is \$18.5 million. The interest requirement paid during fiscal year 2023 totaled \$1.2 million. The outstanding interest amount of \$99,185 is payable in annual installments on September 1 in the fiscal year 2024. This interest is applicable to a note payable that VDOT repaid to the County in fiscal year 2014.

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 (current value of securities held to maturity) of the assets funding the payments.

Lottery prizes payable for the fiscal year ended June 30, 2023, are shown in the following table:

	<u>Jackpot</u>	<u>Win For Life</u>	<u>Total</u>
Due within one year	\$ 7,586,524	\$ 5,975,589	\$ 13,562,113
Due in subsequent years	<u>106,351,497</u>	<u>78,214,658</u>	<u>184,566,155</u>
Total (current value)	113,938,021	84,190,247	198,128,268
Add: Interest to Maturity	<u>81,028,979</u>	<u>34,295,753</u>	<u>115,324,732</u>
Lottery Prizes Payable at Maturity	<u>\$ 194,967,000</u>	<u>\$ 118,486,000</u>	<u>\$ 313,453,000</u>

Educational Benefits Payable

The Virginia College Savings Plan administers the Defined Benefit 529 Program, which consists of two savings options: Prepaid529 and Tuition Track Portfolio. Prepaid529 services contracts that provide for full future tuition and mandatory fee payments at Virginia's higher education institutions and differing payouts at private or out-of-state institutions using actuarially determined amounts. Prepaid529 is closed to new contracts. The Tuition Track Portfolio allows for the purchase of units to be redeemed for future tuition costs. The value of a unit is tied to the average tuition inflation rate of Virginia four year institutions.

As of June 30, 2023, educational benefits payable of \$1.4 billion have been recorded for the Defined Benefit 529 program on the statement of net position for the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the Defined Benefit 529 program. In addition, a receivable in the amount of \$69.5 million has been recorded to reflect the actuarially determined present value of future payments anticipated from contract holders.

29. OTHER REVENUE

The following table (dollars in thousands) summarizes Other Revenue for the fiscal year ended June 30, 2023.

	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	\$ 5,685	\$ 257,934	\$ 7,659	\$ 392	\$ 28,752
Major Special Revenue Funds:					
Commonwealth Transportation	19,630	28,280	475,699	7,275	662
Federal Trust	—	31,516	250	52	—
Literary	—	35,882	—	—	—
Nonmajor Governmental Funds	174,983	50,670	86,168	6,840	284,451
Major Enterprise Funds:					
Virginia College Savings Plan	—	—	—	—	—
Nonmajor Enterprise Funds	—	18,452	—	—	—
Internal Service Funds	—	—	—	—	—
Private Purpose Trust Funds	—	—	—	—	—
Pension and Other Employee Benefit Trust Funds	—	—	—	—	—
Custodial Funds - Other	—	—	—	—	—
Total Primary Government	<u>\$ 200,298</u>	<u>\$ 422,734</u>	<u>\$ 569,776</u>	<u>\$ 14,559</u>	<u>\$ 313,865</u>

	Tobacco Master Settlement	Taxes	Other (1) (2)	Total Other Revenue
Primary Government:				
General	\$ 56,987	\$ —	\$ 276,001	\$ 633,410
Major Special Revenue Funds:				
Commonwealth Transportation	—	—	67,332	598,878
Federal Trust	—	—	624,185	656,003
Literary	—	—	—	35,882
Nonmajor Governmental Funds	—	—	499,746	1,102,858
Major Enterprise Funds:				
Virginia College Savings Plan	—	—	208,602	208,602
Nonmajor Enterprise Funds	—	4,680	10,531	33,663
Internal Service Funds	—	—	77,784	77,784
Private Purpose Trust Funds	—	—	10	10
Pension and Other Employee Benefit Trust Funds	—	—	4,232	4,232
Custodial Funds - Other	—	—	14,903	14,903
Total Primary Government	<u>\$ 56,987</u>	<u>\$ 4,680</u>	<u>\$ 1,783,326</u>	<u>\$ 3,366,225</u>

Note (1): \$229,212 (dollars in thousands) and \$574,855 (dollars in thousands) are related to prior year expenditures refunded in the current fiscal year for the General Fund and Federal Trust (major special revenue), respectively, and \$27,120 (dollars in thousands) is related to localities' share of capital funding for the Washington Metropolitan Area Transit Authority in the Commonwealth Transportation Fund (major special revenue). \$195,645 (dollars in thousands) is related to proceeds from unclaimed property in the Unclaimed Property Fund (nonmajor governmental), \$91,650 (dollars in thousands) is related to indirect costs, reimbursable employee benefits, law enforcement services and court collection fees in the Other Special Revenue Fund, \$26,090 (dollars in thousands) is related to welfare activity receipts in the Health and Social Services Special Revenue Fund, and the remaining \$186,361 (dollars in thousands) is related to other miscellaneous activities in the nonmajor governmental funds.

Note (2): Of this amount, \$77,784 (dollars in thousands) represents a decline in the actuarial estimate of long-term claims payable liabilities for the Risk Management internal service fund.

30. TAX ABATEMENTS

GASB Statement No. 77, *Tax Abatements*, requires disclosures to be made for tax abatements. These arise from agreements between the Commonwealth and taxpayers and result in reduced tax revenue when the taxpayer promises to provide economic benefits to the Commonwealth. As of June 30, 2023, the Commonwealth participates in the following tax abatement programs in excess of \$1.0 million. There are no provisions for recapturing abated taxes since the requirements must be met prior to receiving the abatement.

- The Retail Sales and Use Tax Data Center Exemptions are intended to attract data centers to the Commonwealth pursuant to Section 58.1-609.3(18) of the *Code of Virginia*. Qualifying entities may purchase or lease certain computer equipment, enabling software and other enabling hardware for use in the data center exempt from the retail sales and use tax. Each recipient's retail sales and use taxes are reduced by being able to purchase qualifying items for use in the data center without having to pay the retail sales and use tax on the purchase price. The amount of the abatement for each recipient is determined by multiplying the purchase price of the qualifying computer equipment, enabling software and other enabling hardware purchased by the recipient by the rate of the retail sales and use tax that would be imposed on the purchase if the exemption was not available. The rate of the retail sales and use tax is 6.0 percent in the Northern Virginia, Hampton Roads, and Central Virginia regions; 7.0 percent in the Historic Triangle region; 6.3 percent in the city of Danville and the counties of Charlotte, Gloucester, Halifax, Henry, Northampton, Patrick, and Pittsylvania; and 5.3 percent in the remainder of the state. The exemption is available for data centers that (i) are located in a Virginia locality; (ii) result in a new capital investment on or after January 1, 2009, of at least \$150.0 million; and (iii) result in the creation on or after July 1, 2009, of at least 50 new jobs by the data center operator and the tenants of the data center, collectively, associated with the operation or maintenance of the data center provided that such jobs pay at least one and one-half times the prevailing average wage in that locality. The requirement of at least 50 new jobs is reduced to 10 new jobs if the data center is located in a distressed locality at the time of the execution of a memorandum of understanding with the Virginia Economic Development Partnership Authority (nonmajor component unit). Additionally, the requirement of a \$150.0 million capital investment is reduced to \$70.0 million for data centers that qualify for the reduced jobs requirement. Effective July 1, 2012, the exemption was extended to purchases and leases made by tenants of a data center that meet the requirements of the data center exemption.

In order to qualify for the exemption, the data center operator must enter into a memorandum of

understanding with the Virginia Economic Development Partnership Authority. The exemption is scheduled to sunset June 30, 2035. The amount of abated taxes for fiscal year 2023 is estimated to be \$750.4 million.

- The Motion Picture Production Tax Credit is intended to encourage the filming of motion picture productions in the Commonwealth. Pursuant to Section 58.1-439.12:03 of the *Code of Virginia*, a motion picture production company with qualifying expenses of at least \$250,000 may abate its individual income tax or corporate income tax liability by the amount of the Motion Picture Production Tax Credit. The amount of the tax credit is equal to (i) 15.0 percent of the production company's qualifying expenses or (ii) 20.0 percent of such expenses if the production is filmed in an economically distressed area of the Commonwealth. In addition to the credit for the qualifying expenses incurred by a motion picture production company, such company may receive an Additional Virginia Resident Credit and an Additional Virginia Resident First-Time Industry Employee Credit. The Additional Virginia Resident Credit equals (i) 10.0 percent of the total aggregate payroll for Virginia residents employed in connection with the production of a film in Virginia when total production costs in Virginia are at least \$250,000, but not more than \$1.0 million or (ii) 20.0 percent of the total aggregate payroll of such residents when total production costs in Virginia exceed \$1.0 million. The Additional Virginia Resident First-Time Industry Employee Credit is equal to 10.0 percent of the total aggregate payroll for Virginia residents employed for the first time as actors or members of a production crew in connection with the production of a film in Virginia.

The Motion Picture Production Tax Credit is a refundable tax credit. Therefore, if the amount of credit that a company is allowed to claim exceeds the company's tax liability for the taxable year, the excess amount of credit will be refunded to the company. Companies must have a memorandum of understanding with the Virginia Tourism Authority (nonmajor component unit) in order to participate in this program.

The credit is scheduled to sunset January 1, 2027. The annual cap on the amount of credits granted for a fiscal year is \$6.5 million, and this amount is expected to be claimed annually. While a motion picture production company may receive approval within a given year, the credits may not be claimed by the taxpayer until at the earliest, the filing of a return. The filing of a return often occurs in a fiscal year subsequent to the year during which a credit is granted. In addition, the Virginia Tourism Authority is allowed to issue credits and a taxpayer can claim credits in future fiscal years subject to certain conditions. Because of these timing differences between when tax credits are granted and when they are claimed, the credits claimed in a fiscal year may fluctuate compared to the \$6.5

million annual cap. For fiscal year 2023, \$6.5 million of income tax was abated.

- The Retail Sales and Use Tax Entitlement to Tax Revenues from Tourism Projects is intended to encourage the development of certain tourism projects by assisting the developer in (i) obtaining gap financing needed to meet a shortfall in project funding between the expected costs of the project and the debt and equity capital provided by the developer and (ii) making payments of principal and interest on the gap financing.

If the project qualifies for the entitlement, the developer is entitled to an amount equivalent to a one percent state sales tax on transactions taking place on the premises of the tourism project. The entitled sales tax revenues must be applied to payments of principal and interest on the gap financing. The entitlement continues until the gap financing is paid in full.

Section 58.1-3851.1 of the *Code of Virginia* imposes requirements on both the local government and the developer in order for the project to qualify for the entitlement. The locality must have (i) established a tourism zone pursuant to Section 58.1-3851 of the *Code of Virginia*; (ii) established a tourism plan under the guidelines of the Virginia Tourism Authority; (iii) authorized a tourism project that meets a deficiency identified in the tourism plan; and (iv) dedicated an amount equivalent to a one percent sales tax on transactions taking place on the premises of the tourism project to the payment of principal and interest on the gap financing. The developer must have (i) secured a minimum of 70.0 percent of funding for the project in place through debt or equity; and (ii) entered into a performance agreement with the local economic development authority to pay an access fee equivalent to a one percent sales tax on transactions taking place on the premises of the tourism project to the payment of principal and interest on the gap financing. In order for the project to qualify for the entitlement, the project must be certified by the State Comptroller. The amount of abated taxes for fiscal year 2023 was \$1.2 million.

31. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2023.

(Dollars in Thousands)

	Insurance Claims	Lottery Prize Expense	Total Prizes and Claims
Proprietary Funds:			
Major Enterprise Funds:			
Virginia Lottery	\$ —	\$ 3,405,341	\$ 3,405,341
Unemployment Compensation	191,441	—	191,441
Nonmajor Enterprise Funds	522,665	—	522,665
Total Enterprise Funds	<u>\$ 714,106</u>	<u>\$ 3,405,341</u>	<u>\$ 4,119,447</u>
Internal Service Funds	<u>\$ 1,696,762</u>	<u>\$ —</u>	<u>\$ 1,696,762</u>

32. DEPRECIATION AND AMORTIZATION

The following table summarizes Depreciation and Amortization Expense as of June 30, 2023.

(Dollars in Thousands)

	Depreciation	Amortization	Total Depreciation and Amortization
Proprietary Funds:			
Major Enterprise Funds:			
Virginia Lottery	\$ 4,647	\$ 5,424	\$ 10,071
Virginia College Savings Plan	222	840	1,062
Nonmajor Enterprise Funds	13,075	35,528	48,603
Total Enterprise Funds	<u>\$ 17,944</u>	<u>\$ 41,792</u>	<u>\$ 59,736</u>
Internal Service Funds	<u>\$ 26,311</u>	<u>\$ 70,898</u>	<u>\$ 97,209</u>

33. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2023.

(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	\$ —	\$ 416	\$ 2,282	\$ 2,698
Nonmajor Enterprise Funds	53	6,717	4,062	10,832
Total Enterprise Funds	<u>\$ 53</u>	<u>\$ 7,133</u>	<u>\$ 6,344</u>	<u>\$ 13,530</u>
Internal Service Funds	<u>\$ 1,773</u>	<u>\$ 2,670</u>	<u>\$ 22,784</u>	<u>\$ 27,227</u>
Fiduciary Funds:				
Pension and Other Employee Benefit Trust Funds (2)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,259</u>	<u>\$ 4,259</u>
Custodial Funds - Other (2)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 112</u>	<u>\$ 112</u>

Note (1): \$2,282 (dollars in thousands) can be attributed to the Defined Benefit 529 Program for the SOAR scholarship program, Access and Affordability program, and other promotional scholarships. \$21,956 (dollars in thousands) can be attributed to expenses related to insurance program expenses in the Risk Management internal service fund.

Note (2): Fiduciary expenses of \$4,371 (dollars in thousands) are not included in the Government-wide Statement of Activities.

34. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2023.

(Dollars in Thousands)

	Gain/(Loss) on Sale of Capital Assets	Securities Lending	Interest Expense	Other (1)	Total Other Non- Operating Revenue/ (Expenses)
Proprietary Funds:					
Major Enterprise Funds:					
Virginia Lottery	\$ 11	\$ (937)	\$ (553)	\$ 1,611	\$ 132
Virginia College Savings Plan	—	(34)	(73)	544	437
Nonmajor Enterprise Funds	(17)	(1,415)	(11,065)	13,911	1,414
Total Enterprise Funds	<u>(6)</u>	<u>(2,386)</u>	<u>(11,691)</u>	<u>16,066</u>	<u>1,983</u>
Internal Service Funds	<u>4,923</u>	<u>(3,498)</u>	<u>(34,056)</u>	<u>3,530</u>	<u>(29,101)</u>

Note (1): Other Non-Operating Revenue/Expenses of the nonmajor enterprise funds are primarily comprised of amounts reported by Alcoholic Beverage Control.

35. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2023 (dollars in thousands).

Transfers Out (Reported In):	Transfers In (Reported In):								
	General	Commonwealth Transportation	Federal Trust	Literary	Nonmajor Governmental Funds	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
Primary Government									
General	\$ —	\$ 38,020	\$ —	\$ —	\$ 455,890	\$ —	\$ —	\$ —	\$ 493,910
Major Special Revenue Funds:									
Commonwealth Transportation	28,657	—	—	—	542,346	—	—	388	571,391
Federal Trust	54	7,965	—	—	4,509	3,845	1,865	—	18,238
Literary	50,000	—	—	—	—	—	—	—	50,000
Nonmajor Governmental Funds	61,677	330	6,404	240,000	530,215	—	—	—	838,626
Major Enterprise Funds:									
Virginia Lottery	867,352	—	—	11,032	—	—	—	—	878,384
Virginia College Savings Plan	292	—	—	—	—	—	—	—	292
Unemployment Compensation	—	—	3,776	—	—	—	—	—	3,776
Nonmajor Enterprise Funds	230,230	—	—	—	15,184	—	—	—	245,414
Internal Service Funds	—	—	—	—	23,734	—	—	—	23,734
Total Primary Government	<u>\$ 1,238,262</u>	<u>\$ 46,315</u>	<u>\$ 10,180</u>	<u>\$ 251,032</u>	<u>\$ 1,571,878</u>	<u>\$ 3,845</u>	<u>\$ 1,865</u>	<u>\$ 388</u>	<u>\$ 3,123,765</u>

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; and (3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

As of June 30, 2023, the transfers executed pursuant to statutory or budgetary requirements are predominantly comprised of transfers of \$867.4 million from Virginia Lottery (major enterprise) to the General Fund, a transfer of \$229.7 million from the Alcoholic Beverage Control Fund (nonmajor enterprise) to the General Fund, and a transfer of \$240.0 million from the Unclaimed Property Fund (nonmajor governmental) to the Literary Fund (major special revenue).

As discussed previously, transfers to move receipts restricted for debt service included a transfer from the General Fund of \$411.7 million, a transfer from the Commonwealth Transportation Fund (major special revenue) of \$533.0 million, and a transfer from Capital Project Funds (nonmajor governmental) of \$527.7 million.

Transfers from the General Fund of \$38.0 million to the Commonwealth Transportation Fund (major special revenue) for transportation related activities.

36. ENDOWMENTS

Donor-restricted endowments reside primarily within the higher education institutions. The net appreciation available for expenditure is \$2.2 billion as of June 30, 2023. Of this amount, \$1.9 million is reported as unrestricted net position and the remainder is reported as restricted net position. 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.

37. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2023.

	Virginia Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows Resulting from:						
Payments for Prizes, Claims, and Loss Control:						
Lottery Prizes	\$ (3,320,290)	\$ —	\$ —	\$ —	\$ (3,320,290)	\$ —
Claims and Loss Control	—	—	(205,893)	(525,585)	(731,478)	(1,687,695)
Total	<u>\$ (3,320,290)</u>	<u>\$ —</u>	<u>\$ (205,893)</u>	<u>\$ (525,585)</u>	<u>\$ (4,051,768)</u>	<u>\$ (1,687,695)</u>
Other Operating Revenue:						
Other Operating Revenue	\$ —	\$ 1	\$ —	\$ 10,575	\$ 10,576	\$ 24
Total	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 10,575</u>	<u>\$ 10,576</u>	<u>\$ 24</u>
Other Operating Expense:						
Other Operating Expenses (1)	\$ —	\$ (2,282)	\$ —	\$ (68,913)	\$ (71,195)	\$ (24,407)
Total	<u>\$ —</u>	<u>\$ (2,282)</u>	<u>\$ —</u>	<u>\$ (68,913)</u>	<u>\$ (71,195)</u>	<u>\$ (24,407)</u>
Other Noncapital Financing Receipt Activities:						
Advances/Contributions from the Commonwealth	\$ —	\$ 2,000	\$ —	\$ 52,507	\$ 54,507	\$ 13,354
Receipts from Taxes	—	—	—	348,603	348,603	—
Games of Skill Proceeds, Retail Applications, and Rents	515	—	—	279	794	—
Interest	—	—	—	—	—	110
Total	<u>\$ 515</u>	<u>\$ 2,000</u>	<u>\$ —</u>	<u>\$ 401,389</u>	<u>\$ 403,904</u>	<u>\$ 13,464</u>
Other Noncapital Financing Disbursement Activities:						
Repayments of Advances/Contributions from the Commonwealth	\$ —	\$ —	\$ —	\$ (45,189)	\$ (45,189)	\$ (21,543)
Other Noncapital Financing Disbursement Activities	—	—	—	(200)	(200)	—
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (45,389)</u>	<u>\$ (45,389)</u>	<u>\$ (21,543)</u>
Other Capital and Related Financing Receipt Activities:						
Interest	\$ —	\$ —	\$ —	\$ 1,258	\$ 1,258	\$ —
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,258</u>	<u>\$ 1,258</u>	<u>\$ —</u>
Other Capital and Related Financing Disbursement Activities:						
Other Capital and Related Financing Disbursement Activities	\$ —	\$ —	\$ —	\$ (5,222)	\$ (5,222)	\$ —
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (5,222)</u>	<u>\$ (5,222)</u>	<u>\$ —</u>

Note (1): \$2,282 (dollars in thousands) can be attributed to SOAR scholarship expenses, Access and Affordability program, and other scholarships and awards. Also, \$21,956 (dollars in thousands) can be attributed to expenses related to insurance program expenses in the Risk Management internal service fund and \$509,422 can be attributed to Affordable Care Act related fees in the Health Care Fund internal service fund.

38. 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 healthcare programs. At the time of the settlement, it was estimated that the Commonwealth could receive approximately \$4.1 billion over the duration of the settlement. 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 Tobacco Region Revitalization Commission (Commission) (nonmajor component unit), 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) (nonmajor component unit). 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. Monies from the fund can also be used to assist in financing efforts to reduce childhood obesity through such means as educational and awareness programs, implementing evidence based practices, and assisting schools and communities with policies and programs.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies were accounted for in these funds and in the General Fund. Of the Settlement monies, 50.0 percent was deposited into the Tobacco Indemnification and Community Revitalization Fund at the Commission and 8.5 percent is deposited into the Virginia Tobacco Settlement Fund at the Foundation. The remaining 41.5 percent is reported in the General Fund.

Pursuant to Purchase and Sale Agreements executed in 2005 and 2007, the Commonwealth, acting as an agent on behalf of the Commission, sold the Commission's future right, title and interest in the Tobacco Settlement Revenues (TSRs) to the Tobacco Settlement Financing Corporation (Corporation) (related organization).

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. Bonds issued by the Corporation to finance the purchase price are asset-backed instruments secured solely by the Corporation's right to receive TSRs. At the time of issuance these revenues were expected to produce sufficient funds to repay the bond obligations issued by the Corporation.

The Commission is a nonmajor component unit of the Commonwealth, and the Corporation is disclosed as a related organization.

39. PUBLIC-PRIVATE AND PUBLIC-PUBLIC PARTNERSHIP ARRANGEMENTS (PPPs)

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, supersedes GASB Statement No. 60, *Service Concession Arrangements*, and describes a PPP as an arrangement in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset for a period of time in an exchange or exchange-like transaction.

SERVICE CONCESSION ARRANGEMENTS (SCAs)

GASB Statement No. 94 describes the criteria for when an arrangement is classified as an SCA. The basic criteria are as follows: the operator of the capital asset owned by the transferor has the right to provide services in exchange for significant consideration; the operator's revenue must come from a third party; the transferor has the ability to modify or approve which services the operator is to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; the transferor is entitled to significant residual interest in the service utility of the underlying asset at the end of the arrangement.

Primary Government

The Commonwealth of Virginia has five SCAs as of June 30, 2023: Pocahontas 895, the 495 Express Lanes, Elizabeth River – Midtown Tunnel, the 95 Express Lanes, and the I-66 Outside the Beltway Express Lanes. They are all related to highway construction and operation and were established per the Public-Private Transportation Act of 1995, as amended (PPTA). PPTA project goals are to provide highway projects to the public in a timely and cost effective manner with private funding and support.

Pocahontas 895

On June 21, 2006, the Pocahontas Parkway Association (Association – previously reported as a blended component unit of the Virginia Department of Transportation (VDOT), part of primary government) signed an agreement with Transurban (895) LLC (Transurban). Under the terms of the agreement, all assets and rights of the Association under the Comprehensive Agreement with VDOT were transferred to Transurban. In exchange for the existing toll road and

other assets, Transurban transferred sufficient funds and securities to pay or defease all outstanding bonds of the Association and pay all other outstanding obligations owed to VDOT. Additionally, Transurban agreed to construct an enhancement to the original toll road, and this enhancement was completed and placed in service in 2011.

During the 99-year agreement term, VDOT will have fee title or good and valid interest in the asset. VDOT retains the right of inspection of the asset and has outlined maximum toll charges and increases in the terms of the agreement. Capital assets of \$337.2 million and deferred inflows of \$472.0 million are included in the government-wide financial statements. No contractual liabilities exist for this arrangement as of June 30.

During fiscal year 2014, the Transurban Board approved the transfer of Pocahontas 895 to the lenders of the asset due to lower revenues than anticipated. On May 15, 2014, DBi Services assumed control of Pocahontas 895. In December 2016, the majority owner of toll rights, Macquarie and other rights owners closed on the sale of 100.0 percent of the tolling rights to Globalvia. Macquarie CAF Management LLC, Pocahontas Holdings LLC and Meeko LLC entered into a Sale and Purchase Agreement with Pocahontas Parkway Holdings LLC and Magnolia Operations LLC (Globalvia Inversiones SAU Subsidiaries) (as the buyers) in September 2016. The acquisition was effective on December 20, 2016 after VDOT's approval.

VDOT approved Globalvia Operations USA LLC as the new O&M contractor (as defined in the Concession Agreement) and the O&M agreement between Globalvia Operations USA LLC and Pocahontas Parkway Operations LLC (company the concession agreement with VDOT was transferred to after the acquisition in December 2016) in December 2017. Globalvia Operations USA LLC replaced DBi as the new O&M contractor in February 2018.

Globalvia acquired the company that had, at that time, the agreement with VDOT to develop, finance, operate, manage the tolls and maintain Route 895-Pocahontas Parkway. The concession agreement period will end in 2105.

495 Express Lanes

On December 19, 2007, VDOT signed an 80-year public-private partnership agreement with Capital Beltway Express, LLC. The purpose of this agreement is to build new express lanes to provide users with a faster and more reliable travel option. The construction of the express lanes was completed in November 2012.

During the 80-year agreement, VDOT maintains regulatory control and jurisdiction of the express lanes. VDOT will have fee title or good and valid interest in the express lanes. The lanes will remain open for the public as long as the applicable tolls are paid. Capital assets of \$676.8 million and deferred inflows of \$911.3 million are included in the government-wide financial

statements. Liabilities are contingent on specific events occurring pursuant to the agreement.

On September 30, 2021, the second amended and restated Comprehensive Agreement (ARCA) was signed between VDOT and Capital Beltway Express, LLC to add the scope of project work related to the northern extension of the 495 Express Lanes (495 NEXT), which is the approximately 2-mile extension of the existing express lanes from Route 738 to the vicinity of George Washington Memorial Parkway. As of June 2023, 495 NEXT is undergoing construction.

Elizabeth River – Midtown Tunnel

On December 5, 2011, VDOT signed a 58-year public-private partnership agreement with Elizabeth River Crossings OPCO, LLC. The purposes of this agreement are to design, build, finance, operate, and maintain a new Midtown Tunnel, adjacent to the existing Midtown Tunnel, provide improvements to the existing Midtown Tunnel and the Downtown Tunnel, and to provide various extensions and improvements of the Martin Luther King Jr. (MLK) Freeway and I-264. As of September 1, 2017, all project components of this agreement have reached substantial completion and are in service.

During the agreement, Elizabeth River Crossings OPCO, LLC will operate and maintain the road. The revenue source for the concessionaire will be toll collections, excluding the MLK Freeway, which will be used for maintenance, operating and return on investment for constructing the project. At the end of the 58-year term, control of and the rights to operate the facilities will revert back to VDOT. Capital assets of \$844.9 million and deferred inflows of \$814.1 million are included in the government-wide financial statements. Liabilities are contingent on specific events occurring pursuant to the agreement. In July 2017, VDOT issued a Department Project Enhancement directive for Elizabeth River Crossings OPCO LLC, to design and build noise barrier walls on I-264. After the Preliminary Field Inspection Plans were developed, VDOT took over to complete the project due to lower costs. The project was initially advertised on September 12, 2022. The results of the bids were above the Department's estimates due to nationwide inflationary conditions. The current funds allocated to the project equal \$24.4 million with an additional \$9.1 million funding to be allocated to account for inflationary adjustments. The project was readvertised on August 8, 2023, based on the increase in funding allocation. The receipt and opening of the bids are scheduled for early 2024. In addition to these project enhancements, the Federal Highway Administration (FHWA) has also required an annual traffic study for the Value Pricing Pilot Program (VPPP) to monitor driver behavior, traffic volume, transit ridership, air quality, and availability of funds for transportation programs. VDOT has completed Years one to seven of the ten year VPPP study.

95 Express Lanes

On July 31, 2012, VDOT signed a 73-year public-private partnership agreement with 95 Express Lanes, LLC. This project will create approximately 29 miles of Express Lanes on I-95 in Northern Virginia. The project will also add capacity to the existing high occupancy vehicle (HOV) lanes. The construction of the express lanes was completed in December 2014.

During the agreement, 95 Express Lanes LLC will operate and maintain the road. The revenue source for the concessionaire will be toll collections which will be used for maintenance, operating and return on investment for constructing the project. At the end of the 73-year term, control of and the rights to operate the facilities will revert back to VDOT. The lanes will remain open for the public as long as the applicable tolls are paid. Capital assets of \$470.6 million and deferred inflows of \$556.6 million are included in the government-wide financial statements. Liabilities are contingent on specific events occurring pursuant to the agreement.

During fiscal year 2016, the Commonwealth Transportation Board awarded a contract to design and construct a reversible extension of the 95 Express Lanes at the southern terminus in Stafford County. The approximately 2.5-mile extension will carry traffic beyond the location where the 95 Express Lanes currently end. The construction began in fiscal year 2017 and lanes opened to traffic on October 31, 2017. This 2.5-mile extension resulted in an increased value of \$25.7 million to the 95 Express Lanes SCA.

On June 8, 2017, an amended and restated Comprehensive Agreement was signed between VDOT and 95 Express Lanes LLC to include the scope of the project work for the I-395 northern extension. The Comprehensive Agreement was updated to include this addition to the project and payments to VDOT for transit improvements. VDOT reached commercial close with 95 Express Lanes LLC on June 8, 2017, and financial close was completed on July 25, 2017, for this project. Construction on the 8-mile I-395 extension began in summer of 2017 and opened to traffic on November 17, 2019. In consideration for the rights granted by VDOT to 95 Express Lanes LLC, solely in respect of the I-395 Project, 95 Express Lanes LLC made an up-front payment to VDOT of \$15.0 million on the I-395 Project Service Commencement date. Deferred inflows of \$14.2 million relating to the 395 Express Lanes are included in the fund financial statements. Additionally, as part of the up-front consideration, VDOT will receive an annual payment that escalates at a rate of 2.5 percent per annum set forth in the Amended and Restated Comprehensive Agreement (ARCA). Accordingly, accounts receivable of \$975.0 million and deferred inflows of \$975.0 million, relating to the present value of the annual installment payments discounted at 2.5 percent are included in the fund financial statements. Capital assets of \$258.9 million and deferred inflows of \$284.7 million are included in the government-wide financial statements. Liabilities

are contingent on specific events occurring pursuant to the agreement.

In fiscal year 2017, planning was initiated on the additional extension of the Express Lanes from Garrisonville Road to Route 17 in Stafford County, which is about 10 miles. It will have direct connection with both the northbound and southbound Rappahannock River crossing projects, access points and operational improvements.

On April 18, 2019, a second amended and restated Comprehensive Agreement was signed between VDOT and 95 Express Lanes LLC to add the scope of the project work for the Fredericksburg Extension. The Comprehensive Agreement was updated to include payments to VDOT. At financial close on April 30, 2019, 95 Express Lanes LLC made a \$45.0 million Initial Permit Fee Buyout Payment. The Concessionaire also provided a right of way cost deposit of \$2.5 million and \$4.0 million for southbound Rappahannock River Crossing work overlap funding. Deferred inflows of \$48.2 million are included in the fund financial statements. VDOT received an additional \$65.9 million from 95 Express Lanes LLC at the additional financial close in July 2019, which is a sum of \$11.5 million Private Activity Bonds (PABs) payment and \$54.4 million design-build price protection benefits. Deferred inflows of \$62.0 million are included in the fund financial statements. The concessionaire will make \$232.0 million Final Permit Fee Buyout Payments in installments as set forth in the Amended and Restated Comprehensive Agreement. Accounts Receivable of \$232.0 million and deferred inflows of \$217.7 million are included in the fund financial statements. As of June 2023, the Fredericksburg Extension project is under construction.

I-66 Outside the Beltway Express Lanes

On December 8, 2016, a 50-year Public Private Partnership Agreement (the Agreement) between VDOT, the Department of Rail and Public Transportation (DRPT), and private partner, I-66 Express Mobility Partners LLC, was signed.

The \$2.4 billion I-66 Outside the Beltway Project with Express Mobility Partners is to build express lanes on I-66 outside the I-495 Capital Beltway. During the 50-year Agreement, VDOT maintains regulatory control and jurisdiction of the express lanes. VDOT will have fee title or good and valid interest in the express lanes. The purpose of this Agreement is to build new express lanes to provide users with a faster and more reliable travel option.

The I-66 Outside the Beltway Project will include 22.5 miles of new express lanes alongside three regular lanes from I-495 to University Boulevard in Gainesville, Virginia. The project will also provide new and improved bus service and transit routes, new and improved park and ride lots, and interchange improvements to enhance safety and reduce congestion.

Express Mobility Partners will be responsible for all costs to design, build, operate and maintain the I-66

Express Lanes, without any upfront public contribution. Financial close on the project occurred on November 9, 2017. Nine miles of the express lanes opened September 10, 2022 and the remaining 13 miles opened November 22, 2022. These lanes will remain open for the public as long as the applicable tolls are paid. Liabilities for VDOT from the Agreement are contingent on specific events occurring pursuant to the Agreement. Capital assets of \$2.3 billion and deferred inflows of \$2.3 billion are included in the government-wide financial statements.

Express Mobility Partners provided \$578.9 million during fiscal 2018, as an up-front concession payment to VDOT. Pending approval by the Commonwealth Transportation Board, these funds will be used for project oversight by VDOT, contingency risk during construction that is released during the construction period, and projects in the corridor as selected by the Commonwealth Transportation Board. Deferred inflows of \$513.3 million are included in the fund financial statements.

Additional consideration to be provided by Express Mobility Partners includes several components of the permit fee established in the Agreement. A description of these components and the stipulations around receiving is provided below.

Express Mobility Partners is required to pay VDOT a permit fee that consists of transit funding payments, support for corridor improvements, and revenue sharing as further described below.

The transit funding payment portion of the permit fee that becomes due during the operating period will be payable after debt service and required reserve accounts, and will be subject to the lock-up provisions required in the Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Agreement, but prior to support for corridor improvements and distributions. If funds are insufficient to make scheduled transit funding payments at the time due, such payments or any unpaid portion thereof will be considered past due and will remain due and payable without interest charges. In both fiscal years 2021 and 2022, VDOT received up-front payments of \$21.3 million to be used for transit investments, and deferred inflows of \$41.0 million are included in the fund financial statements. VDOT will receive annual transit investment payments as set forth in the Amended and Restated Comprehensive Agreement (ARCA). Accordingly, accounts receivable of \$514.0 million and deferred inflows of \$512.5 million, relating to the present value of the annual installment payments are included in the fund financial statements. The annual installment payments are discounted at a rate of 4.9 percent per annum.

The support for corridor improvements is to be paid as indicated in the Agreement. Amounts to be paid annually are contingent on actual toll revenues. At the end of the term of the Agreement, any unpaid balance of these payments is to be forgiven or cancelled.

Express Mobility Partners will make revenue sharing payments in amounts calculated based on actual

cumulative net present value of gross revenue at the end of each year of the Agreement. The percentage of gross revenue to be paid by Express Mobility Partners to VDOT increases in accordance with a five-tier revenue sharing scale. Revenue sharing payments do not have to be made if transit funding payments or support for corridor improvements are past due or unpaid.

Additional information on these payments can be found in the Agreement executed between VDOT, DRPT, and Express Mobility Partners.

Component Units

Aramark – Dining Services

During the year ended June 30, 2015, the University of Virginia (nonmajor) entered into an agreement with Aramark Educational Services, LLC (Aramark) for Aramark to provide dining services to the University. In return for use of University facilities, Aramark is required to make certain payments to the University and the University is required to provide certain repair and maintenance services related to the facilities during the term of the agreement. The University also receives a yearly minimum guarantee on dining and vending commissions and has a minimum guaranteed profit split on residential and athletics services regardless of gross sales. As of June 30, 2023, the University has accrued \$99.7 million in current and noncurrent receivables and a \$154.3 million deferred inflow of resources related to the service concession arrangement.

OTHER PPPs

Other PPPs that do not meet the criteria to be reported as a SCA or a lease are discussed in this section.

The University of Virginia (nonmajor component unit) is a party to a limited number of other PPPs which primarily consists of the PPP to operate the John Paul Jones Arena for concerts and sporting events. Variable payments and other inflows of resources under PPPs are not included in the measurement of the related assets and deferred inflows of resources. Variable inflows amount to \$7.7 million for the period ended June 30, 2023. Radford University (nonmajor component unit) has PPPs for dining services and bookstore services. As of June 30, 2023, the University recorded \$1.0 million in noncurrent receivables and \$781,543 in deferred inflow of resources. George Mason University (nonmajor component unit) has a PPP for arena management services. As of June 30, 2023, the University recorded \$2.7 million in current and noncurrent receivables and \$1.5 million in deferred inflow of resources. Additional information regarding PPPs can be found in the separately issued financial statements of the institutions.

40. INFORMATION TECHNOLOGY INFRASTRUCTURE

With the exception of NTT DATA (NTT), the Commonwealth is into its fifth or sixth contract year, depending on when services commenced, with all of its current IT infrastructure service providers. This includes SAIC for Multi-Services Integrator (MSI) services, Atos for managed security services, Xerox for managed print services, Iron Bow for end-user services, Unisys for server and data center services, and Verizon for voice and data network services. With a multi-services integrator (MSI) model in effect, the Commonwealth will continuously pursue new and additional IT service providers to ensure that the Commonwealth has a competitive portfolio of IT suppliers that deliver modern cost-effective technology services. The contract terms range from three years to six years, with additional renewal options on each.

Expenses in fiscal year 2023 associated with the service providers were \$219.5 million, exclusive of amounts reported as lease payments and interest expense related to GASB Statement No. 87, *Leases* and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The Commonwealth expects to spend an additional \$387.8 million over the remaining life of these contracts with the current portfolio of suppliers, exclusive of long-term lease and long-term SBITA liabilities related to GASBS No. 87 and GASBS No. 96. The remaining life calculation does not include any unexecuted renewals that are listed in the contract.

41. 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 or their auditors. 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. The increased federal funding related to the COVID-19 pandemic could impact future liabilities.

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 and transfers in the internal service funds and portions of selected rebates. The Commonwealth payback schedules computed for 2022, 2021, and 2020 which are based on fiscal years 2021, 2020, and 2019 data, respectively, of \$42.0 million has been paid subsequent to June 30 and is reported in the fund statements. The Commonwealth computed a liability of \$31.2 million in fiscal year 2023 which is based on fiscal years 2022 and 2021 representing the amounts owed to the federal government for internal service fund over-recoveries and transfers, as well as the federal share of various rebates received. This amount has been reflected in the accompanying government-wide financial statements.

The Virginia Tourism Authority (nonmajor component unit) had unclaimed awards totaling \$5.5 million payable to awardees upon submission of proper claims for reimbursement for the Marketing Leverage Program, the DMO Marketing Program and the Special Events & Festivals Program. Additionally, property at the Virginia/Maryland border to be used for the Gateway Welcome Center was donated to the Authority in July 2008. The deed to the property includes a covenant requiring any or all land to revert to the U.S. Government should it become needed for national defense. The net book value of the property as of June 30, 2023 was \$808,050.

The Virginia Innovation Partnership Authority (nonmajor component unit) had 24 open nonbinding term sheets totaling \$6.0 million.

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 \$4.0 billion. The discretely presented component units have such debt of \$5.6 billion.

D. Bailment Inventory

The Virginia Alcoholic Beverage Control Authority (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. As of June 30, 2023, the bailment inventory was valued at \$82.6 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 \$1.0 million, or 75.0 percent, of a bank loan for lines of credit and short-term working capital loans for small businesses as defined by Section 2.2-2285 of the *Code of Virginia*. The relationship of the Commonwealth to the issuer or issuers of the obligations are private banks that contact VSBFA to obtain guarantees if they deem it necessary to approve the loan. The VSBFA staff underwrites the request for guarantees and approves applications of \$1.0 million or less with subsequent ratification by the Board of Directors. The Board of Directors approves applications in excess of \$1.0 million. The maximum term of support for guarantees is up to five years for lines of credit and seven years for term loans. In the event the small business borrower fails to repay a loan guaranteed through the program, the originating bank lender exercises its rights against the collateral and the guarantors of the loan and proceeds from the sale of the collateral are applied to the loan. In the event the originating bank lender incurs a deficiency principal balance, the bank submits a claim to VSBFA under the program. If a claim payment is subsequently paid under the program, VSBFA retains the right to pursue collection from the borrower or the guarantor to the extent possible and provided that neither the borrower nor the guarantor has been adjudicated bankrupt. VSBFA submits collections to the Office of the Attorney General, Division of Debt Collection for legal action and collection of debt. As of June 30, 2023, the loan guaranty program has guarantees outstanding of \$4.5 million. There are additional commitments to guarantees of \$2.0 million.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires that certain information be disclosed regarding selected nonexchange financial guarantees. As of June 30, 2023, the VSBFA recognized a nonexchange financial guarantee liability of \$89,141. This is a decrease of \$17,896 from the beginning balance of \$107,037. There were no required payments made during fiscal year 2023. Additionally, there have been no cumulative

amounts paid on these outstanding loan guarantees nor are there any expected recoveries.

F. Regional Wet Weather Management Plan

Hampton Roads Sanitation District (HRSD) (nonmajor component unit) is party to a federal consent decree with the federal and state governments (the Consent Decree), which requires the HRSD to evaluate the wet weather capacity of the regional sewer system, including collection systems owned by 14 of the localities which the HRSD serves in the Hampton Roads area. Based upon that evaluation, the HRSD, in consultation with the localities, is required to develop a regional wet weather management plan (RWWMP) for submittal to the federal and state environmental agencies for their approval.

The HRSD and the localities believe that addressing wet weather capacity issues from a regional perspective will result in the most affordable and cost-effective approach for rate payers throughout the region. Toward that end, the HRSD and the localities entered into a legally binding Memorandum of Agreement in 2014 (the MOA). The MOA commits HRSD to (1) develop the RWWMP in consultation with the localities, (2) fund the approved plan through a regional rate imposed on all regional ratepayers, (3) design and construct the necessary improvements, and (4) assume responsibility for wet weather capacity throughout the region in each area once the RWWMP is implemented. In exchange, the localities have agreed to (1) cooperate with the HRSD, (2) facilitate the construction of and accept ownership of any improvements which the HRSD may need to construct in the localities' systems, and (3) maintain the integrity of their systems to industry standards.

The Consent Decree and MOA also contemplate that the localities' obligation to maintain the integrity of their sewer systems to industry standards was embodied in a State administrative order. While the HRSD is preparing the RWWMP, the Consent Decree also requires the HRSD to implement approximately \$200.0 million in high priority capital system upgrade projects over the 10-year period between 2020 and 2030, and then another \$200.0 million in high priority sewer overflow control projects between 2030 and 2040, which are included in the capital improvement and expansion program. These two sets of projects reflect further priority system improvements that HRSD is to implement along with the SWIFT project. The Amended Consent Decree gives HRSD until 2032 to invest \$1.1 billion in the SWIFT program. Finally, the Amended Consent Decree provides that if HRSD will not make the full \$1.1 billion investment in the SWIFT Project by 2032 then EPA can require HRSD to accelerate some or all of the second group (\$200.0 million worth) of high priority sewer overflow control projects to offset the avoided investment in the SWIFT

program. The HRSD is on schedule to complete these projects.

The HRSD has a major capital improvement and expansion program funded through the issuance of debt and its own resources. As of June 30, 2023, the HRSD has outstanding commitments for contracts in progress of approximately \$1.3 billion.

42. SUBSEQUENT EVENTS

Primary Government

Debt

On August 17, 2023, the Virginia Department of Transportation (VDOT) and Transurban North America partially opened a 10-mile extension of the I-95 Express Lanes to reduce congestion on the Interstate 95 corridor through Stafford County and Fredericksburg. The 10-mile extension will continue the 95 Express Lanes from the current terminus just south of Route 610 (Garrisonville Road) to near Route 17 (Warrenton Road) in Stafford County.

On September 20, 2023, the Commonwealth Transportation Board authorized the Commissioner of Highways to execute a comprehensive agreement amendment to the Hampton Roads Bridge-Tunnel (HRBT) Project Agreement for Funding and Administration (PAFA) for the HRBT Expansion Project between VDOT and the Hampton Roads Transportation Accountability Commission (HRTAC). The amendment modified the existing terms in the HRBT PAFA and established a \$373.1 million cap on the aggregate amount of increases to the contract price. Also, the amendment set forth a commitment from VDOT to provide \$53.8 million in matching supplemental contingency funds.

On October 18, 2023, the Commonwealth Transportation Board redeemed \$6.4 million of its Commonwealth of Virginia Transportation Contract Revenue Refunding Bonds, Series 2012 (Route 28 Project).

On November 16, 2023, the Hampton Roads Transportation Accountability Commission (HRTAC) (nonmajor governmental fund) issued Series 2023A Intermediate Lien Bond Anticipation Notes in the amount of \$141.0 million. The related TIFIA Loan closed on November 14, 2023.

Component Units

Debt

On July 11, 2023, the Virginia Housing Development Authority (VHDA) (major) issued Rental Housing Bond 2023 Series D Non-AMT in the amount of \$110.9 million.

On July 12, 2023, the Virginia College Building Authority (major), at the request of the College of William & Mary (nonmajor), defeased \$1.5 million of its Public Higher Education Financing Program Bonds related to William and Mary's Barksdale Dormitory Project, consisting of \$1.1 million of its Series 2014B bonds and \$375,000 of its Series 2016A bonds.

On August 8, 2023, the Virginia Resources Authority (VRA) (major) used uncommitted equity in the Clean Water program to defease and redeem \$38.0 million of the Series 2013 CWSRF bonds. The defeasance will result in debt service savings and provide additional program capacity.

On August 31, 2023, the Hampton Roads Sanitation District (nonmajor) had an increase to \$200.0 million on the maximum outstanding authorization on their line of credit. As of June 30, 2023 there was \$68.6 million outstanding on this credit facility.

On October 2, 2023, the VHDA redeemed Rental Housing Bond 2020 Series B Non-AMT in the amount of \$1.7 million.

On November 9, 2023, the Virginia Public School Authority (VPSA) (major) issued its \$79.7 million School Financing Bonds (1997 Resolution), Series 2023B to purchase certain general obligation local school bonds to finance capital projects for schools.

On November 9, 2023, the VPSA issued its \$135.8 million Special Obligation School Financing Bonds, Prince William County, Series 2023 to purchase certain general obligation local school bonds to finance capital projects for schools.

On November 15, 2023, the VRA issued revenue bonds in the amount of \$11.4 million through the Virginia Pooled Financing Program. Interest rates range from 4.0 percent to 6.1 percent.

Other

On May 4, 2023, George Mason University (nonmajor) Board of Visitors approved the acquisition of Vernon Smith Hall in Arlington (consisting of land, buildings, improvements, furniture, fixtures, and equipment) from GMU Foundation for a purchase price of \$107.0 million. GMU Foundation will use the proceeds from the acquisition to pay off the outstanding long-term debt on the property including any accrued interest on the long-term debt. This transaction is scheduled to close in November 2023. In December 2023, the University is scheduled to close another capital acquisition in Arlington from a third party for a purchase price of \$7.4 million.

In July 2023, to make it easier for residents of eastern Virginia to access innovative care for complex medical conditions as well as the latest clinical trials, Riverside Health System and UVA Medical Center (a division of University of Virginia - nonmajor) announced a strategic alliance to expand patient access to innovative care for complex medical conditions, transplantation, and the latest clinical trials. Under the agreement, Riverside and UVA Medical Center will collaborate in multiple

areas including clinical program development, research, and medical education. To ensure a long-term, mutually beneficial alliance, the agreement provides UVA Medical Center with 5.0 percent ownership in Riverside, and in turn, UVA Medical Center has committed to financial and clinical resources to assist in growing local services in Eastern Virginia. UVA Medical Center and Riverside will each retain their existing governance and administrative structures. In exchange for the 5.0 percent minority ownership, UVA Medical Center made an investment totaling \$55.0 million, which consisted of a \$33.0 million cash investment at the time of closing and will make \$22.0 million of strategic investments linked to performance deliverables, and staffing recruitment. The investment will be accounted for using the equity method of accounting.

In September 2023, UVA Community Health (blended component unit of UVA Medical Center) sold an assisted living facility, Caton Merchant House for \$4.3 million.

