

COMMONWEALTH OF VIRGINIA

GENERAL FUND PRELIMINARY (UNAUDITED) ANNUAL REPORT

For the Fiscal Year Ended June 30, 2005

Presented on a Budgetary (Cash) Basis



David A. Von Moll
Comptroller
August 15, 2005

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COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA
COMPTROLLER

Office of the Comptroller

P. O. BOX 1971
RICHMOND, VIRGINIA 23218-1971

August 15, 2005

The Honorable Mark R. Warner
Governor
Commonwealth of Virginia
State Capitol
Richmond, Virginia 23219

Dear Governor Warner:

In compliance with the provisions of Section 2.2-813 of the *Code of Virginia*, I hereby submit my preliminary annual report on the financial condition of the General Fund of the Commonwealth for the fiscal year ended June 30, 2005.

The Commonwealth ended fiscal year 2005 with a total fund balance in the General Fund of \$1.9 billion measured on the cash basis of activity. This is an increase of \$755.8 million, or 68 percent, from last year's ending fund balance of \$1.1 billion. Planned (budgeted) increases in General Fund balance for this year were \$23.7 million. The first graph on page 9 shows a comparison of the General Fund balance for the last five years.

Revenue Stabilization Fund

The Revenue Stabilization Fund has principal and interest on deposit of \$482.3 million reserved as a part of the General Fund balance. The FY 2006 deposit into the Revenue Stabilization Fund, which is appropriated in the amount of \$181.9 million, is also reserved. Management has designated \$402.2 million for deposit into the Fund during FY 2007. This amount designated for deposit is allowed under the provisions of Article X, Section 8 of the *Constitution of Virginia*.

The *Constitution* requires a deposit based on growth in income and retail sales tax revenue and allows revenue growth from increases in tax rates or the repeal of exemptions to be excluded, in whole or part, from the deposit calculation for up to six years. The minimum mandatory deposit would have been \$354.1 million if all revenue increases from tax reform (including those derived from estimates) were excluded from the deposit calculations and the maximum mandatory deposit would have been \$600.6 million if all tax increases from tax reform were included. The fiscal year 2005 deposit designation of \$402.2 million excludes the impact of revenue increases resulting from the repeal of the public service corporation exemption (\$29.8 million in revenue) and the sales tax rate increase (\$295.3 million in revenue).

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the Fund when specific criteria have been met. No designation is required since the specified criteria were not met for FY 2005.

The Revenue Stabilization Fund is routinely segregated from the General Fund but Virginia law directs that the Revenue Stabilization Fund be included as a component of the General Fund for financial reporting purposes. Therefore, it is included here both as a cash asset and as a reserved component of fund balance. The Revenue Stabilization Fund can be used only for constitutionally authorized purposes.

Amounts Available for Reappropriation

Section 4-1.05a.1. of Chapter 951, 2005 Acts of Assembly, requires reappropriation of 2005 fiscal year unexpended appropriations for Legislative and Judicial Departments, as well as independent Agencies. Additionally, the Section of the Act gives the Governor discretionary authority to reappropriate all or a portion of the unexpended balances in Executive Department appropriations. Section 4-0.01b. provides that all appropriations, however, are declared to be conditioned on the receipt of sufficient revenue to support them.

Based on an analysis by the Department of Planning and Budget of unexpended appropriations at June 30, 2005, \$145.4 million will be considered for mandatory reappropriation in fiscal year 2006 for operations and \$41.7 million will be considered for discretionary reappropriation in fiscal year 2006 for operations. Additional reappropriation amounts include \$115.9 million for capital outlay project needs and \$26.8 million for natural disaster sum sufficient amounts. Additionally, \$300.4 million is designated as available balances to meet the requirements of Chapter 951, 2005 Acts of Assembly, and \$56.6 million for the Water Quality Fund. Further, the Department of Planning and Budget has identified planned disbursements of \$26.2 million to the Transportation Trust Fund, \$8.9 million for Standards of Quality (SOQ) Replacement, and \$25.0 million for Base Realignment and Closure (BRAC). As of June 30, 2005, sufficient cash is not available to designate these entire amounts.

Virginia Water Quality Improvement Fund

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. The Fund was established to provide Water Quality Improvement Grants to various entities to assist in pollution prevention and reduction. The Fund shall consist of amounts appropriated by the General Assembly. Unless otherwise specified by the general appropriation act, these appropriations shall consist of ten percent of revenues collected in excess of the official estimate and ten percent of any unreserved fund balance not required for reappropriation. For the year ended June 30, 2005, \$54.5 and \$2.1 million that represent ten percent of the excess revenue collections and ten percent of the unreserved fund balance not required for reappropriation, respectively, have been designated. Upon appropriation by the General Assembly, \$56.6 million will be transferred from the General Fund to the Virginia Water Quality Improvement Fund.

Basis of Presentation

This preliminary annual report is comprised of budgetary (cash) basis financial statements that present the financial condition, results of operations, and changes in fund balance of the Commonwealth's General Fund. The notes to the financial statements are an important and integral part of the statements.

This preliminary report is presented on an unaudited basis. In preparing this report, we relied upon the internal accounting controls of the Commonwealth that are designed to provide management with reasonable, but not absolute, assurances that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are properly recorded to permit the preparation of financial statements.

The Honorable Mark R. Warner
August 15, 2005
Page 3

Final Report and Award

The final Annual Report of the Comptroller, due on December 15, 2005, will include certain accruals and other information required for conformance with generally accepted accounting principles. It will be audited and will include any material adjustments recommended by the Auditor of Public Accounts.

We are proud to report that the Comprehensive Annual Financial Report for the year ended June 30, 2004, was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA). This is the nineteenth consecutive year that Virginia's Annual Report has received this award. In addition, Virginia received a companion award from the GFOA for its fiscal year 2004 Popular Report, entitled *Virginia Financial Perspective*. This is the tenth consecutive year that Virginia's Popular Report has received this award.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D. A. Von Moll". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

David A. Von Moll

Enclosure

**Commonwealth of Virginia
Preliminary Balance Sheet
General Fund - Budgetary (Cash) Basis (Unaudited)
June 30, 2005
(Dollars in Thousands)**

Assets

Cash, Cash Equivalents, and Investments	\$ 1,865,726	
Cash and Travel Advances	<u>1,033</u>	
Total Assets		<u>\$ 1,866,759</u>

Liabilities and Fund Equity

Liabilities:		
Deposits Pending Distribution	<u>1,416</u>	
Total Liabilities		\$ 1,416

Fund Equity:

Reserved Fund Balance:		
Revenue Stabilization Reserve Fund (Note 6)	482,259	
Revenue Stabilization Reserve 2004	181,936	
Payroll Reserve for July 1, 2005 Payroll	74,220	
Unexpended Lottery Proceeds (Note 7)	<u>352</u>	
Total Reserved Fund Balance		<u>738,767</u>

Unreserved Fund Balance:

Designated:

Amount Required for Reappropriation of 2005 Unexpended Balances		
Mandatory Reappropriations	145,445	
Discretionary Reappropriations	19,202	
Capital Outlay	115,876	
Amount Required to Balance Chapter 951, 2005 Acts of Assembly	300,355	
Virginia Water Quality Improvement Fund - Part A (Note 8)	54,450	
Virginia Water Quality Improvement Fund - Part B (Note 8)	2,134	
Natural Disaster Sum Sufficient	26,818	
Accelerated Sales Tax for Transportation Trust Fund	26,204	
Revenue Stabilization Fund Contribution (Note 6)	402,223	
Standards of Quality (SOQ) Replacement 2nd Year	8,869	
Base Realignment and Closure (BRAC) Allocation	<u>25,000</u>	

Total Designated Fund Balance (Note 9) 1,126,576

Total Unreserved Fund Balance 1,126,576

Total Fund Equity \$ 1,865,343

Total Liabilities and Fund Balance \$ 1,866,759

The accompanying notes are an integral part of this statement.

Commonwealth of Virginia
Preliminary Statement of Revenues, Expenditures,
and Changes in Fund Balance
General Fund - Budgetary (Cash) Basis (Unaudited)
For the Fiscal Years Ended June 30, 2001 through June 30, 2005
(Dollars in Thousands)

	Year Ended				
	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001
Revenues:					
Taxes:					
Individual and Fiduciary Income	\$ 8,352,366	\$ 7,430,365	\$ 6,775,746	\$ 6,710,772	\$ 7,226,309
Sales and Use (Note 3)	3,093,725	2,582,797	2,335,958	2,429,845	2,272,954
Corporation Income	616,690	434,493	343,319	290,215	363,757
Public Service Corporations	88,309	86,870	91,247	77,152	93,427
Premiums of Insurance Companies	373,571	351,278	333,004	292,702	268,060
Other Taxes	1,045,283	668,380	573,445	487,826	434,332
Total Taxes	<u>13,569,944</u>	<u>11,554,183</u>	<u>10,452,719</u>	<u>10,288,512</u>	<u>10,658,839</u>
Rights and Privileges	60,975	69,809	63,216	37,997	36,928
Sales of Property and Commodities	11,778	2,035	1,019	281	66
Assessments and Receipts for Support of Special Services	333	306	383	445	399
Institutional Revenue	9,198	9,633	7,896	9,194	7,888
Interest, Dividends, and Rents	90,118	86,719	105,700	138,121	171,177
Fines, Forfeitures, Court Fees, Penalties, and Escheats	181,116	193,675	178,487	152,801	134,162
Receipts from Cities, Counties, and Towns	9,446	8,962	9,117	9,060	8,805
Private Donations, Gifts and Contracts	1	1	7	-	-
Tobacco Master Settlement	52,126	51,359	60,012	59,846	51,276
Other	142,978	68,411	109,200	41,215	80,350
Total Revenues (Note 2)	<u>14,128,013</u>	<u>12,045,093</u>	<u>10,987,756</u>	<u>10,737,472</u>	<u>11,149,890</u>
Expenditures:					
General Government	1,471,632	1,407,323	1,362,222	1,345,368	1,069,409
Education	6,242,886	5,272,151	5,441,934	5,542,589	4,188,331
Transportation	44	48	36	16,002	29,703
Resources and Economic Development	234,857	214,116	206,743	251,856	241,704
Individual and Family Services	3,348,455	2,907,139	2,769,780	2,550,020	2,488,152
Administration of Justice	2,042,773	1,906,455	1,867,835	1,910,280	1,939,881
Capital Outlay	25,368	17,830	19,752	119,046	36,714
Total Expenditures	<u>13,366,015</u>	<u>11,725,062</u>	<u>11,668,302</u>	<u>11,735,161</u>	<u>9,993,894</u>
Revenues Over (Under) Expenditures	761,998	320,031	(680,546)	(997,689)	1,155,996
Other Financing Sources (Uses):					
Transfers:					
Operating Transfers In	636,063	697,884	987,805	820,466	525,101
Operating Transfers In From Component Units (Note 5)	-	-	-	-	2,660
Operating Transfers Out	(642,289)	(463,135)	(383,066)	(383,915)	(623,677)
Operating Transfers Out To Component Units (Note 5)	-	-	-	-	(1,721,304)
Total Other Financing Sources (Uses)	<u>(6,226)</u>	<u>234,749</u>	<u>604,739</u>	<u>436,551</u>	<u>(1,817,220)</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	755,772	554,780	(75,807)	(561,138)	(661,224)
Fund Balance, July 1					
Reserved	432,482	313,165	562,965	993,154	745,488
Unreserved	677,089	241,626	70,004	200,953	1,109,843
Fund Balance, July 1	<u>1,109,571</u>	<u>554,791</u>	<u>632,969</u>	<u>1,194,107</u>	<u>1,855,331</u>
Fund Balance, June 30					
Reserved	738,767	432,482	313,165	562,965	993,154
Unreserved	1,126,576	677,089	243,997	70,004	200,953
Fund Balance, June 30	<u>\$ 1,865,343</u>	<u>\$ 1,109,571</u>	<u>\$ 557,162</u>	<u>\$ 632,969</u>	<u>\$ 1,194,107</u>

The accompanying notes are an integral part of this statement.

Commonwealth of Virginia
Preliminary Statement of Revenues, Expenditures,
and Changes in Fund Balance - Budget and Actual
General Fund - Budgetary (Cash) Basis (Unaudited)
For the Fiscal Year Ended June 30, 2005
(Dollars in Thousands)

	General Fund			Final Budget/ Actual Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues:				
Taxes:				
Individual and Fiduciary Income	\$ 7,773,900	\$ 8,002,700	\$ 8,352,366	\$ 349,666
Sales and Use (Note 3)	2,852,300	3,096,100	3,093,725	(2,375)
Corporation Income	407,700	549,000	616,690	67,690
Public Service Corporations	86,300	87,400	88,309	909
Premiums of Insurance Companies	381,200	381,000	373,571	(7,429)
Other Taxes	758,330	965,300	1,045,283	79,983
Rights and Privileges	52,700	57,300	60,975	3,675
Sales of Property and Commodities	100	11,200	11,778	578
Assessments and Receipts for Support of Special Services	400	400	333	(67)
Institutional Revenue	9,300	8,600	9,198	598
Interest, Dividends, and Rents	80,700	80,182	90,118	9,936
Fines, Forfeitures, Court Fees, Penalties, and Escheats	179,031	178,731	181,116	2,385
Receipts from Cities, Counties, and Towns	9,600	9,200	9,446	246
Private Donations, Gifts and Contracts	-	-	1	1
Tobacco Master Settlement	50,476	50,500	52,126	1,626
Other	89,714	110,970	142,978	32,008
Total Revenues (Note 2)	<u>12,731,751</u>	<u>13,588,583</u>	<u>14,128,013</u>	<u>539,430</u>
Expenditures:				
Current:				
General Government	1,668,654	1,533,591	1,471,632	61,959
Education	6,271,294	6,283,117	6,242,886	40,231
Transportation	77,484	44	44	-
Resources and Economic Development	248,770	247,533	234,857	12,676
Individual and Family Services	3,216,392	3,402,280	3,348,455	53,825
Administration of Justice	2,025,209	2,065,812	2,042,773	23,039
Capital Outlay	14,971	63,755	25,368	38,387
Total Expenditures	<u>13,522,774</u>	<u>13,596,132</u>	<u>13,366,015</u>	<u>230,117</u>
Revenues Over (Under) Expenditures	<u>(791,023)</u>	<u>(7,549)</u>	<u>761,998</u>	<u>769,547</u>
Other Financing Sources (Uses):				
Transfers:				
Operating Transfers In	584,077	624,973	636,063	11,090
Operating Transfers Out	(206,419)	(593,733)	(642,289)	(48,556)
Total Other Financing Sources (Uses)	<u>377,658</u>	<u>31,240</u>	<u>(6,226)</u>	<u>(37,466)</u>
Revenues and Other Sources Over (Under)				
Expenditures and Other Uses	(413,365)	23,691	755,772	732,081
Fund Balance, July 1	<u>1,109,571</u>	<u>1,109,571</u>	<u>1,109,571</u>	<u>-</u>
Fund Balance, June 30	<u>\$ 696,206</u>	<u>\$ 1,133,262</u>	<u>\$ 1,865,343</u>	<u>\$ 732,081</u>

The accompanying notes are an integral part of this statement.

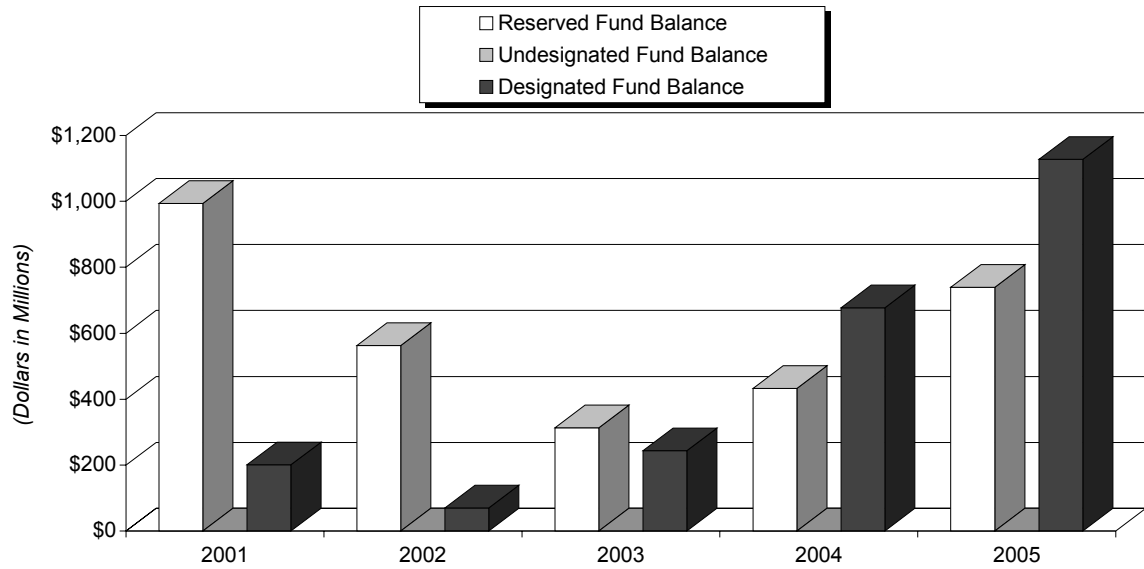
Commonwealth of Virginia
Preliminary Comparison of Sum-Sufficient Final Budget Appropriations
with Actual Expenditures
General Fund - Budgetary (Cash) Basis (Unaudited)
For the Fiscal Year Ended June 30, 2005
(Dollars in Thousands)

	<u>Final Budget Appropriations</u>	<u>Actual Expenditures</u>	<u>Amount Under Budget</u>
Enactment of Laws	\$ 31,491	\$ 25,040	\$ 6,451
Financial Assistance to Localities -- From Sale of Alcoholic Beverages and Other Distributions	32,921	32,748	173
Financial Assistance for Special State Revenue Sharing -- From Sales Tax and Lottery Proceeds	1,157,806	1,144,650	13,156
Cash Management Improvement Act Payment to the Federal Government	-	125	(125)
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Totals	<u>\$ 1,222,218</u>	<u>\$ 1,202,563</u>	<u>\$ 19,655</u>

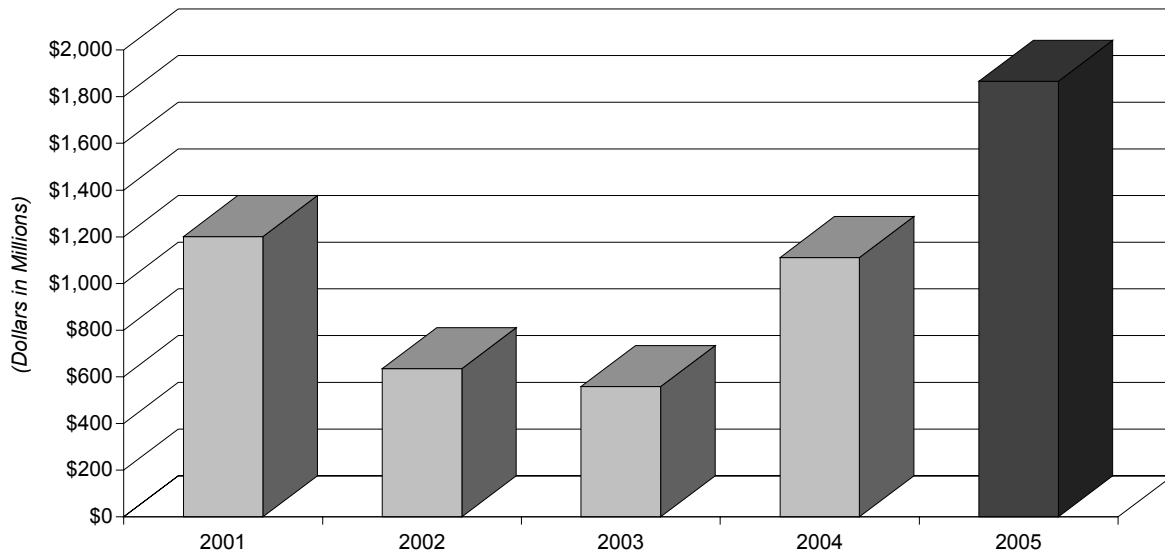
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GENERAL FUND GRAPHICS AND SUPPLEMENTAL SCHEDULES

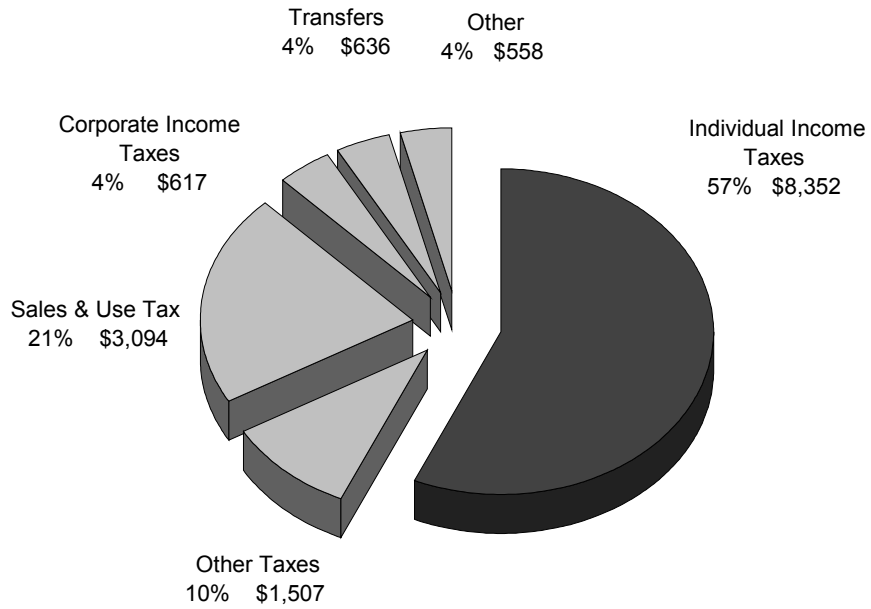
**General Fund
Fund Balance
Fiscal Years 2001-2005**



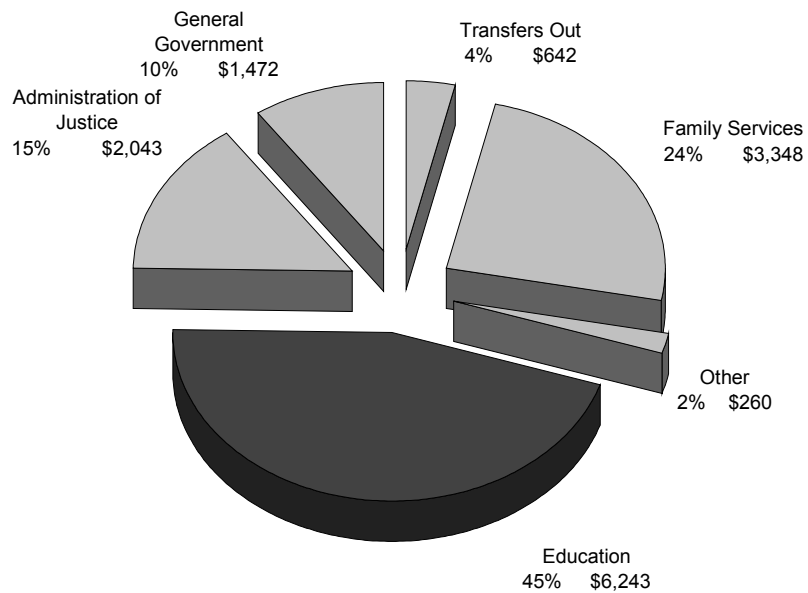
**General Fund
Cash, Cash Equivalents, and Investments
Fiscal Years 2001-2005**



**General Fund
Revenues by Revenue Class and Other Sources
Fiscal Year 2005
(Dollars in Millions)**

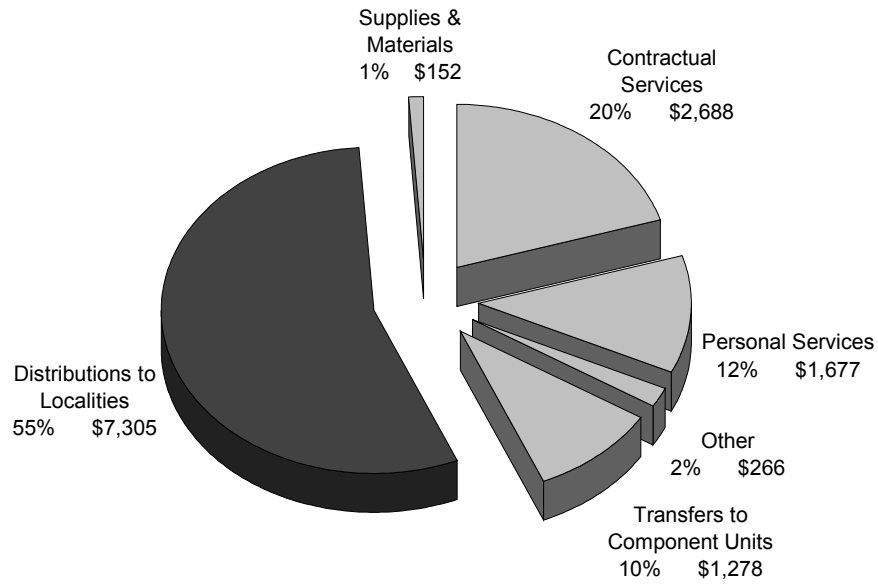


**General Fund
Expenditures by Function and Other Uses
Fiscal Year 2005
(Dollars in Millions)**

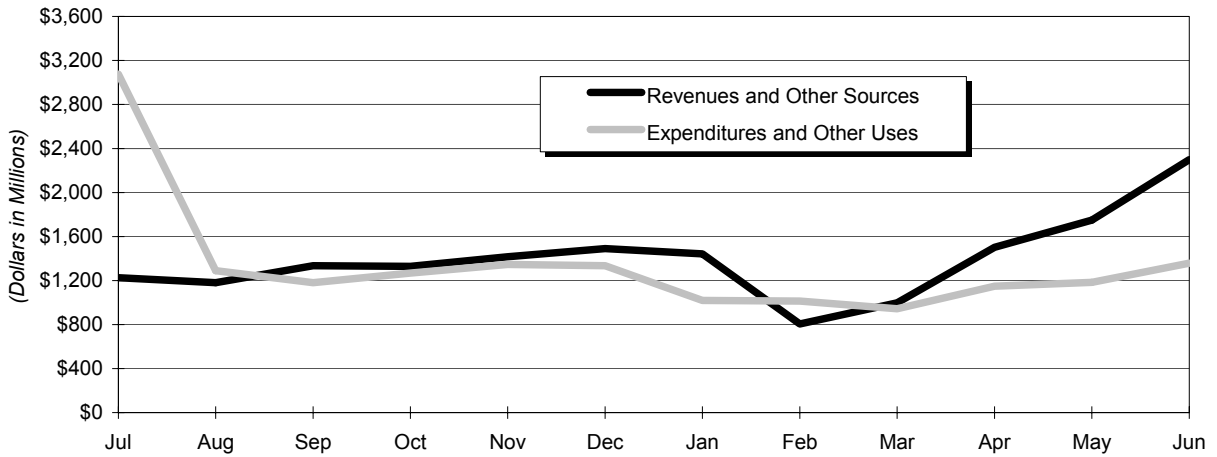


Note: General Government expenditures include \$907.3 million paid to localities pursuant to the Personal Property Tax Relief Act of 1998. This represents 62 percent of the General Government expenditures.

**General Fund
Expenditures by Object
Fiscal Year 2005
(Dollars in Millions)**



**General Fund
Revenues and Other Sources and
Expenditures and Other Uses by Month
Fiscal Year 2005**



Note: July expenditures include \$1.246 billion in payments to Higher Education.

**General Fund
Expenditures by Function and Significant Service Area
Fiscal Year 2005
(Dollars in Thousands)**

Function:	Significant Service Area:	<u>Amount</u>	<u>Totals</u>
Education	Higher Education	\$ 1,425,259	\$
	Grades K-12	4,687,999	
	Other	<u>129,628</u>	
			6,242,886
Individual and Family Services	Medical Assistance Services	2,222,053	
	Mental Health, Mental Retardation and Substance Abuse Services	440,918	
	Social Services	343,050	
	Comprehensive Services for At-Risk Youth and Families	149,142	
	Health	126,632	
	Other	<u>66,660</u>	
Administration of Justice	Corrections	1,066,512	
	Compensation Board	480,512	
	Courts	272,864	
	State Police	174,842	
	Other	<u>48,043</u>	
		2,042,773	
General Government	Car Tax Relief (PPTRA)	907,255	
	Criminal Justice - Locality Assistance	177,551	
	Debt Service - Component Units	87,348	
	Tax Administration	82,629	
	Other	<u>216,849</u>	
		1,471,632	
Resources and Economic Development	Environmental Quality	36,866	
	Conservation and Recreation	43,853	
	Agriculture	23,453	
	Housing and Community Development	17,662	
	Economic Development Partnership	16,334	
	Forestry	14,420	
	Other	<u>82,269</u>	
		234,857	
Other	Capital Outlay	25,368	
	Transportation	<u>44</u>	
			<u>25,412</u>
			<u>\$ 13,366,015</u>

**General Fund
Other Financing Sources and Uses by Significant Service Area
Fiscal Year 2005
(Dollars in Thousands)**

Other Financing Sources (Transfers In):

Significant Service Area	Amount	Total
Lottery	\$ 423,852	
ABC Transfers	97,568	
Federal Portion of Medicaid Receipts	30,477	
Transfers from Other Funds	84,166	
	<u> </u>	<u>\$ 636,063</u>

Other Financing Uses (Transfers Out):

Significant Service Area	Amount	Total
Transportation Programs	\$ 362,933	
Debt Service	185,560	
Water Quality Improvement Fund	22,670	
Disaster Relief	10,606	
Transfers to Other Funds	60,520	
	<u> </u>	<u>\$ 642,289</u>

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COMMONWEALTH OF VIRGINIA

NOTES TO PRELIMINARY FINANCIAL STATEMENTS

JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying General Fund financial statements of the Commonwealth of Virginia have been prepared on a budgetary (cash) basis of accounting. Revenues and expenditures are recorded at the time cash is actually received or disbursed according to the provisions of the Appropriation Act; therefore, no accruals of revenues or expenditures have been included.

The General Fund includes transactions related to cash received and used for those services traditionally provided by a state government, which are not accounted for in other funds. It is a governmental fund and therefore its focus is on the measurement of financial position and related changes thereto, rather than on income determination. No other funds are presented in this report.

All funds will be presented using the appropriate bases of accounting as defined by generally accepted accounting principles in the Annual Report of the Comptroller, to be issued December 15, 2005.

B. Budget

Budgetary amounts shown in the financial statements represent Chapter 4, Acts of Assembly (original) and Chapter 951, Acts of Assembly (final), both as adjusted for executive and other administrative actions. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. The Governor, as required by the *Code of Virginia*, submits to the General Assembly a State budget composed of all proposed expenditures, estimated revenues and borrowings for a biennium.

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

2. ANALYSIS OF GENERAL FUND REVENUE

The Department of Accounts produces a monthly General Fund Statement of Revenue Collections, Estimates, and Transfers. The following analysis relates components of the Preliminary General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual with the monthly revenue report for June 30, 2005.

<i>(Dollars in Thousands)</i>	Preliminary Financial Statements	Monthly Statement of Revenue	Variance
Total Final Budgeted Revenue	\$ 13,588,583	\$ 13,142,700	\$ 445,883 (a)
(a) Appropriation Act transfers included in budgeted revenue on the Preliminary Financial Statements		15,229	
Revenue Stabilization Fund budgeted interest revenue included on the Preliminary Financial Statements		10,882	
Other transfers/items included in budgeted revenue on the Preliminary Financial Statements		49	
Virginia Health Care Fund - Tobacco Products Tax budgeted revenue included on the Preliminary Financial Statements		113,000	
Virginia Health Care Fund - Tobacco Master Settlement budgeted revenue included on the Preliminary Financial Statements		50,500	
Virginia Health Care Fund - budgeted other revenue included on the Preliminary Financial Statements		98,123	
Public Education Standards of Quality Fund - Sales and Use Tax budgeted revenue included on the Preliminary Financial Statements		158,100	
		<u>\$ 13,588,583</u>	
Total Actual Revenue	\$ 14,128,013	\$ 13,687,252	\$ 440,761 (b)
(b) Reversal of prior year reclass of Non-sufficient Fund Checks not reflected on the Revenue Report		\$ 1,222	
Interest on the Revenue Stabilization Fund not reported in the Revenue Report		7,724	
Appropriation Act transfers recorded as revenue on the Preliminary Financial Statements		15,745	
Other transfers recorded as revenue on the Preliminary Financial Statements		580	
Personal Property Tax Relief Act - Refund of Prior Year Disbursements not reported in the Revenue Report		102	
Interest on Lottery Proceeds Fund - not reported in the Revenue Report		34	
Virginia Health Care Fund - Tobacco Products Tax Revenue not reported in the Revenue Report		106,792	
Virginia Health Care Fund - Tobacco Master Settlement Revenue not reported in the Revenue Report		51,556	
Virginia Health Care Fund - Other Revenue not reported in the Revenue Report		110,807	
Public Education Standards of Quality Fund - Sales and Use Tax Revenue not reported in the Revenue Report		147,628	
Non-sufficient Fund Checks & Other items reclassified as a reduction in revenue for financial reporting purposes		(1,429)	
		<u>\$ 14,128,013</u>	

3. **ACCELERATED SALES TAX COLLECTIONS**

Pursuant to section 58.1-615 *Code of Virginia* as amended by Section 4-12 of Chapter 951, 2005 Acts of Assembly, the Commonwealth collected \$181.6 million in accelerated sales and use taxes in June 2005. This portion of the \$3.1 billion sales and use tax collections recorded as fiscal year 2005 revenues was accelerated from revenues that would otherwise have been collected in July 2005 and recorded as fiscal year 2006 revenues in next year's cash basis financial statements. Subsequent to

June 30, 2005, \$26.2 million of accelerated sales tax collections is designated for transfer to the Transportation Trust Fund.

Section 4-12 of Chapter 951, 2005 Acts of Assembly retains this acceleration at a significantly reduced level through fiscal year 2006, with a gradual phase-out during fiscal years 2007-2012. Beginning July 1, 2005, for the payment required in 2006, the payment required shall only apply to such dealers or direct payment permit holders with taxable sales and purchases of \$50 million or greater for such period of time and the payment required shall equal 20 percent of the sales and use tax liability for the previous June.

4. APPROPRIATION ACT TRANSFERS

For fiscal year ended June 30, 2005, Appropriation Act transfers are \$739.9 million. The following analysis shows where Appropriation Act transfers are reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

<u>(Dollars in Thousands)</u>	<u>Appropriation Act Transfers</u>
Revenue - Other	\$ 15,745
Transfers In	604,333 (c)
Intrafund Transfers between General Fund and Public	
Education Standards of Quality Fund	147,628
Expenditures - Education	(150)
Transfers Out	<u>(27,706)</u>
Total Appropriation Act Transfers	<u>\$ 739,850</u>

(c) Includes ABC transfers of approximately \$97.6 million

5. OPERATING TRANSFERS IN FROM/OUT TO COMPONENT UNITS

Prior to fiscal year ended June 30, 2002, operating transfers in from and out to component units were reported on a separate line item. Pursuant to the Governmental Accounting Standards Board, Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, which was effective beginning in fiscal year 2002, these line items have been eliminated. Accordingly, these amounts have been reclassified as revenues or expenditures in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balance.

6. 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. Management has designated \$402.2 million for deposit into the Fund during FY 2007. This amount designated for deposit is allowed under the provisions of Article X, Section 8 of the *Constitution of Virginia*.

The *Constitution* requires a deposit based on growth in income and retail sales tax revenue and allows revenue growth from increases in tax rates or the repeal of exemptions to be excluded, in whole or part, from the deposit calculation for up to six years. The minimum mandatory deposit would have been \$354.1 million if all revenue increases from tax reform (including those derived from estimates) were excluded from the deposit calculations and the maximum mandatory deposit would have been \$600.6 million if all tax increases from tax reform were included. The fiscal year 2005 deposit designation of \$402.2 million excludes the impact of revenue increases resulting from the

repeal of the public service corporation exemption (\$29.8 million in revenue) and the sales tax rate increase (\$295.3 million in revenue).

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the Fund when specific criteria have been met. No designation is required since the specified criteria were not met for FY 2005.

The Revenue Stabilization Fund has principal and interest on deposit of \$482.3 million reserved as a part of the General Fund balance. The amount on deposit cannot exceed ten percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. The maximum amount allowed is \$977.8 million and \$1.1 billion for FY 2005 and FY 2006, respectively. The FY 2006 maximum is pending certification by the Auditor of Public Accounts.

7. UNEXPENDED LOTTERY PROCEEDS

In accordance with Article X, Section 7-A of the *Constitution of Virginia*, lottery proceeds must be distributed to the Commonwealth's localities and the school divisions to be expended for the purposes of public education. The lottery transfers to the General Fund for FY 2005 totaled \$423.9 million. During FY 2005, the Commonwealth appropriated and expended \$423.500 million. The remaining cumulative lottery transfers of \$352 thousand are reserved for the year ended June 30, 2005.

Lottery has reported total proceeds of \$423.521 million. This amount has been certified by the Auditor of Public Accounts. The additional proceeds will be transferred to the General Fund. Accordingly, the additional proceeds are not included in the accompanying financial statements, but will be included in the Annual Report of the Comptroller, to be issued December 15, 2005.

8. VIRGINIA WATER QUALITY IMPROVEMENT FUND

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. The Fund was established to provide Water Quality Improvement Grants to various entities to assist in pollution prevention and reduction. The Fund shall consist of amounts appropriated by the General Assembly. Unless otherwise specified by the general appropriation act, these appropriations shall consist of ten percent of revenues collected in excess of the official estimate and ten percent of any unreserved fund balance not required for reappropriation. For the year ended June 30, 2005, \$54.5 and \$2.1 million that represent ten percent of the excess revenue collections and ten percent of the unreserved fund balance not required for reappropriation, respectively, have been designated. Upon appropriation by the General Assembly, \$56.6 million will be transferred from the General Fund to the Virginia Water Quality Improvement Fund.

9. DESIGNATED FUND BALANCE

The amounts designated on the Balance Sheet represent tentative plans for future utilization of current financial resources. For FY 2005, the Department of Planning and Budget certified total designations of \$1.149 billion. This amount consists of \$402.2 million for the Revenue Stabilization Fund, \$145.4 for mandatory reappropriation in fiscal year 2006 for operations, \$41.7 million for discretionary reappropriation in fiscal year 2006 for operations, \$115.9 million for capital outlay projects needs and \$26.8 million for natural disaster sum sufficient amounts. Additionally, \$300.4 million is designated as available balances to meet the requirements of Chapter 951, \$8.9 million for Public Education and \$56.6 million for the Water Quality Fund. Further, the Department of Planning and Budget has identified planned disbursements of \$26.2 million to the Transportation Trust Fund and \$25 million for Base Realignment and Closure (BRAC). The Balance Sheet reflects \$1.127 billion designated for the above purposes. Sufficient cash is not available to designate \$22 million of these designated amounts.

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BALANCE SHEET

1. **Cash, Cash Equivalents, and Investments** - All cash, cash equivalents, and investments are maintained by the Treasurer of Virginia. Cash includes demand deposits, time deposits, and certificates of deposit. Cash equivalents are investments with an original maturity of three months or less. Short-term investments held are stated at cost, which approximates market value.
2. **Cash and Travel Advances** - Funds advanced to agencies to make immediate cash payments for authorized purposes. Also included are funds advanced to agency employees to cover expenses incurred while traveling on State business.
3. **Deposits Pending Distribution** - This represents miscellaneous amounts held by several agencies in suspense accounts pending distribution.
4. **Reserved Fund Balance** - Items are reserved to indicate that a particular portion of fund balance is not available to fund operations at the end of the fiscal year.
5. **Designated Fund Balance** - Consists of designations established to reflect tentative plans for future utilization of current financial resources. Designated Fund Balance represents:
 - **Amount Required for Reappropriation of 2005 Unexpended Balances, Mandatory Reappropriations, Discretionary Reappropriations, and Capital Outlay** – This portion of fund balance represents the fiscal year 2005 unexpended appropriations which the Department of Planning and Budget anticipates reappropriating in the next fiscal year.
 - **Amount Required by Chapter 951, 2005 Acts of Assembly** – This portion of fund balance represents the amount that must be carried forward to the following year to balance the biennial budget.
 - **Virginia Water Quality Improvement Fund** – This portion of fund balance represents amounts to be transferred to the Virginia Water Quality Improvement Fund upon appropriation by the General Assembly.
 - **Natural Disaster Sum Sufficient** – This portion of fund balance represents the estimated costs of responding to and recovering from damage caused by hurricanes, blizzards, severe storms/tornadoes, and floods.
 - **Accelerated Sales Tax for Transportation Trust Fund** – This portion of fund balance represents the accelerated sales tax collections planned to be transferred to the Transportation Trust Fund subsequent to June 30.
 - **Revenue Stabilization Fund Contribution** – This figure represents a portion of the fund balance available as a future deposit to the Revenue Stabilization Fund. As prescribed by the *Constitution of Virginia*, Article X, Section 8, the Revenue Stabilization Fund calculated contribution resulting from revenues collected for the year ended June 30, 2005, is \$402.2 million.
 - **Standards of Quality (SOQ) Replacement 2nd Year** – This portion of fund balance represents the amount planned to be used for public education subsequent to June 30.
 - **Base Realignment and Closure (BRAC)** – This portion of the fund balance represents the amount intended to be used for financial assistance to communities affected by military base closings. This designation is intended to lessen the economic impact on those communities.
6. **Undesignated Fund Balance** - The amount of fund balance remaining from operations of the current and prior years, net of amounts established as reserved and designated. As of June 30, 2005, there is no unreserved undesignated fund balance remaining.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Revenues:

7. **Taxes** - Charges of money imposed by the Commonwealth on persons or property for public purposes.
8. **Rights and Privileges** - Registration fees, licenses, and permits. Examples include domestic and foreign corporate registration fees and marriage licenses.
9. **Sales of Property and Commodities** - Revenue collected from sales of Commonwealth assets and goods. Examples include sales of State publications.
10. **Assessments and Receipts for Support of Special Services** - Revenues collected for services provided by the Commonwealth's agencies. An example is audit services provided to cities, counties, and towns.
11. **Institutional Revenue** - Revenue generated primarily from sales by the Departments of Corrections and Mental Health, Mental Retardation and Substance Abuse Services. Examples include the sale of farm and dairy products.
12. **Interest, Dividends, and Rent** - Interest earnings and rental income. Examples include interest on Commonwealth bank accounts and investments and interest on delinquent taxes. Interest allocated to various other funds is not included here.
13. **Fines, Forfeitures, Court Fees, Penalties, and Escheats** - Fines, penalties, etc., primarily collected by the Department of Taxation and the court system. Examples include court processing fees and penalties for nonpayment of taxes.
14. **Receipts from Cities, Counties, and Towns** - Revenue collected from city and county treasurers representing miscellaneous fees and allowances of local law enforcement officials.
15. **Private Donations, Gifts, and Contracts** - This amount represents donations and grants from individuals and private companies to State programs.
16. **Tobacco Master Settlement** - This amount represents the revenue generated from the Tobacco Master Settlement Agreement with tobacco companies.
17. **Other Revenue** - All other revenue collections that are not included in the above categories. Examples include refunds of expenditures and miscellaneous disbursements made in prior years, and recovery of Statewide indirect costs.

Expenditures:

18. **General Government** - Expenditures to support the general activities of the state, regional, and local levels of government. Examples include administrative and support services, general financial assistance to localities, information systems management and direction. Also included is tax relief reported as expenditures pursuant to the Personal Property Tax Relief Act (PPTRA) of 1998. The tax relief level was 12.5 percent, 27.5 percent, 47.5 percent, and 70.0 percent for tax years 1998 to 2002, respectively, and remained at 70 percent for 2003, 2004, and 2005. The expenditures associated with this relief were \$181.3 million, \$322.1 million, \$604.1 million, \$826.2 million, \$856.7 million, \$881.1 million, and \$907.3 million for fiscal years 1999 to 2005, respectively.
19. **Education** - Expenditures to assist individuals in developing knowledge, skills, and cultural awareness. Examples include elementary and secondary education, instruction, supervision and assistance and higher education.

20. **Transportation** - Expenditures related to the movement of people, goods, and services and their regulation. Examples include ground, water and air transportation.
21. **Resources and Economic Development** - Expenditures to develop the economic base, including alternative natural resources and to regulate it with regard to varied public interests of the Commonwealth. Examples include resource management, economic development, promotion and improvement, as well as the regulation of professions and occupations.
22. **Individual and Family Services** - Expenditures to support the economic, social and physical well being of the individual and family. Included are disease research, prevention, and control, state health services and community health services.
23. **Administration of Justice** - Expenditures related to civil and criminal justice, including apprehension, trial, punishment, and rehabilitation of law violators. Examples include crime deterrence, suppression and control, adjudication, confinement and community custody.
24. **Capital Outlay** - Construction and preparation of Commonwealth assets.

Other Financing Sources (Uses):

25. **Operating Transfers In** - This balance reflects transfers in from other nongeneral funds.
26. **Operating Transfers Out** - The balance represents transfers from the General Fund to other nongeneral funds.

If you have any questions or comments regarding information contained in this report, please contact us at

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