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# COMMONWEALTH OF VIRGINIA

## GENERAL FUND PRELIMINARY (UNAUDITED) ANNUAL REPORT

For the Fiscal Year Ended June 30, 2006

Presented on a Budgetary (Cash) Basis



David A. Von Moll  
Comptroller  
August 15, 2006

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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, 2006

The Honorable Timothy M. Kaine  
Governor  
Commonwealth of Virginia  
State Capitol  
Richmond, Virginia 23219

Dear Governor Kaine:

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, 2006.

The Commonwealth ended fiscal year 2006 with a total fund balance in the General Fund of \$2.9 billion measured on the cash basis of activity. This is an increase of \$1.0 billion, or 55 percent, from last year's ending fund balance of \$1.9 billion. Planned (budgeted) increases in General Fund balance for this year were \$572.0 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 \$1.1 billion reserved as a part of General Fund balance. During FY 2006 a deposit of \$584.1 million was made which is comprised of the required deposit of \$181.9 million and \$402.2 million representing the FY 2007 required deposit made in advance. The Revenue Stabilization Fund has reached the maximum amount allowed to be deposited in FY 2006. Management has designated \$187.5 million for deposit into the Fund during FY 2008. 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 calculated minimum mandatory deposit (excludes all revenue increases from tax reform including those derived from estimates) is \$216.6 million and the calculated maximum mandatory deposit (includes all revenue increases from tax reform) is \$244.4 million. In FY 2005 the mandatory revenue stabilization fund calculated minimum deposit was \$354 million, however the general assembly appropriated \$402.2 million, creating a \$48.2 million prepayment. In FY 2006, \$19.1 million was transferred from the revenue stabilization fund to the general fund once the maximum certified balance was reached. The activity in 2006 resulted in a net prepayment of \$29.1 million, therefore; the FY 2006 deposit designation of \$187.5 million is \$29.1 million lower than the calculated minimum mandatory deposit.

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the Fund when specific criteria have been met. No such designation is required since the specified criteria were not met for FY 2006.

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 Special Session 1, Chapter 2, requires reappropriation of 2006 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, 2006, \$134.4 million will be designated for mandatory reappropriation in fiscal year 2007 for operations and \$28.4 million will be designated for discretionary reappropriation in fiscal year 2007 for operations. Additional reappropriation designations include \$125.8 million for capital outlay project needs and \$19.7 million for natural disaster sum sufficient amounts. Additionally, \$1.2 billion is designated as available balances to meet the requirements of Special Session 1, Chapter 2. Further, the Department of Planning and Budget has identified planned disbursements of \$2.5 million for a review of the long-term transportation and security needs of the Route 31 corridor and \$50.0 million for Land Preservation Tax Credits.

### **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, 2006, \$14.7 and \$3.2 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, \$17.9 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.

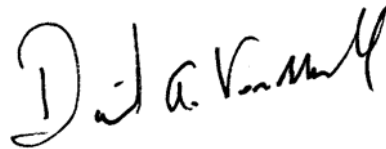
The Honorable Timothy M. Kaine  
August 15, 2006  
Page 3

### Final Report and Award

The final Annual Report of the Comptroller, due on December 15, 2006, 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, 2005, 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 twentieth 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 2005 Popular Report, entitled *Virginia Financial Perspective*. This is the eleventh consecutive year that Virginia's Popular Report has received this award.

Respectfully submitted,

A handwritten signature in black ink, reading "David A. Von Moll". The signature is written in a cursive style with a large initial "D".

David A. Von Moll





**SUMMARY OF GENERAL FUND ACTIVITY**



**Commonwealth of Virginia  
Preliminary Balance Sheet  
General Fund - Budgetary (Cash) Basis (Unaudited)  
June 30, 2006  
(Dollars in Thousands)**

<b>Assets</b>		
Cash, Cash Equivalents, and Investments	\$ 2,891,736	
Cash and Travel Advances	<u>987</u>	
Total Assets		<u>\$ 2,892,723</u>
<b>Liabilities and Fund Equity</b>		
Liabilities:		
Deposits Pending Distribution	<u>2,702</u>	
Total Liabilities		\$ 2,702
Fund Equity:		
Reserved Fund Balance:		
Revenue Stabilization Reserve Fund (Note 4)	1,064,665	
Unexpended Lottery Proceeds (Note 5)	<u>20,873</u>	
Total Reserved Fund Balance		<u>1,085,538</u>
Unreserved Fund Balance:		
Designated:		
Amount Required for Reappropriation of 2006 Unexpended Balances		
Mandatory Reappropriations	134,382	
Discretionary Reappropriations	28,431	
Capital Outlay	125,810	
Amount Required by Special Session 1, Chapter 2	1,238,243	
Virginia Water Quality Improvement Fund - Part A (Note 6)	14,701	
Virginia Water Quality Improvement Fund - Part B (Note 6)	3,159	
Natural Disaster Sum Sufficient	19,747	
Revenue Stabilization Fund Contribution (Note 4)	187,510	
Amount Required by Item C-319.10, Chapter 3, 2006 Acts of Assembly	2,500	
Land Preservation Tax Credits	<u>50,000</u>	
Total Designated Fund Balance (Note 7)		<u>1,804,483</u>
Total Unreserved Fund Balance		<u>1,804,483</u>
Total Fund Equity		<u>\$ 2,890,021</u>
Total Liabilities and Fund Balance		<u>\$ 2,892,723</u>

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, 2002 through June 30, 2006**  
**(Dollars in Thousands)**

	Year Ended				
	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002
<b>Revenues:</b>					
Taxes:					
Individual and Fiduciary Income	\$ 9,308,570	\$ 8,352,366	\$ 7,430,365	\$ 6,775,746	\$ 6,710,772
Sales and Use	3,029,949	3,093,725	2,582,797	2,335,958	2,429,845
Corporation Income	871,554	616,690	434,493	343,319	290,215
Public Service Corporations	89,992	88,309	86,870	91,247	77,152
Premiums of Insurance Companies	373,781	373,571	351,278	333,004	292,702
Other Taxes	1,222,590	1,045,283	668,380	573,445	487,826
Total Taxes	<u>14,896,436</u>	<u>13,569,944</u>	<u>11,554,183</u>	<u>10,452,719</u>	<u>10,288,512</u>
Rights and Privileges	65,212	60,975	69,809	63,216	37,997
Sales of Property and Commodities	7,026	11,778	2,035	1,019	281
Assessments and Receipts for Support of Special Services	332	333	306	383	445
Institutional Revenue	8,235	9,198	9,633	7,896	9,194
Interest, Dividends, and Rents	114,500	90,118	86,719	105,700	138,121
Fines, Forfeitures, Court Fees, Penalties, and Escheats	145,189	181,116	193,675	178,487	152,801
Receipts from Cities, Counties, and Towns	9,999	9,446	8,962	9,117	9,060
Private Donations, Gifts and Contracts	-	1	1	7	-
Tobacco Master Settlement	47,852	52,126	51,359	60,012	59,846
Other	81,353	142,978	68,411	109,200	41,215
Total Revenues (Note 2)	<u>15,376,134</u>	<u>14,128,013</u>	<u>12,045,093</u>	<u>10,987,756</u>	<u>10,737,472</u>
<b>Expenditures:</b>					
General Government	1,314,782	1,471,632	1,407,323	1,362,222	1,345,368
Education	6,767,114	6,242,886	5,272,151	5,441,934	5,542,589
Transportation	43	44	48	36	16,002
Resources and Economic Development	280,689	234,857	214,116	206,743	251,856
Individual and Family Services	3,652,319	3,348,455	2,907,139	2,769,780	2,550,020
Administration of Justice	2,221,646	2,042,773	1,906,455	1,867,835	1,910,280
Capital Outlay	85,952	25,368	17,830	19,752	119,046
Total Expenditures	<u>14,322,545</u>	<u>13,366,015</u>	<u>11,725,062</u>	<u>11,668,302</u>	<u>11,735,161</u>
Revenues Over (Under) Expenditures	<u>1,053,589</u>	<u>761,998</u>	<u>320,031</u>	<u>(680,546)</u>	<u>(997,689)</u>
<b>Other Financing Sources (Uses):</b>					
Transfers:					
Operating Transfers In	651,262	636,063	697,884	987,805	820,466
Operating Transfers Out	(680,173)	(642,289)	(463,135)	(383,066)	(383,915)
Total Other Financing Sources (Uses)	<u>(28,911)</u>	<u>(6,226)</u>	<u>234,749</u>	<u>604,739</u>	<u>436,551</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	1,024,678	755,772	554,780	(75,807)	(561,138)
Fund Balance, July 1					
Reserved	738,767	432,482	313,165	562,965	993,154
Unreserved	1,126,576	677,089	241,626	70,004	200,953
<b>Fund Balance, July 1</b>	<u>1,865,343</u>	<u>1,109,571</u>	<u>554,791</u>	<u>632,969</u>	<u>1,194,107</u>
Fund Balance, June 30					
Reserved	1,085,538	738,767	432,482	313,165	562,965
Unreserved	1,804,483	1,126,576	677,089	243,997	70,004
<b>Fund Balance, June 30</b>	<u>\$ 2,890,021</u>	<u>\$ 1,865,343</u>	<u>\$ 1,109,571</u>	<u>\$ 557,162</u>	<u>\$ 632,969</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, 2006**  
**(Dollars in Thousands)**

	<b>General Fund</b>			<b>Final Budget/ Actual Variance Favorable (Unfavorable)</b>
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	
<b>Revenues:</b>				
Taxes:				
Individual and Fiduciary Income	\$ 8,334,700	\$ 9,170,400	\$ 9,308,570	\$ 138,170
Sales and Use	3,049,700	3,006,300	3,029,949	23,649
Corporation Income	508,200	851,500	871,554	20,054
Public Service Corporations	88,600	90,600	89,992	(608)
Premiums of Insurance Companies	413,700	392,500	373,781	(18,719)
Other Taxes	997,300	1,230,500	1,222,590	(7,910)
Rights and Privileges	57,800	62,500	65,212	2,712
Sales of Property and Commodities	100	6,300	7,026	726
Assessments and Receipts for Support of Special Services	400	400	332	(68)
Institutional Revenue	8,600	9,200	8,235	(965)
Interest, Dividends, and Rents	96,985	118,579	114,500	(4,079)
Fines, Forfeitures, Court Fees, Penalties, and Escheats	199,000	161,600	145,189	(16,411)
Receipts from Cities, Counties, and Towns	9,200	9,500	9,999	499
Tobacco Master Settlement	51,100	52,978	47,852	(5,126)
Other	57,768	71,199	81,353	10,154
Total Revenues (Note 2)	<u>13,873,153</u>	<u>15,234,056</u>	<u>15,376,134</u>	<u>142,078</u>
<b>Expenditures:</b>				
Current:				
General Government	1,548,804	1,388,701	1,314,782	73,919
Education	6,752,214	6,858,325	6,767,114	91,211
Transportation	154	44	43	1
Resources and Economic Development	265,057	298,832	280,689	18,143
Individual and Family Services	3,583,553	3,693,804	3,652,319	41,485
Administration of Justice	2,078,445	2,239,874	2,221,646	18,228
Capital Outlay	51,869	143,292	85,952	57,340
Total Expenditures	<u>14,280,096</u>	<u>14,622,872</u>	<u>14,322,545</u>	<u>300,327</u>
Revenues Over (Under) Expenditures	<u>(406,943)</u>	<u>611,184</u>	<u>1,053,589</u>	<u>442,405</u>
<b>Other Financing Sources (Uses):</b>				
Transfers:				
Operating Transfers In	618,609	607,367	651,262	43,895
Operating Transfers Out	(584,102)	(646,516)	(680,173)	(33,657)
Total Other Financing Sources (Uses)	<u>34,507</u>	<u>(39,149)</u>	<u>(28,911)</u>	<u>10,238</u>
Revenues and Other Sources Over (Under)				
Expenditures and Other Uses	(372,436)	572,035	1,024,678	452,643
<b>Fund Balance, July 1</b>	<u>1,865,343</u>	<u>1,865,343</u>	<u>1,865,343</u>	<u>-</u>
<b>Fund Balance, June 30</b>	<u>\$ 1,492,907</u>	<u>\$ 2,437,378</u>	<u>\$ 2,890,021</u>	<u>\$ 452,643</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, 2006**  
**(Dollars in Thousands)**

	<u>Final Budget</u> <u>Appropriations</u>	<u>Actual</u> <u>Expenditures</u>	<u>Amount Under</u> <u>Budget</u>
Enactment of Laws	\$ 35,601	\$ 28,964	\$ 6,637
Financial Assistance to Localities -- From Sale of Alcoholic Beverages and Other Distributions	33,975	33,870	105
Financial Assistance for Special State Revenue Sharing -- From Sales Tax and Lottery Proceeds	1,293,738	1,248,168	45,570
Cash Management Improvement Act Payment to the Federal Government	312	312	-
Totals	<u>\$ 1,363,626</u>	<u>\$ 1,311,314</u>	<u>\$ 52,312</u>



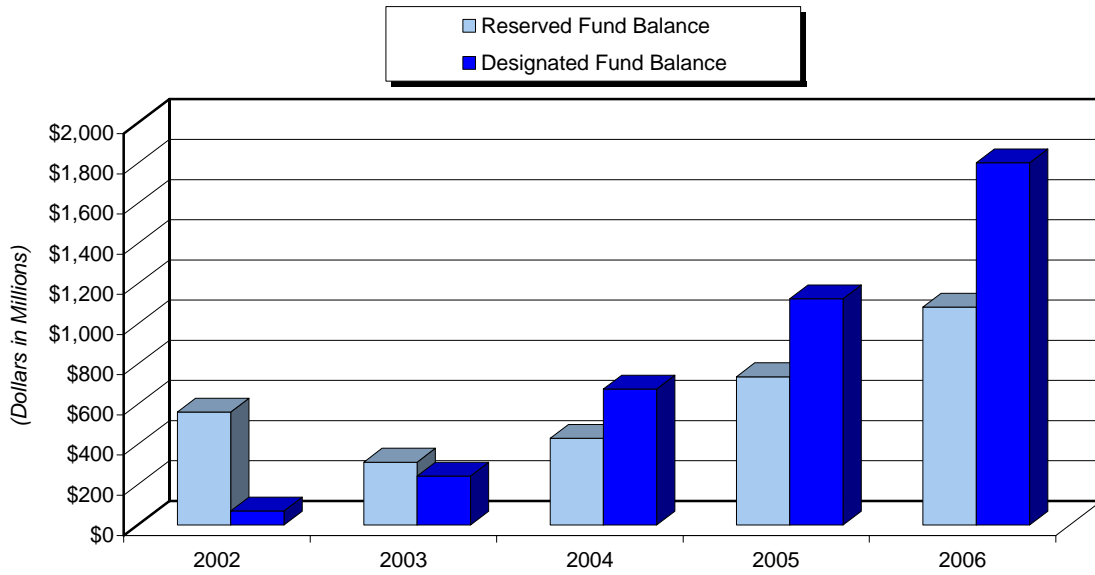
**GENERAL FUND GRAPHICS AND SUPPLEMENTAL  
SCHEDULES**



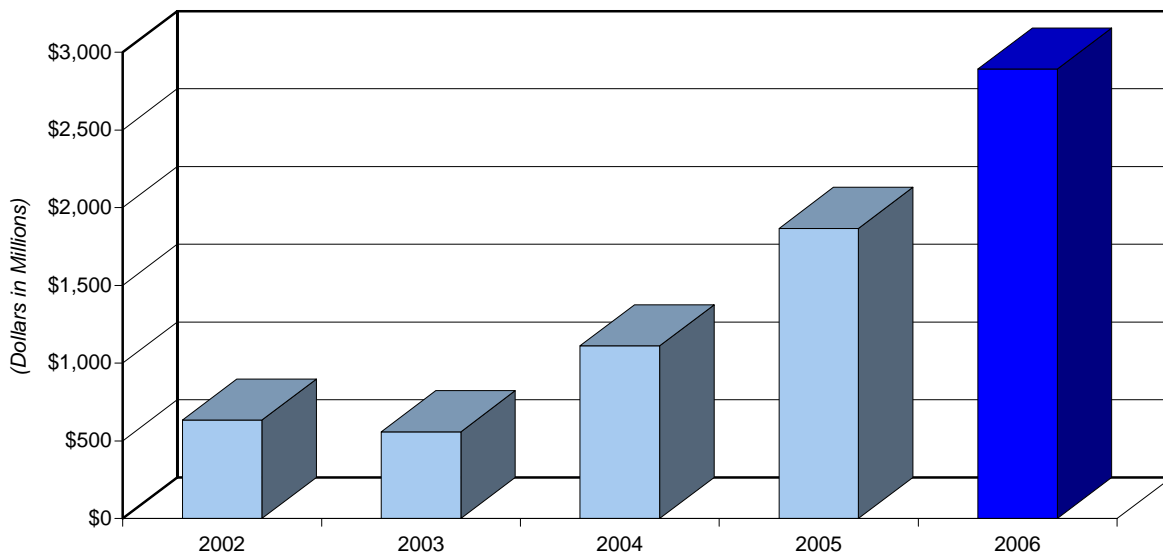




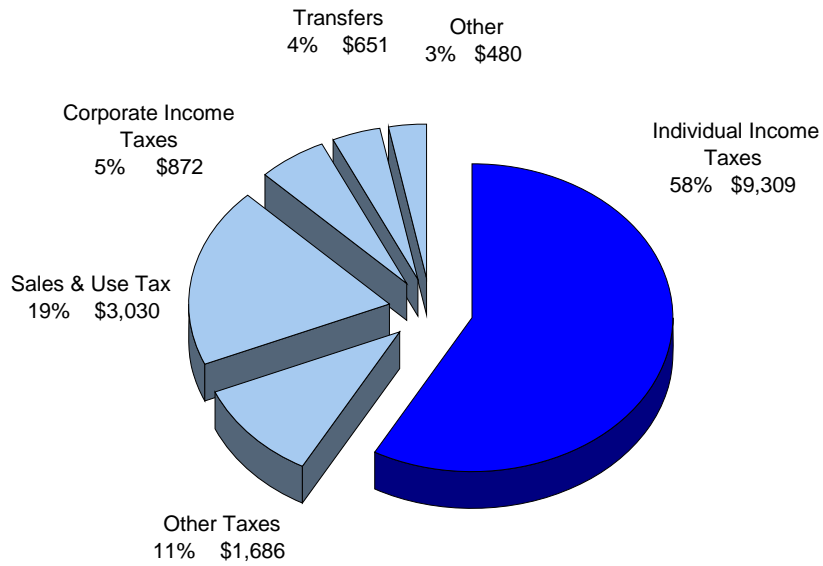
**General Fund  
Fund Balance  
Fiscal Years 2002-2006**



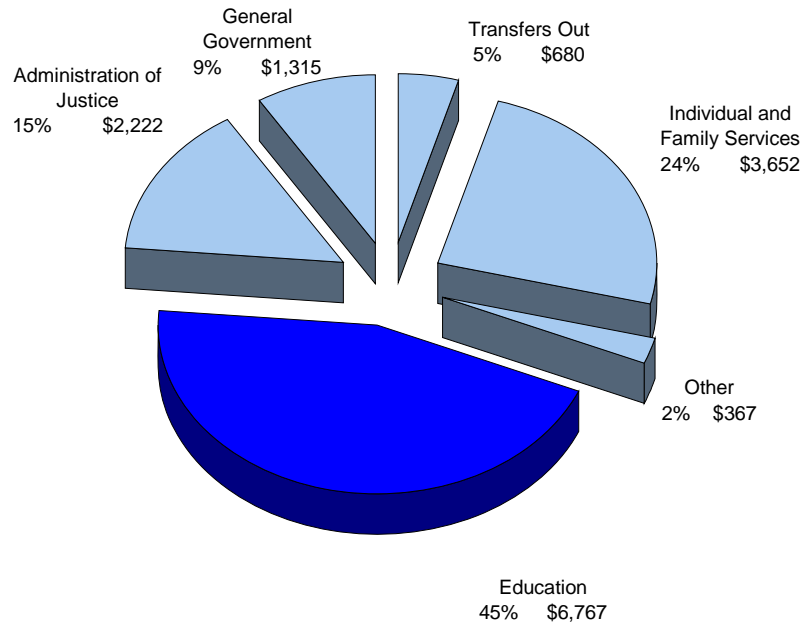
**General Fund  
Cash, Cash Equivalents, and Investments  
Fiscal Years 2002-2006**



**General Fund  
Revenues by Revenue Class and Other Sources  
Fiscal Year 2006  
(Dollars in Millions)**

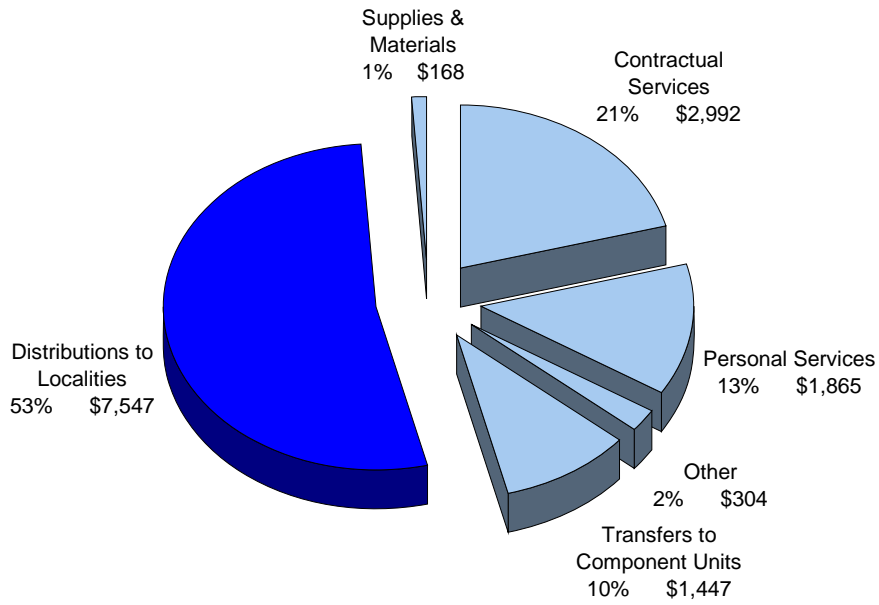


**General Fund  
Expenditures by Function and Other Uses  
Fiscal Year 2006  
(Dollars in Millions)**

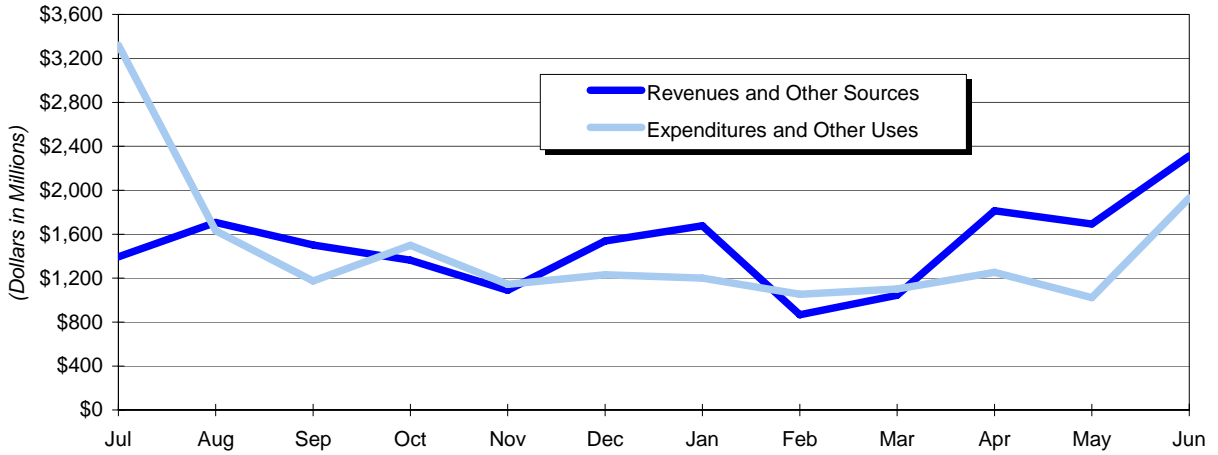


Note: General Government expenditures include \$723.7 million paid to localities pursuant to the Personal Property Tax Relief Act of 1998. This represents 55 percent of the General Government expenditures.

**General Fund  
Expenditures by Object  
Fiscal Year 2006  
(Dollars in Millions)**



**General Fund  
Revenues and Other Sources and  
Expenditures and Other Uses by Month  
Fiscal Year 2006**



Note: July expenditures include \$1.352 billion in payments to Higher Education.

**General Fund  
Expenditures by Function and Significant Service Area  
Fiscal Year 2006  
(Dollars in Thousands)**

Function:	Significant Service Area:	Amount	Totals
Education	Higher Education	\$ 1,618,400	
	Grades K-12	4,981,337	
	Other	<u>167,377</u>	
			\$ 6,767,114
Individual and Family Services	Medical Assistance Services	2,477,749	
	Mental Health, Mental Retardation and Substance Abuse Services	465,385	
	Social Services	338,703	
	Comprehensive Services for At-Risk Youth and Families	159,147	
	Health	138,415	
	Other	<u>72,920</u>	
Administration of Justice	Corrections	1,161,089	
	Compensation Board	513,044	
	Courts	297,549	
	State Police	198,536	
	Other	<u>51,428</u>	
			2,221,646
General Government	Car Tax Relief (PPTRA)	723,687	
	Criminal Justice - Locality Assistance	191,323	
	Debt Service - Component Units	77,564	
	Tax Administration	87,254	
	Other	<u>234,954</u>	
			1,314,782
Resources and Economic Development	Environmental Quality	43,776	
	Conservation and Recreation	41,971	
	Agriculture	26,539	
	Housing and Community Development	35,066	
	Economic Development Partnership	16,581	
	Forestry	17,499	
	Other	<u>99,257</u>	
			280,689
Other	Capital Outlay	85,952	
	Transportation	<u>43</u>	
			85,995
			<u>\$ 14,322,545</u>

**General Fund**  
**Other Financing Sources and Uses by Significant Service Area**  
**Fiscal Year 2006**  
**(Dollars in Thousands)**

**Other Financing Sources (Transfers In):**

<b>Significant Service Area</b>	<u><b>Amount</b></u>	<u><b>Total</b></u>
Lottery	\$ 454,021	
ABC Transfers	102,665	
Transfers from Other Funds	<u>94,576</u>	
		<u>\$ 651,262</u>

**Other Financing Uses (Transfers Out):**

<b>Significant Service Area</b>	<u><b>Amount</b></u>	<u><b>Total</b></u>
Transportation Programs	\$ 232,031	
Debt Service	218,589	
Water Quality Improvement Fund	153,962	
Disaster Relief	8,810	
Transfers to Other Funds	<u>66,781</u>	
		<u>\$ 680,173</u>



## GENERAL FUND NOTES



# COMMONWEALTH OF VIRGINIA

## NOTES TO PRELIMINARY FINANCIAL STATEMENTS

JUNE 30, 2006

### 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, 2006.

#### B. Budget

Budgetary amounts shown in the financial statements represent Chapter 951, Acts of Assembly (original) and Special Session 1, Chapter 2 (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, 2006.



<i>(Dollars in Thousands)</i>	<b>Preliminary Financial Statements</b>	<b>Monthly Statement of Revenue</b>	<b>Variance</b>
Total Final Budgeted Revenue	\$ 15,234,056	\$ 14,687,300	\$ 546,756 (a)
(a) Appropriation Act transfers included in budgeted revenue on the Preliminary Financial Statements		15,859	
Revenue Stabilization Fund budgeted interest revenue included on the Preliminary Financial Statements		16,879	
Other transfers/items excluded from budgeted revenue on the Preliminary Financial Statements		(15)	
Virginia Health Care Fund - Tobacco Products Tax budgeted revenue included on the Preliminary Financial Statements		197,000	
Virginia Health Care Fund - Tobacco Master Settlement budgeted revenue included on the Preliminary Financial Statements		52,978	
Virginia Health Care Fund - budgeted other revenue included on the Preliminary Financial Statements		61,555	
Public Education Standards of Quality Fund - Sales and Use Tax budgeted revenue included on the Preliminary Financial Statements		202,500	
		<u>\$ 15,234,056</u>	
Total Actual Revenue	\$ 15,376,134	\$ 14,834,298	\$ 541,836 (b)
(b) Reversal of prior year reclass of Non-sufficient Fund Checks not reflected on the Revenue Report		1,429	
Interest on the Revenue Stabilization Fund not reported in the Revenue Report		17,348	
Appropriation Act transfers recorded as revenue on the Preliminary Financial Statements		16,158	
Other transfers recorded as revenue on the Preliminary Financial Statements		819	
Personal Property Tax Relief Act - Refund of Prior Year Disbursements not reported in the Revenue Report		662	
Interest on Lottery Proceeds Fund - not reported in the Revenue Report		53	
Virginia Health Care Fund - Tobacco Products Tax Revenue not reported in the Revenue Report		187,084	
Virginia Health Care Fund - Tobacco Master Settlement Revenue not reported in the Revenue Report		47,852	
Virginia Health Care Fund - Other Revenue not reported in the Revenue Report		54,000	
Public Education Standards of Quality Fund - Sales and Use Tax Revenue not reported in the Revenue Report		217,200	
Non-sufficient Fund Checks & Other items reclassified as a reduction in revenue for financial reporting purposes		(769)	
		<u>\$ 15,376,134</u>	

### 3. APPROPRIATION ACT TRANSFERS

For fiscal year ended June 30, 2006, Appropriation Act transfers are \$865.7 million. The following analysis shows where Appropriation Act transfers are reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

<i>(Dollars in Thousands)</i>	<b>Appropriation Act Transfers</b>
Revenue - Other	\$ 16,183
Transfers In	641,924 (c)
Intrafund Transfers between General Fund and Public Education Standards of Quality Fund	217,200
Intrafund Transfers between General Fund and Revenue Stabilization Fund	19,104
Transfers Out	<u>(28,747)</u>
Total Appropriation Act Transfers	<u>\$ 865,664</u>

(c) Includes ABC transfers of approximately \$102.7 million

### 4. 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 \$187.5 million for deposit into the Fund during FY 2008. 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 calculated minimum mandatory deposit (excludes all revenue increases from tax reform including those derived from estimates) is \$216.6 million and the calculated maximum mandatory deposit (includes all revenue increases from tax reform) is \$244.4 million. In FY 2005 the mandatory revenue stabilization fund calculated minimum deposit was \$354 million, however the general assembly appropriated \$402.2 million, creating a \$48.2 million prepayment. In FY 2006, \$19.1 million was transferred from the revenue stabilization fund to the general fund once the maximum certified balance was reached. The activity in 2006 resulted in a net prepayment of \$29.1 million, therefore; the FY 2006 deposit designation of \$187.5 million is \$29.1 million lower than the calculated minimum mandatory deposit.

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the Fund when specific criteria have been met. No such designation is required since the specified criteria were not met for FY 2006.

The Revenue Stabilization Fund has principal and interest on deposit of \$1.1 billion reserved as a part of General Fund balance which equals the maximum amount allowed for FY 2006. The amount on deposit cannot exceed ten percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. The maximum amount allowed is \$1.1 billion and \$1.2 billion for FY 2006 and FY 2007, respectively. The FY 2007 maximum is pending certification by the Auditor of Public Accounts.

## **5. 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 2006 totaled \$454.0 million. During FY 2006, the Commonwealth appropriated and expended \$433.5 million. The remaining cumulative lottery transfers of \$20.521 million plus the \$352 thousand reserved in the prior year are reserved for the year ended June 30, 2006 and will be appropriated in FY 2007.

Lottery has reported total proceeds of \$454.931 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, 2006.

## **6. 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, 2006, \$14.7 and \$3.2 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, \$17.9 million will be transferred from the General Fund to the Virginia Water Quality Improvement Fund.

## **7. DESIGNATED FUND BALANCE**

The amounts designated on the Balance Sheet represent tentative plans for future utilization of current financial resources. For FY 2006, the Department of Planning and Budget certified total designations of \$1.804 billion. This amount consists of \$187.5 million for the Revenue Stabilization Fund, \$134.4 million for mandatory reappropriation in fiscal year 2007 for operations, \$28.4 million for discretionary reappropriation in fiscal year 2007 for operations, \$125.8 million for capital outlay projects needs and \$19.7 million for natural disaster sum sufficient amounts. Additionally, \$1.2 billion is designated as available balances to meet the requirements of Special Session 1, Chapter 2, and \$17.9 million for the Water Quality Fund. Further, the Department of Planning and Budget has identified planned disbursements of \$2.5 million for a review of the long-term transportation and security needs of the Route 31 corridor and \$50.0 million for Land Preservation Tax Credits. The Balance Sheet reflects \$1.804 billion designated for the above purposes.



## GLOSSARY



## **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 2006 Unexpended Balances, Mandatory Reappropriations, Discretionary Reappropriations, and Capital Outlay** – This portion of fund balance represents the fiscal year 2006 unexpended appropriations which the Department of Planning and Budget anticipates reappropriating in the next fiscal year.
  - **Amount Required by Special Session 1, Chapter 2** – 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.
  - **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, 2006, is \$187.5 million.
  - **Amount required by Item C–319.10, Chapter 3, 2006 Acts of Assembly** – This portion of fund balance represents the amount authorized by the Governor from 2006 general fund revenues to conduct a review of the long term transportation and security needs of the Route 31 corridor and acquire such additional property and take such other steps as may be necessary to preserve the long-term transportation utility and security needs of this corridor.
  - **Amount required for Land Preservation Tax Credits** – This portion of the fund balance represents amounts to be paid to landowner taxpayers for the donation of land to a public or private conservation agency eligible to hold such land and interests for conservation or preservation purposes. The credit is equal to a percentage of the fair market value of the land or interest conveyed.

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

### Revenues:

6. **Taxes** - Charges of money imposed by the Commonwealth on persons or property for public purposes.
7. **Rights and Privileges** - Registration fees, licenses, and permits. Examples include domestic and foreign corporate registration fees and marriage licenses.
8. **Sales of Property and Commodities** - Revenue collected from sales of Commonwealth assets and goods. Examples include sales of State publications.
9. **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.
10. **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.
11. **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.
12. **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.
13. **Receipts from Cities, Counties, and Towns** - Revenue collected from city and county treasurers representing miscellaneous fees and allowances of local law enforcement officials.
14. **Private Donations, Gifts, and Contracts** - This amount represents donations and grants from individuals and private companies to State programs.
15. **Tobacco Master Settlement** - This amount represents the revenue generated from the Tobacco Master Settlement Agreement with tobacco companies.
16. **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:

17. **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, 2005, and 2006. 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, \$907.3 million, and \$723.7 million for fiscal years 1999 to 2006, respectively.
18. **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.

19. **Transportation** - Expenditures related to the movement of people, goods, and services and their regulation. Examples include ground, water and air transportation.
20. **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.
21. **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.
22. **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.
23. **Capital Outlay** - Construction and preparation of Commonwealth assets.

**Other Financing Sources (Uses):**

24. **Operating Transfers In** - This balance reflects transfers in from other nongeneral funds.
25. **Operating Transfers Out** - This 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  
**[Finrept@doa.virginia.gov](mailto:Finrept@doa.virginia.gov)**

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Department of Accounts  
Financial Reporting Unit  
(804) 225-3102

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