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# COMMONWEALTH OF VIRGINIA

## GENERAL FUND PRELIMINARY (UNAUDITED) ANNUAL REPORT

For the Fiscal Year Ended June 30, 2007

Presented on a Budgetary (Cash) Basis



David A. Von Moll  
Comptroller  
August 15, 2007

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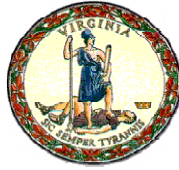
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# COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA  
COMPTROLLER

Office of the Comptroller

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

August 15, 2007

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, 2007.

The Commonwealth ended fiscal year 2007 with a total fund balance in the General Fund of \$2.96 billion measured on the cash basis of activity. This is an increase of \$70 million, or 2 percent, from last year's ending fund balance of \$2.89 billion. Planned (budgeted) decreases in General Fund balance for this year were \$745 million. The favorable results are primarily attributed to expenditures being approximately \$1 billion less than budgeted and revenue collections being approximately \$192 million less than expected. 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 \$1.2 billion reserved as a part of the General Fund balance. A deposit of \$106.7 million was made during FY 2007 as required by Section 2.2-1829(b) of the *Code of Virginia*. Since the Revenue Stabilization Fund reached the maximum amount allowed to be deposited in FY 2007, Revenue Stabilization Fund interest earnings of \$34.2 million were transferred from the Revenue Stabilization Fund to the General Fund. The \$119.1 million net deposit planned to be made in FY 2008 has been reserved.

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 deposit including all revenue increases from tax reform is \$32.1 million, and the calculated deposit excluding all revenue increases from tax reform (including those derived from estimates) is \$86.3 million. The Department of Planning and Budget has identified \$32.1 million for deposit into the Revenue Stabilization Fund during FY 2009 under the provisions of Article X, Section 8 of the *Constitution of Virginia*. As of June 30, 2007, sufficient cash balances do not exist to designate this amount.

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 2007.

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 847 requires reappropriation of 2007 fiscal year unexpended appropriations for Legislative and Judicial Departments, as well as Independent Agencies. Additionally, this 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, 2007, \$854.6 million will be designated for capital outlay project needs; \$29.2 million for natural disaster sum sufficient amounts; \$611.6 million for mandatory reappropriation in fiscal year 2008, consisting of \$500 million for the 2007 Transportation Initiative during fiscal year 2008 and \$111.6 million for other fiscal year 2008 operations; and \$147.7 million for discretionary reappropriation in fiscal year 2008 for operations. Additionally, \$111.3 million is designated as available balances to meet the requirements of Chapter 847. As of June 30, 2007, 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. In prior years, we have designated the amounts that represent ten percent of the excess revenue collections and ten percent of the unreserved fund balance not required for reappropriation. No such designations are required for the year ended June 30, 2007.

### **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.

**Final Report and Award**

The final Annual Report of the Comptroller, due on December 15, 2007, 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, 2006, 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 twenty-first consecutive year that Virginia's Annual Report has received this award. In addition, Virginia expects to receive a companion award from the GFOA for its fiscal year 2006 Popular Report, entitled *Virginia Financial Perspective*. Upon receipt of this award, Virginia's Popular Report will have received this award for the past twelve consecutive years.

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, 2007**  
**(Dollars in Thousands)**

**Assets**

Cash, Cash Equivalents, and Investments	\$ 2,957,403	
Cash and Travel Advances	<u>992</u>	
Total Assets		<u><u>\$ 2,958,395</u></u>

**Liabilities and Fund Equity**

<b>Liabilities:</b>		
Deposits Pending Distribution	<u>3,294</u>	
Total Liabilities		\$ 3,294

**Fund Equity:**

<b>Reserved Fund Balance:</b>		
Revenue Stabilization Reserve Fund (Note 4)	1,189,834	
Revenue Stabilization Reserve 2006 (Note 4)	119,110	
Payroll Reserve for July 1, 2007 Payroll	87,249	
Unexpended Lottery Proceeds (Note 5)	<u>28,600</u>	
Total Reserved Fund Balance	1,424,793	

**Unreserved Fund Balance:**

<b>Designated:</b>		
Amount Required for Reappropriation of		
2007 Unexpended Balances for Capital Outlay	854,650	
Natural Disaster Sum Sufficient	29,225	
Amount Required by Chapter 847	111,256	
Amount Required for Mandatory Reappropriation		
2007 Transportation Initiative	500,000	
2007 Unexpended Balances	<u>35,177</u>	
Total Designated Fund Balance (Note 7)	<u>1,530,308</u>	
Total Unreserved Fund Balance		<u>1,530,308</u>

Total Fund Equity		<u>\$ 2,955,101</u>
Total Liabilities and Fund Balance		<u><u>\$ 2,958,395</u></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, 2003 through June 30, 2007**  
**(Dollars in Thousands)**

	Year Ended				
	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003
<b>Revenues:</b>					
Taxes:					
Individual and Fiduciary Income	\$ 9,857,024	\$ 9,308,570	\$ 8,352,366	\$ 7,430,365	\$ 6,775,746
Sales and Use	3,274,286	3,029,949	3,093,725	2,582,797	2,335,958
Corporation Income	889,942	871,554	616,690	434,493	343,319
Deeds, Contracts, Wills, and Suits	582,946	694,712	596,058	340,578	285,841
Premiums of Insurance Companies	384,894	373,781	373,571	351,278	333,004
Alcoholic Beverage Sales	161,845	152,963	144,466	138,039	128,723
Tobacco Products	186,920	187,084	113,120	16,118	15,314
Estate	152,864	160,407	149,962	149,648	143,325
Public Service Corporations	87,961	89,992	88,309	86,870	91,247
Other Taxes	19,229	27,424	41,677	23,997	242
Total Taxes	<u>15,597,911</u>	<u>14,896,436</u>	<u>13,569,944</u>	<u>11,554,183</u>	<u>10,452,719</u>
Rights and Privileges	68,407	65,212	60,975	69,809	63,216
Sales of Property and Commodities	-	7,026	11,778	2,035	1,019
Assessments and Receipts for Support of Special Services	224	332	333	306	383
Institutional Revenue	7,169	8,235	9,198	9,633	7,896
Interest, Dividends, and Rents	193,207	114,500	90,118	86,719	105,700
Fines, Forfeitures, Court Fees, Penalties, and Escheats	149,281	145,189	181,116	193,675	178,487
Receipts from Cities, Counties, and Towns	10,281	9,999	9,446	8,962	9,117
Private Donations, Gifts and Contracts	16	-	1	1	7
Tobacco Master Settlement	50,087	47,852	52,126	51,359	60,012
Other	60,894	81,353	142,978	68,411	109,200
Total Revenues (Note 2)	<u>16,137,477</u>	<u>15,376,134</u>	<u>14,128,013</u>	<u>12,045,093</u>	<u>10,987,756</u>
<b>Expenditures:</b>					
General Government	1,750,274	1,314,782	1,471,632	1,407,323	1,362,222
Education	7,592,975	6,767,114	6,242,886	5,272,151	5,441,934
Transportation	44	43	44	48	36
Resources and Economic Development	308,657	280,689	234,857	214,116	206,743
Individual and Family Services	3,919,109	3,652,319	3,348,455	2,907,139	2,769,780
Administration of Justice	2,220,203	2,221,646	2,042,773	1,906,455	1,867,835
Capital Outlay	175,713	85,952	25,368	17,830	19,752
Total Expenditures	<u>15,966,975</u>	<u>14,322,545</u>	<u>13,366,015</u>	<u>11,725,062</u>	<u>11,668,302</u>
Revenues Over (Under) Expenditures	<u>170,502</u>	<u>1,053,589</u>	<u>761,998</u>	<u>320,031</u>	<u>(680,546)</u>
<b>Other Financing Sources (Uses):</b>					
Transfers:					
Operating Transfers In	611,041	651,262	636,063	697,884	987,805
Operating Transfers Out	(716,463)	(680,173)	(642,289)	(463,135)	(383,066)
Total Other Financing Sources (Uses)	<u>(105,422)</u>	<u>(28,911)</u>	<u>(6,226)</u>	<u>234,749</u>	<u>604,739</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	65,080	1,024,678	755,772	554,780	(75,807)
Fund Balance, July 1					
Reserved	1,085,538	738,767	432,482	313,165	562,965
Unreserved	1,804,483	1,126,576	677,089	241,626	70,004
<b>Fund Balance, July 1</b>	<u>2,890,021</u>	<u>1,865,343</u>	<u>1,109,571</u>	<u>554,791</u>	<u>632,969</u>
Fund Balance, June 30					
Reserved	1,424,793	1,085,538	738,767	432,482	313,165
Unreserved	1,530,308	1,804,483	1,126,576	677,089	243,997
<b>Fund Balance, June 30</b>	<u>\$ 2,955,101</u>	<u>\$ 2,890,021</u>	<u>\$ 1,865,343</u>	<u>\$ 1,109,571</u>	<u>\$ 557,162</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, 2007**  
(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	\$ 9,650,300	\$ 9,968,800	\$ 9,857,024	\$ (111,776)
Sales and Use	3,376,300	3,319,100	3,274,286	(44,814)
Corporation Income	787,600	901,400	889,942	(11,458)
Deeds, Contracts, Wills, and Suits	588,000	554,400	582,946	28,546
Premiums of Insurance Companies	416,400	384,600	384,894	294
Alcoholic Beverage Sales	154,900	158,400	161,845	3,445
Tobacco Products	194,100	187,000	186,920	(80)
Estate	145,000	160,400	152,864	(7,536)
Public Service Corporations	92,800	92,500	87,961	(4,539)
Other Taxes	17,000	26,500	19,229	(7,271)
Rights and Privileges	63,700	64,800	68,407	3,607
Sales of Property and Commodities	100	100	-	(100)
Assessments and Receipts for Support of Special Services	400	400	224	(176)
Institutional Revenue	9,200	8,800	7,169	(1,631)
Interest, Dividends, and Rents	200,568	248,472	193,207	(55,265)
Fines, Forfeitures, Court Fees, Penalties, and Escheats	198,400	172,100	149,281	(22,819)
Receipts from Cities, Counties, and Towns	9,500	10,200	10,281	81
Private Donations, Gifts and Contracts	-	-	16	16
Tobacco Master Settlement	71,082	45,439	50,087	4,648
Other	59,023	65,773	60,894	(4,879)
<b>Total Revenues (Note 2)</b>	<b>16,034,373</b>	<b>16,369,184</b>	<b>16,137,477</b>	<b>(231,707)</b>
<b>Expenditures:</b>				
Current:				
General Government	1,844,411	1,801,933	1,750,274	51,659
Education	7,734,667	7,658,804	7,592,975	65,829
Transportation (Note 7)	339,044	500,044	44	500,000
Resources and Economic Development	291,640	335,845	308,657	27,188
Individual and Family Services	3,983,324	4,010,002	3,919,109	90,893
Administration of Justice	2,213,653	2,239,237	2,220,203	19,034
Capital Outlay	68,171	430,654	175,713	254,941
<b>Total Expenditures</b>	<b>16,474,910</b>	<b>16,976,519</b>	<b>15,966,975</b>	<b>1,009,544</b>
Revenues Over (Under) Expenditures	(440,537)	(607,335)	170,502	777,837
<b>Other Financing Sources (Uses):</b>				
Transfers:				
Operating Transfers In	593,484	571,217	611,041	39,824
Operating Transfers Out	(707,245)	(708,579)	(716,463)	(7,884)
<b>Total Other Financing Sources (Uses)</b>	<b>(113,761)</b>	<b>(137,362)</b>	<b>(105,422)</b>	<b>31,940</b>
Revenues and Other Sources Over (Under)				
Expenditures and Other Uses	(554,298)	(744,697)	65,080	809,777
<b>Fund Balance, July 1</b>	<b>2,890,021</b>	<b>2,890,021</b>	<b>2,890,021</b>	<b>-</b>
<b>Fund Balance, June 30</b>	<b>\$ 2,335,723</b>	<b>\$ 2,145,324</b>	<b>\$ 2,955,101</b>	<b>\$ 809,777</b>

The accompanying notes are an integral part of this statement.

**Commonwealth of Virginia**  
**Preliminary Comparison of Selected Sum-Sufficient Final Budget**  
**Appropriations with Actual Expenditures**  
**General Fund - Budgetary (Cash) Basis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2007**  
**(Dollars in Thousands)**

	<u>Original Budget</u> <u>Appropriations</u>	<u>Final Budget</u> <u>Appropriations</u>	<u>Actual</u> <u>Expenditures</u>	<u>Amount Under</u> <u>Final Budget</u>
Enactment of Laws	\$ 28,903	\$ 33,866	\$ 28,708	\$ 5,158
Financial Assistance to Localities -- From Sale of Alcoholic Beverages and Other Distributions	55,190	35,514	35,514	-
Financial Assistance for Special State Revenue Sharing -- From Sales Tax	1,266,460	1,142,665	1,140,488	2,177
Cash Management Improvement Act Payment to the Federal Government	773	773	773	-
Totals	<u>\$ 1,351,326</u>	<u>\$ 1,212,818</u>	<u>\$ 1,205,483</u>	<u>\$ 7,335</u>



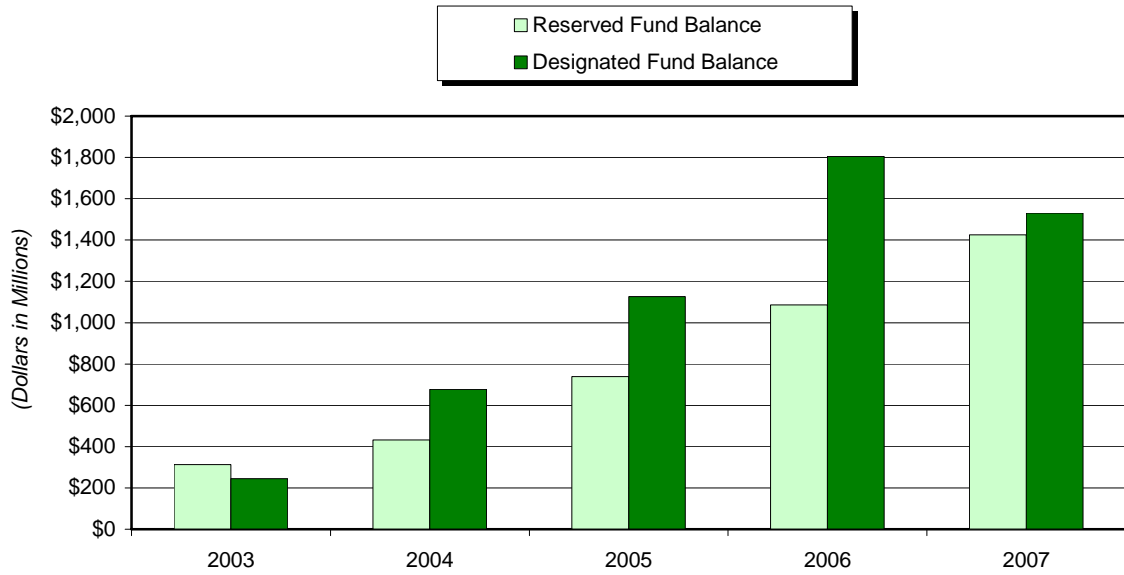
# GENERAL FUND GRAPHICS AND SUPPLEMENTAL SCHEDULES



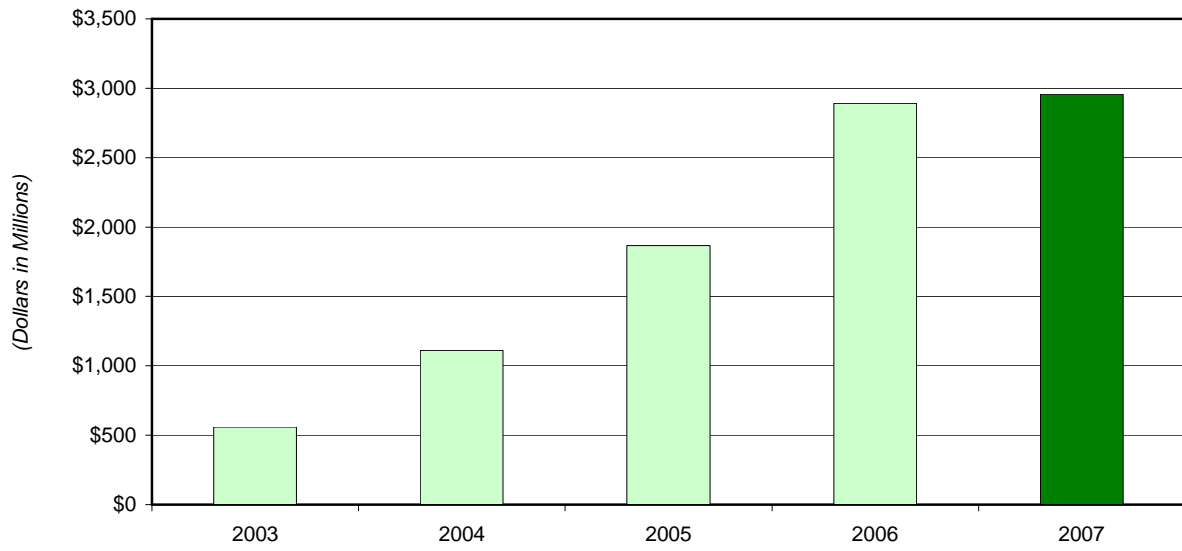




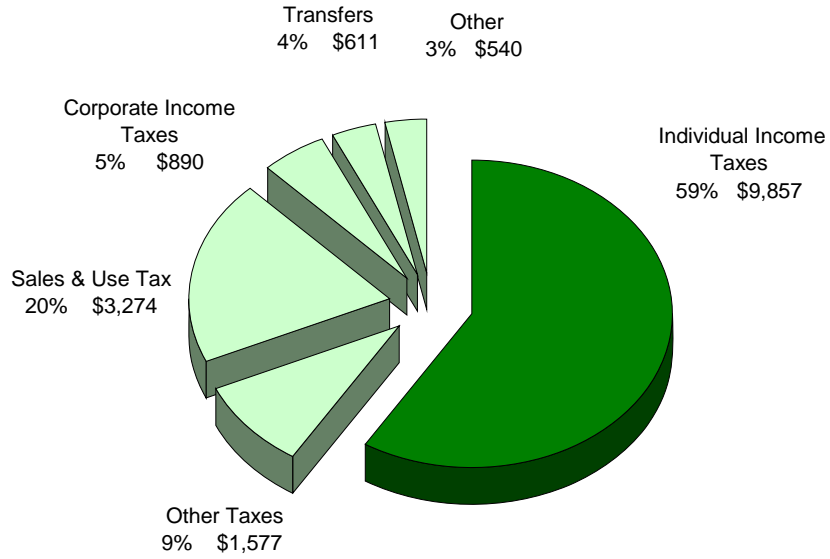
**General Fund  
Fund Balance  
Fiscal Years 2003-2007**



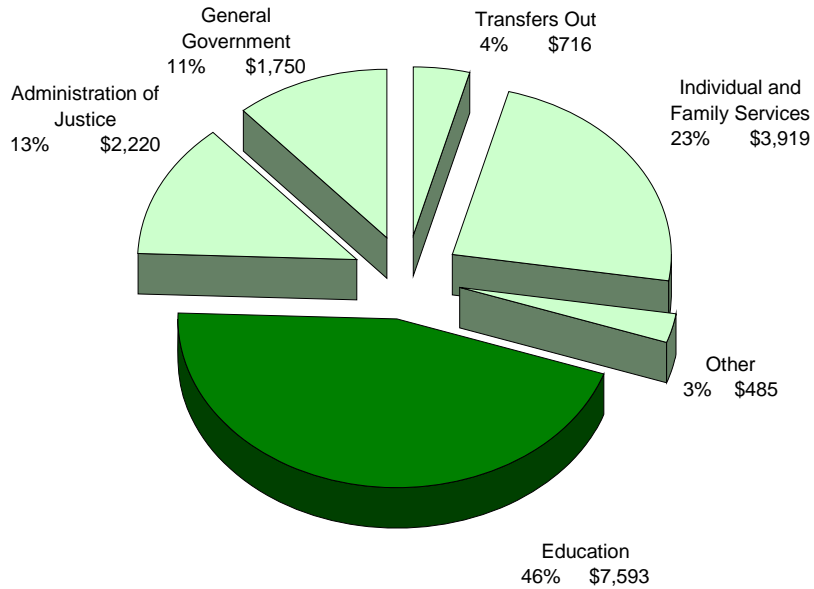
**General Fund  
Cash, Cash Equivalents, and Investments  
Fiscal Years 2003-2007**



**General Fund  
Revenues by Revenue Class and Other Sources  
Fiscal Year 2007  
(Dollars in Millions)**

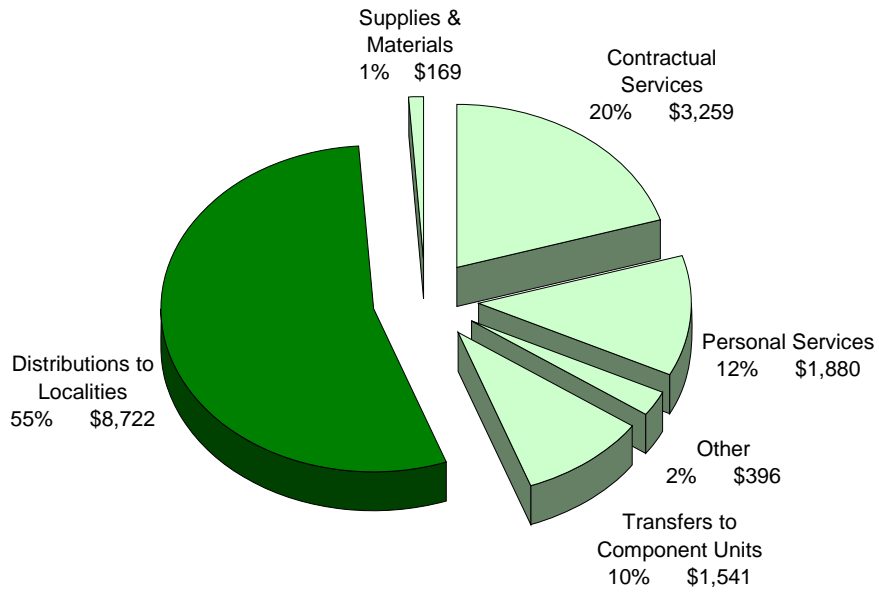


**General Fund  
Expenditures by Function and Other Uses  
Fiscal Year 2007  
(Dollars in Millions)**

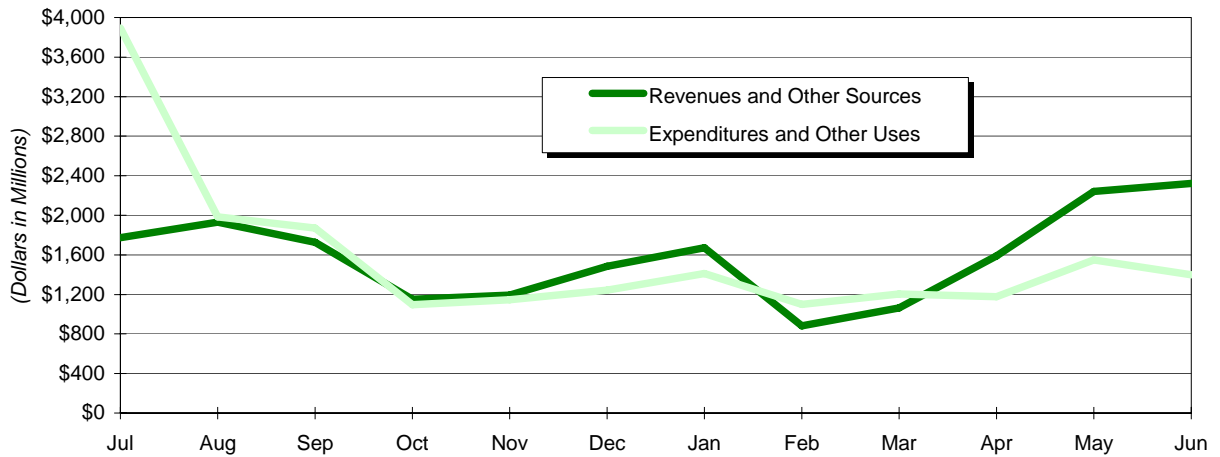


Note: General Government expenditures include \$961.1 million paid to localities pursuant to the Personal Property Tax Relief Act of 1998. This represents 55 percent of the General Government expenditures.

**General Fund  
Expenditures by Object  
Fiscal Year 2007  
(Dollars in Millions)**



**General Fund  
Revenues and Other Sources and  
Expenditures and Other Uses by Month  
Fiscal Year 2007**



Note: July expenditures include \$1.548 billion in payments to Higher Education.

**General Fund  
Expenditures by Function and Significant Service Area  
Fiscal Year 2007  
(Dollars in Thousands)**

Function:	Significant Service Area:	Amount	Totals
Education	Higher Education	\$ 1,713,857	
	Grades K-12	5,692,916	
	Other	186,202	
			\$ 7,592,975
Individual and Family Services	Medical Assistance Services	2,678,775	
	Mental Health, Mental Retardation and Substance Abuse Services	489,169	
	Social Services	367,045	
	Comprehensive Services for At-Risk Youth and Families	169,568	
	Health	144,364	
	Other	70,188	
Administration of Justice	Corrections	1,185,460	
	Sherriffs and Inmate Confinement - Compensation Board	461,864	
	Courts	315,520	
	State Police	199,977	
	Other	57,382	
General Government	Car Tax Relief (PPTRA)	961,080	
	Criminal Justice - Locality Assistance	206,339	
	Constitutional Officers - Compensation Board	147,639	
	Debt Service - Component Units	95,643	
	Tax Administration	84,594	
	Other	254,979	
Resources and Economic Development	Conservation and Recreation	44,591	
	Environmental Quality	42,913	
	Housing and Community Development	37,794	
	Agriculture	27,319	
	Economic Development Partnership	19,313	
	Forestry	17,927	
	Tourism	17,009	
	Business Assistance	14,104	
	Other	87,687	
			308,657
Other	Capital Outlay	175,713	
	Transportation	44	
			175,757
			\$ 15,966,975

**General Fund**  
**Other Financing Sources and Uses by Significant Service Area**  
**Fiscal Year 2007**  
**(Dollars in Thousands)**

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

<b>Significant Service Area</b>	<b>Amount</b>	<b>Total</b>
Lottery	\$ 434,931	
ABC Transfers	101,495	
Transfers from Other Funds	74,615	
	<u>                    </u>	<u>\$ 611,041</u>

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

<b>Significant Service Area</b>	<b>Amount</b>	<b>Total</b>
Debt Service	\$ 245,896	
Water Quality Improvement Fund	218,214	
Transportation Programs	170,916	
Governor's Development Opportunity	15,100	
Semiconductor Memory/Logic Wafer		
Manufacturing Performance Grant	14,220	
Water Supply Assistance Grant Fund	7,100	
Disaster Relief	5,528	
Transfers to Other Funds	39,489	
	<u>                    </u>	<u>\$ 716,463</u>



## GENERAL FUND NOTES



# COMMONWEALTH OF VIRGINIA

## NOTES TO PRELIMINARY FINANCIAL STATEMENTS

JUNE 30, 2007

### 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, 2007.

#### B. Budget

Budgetary amounts shown in the financial statements represent Chapter 3, Acts of Assembly (original) and Chapter 847 (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 which is published on the Secretary of Finance's website. 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, 2007.



<i>(Dollars in Thousands)</i>	<b>Preliminary Financial Statements</b>	<b>Monthly Statement of Revenue</b>	<b>Variance</b>
Total Final Budgeted Revenue	\$ 16,369,184	\$ 15,800,200	\$ 568,984 (a)
(a) Public Education Standards of Quality Fund - Sales and Use Tax budgeted revenue included on the Preliminary Financial Statements		226,200	
Virginia Health Care Fund - Tobacco Products Tax budgeted revenue included on the Preliminary Financial Statements		187,000	
Virginia Health Care Fund - Tobacco Master Settlement budgeted revenue included on the Preliminary Financial Statements		45,439	
Virginia Health Care Fund - budgeted Medicaid claims payable recoveries included as other revenue on the on the Preliminary Financial Statements		52,226	
Revenue Stabilization Fund budgeted interest revenue included on the Preliminary Financial Statements		50,572	
Tranfers from Component Units and Fiduciary Funds included in budgeted revenue on the Preliminary Financial Statements		7,542	
Other items included in budgeted revenue on the Preliminary Financial Statements		5	
		<u>\$ 16,369,184</u>	
Total Actual Revenue	\$ 16,137,477	\$ 15,565,827	\$ 571,650 (b)
(b) Public Education Standards of Quality Fund - Sales and Use Tax revenue included on the Preliminary Financial Statements		225,154	
Virginia Health Care Fund - Tobacco Products Tax revenue included on the Preliminary Financial Statements		186,920	
Virginia Health Care Fund - Tobacco Master Settlement revenue included on the Preliminary Financial Statements		50,087	
Virginia Health Care Fund - Medicaid claims payable recoveries included as other revenue on the on the Preliminary Financial Statements		48,259	
Revenue Stabilization Fund interest revenue included on the Preliminary Financial Statements		52,666	
Transfers from Component Units and Fiduciary Funds included as revenue in the Preliminary Financial Statements		8,184	
Other items included as revenue in the Preliminary Financial Statements		380	
		<u>\$ 16,137,477</u>	

### 3. APPROPRIATION ACT TRANSFERS

For fiscal year ended June 30, 2007, Appropriation Act transfers are \$820.3 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>
Transfers In	\$ 584,742 (c)
Transfers Out	(31,408)
Intrafund Transfers between General Fund and Public Education Standards of Quality Fund	225,154
Intrafund Transfers between General Fund and Revenue Stabilization Fund	34,186
Revenue - Other	7,595
Total Appropriation Act Transfers	<u>\$ 820,269</u>

(c) Includes ABC transfers of approximately \$101.5 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. During FY 2006, \$187.5 million was identified to be deposited during FY 2008. Subsequent to the issuance of the FY 2006 preliminary annual report, this amount was adjusted to \$184.3 million. The General Assembly has appropriated \$184.3 million for deposit into the Fund during FY 2008. This amount was computed under the provisions of Article X, Section 8 of the *Constitution of Virginia*. Since the *Constitution of Virginia* also stipulates that deposits cannot be made in excess of the maximum fund limit certified by the Auditor of Public Accounts, the amount reserved for deposit was limited to \$119.1 million.

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 deposit including all revenue increases from tax reform is \$32.1 million, and the calculated deposit excluding all revenue increases from tax reform (including those derived from estimates) is \$86.3 million. The Department of Planning and Budget has identified \$32.1 million for deposit into the Fund during FY 2009. As further discussed in Note 7, sufficient cash is not available to designate this amount in the accompanying financial statements.

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 2007.

The Revenue Stabilization Fund has principal and interest on deposit of \$1.2 billion reserved as a part of General Fund balance, which equals the maximum amount allowed for FY 2007. 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 \$1.2 billion and \$1.3 billion for FY 2007 and FY 2008, respectively. The FY 2008 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 2007 totaled \$434.9 million. During FY 2007, the Commonwealth appropriated and expended \$427.2 million. The remaining cumulative lottery transfers of \$7.7 million plus the \$20.9 million reserved in the prior year are reserved for the year ended June 30, 2007 and will be appropriated in FY 2008.

Lottery has reported total proceeds of \$437.1 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, 2007.

## **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. There were no revenues in excess of the official estimate and all amounts are required for reappropriation; therefore, no designations are required for the year ended June 30, 2007, for 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 2007, the Department of Planning and Budget certified total designations of \$1.791 billion. This amount consists of \$854.6 million for capital outlay projects needs, \$29.2 million for natural disaster sum sufficient amounts, \$611.6 million for mandatory reappropriation in fiscal year 2008 for operations, \$147.7 million for discretionary reappropriation in fiscal year 2008 for operations, and \$32.1 million for the Revenue Stabilization Fund. Additionally, \$111.3 million is designated as available balances to meet the requirements of Chapter 847. Further, the Department of Planning and Budget has identified planned disbursements to higher education institutions of \$4.1 million and \$217,554 for interest and charge card rebates, respectively. The Balance Sheet reflects \$1.530 billion designated for the above purposes. Sufficient cash is not available to designate the remaining \$261 million of planned disbursements.

The 2007 Transportation Initiative appropriation specified in Chapter 847 required the transfer of \$500 million from the General Fund to specific transportation funds during the FY 2007. Since these amounts were not needed to fund active transportation projects during FY 2007, this transfer did not occur. The transfer is expected to occur in FY 2008, and this amount is included in the \$611.6 million mandatory reappropriations listed above since Chapter 847 required the transfer.



## 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 2007 Unexpended Balances, Capital Outlay and Mandatory Reappropriations**– This portion of fund balance represents the fiscal year 2007 unexpended appropriations which the Department of Planning and Budget anticipates reappropriating in the next fiscal year.
  - **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.
  - **Amount Required by Chapter 847** – This portion of fund balance represents the amount that must be carried forward to the following year to balance the biennial budget.

## 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 2001, respectively, and remained at 70 percent for 2002, 2003, 2004, and 2005. During Special Session 1 (2004), the General Assembly established a limit of \$950 million on the amount for personal property tax relief beginning for tax year 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, \$723.7 million, and \$961.1 million for fiscal years 1999 to 2007, respectively. The FY 2007 disbursements represent the \$950 million payment for tax year 2006 and \$11.1 million in payments made for tax years 2005 and prior as allowed under Item 459 of Chapter 847.

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  
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