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# COMMONWEALTH OF VIRGINIA

## GENERAL FUND PRELIMINARY (UNAUDITED) ANNUAL REPORT

For the Fiscal Year Ended June 30, 2019

Presented on a Cash Basis



David A. Von Moll  
Comptroller  
August 15, 2019

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## **TABLE OF CONTENTS**

Comptroller's Letter of Transmittal	iii
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### **SUMMARY OF GENERAL FUND ACTIVITY**

Preliminary Balance Sheet – General Fund – Cash Basis	2
Preliminary Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund – Cash Basis	3
Preliminary Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund – Cash Basis	4
Preliminary Comparison of Selected Sum-Sufficient Final Budget Appropriations with Actual Expenditures – General Fund – Cash Basis	5

### **GENERAL FUND GRAPHICS AND SUPPLEMENTAL SCHEDULES**

General Fund – Fund Balance, Fiscal Years 2015-2019	9
General Fund – Cash, Cash Equivalents, and Investments, Fiscal Years 2015-2019	9
General Fund – Revenues by Revenue Class and Other Sources, Fiscal Year 2019	10
General Fund – Expenditures by Function and Other Uses, Fiscal Year 2019	10
General Fund – Expenditures by Object, Fiscal Year 2019	11
General Fund – Revenues and Other Sources and Expenditures and Other Uses by Month, Fiscal Year 2019	11
General Fund – Expenditures by Function and Significant Service Area, Fiscal Year 2019	12
General Fund – Other Financing Sources and Uses by Significant Service Area, Fiscal Year 2019	13

<b><u>GENERAL FUND NOTES</u></b>	15
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<b><u>GLOSSARY</u></b>	22
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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, 2019

The Honorable Ralph S. Northam  
Governor  
Commonwealth of Virginia  
State Capitol  
Richmond, Virginia 23219

Dear Governor Northam:

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, 2019.

The Commonwealth ended fiscal year 2019 with a total fund balance in the General Fund of \$2.8 billion measured on the cash basis of accounting. This is an increase of \$1.0 billion, or 56.7 percent, from last year's ending fund balance of \$1.8 billion. Planned (budgeted) decreases in General Fund balance for this year were \$280.4 million. The difference between the planned decrease and actual increase is primarily attributed to revenue collections and other sources being approximately \$791.2 million more than expected and expenditures and other uses being approximately \$501.6 million less than budgeted. This report includes funds that are defined as part of the General Fund pursuant to Governmental Accounting Standards Board Statement No. 54 (GASB No. 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. Accordingly, \$294.6 million of the ending fund balance is attributable to these funds, such as the Water Quality Improvement Fund and the Commonwealth's Development Opportunity Fund. Additional information on fund equity is located in Note 5, and fund balance classifications are shown in the first graph on page 9.

## **Revenue Stabilization Fund**

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 restricted component of fund balance. The Revenue Stabilization Fund can be used only for constitutionally authorized purposes.

The Revenue Stabilization Fund has principal and interest on deposit of \$289.3 million restricted as a part of the General Fund balance.

Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, a deposit of \$262.9 million is required during fiscal year 2020 based on fiscal year 2018 revenue collections. Further, an estimated deposit of \$73.6 million is required during fiscal year 2021 based on fiscal year 2019 revenue collections reduced by the estimated refunds that will be provided to taxpayers as required by Chapter 854. The fiscal year 2019 revenue collections and mandatory deposit will be certified by the Auditor of Public Accounts on or around November 1, 2019. The mandatory deposit of \$262.9 million and estimated deposit of \$73.6 million are reported as restricted components of fund balance.

In addition, Chapter 854, 2019 Acts of Assembly, appropriates an additional \$97.5 million to be deposited in fiscal year 2020. This additional appropriation represents an estimate of the required deposit attributable to fiscal year 2020 tax collections.

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the Fund when specific criteria have been met. No such deposit is required since the specified criteria were not met for fiscal year 2019.

### **Revenue Reserve Fund**

The Revenue Reserve Fund is routinely segregated from the General Fund, but Virginia law directs that the Revenue Reserve 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 committed component of fund balance.

Section 2.2-1831.2 of the *Code of Virginia* established the Revenue Reserve Fund. As of June 30, 2019, the fund has principal and interest on deposit of \$502.6 million committed as a part of the General Fund balance.

This fund was established to mitigate certain anticipated revenue shortfalls when appropriations based on previous revenue forecasts exceed expected revenues in subsequent forecasts. No deposit is required during fiscal year 2020 since there is a mandatory deposit for the Revenue Stabilization Fund. However, there is a planned voluntary deposit during fiscal year 2020 of \$270.8 million, and this amount is reported as an assigned component of fund balance.

### **Amounts Available for Reappropriation**

Section 4-1.05a.1 of Chapter 854 requires reappropriation of 2019 fiscal year unexpended appropriations for Legislative and Judicial Departments, as well as Independent Agencies and states that institutions of higher education reappropriations are subject to Section 23.1-1002 of the *Code of Virginia*. Additionally, this Section specifies that unexpended balances in the Executive Department will be reappropriated where required by the *Code of Virginia*, where necessary for the payment of preexisting obligations, or where the Governor determines reappropriation is appropriate. 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 and balances at June 30, 2019, the following amounts have been committed: \$6.7 million for capital outlay project needs; \$53.1 million for health care services, \$7.0 million for central capital planning; \$33.9 million for communication sales and use tax distributions; \$21.3 million for natural disaster sum sufficient amounts; \$108.2 million for mandatory reappropriations; \$47.0 million pending transfer to the Water Quality Improvement Fund; \$502.6 million for the Revenue Reserve Fund; \$455.0 million for the Taxpayer Relief Fund; and \$750,000 for local government fiscal distress relief.

In addition, the Department of Planning and Budget has identified \$229.9 million as available balances to meet the requirements of Chapter 854, \$131.8 million to be assigned for discretionary reappropriations, and a planned voluntary deposit to the Revenue Reserve Fund of \$270.8 million.

Additionally, restricted balances of \$2.2 million, committed balances of \$237.6 million and assigned balances of \$54.8 million are being reported due to the inclusion of additional funds pursuant to GASB No. 54.

### **Virginia Water Quality Improvement Fund**

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. The Fund has \$34.5 million on deposit committed as part of the General Fund balance. 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 unrestricted and uncommitted fund balance not required for reappropriation. In the legislative context, committed refers to planned future usage versus the fund balance classification. For the year ended June 30, 2019, \$32.4 million and \$14.6 million that represent ten percent of the revenue collected in excess of the official estimate less the amount expected to be transferred to the Taxpayer Relief Fund, as required by Chapter 854, 2019 Acts of Assembly, and ten percent of any unrestricted and uncommitted fund balance not required for reappropriation, respectively, have been committed. For additional information regarding the Virginia Water Quality Improvement Fund, see Note 11.

### **Basis of Presentation**

This preliminary annual report is comprised of 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, 2019, will include certain accruals and other information required for conformance with generally accepted accounting principles. It will be audited by the Auditor of Public Accounts.

We are proud to report that the Comprehensive Annual Financial Report for the year ended June 30, 2018, was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA). Virginia's Annual Report has received this award for 33 consecutive years. In addition, Virginia received a companion award from the GFOA for its fiscal year 2018 Popular Report, entitled *Virginia Financial Perspective*. Virginia's Popular Report has received this award for 24 consecutive years.

Respectfully submitted,

David A. Von Moll

# SUMMARY OF GENERAL FUND ACTIVITY





**Commonwealth of Virginia**  
**Preliminary Balance Sheet**  
**General Fund - Cash Basis (Unaudited)**  
**June 30, 2019**  
**(Dollars in Thousands)**

<b>Assets</b>		
Cash, Cash Equivalents, and Investments	\$ 2,886,715	
Cash and Travel Advances	473	
Other Assets	48	
Due From Other Funds (Note 4)	<u>75</u>	
 Total Assets		 <u>\$ 2,887,311</u>
 <b>Liabilities and Fund Equity</b>		
<b>Liabilities:</b>		
Payments Awaiting Disbursement	81,789	
Deposits Pending Distribution	3,651	
Due To Other Funds (Note 4)	<u>2,535</u>	
Total Liabilities		<u>\$ 87,975</u>
 <b>Fund Equity (Note 5):</b>		
<b>Restricted Fund Balance:</b>		
Revenue Stabilization Fund (Note 6)	289,302	
Revenue Stabilization Reserve 2020 (Note 6)	262,942	
Revenue Stabilization Reserve 2021 (Note 6)	73,611	
Lottery Proceeds Fund (Note 7)	10,791	
Water Supply Assistance Grant Fund	<u>2,192</u>	
Total Restricted Fund Balance		<u>638,838</u>
 <b>Committed Fund Balance (Note 8):</b>		
Amount Required for Reappropriation of 2019 Unexpended Balances for Capital Outlay and Restoration Projects	6,739	
Virginia Health Care Fund	53,115	
Central Capital Planning Fund	7,043	
Communication Sales and Use Tax (Note 9)	33,853	
Commonwealth's Development Opportunity Fund	26,051	
Natural Disaster Sum Sufficient	21,328	
Amount Required for Mandatory Reappropriation	108,175	
Virginia Water Quality Improvement Fund (Note 11)	34,491	
Virginia Water Quality Improvement Fund - Part A (Note 11)	32,386	
Virginia Water Quality Improvement Fund - Part B (Note 11)	14,640	
Revenue Reserve Fund (Note 12)	502,590	
Taxpayer Relief Fund (Note 13)	455,000	
Local Government Fiscal Distress	750	
Economic and Technological Development	122,149	
Health and Public Safety	23,532	
Environmental Quality and Natural Resource Preservation	28,041	
Other	<u>3,390</u>	
Total Committed Fund Balance		<u>1,473,273</u>
 <b>Assigned Fund Balance (Note 8):</b>		
Amount Required by Chapter 854	229,879	
Health and Public Safety	20,104	
Environmental Quality and Natural Resource Preservation	9,564	
Economic and Technological Development	7,679	
Amount Required for Discretionary Reappropriations	131,762	
Amount for Voluntary Revenue Reserve Deposit (Note 12)	270,820	
Other	<u>17,417</u>	
Total Assigned Fund Balance		<u>687,225</u>
 Total Fund Equity		 <u>\$ 2,799,336</u>
 Total Liabilities and Fund Balance		 <u>\$ 2,887,311</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 - Cash Basis (Unaudited)**  
**For the Fiscal Years Ended June 30, 2015 through June 30, 2019**  
**(Dollars in Thousands)**

	Year Ended				
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
<b>Revenues:</b>					
Taxes:					
Individual and Fiduciary Income	\$ 15,226,471	\$ 14,105,766	\$ 13,052,887	\$ 12,555,624	\$ 12,328,675
Sales and Use	3,973,011	3,827,078	3,720,552	3,651,400	3,587,849
Corporation Income	943,391	861,897	826,961	764,948	831,907
Communications Sales and Use (Note 9)	361,023	384,162	395,733	406,707	417,209
Deeds, Contracts, Wills, and Suits	394,062	403,236	403,459	377,699	354,461
Premiums of Insurance Companies	382,018	337,947	340,910	339,081	300,641
Alcoholic Beverage Sales	240,776	231,836	222,354	217,594	207,802
Tobacco Products	151,289	160,383	171,198	178,741	178,996
Estate	191	932	8,202	222	98
Public Service Corporations	98,890	98,672	95,084	92,586	98,537
Other Taxes	47,197	39,392	31,048	32,107	30,251
<b>Total Taxes</b>	<b>21,818,319</b>	<b>20,451,301</b>	<b>19,268,388</b>	<b>18,616,709</b>	<b>18,336,426</b>
Rights and Privileges	93,225	90,780	85,919	84,628	78,654
Sales of Property and Commodities	25,021	62,597	31,515	42,671	28,930
Assessments and Receipts for Support of Special Services	127,809	5,230	4,008	3,539	1,582
Institutional Revenue	37,937	37,926	36,137	36,819	38,240
Interest, Dividends, and Rents	103,670	72,083	61,130	57,680	54,626
Fines, Forfeitures, Court Fees, Penalties, and Escheats	224,783	209,869	222,600	222,039	216,698
Federal Grants and Contracts	10,573	6,796	6,720	3,868	6,416
Receipts from Cities, Counties, and Towns	11,216	11,084	18,360	16,951	16,533
Private Donations, Gifts and Contracts	965	540	476	364	775
Tobacco Master Settlement	56,487	58,267	49,019	47,664	48,207
Other	81,939	316,477	235,237	225,342	158,807
<b>Total Revenues (Note 2)</b>	<b>22,591,944</b>	<b>21,322,950</b>	<b>20,019,509</b>	<b>19,358,274</b>	<b>18,985,894</b>
<b>Expenditures:</b>					
General Government	2,446,484	2,405,220	2,388,305	2,497,121	2,273,965
Education	9,109,073	8,740,117	8,450,900	8,095,292	7,928,734
Transportation	203	202	236	328	836
Resources and Economic Development	432,029	397,794	445,102	413,406	413,053
Individual and Family Services	7,208,024	6,904,011	6,551,237	6,238,651	5,765,208
Administration of Justice	2,904,663	2,848,951	2,740,411	2,678,980	2,586,618
Capital Outlay	2,575	4,658	44,488	26,010	6,510
<b>Total Expenditures</b>	<b>22,103,051</b>	<b>21,300,953</b>	<b>20,620,679</b>	<b>19,949,788</b>	<b>18,974,924</b>
Revenues Over (Under) Expenditures	488,893	21,997	(601,170)	(591,514)	10,970
<b>Other Financing Sources (Uses):</b>					
Transfers:					
Operating Transfers In	938,306	869,785	904,255	775,363	866,913
Operating Transfers Out	(414,827)	(444,678)	(441,670)	(464,559)	(468,029)
<b>Total Other Financing Sources (Uses)</b>	<b>523,479</b>	<b>425,107</b>	<b>462,585</b>	<b>310,804</b>	<b>398,884</b>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	1,012,372	447,104	(138,585)	(280,710)	409,854
Fund Balance, July 1					
Restricted (Note 5)	557,023	557,102	855,001	1,082,618	943,491
Committed (Note 5)	789,056	514,831	429,390	328,791	365,220
Assigned (Note 5)	440,885	267,927	194,054	347,746	40,590
<b>Fund Balance, July 1</b>	<b>1,786,964</b>	<b>1,339,860</b>	<b>1,478,445</b>	<b>1,759,155</b>	<b>1,349,301</b>
Fund Balance, June 30					
Restricted (Note 5)	638,838	557,023	557,102	855,001	1,082,618
Committed (Note 5)	1,473,273	789,056	514,831	429,390	328,791
Assigned (Note 5)	687,225	440,885	267,927	194,054	347,746
<b>Fund Balance, June 30</b>	<b>\$ 2,799,336</b>	<b>\$ 1,786,964</b>	<b>\$ 1,339,860</b>	<b>\$ 1,478,445</b>	<b>\$ 1,759,155</b>

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 - Cash Basis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2019**  
**(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	\$ 14,183,800	\$ 14,421,600	\$ 15,226,471	\$ 804,871
Sales and Use	3,934,000	3,981,000	3,973,011	(7,989)
Corporation Income	912,000	1,012,200	943,391	(68,809)
Communications Sales and Use	396,500	368,000	361,023	(6,977)
Deeds, Contracts, Wills, and Suits	407,200	377,275	394,062	16,787
Premiums of Insurance Companies	376,600	395,300	382,018	(13,282)
Alcoholic Beverage Sales	239,800	240,000	240,776	776
Tobacco Products	166,400	147,200	151,289	4,089
Estate	-	-	191	191
Public Service Corporations	98,000	98,700	98,890	190
Other Taxes	35,891	37,854	47,197	9,343
Rights and Privileges	85,117	87,804	93,225	5,421
Sales of Property and Commodities	32,478	32,007	25,021	(6,986)
Assessments and Receipts for Support of Special Services	4,540	147,847	127,809	(20,038)
Institutional Revenue	41,735	43,525	37,937	(5,588)
Interest, Dividends, and Rents	67,801	70,443	103,670	33,227
Fines, Forfeitures, Court Fees, Penalties, and Escheats	216,205	213,709	224,783	11,074
Federal Grants and Contracts	10,431	10,431	10,573	142
Receipts from Cities, Counties, and Towns	11,158	11,497	11,216	(281)
Private Donations, Gifts and Contracts	168	233	965	732
Tobacco Master Settlement	48,000	58,667	56,487	(2,180)
Other	262,348	79,290	81,939	2,649
<b>Total Revenues (Note 2)</b>	<b>21,530,172</b>	<b>21,834,582</b>	<b>22,591,944</b>	<b>757,362</b>
<b>Expenditures:</b>				
Current:				
General Government	2,574,740	2,591,762	2,446,484	145,278
Education	9,093,983	9,212,771	9,109,073	103,698
Transportation	59	256	203	53
Resources and Economic Development	488,891	518,768	432,029	86,739
Individual and Family Services	7,140,627	7,338,134	7,208,024	130,110
Administration of Justice	2,894,241	2,938,324	2,904,663	33,661
Capital Outlay	8,438	11,127	2,575	8,552
<b>Total Expenditures</b>	<b>22,200,979</b>	<b>22,611,142</b>	<b>22,103,051</b>	<b>508,091</b>
Revenues Over (Under) Expenditures	(670,807)	(776,560)	488,893	1,265,453
<b>Other Financing Sources (Uses):</b>				
Transfers:				
Operating Transfers In	847,477	904,470	938,306	33,836
Operating Transfers Out	(419,792)	(408,301)	(414,827)	(6,526)
<b>Total Other Financing Sources (Uses)</b>	<b>427,685</b>	<b>496,169</b>	<b>523,479</b>	<b>27,310</b>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(243,122)	(280,391)	1,012,372	1,292,763
<b>Fund Balance, July 1</b>	<b>1,786,964</b>	<b>1,786,964</b>	<b>1,786,964</b>	<b>-</b>
<b>Fund Balance, June 30</b>	<b>\$ 1,543,842</b>	<b>\$ 1,506,573</b>	<b>\$ 2,799,336</b>	<b>\$ 1,292,763</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 - Cash Basis (Unaudited)  
 For the Fiscal Year Ended June 30, 2019  
 (Dollars in Thousands)**

	<u>Original Budget Appropriations</u>	<u>Final Budget Appropriations</u>	<u>Actual Expenditures</u>	<u>Amount (Over) Under Final Budget</u>
Enactment of Laws	\$ 46,982	\$ 60,074	\$ 43,808	\$ 16,266
Financial Assistance to Localities -- From Sale of Alcoholic Beverages and Other Distributions	48,895	31,540	31,540	-
Financial Assistance for Special State Revenue Sharing -- From Sales Tax	1,410,800	1,421,600	1,427,440	(5,840)
Cash Management Improvement Act Payment to the Federal Government	610	610	610	-
Totals	<u>\$ 1,507,287</u>	<u>\$ 1,513,824</u>	<u>\$ 1,503,398</u>	<u>\$ 10,426</u>

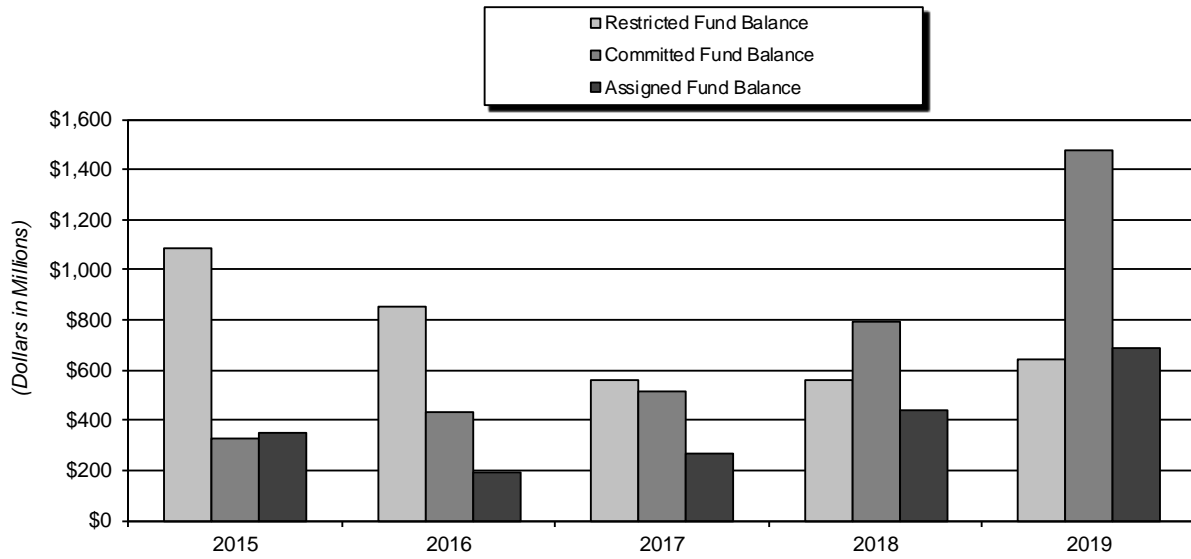
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**GENERAL FUND GRAPHICS AND SUPPLEMENTAL  
SCHEDULES**

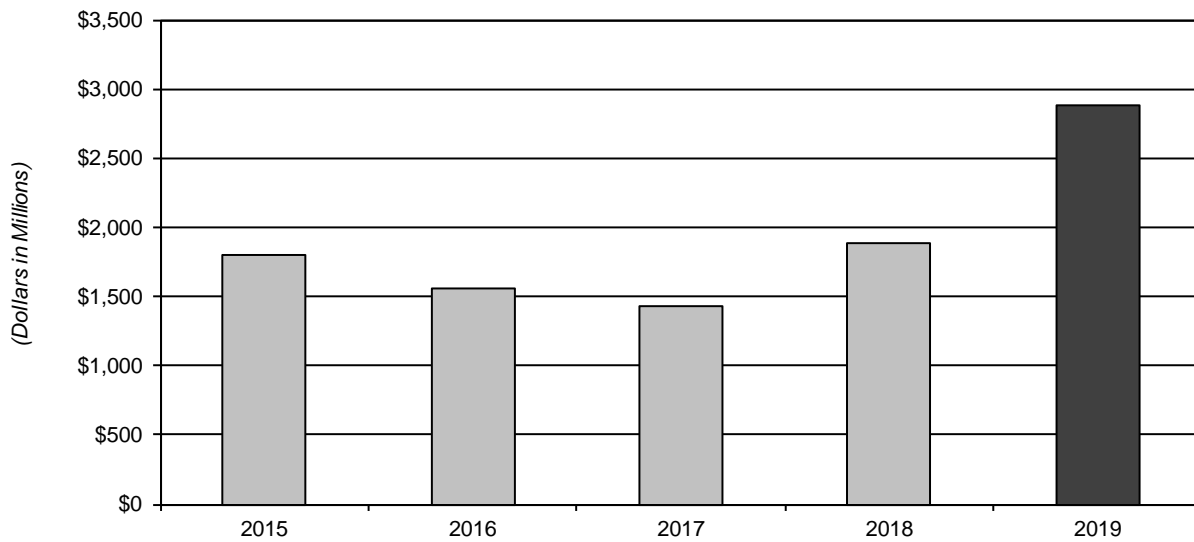


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**General Fund  
Fund Balance  
Fiscal Years 2015-2019**

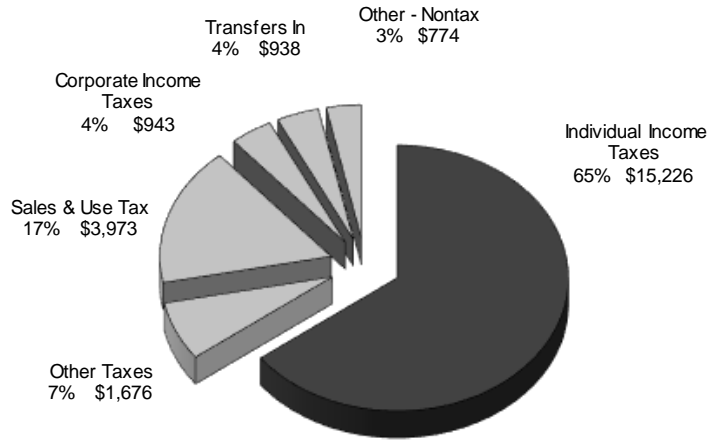


**General Fund  
Cash, Cash Equivalents, and Investments  
Fiscal Years 2015-2019**

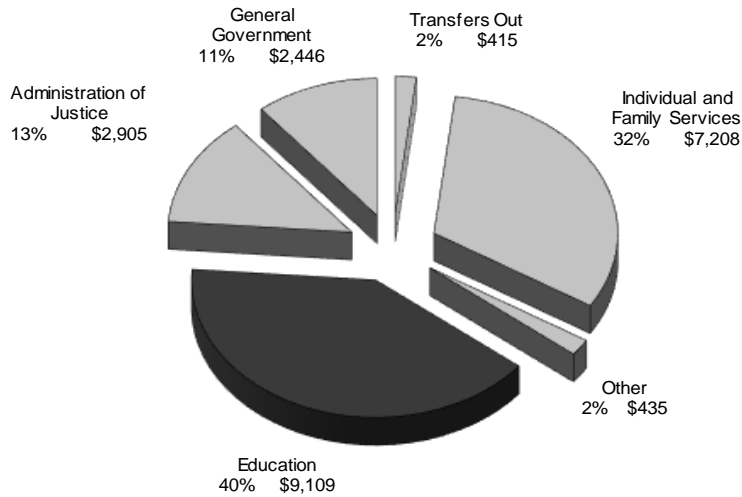




**General Fund  
Revenues by Revenue Class and Other Sources  
Fiscal Year 2019  
(Dollars in Millions)**

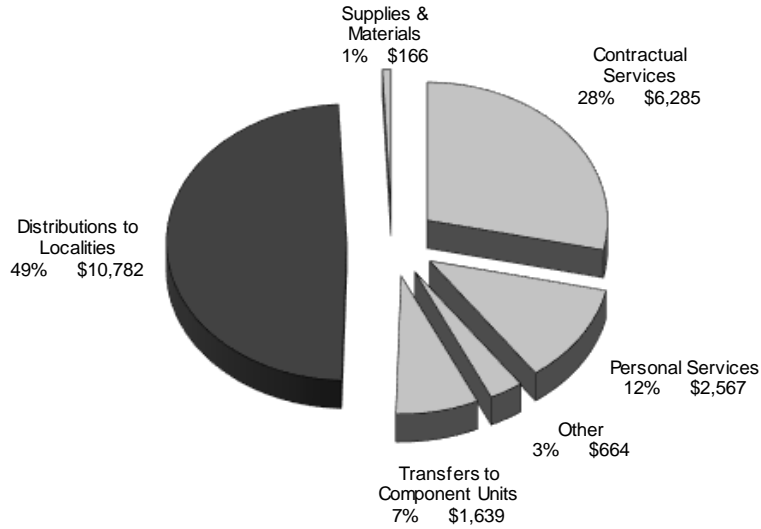


**General Fund  
Expenditures by Function and Other Uses  
Fiscal Year 2019  
(Dollars in Millions)**

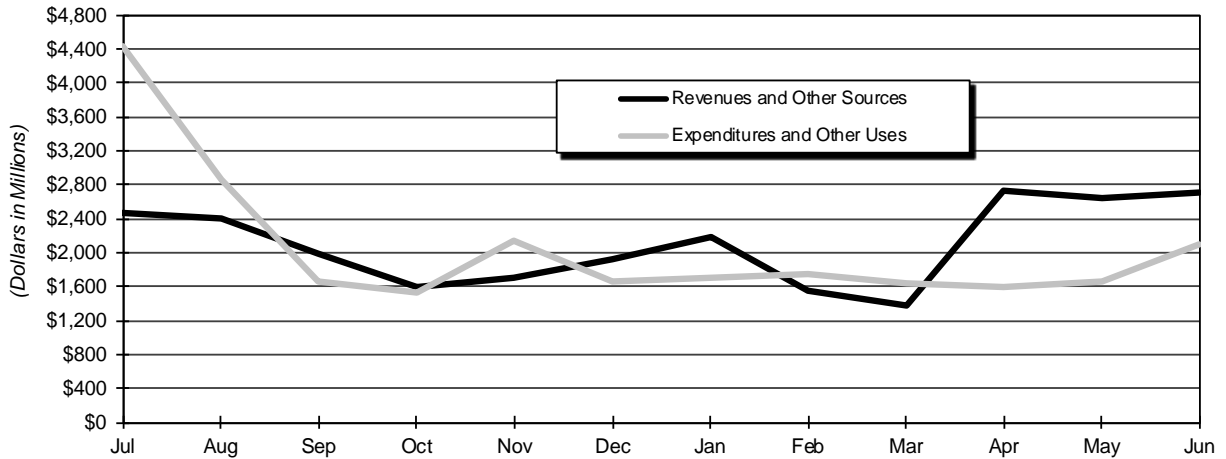


Note: General Government expenditures include \$950.0 million paid to localities pursuant to the Personal Property Tax Relief Act of 1998 and \$359.7 million in communication sales tax distributions. This represents 53.5 percent of the General Government expenditures.

**General Fund  
Expenditures by Object  
Fiscal Year 2019  
(Dollars in Millions)**



**General Fund  
Revenues and Other Sources and  
Expenditures and Other Uses by Month  
Fiscal Year 2019**



Note: July expenditures include \$1.1 billion in payments to Higher Education.

**General Fund  
Expenditures by Function and Significant Service Area  
Fiscal Year 2019  
(Dollars in Thousands)**

Function:	Significant Service Area:	Amount	Totals
Education	Grades K-12	\$ 6,943,278	
	Higher Education	2,023,757	
	Other	<u>142,038</u>	
			\$ 9,109,073
Individual and Family Services	Medical Assistance Services	5,413,629	
	Behavioral Health and Developmental Services	793,584	
	Social Services	424,260	
	Children's Services	246,847	
	Health	175,494	
	Other	<u>154,210</u>	
Administration of Justice	Corrections	1,551,957	
	Sheriffs and Inmate Confinement - Compensation Board	501,050	
	Courts	436,721	
	State Police	314,548	
	Other	<u>100,387</u>	
General Government	Car Tax Relief (PPTRA)	950,000	
	Debt Service - Component Units	404,429	
	Communication Sales Tax Distribution	359,706	
	Criminal Justice - Locality Assistance	184,549	
	Constitutional Officers - Compensation Board	175,561	
	Tax Administration	107,870	
	Other	<u>264,369</u>	
			2,446,484
Resources and Economic Development	Economic Development Partnership	85,167	
	Conservation and Recreation	76,738	
	Environmental Quality	43,453	
	Housing and Community Development	36,022	
	Agriculture	35,163	
	Tourism	21,087	
	Forestry	19,792	
	Marine Resources	14,240	
	Mines, Minerals, and Energy	13,779	
	Health - Water Improvement and Environmental Safety	11,598	
	Innovation and Entrepreneurship Investment	10,934	
	Labor and Industry	10,382	
	Social Services - Regulation of Facilities and Services	6,687	
	Fort Monroe	6,335	
	Historic Resources	5,481	
	Other	<u>35,171</u>	
Other	Capital Outlay	2,575	
	Transportation	<u>203</u>	
			<u>2,778</u>
			<u>\$ 22,103,051</u>

**General Fund  
Other Financing Sources and Uses by Significant Service Area  
Fiscal Year 2019  
(Dollars in Thousands)**

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

<b>Significant Service Area</b>	<u><b>Amount</b></u>	<u><b>Total</b></u>
Lottery	\$ 632,398	
ABC Transfers	205,180	
Transfers from Other Funds	<u>100,728</u>	
		<u>\$ 938,306</u>

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

<b>Significant Service Area</b>	<u><b>Amount</b></u>	<u><b>Total</b></u>
Debt Service	\$ 324,500	
Transportation Programs	60,328	
Transfers to Other Funds	<u>29,999</u>	
		<u>\$ 414,827</u>

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## GENERAL FUND NOTES



# COMMONWEALTH OF VIRGINIA

## NOTES TO PRELIMINARY FINANCIAL STATEMENTS

JUNE 30, 2019

### 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 cash basis of accounting. Revenues and expenditures are recorded 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 reported 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.

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, due on December 15, 2019.

#### B. Budget

Budgetary amounts shown in the General Fund Statement of Revenue Collections and Estimates represent Chapter 2, 2018 Acts of Assembly Special Session 1 (original), and Chapter 854, 2019 Acts of Assembly (final), 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 and Estimates 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, 2019. The inclusion of additional funds in the Preliminary General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual has no impact on either the budgetary or statutory purposes of the funds considered General Fund for financial reporting purposes.

<i>(Dollars in Thousands)</i>	<b>Final Revenue Budget</b>	<b>Total Actual Revenue</b>
Amount per Preliminary Financial Statements	\$ 21,834,582	\$ 22,591,944
Amount per Monthly Statement of Revenue	20,528,700	21,307,523
Variance	<u>\$ 1,305,882</u>	<u>\$ 1,284,421</u>
Variance Attributable to the Following:		
Public Education Standards of Quality Fund - Sales and Use Tax revenue included on the Preliminary Financial Statements	\$ 389,900	\$ 392,605
Virginia Communications Sales and Use Tax Fund - Sales and Use Tax revenue included on the Preliminary Financial Statements	368,000	361,023
Virginia Water Quality Improvement Fund - Deeds, Contracts, Wills & Suits Tax revenue included on the Preliminary Financial Statements	8,675	7,609
Virginia Health Care Fund - Tobacco Products Tax revenue included on the Preliminary Financial Statements	147,200	151,289
Virginia Communications Sales and Use Tax Fund - Rights and Privileges revenue included on the Preliminary Financial Statements	405	519
Virginia Health Care Fund - Assessments and Receipts for Support of Special Services on the Preliminary Financial Statements	142,948	122,001
Revenue Stabilization Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	6,027
Lottery Proceeds Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	852	2,352
Water Supply Assistance Grant Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	52	68
Revenue Reserve Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	3,423
Virginia Water Quality Improvement Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	292	603
Commonwealth's Development Opportunity Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	612
Virginia Communications Sales and Use Tax Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	644
Virginia Health Care Fund - Fines, Forfeitures, Court Fees, Costs, Penalties, and Escheats revenue included on the Preliminary Financial Statements	2	1
Virginia Water Quality Improvement Fund - Private Donations, Gifts and Contracts revenue included on the Preliminary Financial Statements	30	15
Virginia Health Care Fund - Tobacco Master Settlement revenue included on the Preliminary Financial Statements	58,667	56,487
Virginia Health Care Fund - Medicaid claims payable recoveries included as other revenue on the Preliminary Financial Statements	30,000	29,313
Commonwealth's Development Opportunity Fund - Other Revenue included on the Preliminary Financial Statements	-	5,009
Virginia Water Quality Improvement Fund - Other revenue included on the Preliminary Financial Statements	59	1,745
Lottery Proceeds Fund - Other revenue included on the Preliminary Financial Statements	101	727
Transfers from Fiduciary Funds and Component Units included in revenue on the Preliminary Financial Statements	6,882	7,917
Other items included in revenue on the Preliminary Financial Statements	151,817	134,432
	<u>\$ 1,305,882</u>	<u>\$ 1,284,421</u>



### 3. **APPROPRIATION ACT TRANSFERS**

For fiscal year ended June 30, 2019, Appropriation Act transfers are \$1.3 billion. 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	\$ 919,332 (a)
Transfers Out	(15,500)
Intrafund Transfers between General Fund and:	
Public Education Standards of Quality Fund	392,605
Other Nongeneral Funds	21,585
Revenue - Other	5,674
Total Appropriation Act Transfers	<u>\$ 1,323,696</u>

(a) Includes ABC transfers of approximately \$205.2 million

### 4. **DUE FROM / TO OTHER FUNDS**

These amounts are included in the accompanying statements pursuant to the requirements of GASB No. 54. The due from amount represents future reimbursements to be received from the Federal government. The due to amount primarily represents an internal borrowing that will finance Emergency Management Assistance Compact mission assignments.

### 5. **FUND EQUITY**

Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances are amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The authority in the Commonwealth is the General Assembly and Governor. Assigned fund balances are those that the government intends to use for a planned purpose, but which are not restricted or committed. Unassigned fund balances are those that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific or planned purposes within the General Fund. Pursuant to Section 2.2-1514 of the *Code of Virginia*, any unassigned balances in the General Fund are automatically committed for transfer to the Transportation Trust Fund and nonrecurring expenditures. For fiscal year 2019, sufficient cash is not available after other planned uses to require deposits for the Transportation Trust Fund and nonrecurring expenditures.

### 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.

Under the provisions of Article X, Section 8 of the Constitution of Virginia, a deposit of \$262.9 million is required during fiscal year 2020 based on fiscal year 2018 revenue collections. Further, an estimated deposit of \$73.6 million is required during fiscal year 2021 based on fiscal year 2019 revenue collections reduced by the estimated refunds that will be provided to taxpayers as required by Chapter 854. The fiscal year 2019 revenue collections and mandatory deposit will be certified by

revenue collections reduced by the estimated refunds that will be provided to taxpayers as required by Chapter 854. The fiscal year 2019 revenue collections and mandatory deposit will be certified by the Auditor of Public Accounts on or around November 1, 2019. The mandatory deposit of \$262.9 million and estimated deposit of \$73.6 million are reported as restricted components of fund balance. For additional information regarding the Taxpayer Relief Fund, see Note 13.

In addition, Chapter 854, 2019 Acts of Assembly, appropriates an additional \$97.5 million to be deposited in fiscal year 2020. This additional appropriation represents an estimate of the required deposit attributable to fiscal year 2020 tax collections.

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the Fund when specific criteria have been met. No such deposit is required since the specified criteria were not met for fiscal year 2019.

The Revenue Stabilization Fund has principal and interest on deposit of \$289.3 million restricted as a part of General Fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed fifteen percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years.

## **7. LOTTERY PROCEEDS FUND**

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. Further, Section 58.1-4022.1 of the *Code of Virginia* directs the Lottery Proceeds Fund be included as a component of the General Fund for financial reporting purposes. Accordingly, the financial activity of the Lottery Proceeds Fund for fiscal year 2019 is included in the Preliminary Statement of Revenues, Expenditures, and Changes in Fund Balance. The remaining cash balance of \$10.8 million is restricted as a component of the General Fund balance.

## **8. COMMITTED AND ASSIGNED FUND BALANCE**

Committed Fund Balance represents amounts that must be spent for specific purposes that have been legislatively mandated by the Governor and General Assembly. Assigned Fund Balance represents amounts that the Commonwealth has identified for planned purposes but for which the intended use is not legislatively mandated. The accompanying Balance Sheet includes amounts that share the same purpose and title, such as Economic and Technological Development as both Committed and Assigned components of fund balance. The distinction between these classifications results from whether there is a statutory restriction on certain amounts contained within the fund.

### **A. OTHER COMMITTED FUND BALANCE**

As of June 30, 2019, the breakdown of Other Committed Fund Balance is as follows.

Other Committed	Amount (In Thousands)
Capital Outlay	\$ 1,896
Educational and Training Programs	1,377
Governmental Operations - Administrative Services	94
Agriculture and Forestry	23
Total Other Committed Fund Balance	<u>\$ 3,390</u>

**B. OTHER ASSIGNED FUND BALANCE**

As of June 30, 2019, the breakdown of Other Assigned Fund Balance is as follows.

<u>Other Assigned</u>	<u>Amount</u> <u>(In Thousands)</u>
Governmental Operations - Administrative Services	\$ 5,952
Educational and Training Programs	4,097
Governmental Operations - Legislative Services	3,979
Employee Benefit Administration	2,184
Capital Outlay	1,024
Contract and Debt Administration	165
Regulatory Oversight	8
Transportation Activities	6
Agriculture and Forestry	2
Total Other Assigned Fund Balance	<u>\$ 17,417</u>

**9. COMMUNICATION SALES AND USE TAX FUND**

The Appropriation Act directs the Communications Sales and Use Tax Fund be included as a component of the General Fund for financial reporting purposes. The Commonwealth collects communication sales and use taxes and disburses these amounts to localities. The remaining cash balance of \$33.9 million is reported as committed fund balance.

**10. ACCELERATED SALES TAX COLLECTIONS**

Pursuant to Section 58.1-615 *Code of Virginia* as amended by Chapter 854, 2019 Acts of Assembly Section 3-5.06, the Commonwealth collected and deposited in the General Fund \$206.9 million in accelerated sales and use taxes in June 2019. This portion of the \$4.0 billion sales and use tax collections recorded as fiscal year 2019 was accelerated from revenues that would otherwise have been collected in July 2019 and recorded as revenues in the fiscal year 2020 cash basis financial statements.

**11. VIRGINIA WATER QUALITY IMPROVEMENT FUND**

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. As of June 30, 2019 the balance on deposit (\$34.5 million) is reported as committed fund balance.

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 unrestricted and uncommitted fund balance not required for reappropriations. In the legislative context, committed refers to planned future usage versus the fund balance classification. For the year ended June 30, 2019, \$32.4 million and \$14.6 million that represent ten percent of the revenue collected in excess of the official estimate less the amount expected to be transferred to the Taxpayer Relief Fund, as required by Chapter 854, 2019 Acts of Assembly, and ten percent of any unrestricted and uncommitted fund balance not required for reappropriation, respectively, have been committed. Upon appropriation by the General Assembly, \$47.0 million will be transferred from the General Fund to the Virginia Water Quality Improvement Fund. For additional information regarding the Taxpayer Relief Fund, see Note 13.

## **12. REVENUE RESERVE FUND**

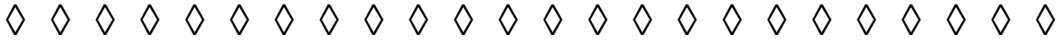
Section 2.2-1831.2 of the *Code of Virginia* established the Revenue Reserve Fund. As of June 30, 2019, the fund has principal and interest on deposit of \$502.6 million committed as a part of the General Fund balance.

This fund was established to mitigate certain anticipated revenue shortfalls when appropriations based on previous revenue forecasts exceed expected revenues in subsequent forecasts. No required deposit will be made during fiscal year 2020 since there is a mandatory deposit for the Revenue Stabilization Fund. However, there is a planned voluntary deposit during fiscal year 2020 of \$270.8 million, and this amount is reported as an assigned component of fund balance.

## **13. TAXPAYER RELIEF FUND**

Pursuant to Item 3-5.21, Chapter 854, 2019 Acts of Assembly, the revenues generated by the individual reform provisions of the federal Tax Cuts and Jobs Act that exceed revenue collections reasonably expected due to general economic growth absent the federal policy change, less revenues needed to implement the policy changes in fiscal years 2019 through 2025, will be reported in the Taxpayer Relief Fund. The \$455.0 million reported as committed fund balance represents the estimated amount to be transferred to the fund in fiscal year 2020.

## GLOSSARY



## FINANCIAL STATEMENTS AND NOTES

### 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 or advanced to agency employees to cover expenses incurred while traveling on State business.
3. **Other Assets** – This represents miscellaneous assets, such as prepaid expenses, that cannot be classified on another line item.
4. **Due From Other Funds** – Amounts to be received from other nongeneral funds.
5. **Payments Awaiting Disbursement** – This represents amounts where a payment has been recorded in the general ledger and the disbursement has not yet been made.
6. **Deposits Pending Distribution** – This represents miscellaneous amounts held by several agencies in suspense accounts pending distribution.
7. **Due to Other Funds** – Amounts owed to other nongeneral funds.
8. **Restricted Fund Balance** – Includes amounts that have constraints placed on the use of resources by the *Constitution of Virginia* or a party external to the Commonwealth. Restricted Fund Balance represents:
  - **Revenue Stabilization Fund** – This portion of fund balance consists of amounts on deposit or constitutionally required for future deposit. Amounts can only be used within the constraints imposed by the *Constitution of Virginia*.
  - **Lottery Proceeds Fund** – This portion of fund balance consists of amounts required to be distributed to localities and used for education purposes pursuant to constitutional provisions.
  - **Water Supply Assistance Grant Fund** – This portion of fund balance consists of amounts provided as matching funds for moneys available through the Federal Safe Drinking Water Act.
9. **Committed Fund Balance** – Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the General Assembly and Governor. Committed Fund Balance represents:
  - **Amount Required for Reappropriation, Capital Outlay/Restoration of Projects and Mandatory Reappropriations** – This portion of fund balance represents fiscal year 2019 unexpended appropriations which the Department of Planning and Budget will reappropriate in the next fiscal year.
  - **Virginia Health Care Fund** – This portion of fund balance represents amounts collected from tobacco taxes and a portion of the Tobacco Master Settlement Agreement receipts and is to be used for the provision of health care services.
  - **Central Capital Planning Fund** – This portion of fund balance represents amounts for preplanning and detailed planning costs for potential capital outlay projects.
  - **Communication Sales and Use Tax** – This portion of fund balance represents Communication Sales and Use Tax collections that will be distributed to localities subsequent to June 30.
  - **Commonwealth's Development Opportunity Fund** – This portion of fund balance represents amounts the Governor may use as incentives to attract economic development prospects.

- **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.
  - **Virginia Water Quality Improvement Fund, including Part A and Part B** – This portion of fund balance represents amounts currently on deposit in, or to be transferred to, the Virginia Water Quality Improvement Fund upon appropriation by the General Assembly. Amounts deposited to this fund are used to provide Water Quality Improvement Grants to various entities to assist in pollution prevention and reduction.
  - **Revenue Reserve Fund** – This portion of fund balance consists of amounts on deposit. As required by *Code of Virginia*, Section 2.2-1831.2, this portion of fund balance can be used when certain anticipated revenue shortfalls occur.
  - **Taxpayer Relief Fund** – This portion of fund balance represents the estimated revenues generated by tax reform provisions in fiscal year 2019 that exceeded revenues reasonably expected to be collected due to general economic growth and absent the federal policy changes.
  - **Local Government Fiscal Distress** – This portion of fund balance may be used to provide technical assistance and intervention actions to local governments deemed to be fiscally distressed.
  - **Economic and Technological Development** – This portion of fund balance represents amounts that will be used to promote growth in the Commonwealth's economy.
  - **Health and Public Safety** – This portion of fund balance represents amounts that will be used to further the health and public safety of the Commonwealth's citizenry.
  - **Environmental Quality and Natural Resource Preservation** – This portion of fund balance represents amounts to be used to improve and preserve the Commonwealth's natural resources.
10. **Assigned Fund Balance** – Includes amounts that are constrained by the government's intent to be used for planned purposes, but are neither restricted nor committed. Assigned Fund Balance represents:
- **Amount Required by Chapter 854** – This portion of fund balance represents the amount that must be carried forward to the following year to balance the biennial budget.
  - **Health and Public Safety** – This portion of fund balance represents amounts anticipated to be used to further the health and public safety of the Commonwealth's citizenry.
  - **Environmental Quality and Natural Resource Preservation** – This portion of fund balance represents amounts anticipated to be used to improve and preserve the Commonwealth's natural resources.
  - **Economic and Technological Development** – This portion of fund balance represents amounts anticipated to be used to promote growth in the Commonwealth's economy.
  - **Amount Required for Discretionary Reappropriation** – This portion of fund balance represents fiscal year 2019 unexpended appropriations which the Department of Planning and Budget anticipates reappropriating in the next fiscal year.
  - **Amount for Voluntary Revenue Reserve Deposit** – This portion of fund balance represents amounts planned for voluntary deposit to the Revenue Reserve Fund in the next fiscal year.

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

### **Revenues:**

11. **Taxes** – Charges of money imposed by the Commonwealth on persons or property for public purposes.
12. **Rights and Privileges** – Registration fees, licenses, and permits. Examples include domestic and foreign corporate registration fees and marriage licenses.
13. **Sales of Property and Commodities** – Revenue collected from sales of Commonwealth assets and goods. Examples include sales of State publications.
14. **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.
15. **Institutional Revenue** – Revenue generated primarily by healthcare services provided by the two veteran care centers and from sales by the Departments of Corrections. Examples include the sale of farm and dairy products.
16. **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.
17. **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.
18. **Federal Grants and Contracts** – Revenue collected from the Federal government that can be used for any purpose within the mission of the receiving agencies.
19. **Receipts from Cities, Counties, and Towns** – Revenue collected from city and county treasurers representing miscellaneous fees and allowances of local law enforcement officials.
20. **Private Donations, Gifts, and Contracts** – This amount represents donations and grants from individuals and private companies to State programs.
21. **Tobacco Master Settlement** – This amount represents the revenue generated from the Tobacco Master Settlement Agreement with tobacco companies.
22. **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:**

23. **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. During Special Session 1 (2004), the General Assembly established a limit of \$950.0 million on the amount for personal property tax relief beginning with fiscal year 2007.
24. **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.



- 25. **Transportation** – Expenditures related to the movement of people, goods, and services and their regulation. Examples include ground, water and air transportation.
- 26. **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.
- 27. **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.
- 28. **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.
- 29. **Capital Outlay** - Construction and preparation of Commonwealth assets.

**Other Financing Sources (Uses):**

- 30. **Operating Transfers In** – This balance reflects transfers in from other nongeneral funds.
- 31. **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**

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