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# COMMONWEALTH OF VIRGINIA

## GENERAL FUND PRELIMINARY (UNAUDITED) ANNUAL REPORT

For the Fiscal Year Ended June 30, 2020

Presented on a Cash Basis



David A. Von Moll  
Comptroller  
August 13, 2020

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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 13, 2020

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, 2020.

The Commonwealth ended fiscal year 2020 with a total fund balance in the General Fund of \$3.5 billion measured on the cash basis of accounting. This is an increase of \$725.3 million, or 25.9 percent, from last year's ending fund balance of \$2.8 billion. Planned (budgeted) decreases in General Fund balance for this year were \$211.6 million. The difference between the planned decrease and actual increase is primarily attributed to revenue collections and other sources being approximately \$152.4 million less than expected and expenditures and other uses being approximately \$1.1 billion 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, \$378.7 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 \$558.4 million restricted as a part of the General Fund balance. During fiscal year 2020, in accordance with the provisions of Article X, Section 8 of the *Constitution of Virginia* and Section 2.2-1830 of the *Code of Virginia*, a deposit of \$262.9 million was made to the fund.

Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, a deposit of \$77.4 million is required during fiscal year 2021 based on fiscal year 2019 revenue collections reduced by the refunds that were provided to taxpayers from the Taxpayer Relief Fund as required by Chapter 854. This required deposit is reported as a restricted component of fund balance. No deposit is required based on fiscal year 2020 revenue 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 2020.

### **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. As of June 30, 2020, the fund has principal and interest on deposit of \$513.2 million committed as a part of the General Fund balance. These amounts are set aside to mitigate certain anticipated revenue shortfalls when appropriations based on previous revenue forecasts exceed expected revenues in subsequent forecasts.

Sections 2.2-1831.2 and 2.2-1831.3 of the *Code of Virginia* established the Revenue Reserve Fund and specified required deposits to the Fund. Whenever there is a fiscal year in which there is not a mandatory deposit to the Revenue Stabilization Fund, a deposit is required if the general fund revenue exceeds the official estimate. For the year ended June 30, 2020 revenues collected did not exceed the official estimate, therefore, no commitment is required.

### **Amounts Available for Reappropriation**

Section 4-1.05a.1 of Chapter 1283 requires reappropriation of 2020 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, 2020, the following amounts have been committed: \$7.8 million for capital outlay project needs; \$44.9 million for health care services; \$5.4 million for central capital planning; \$32.9 million for communication sales and use tax distributions; \$54.8 million for natural disaster sum sufficient amounts; \$298.0 million for mandatory reappropriations; \$77.4 million pending transfer to the Water Quality Improvement Fund; \$513.2 million for the Revenue Reserve Fund; \$175,000 for the Taxpayer Relief Fund; \$3.3 million for the COVID-19 General Fund; and \$750,000 for local government fiscal distress relief.

In addition, the Department of Planning and Budget has identified \$1.2 billion as available balances to meet the requirements of Chapter 1289. The Department of Planning and Budget has also identified \$506.2 million to be assigned for discretionary reappropriations. As of June 30, 2020, sufficient cash is not available to assign the entire discretionary amount. Therefore, \$273.1 million is assigned on the accompanying Balance Sheet as the amount available for discretionary reappropriations.

Additionally, restricted balances of \$1.8 million, committed balances of \$316.5 million and assigned balances of \$60.4 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 \$65.0 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, 2020, revenues collected did not exceed the official estimate, therefore, no commitment is required. The Balance Sheet reflects \$30.4 million as a component of committed fund balance that represents ten percent of the fiscal year 2020 unrestricted and uncommitted fund balance not required for reappropriation. Additionally, \$47.0 million for fiscal year 2019 activity is reported as a component of committed fund balance. Of this amount, \$32.4 million represents ten percent of the fiscal year 2019 revenue collected in excess of the official estimate less the amount that was expected to be transferred to the Taxpayer Relief Fund, as required by Chapter 854, 2019 Acts of Assembly. The remaining \$14.6 million represents ten percent of fiscal year 2019 unrestricted and uncommitted fund balance not required for reappropriation. These amounts will be transferred to the Water Quality Improvement Fund during fiscal year 2021.

### **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, 2020, 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, 2019, 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 34 consecutive years. In addition, Virginia submitted the fiscal year 2019 Popular Report, entitled *Virginia Financial Perspective*, to the GFOA, and we expect to receive the companion award for this report. Virginia's Popular Report has received this award for 24 consecutive years.

Respectfully submitted,

David A. Von Moll

**SUMMARY OF GENERAL FUND ACTIVITY**

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**Commonwealth of Virginia**  
**Preliminary Balance Sheet**  
**General Fund - Cash Basis (Unaudited)**  
**June 30, 2020**  
**(Dollars in Thousands)**

<b>Assets</b>		
Cash, Cash Equivalents, and Investments	\$ 3,653,405	
Cash and Travel Advances	494	
Other Assets	367	
Due From Other Funds (Note 4)	<u>125</u>	
Total Assets		<u>\$ 3,654,391</u>
Liabilities and Fund Equity		
Liabilities:		
Payments Awaiting Disbursement	122,724	
Deposits Pending Distribution	5,953	
Due To Other Funds (Note 4)	<u>1,115</u>	
Total Liabilities		\$ 129,792
Fund Equity (Note 5):		
Restricted Fund Balance:		
Revenue Stabilization Fund (Note 6)	558,432	
Revenue Stabilization Reserve 2021 (Note 6)	77,410	
Lottery Proceeds Fund (Note 7)	12,930	
Water Supply Assistance Grant Fund	<u>1,768</u>	
Total Restricted Fund Balance		<u>650,540</u>
Committed Fund Balance (Note 8):		
Amount Required for Reappropriation of		
2020 Unexpended Balances for Capital Outlay and Restoration Projects	7,839	
Virginia Health Care Fund	44,891	
Central Capital Planning Fund	5,421	
Communication Sales and Use Tax (Note 9)	32,886	
Commonwealth's Development Opportunity Fund	40,310	
Natural Disaster Sum Sufficient	54,754	
Amount Required for Mandatory Reappropriation	298,025	
Virginia Water Quality Improvement Fund (Note 11)	64,978	
Virginia Water Quality Improvement Fund - Part A 2019 (Note 11)	32,386	
Virginia Water Quality Improvement Fund - Part B 2019 (Note 11)	14,640	
Virginia Water Quality Improvement Fund - Part B 2020 (Note 11)	30,350	
Revenue Reserve Fund (Note 12)	513,245	
Taxpayer Relief Fund	175	
COVID-19 General Fund	3,307	
Local Government Fiscal Distress	750	
Economic and Technological Development	142,763	
Health and Public Safety	36,184	
Environmental Quality and Natural Resource Preservation	28,025	
Other	<u>4,264</u>	
Total Committed Fund Balance		<u>1,355,193</u>
Assigned Fund Balance (Note 8):		
Amount Required by Chapter 1289	1,185,284	
Health and Public Safety	20,599	
Environmental Quality and Natural Resource Preservation	12,253	
Economic and Technological Development	7,408	
Amount Required for Discretionary Reappropriations	273,146	
Other	<u>20,176</u>	
Total Assigned Fund Balance		<u>1,518,866</u>
Total Fund Equity		<u>\$ 3,524,599</u>
Total Liabilities and Fund Balance		<u>\$ 3,654,391</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, 2016 through June 30, 2020**  
**(Dollars in Thousands)**

	Year Ended				
	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
<b>Revenues:</b>					
Taxes:					
Individual and Fiduciary Income	\$ 15,351,592	\$ 15,226,471	\$ 14,105,766	\$ 13,052,887	\$ 12,555,624
Sales and Use	4,112,843	3,973,011	3,827,078	3,720,552	3,651,400
Corporation Income	1,011,650	943,391	861,897	826,961	764,948
Communications Sales and Use (Note 9)	347,101	361,023	384,162	395,733	406,707
Deeds, Contracts, Wills, and Suits	493,389	394,062	403,236	403,459	377,699
Premiums of Insurance Companies	360,588	382,018	337,947	340,910	339,081
Alcoholic Beverage Sales	267,214	240,776	231,836	222,354	217,594
Tobacco Products	153,638	151,289	160,383	171,198	178,741
Estate	80	191	932	8,202	222
Public Service Corporations	97,039	98,890	98,672	95,084	92,586
Other Taxes	35,873	47,197	39,392	31,048	32,107
Total Taxes	<u>22,231,007</u>	<u>21,818,319</u>	<u>20,451,301</u>	<u>19,268,388</u>	<u>18,616,709</u>
Rights and Privileges	94,695	93,225	90,780	85,919	84,628
Sales of Property and Commodities	39,463	25,021	62,597	31,515	42,671
Assessments and Receipts for Support of Special Services	5,813	5,808	5,230	4,008	3,539
Institutional Revenue	37,963	37,937	37,926	36,137	36,819
Interest, Dividends, and Rents	136,821	103,670	72,083	61,130	57,680
Fines, Forfeitures, Court Fees, Penalties, and Escheats	214,750	224,783	209,869	222,600	222,039
Federal Grants and Contracts	8,029	10,573	6,796	6,720	3,868
Receipts from Cities, Counties, and Towns	8,469	11,216	11,084	18,360	16,951
Private Donations, Gifts and Contracts	904	965	540	476	364
Tobacco Master Settlement	54,134	56,487	58,267	49,019	47,664
Other	223,456	203,940	316,477	235,237	225,342
Total Revenues (Note 2)	<u>23,055,504</u>	<u>22,591,944</u>	<u>21,322,950</u>	<u>20,019,509</u>	<u>19,358,274</u>
<b>Expenditures:</b>					
General Government	2,872,703	2,446,484	2,405,220	2,388,305	2,497,121
Education	9,526,097	9,109,073	8,740,117	8,450,900	8,095,292
Transportation	140	203	202	236	328
Resources and Economic Development	530,365	432,029	397,794	445,102	413,406
Individual and Family Services	6,884,183	7,208,024	6,904,011	6,551,237	6,238,651
Administration of Justice	2,983,904	2,904,663	2,848,951	2,740,411	2,678,980
Capital Outlay	4,535	2,575	4,658	44,488	26,010
Total Expenditures	<u>22,801,927</u>	<u>22,103,051</u>	<u>21,300,953</u>	<u>20,620,679</u>	<u>19,949,788</u>
Revenues Over (Under) Expenditures	<u>253,577</u>	<u>488,893</u>	<u>21,997</u>	<u>(601,170)</u>	<u>(591,514)</u>
<b>Other Financing Sources (Uses):</b>					
Transfers:					
Operating Transfers In	911,229	938,306	869,785	904,255	775,363
Operating Transfers Out	(439,543)	(414,827)	(444,678)	(441,670)	(464,559)
Total Other Financing Sources (Uses)	<u>471,686</u>	<u>523,479</u>	<u>425,107</u>	<u>462,585</u>	<u>310,804</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	725,263	1,012,372	447,104	(138,585)	(280,710)
Fund Balance, July 1					
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, July 1</b>	<u>2,799,336</u>	<u>1,786,964</u>	<u>1,339,860</u>	<u>1,478,445</u>	<u>1,759,155</u>
Fund Balance, June 30					
Restricted (Note 5)	650,540	638,838	557,023	557,102	855,001
Committed (Note 5)	1,355,193	1,473,273	789,056	514,831	429,390
Assigned (Note 5)	1,518,866	687,225	440,885	267,927	194,054
<b>Fund Balance, June 30</b>	<u>\$ 3,524,599</u>	<u>\$ 2,799,336</u>	<u>\$ 1,786,964</u>	<u>\$ 1,339,860</u>	<u>\$ 1,478,445</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 - Cash Basis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2020**  
**(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	\$ 15,262,500	\$ 15,419,400	\$ 15,351,592	\$ (67,808)
Sales and Use	4,138,800	4,266,100	4,112,843	(153,257)
Corporation Income	1,030,800	1,031,500	1,011,650	(19,850)
Communications Sales and Use	368,000	350,000	347,101	(2,899)
Deeds, Contracts, Wills, and Suits	377,275	477,275	493,389	16,114
Premiums of Insurance Companies	410,300	394,100	360,588	(33,512)
Alcoholic Beverage Sales	248,400	251,700	267,214	15,514
Tobacco Products	145,300	145,500	153,638	8,138
Estate	-	-	80	80
Public Service Corporations	98,700	98,900	97,039	(1,861)
Other Taxes	38,554	36,366	35,873	(493)
Rights and Privileges	88,023	87,596	94,695	7,099
Sales of Property and Commodities	31,015	30,534	39,463	8,929
Assessments and Receipts for Support of Special Services	5,000	5,583	5,813	230
Institutional Revenue	48,460	51,454	37,963	(13,491)
Interest, Dividends, and Rents	76,456	131,870	136,821	4,951
Fines, Forfeitures, Court Fees, Penalties, and Escheats	213,809	219,587	214,750	(4,837)
Federal Grants and Contracts	7,445	7,445	8,029	584
Receipts from Cities, Counties, and Towns	11,497	10,523	8,469	(2,054)
Private Donations, Gifts and Contracts	235	287	904	617
Tobacco Master Settlement	58,123	56,000	54,134	(1,866)
Other	177,074	172,948	223,456	50,508
<b>Total Revenues (Note 2)</b>	<b>22,835,766</b>	<b>23,244,668</b>	<b>23,055,504</b>	<b>(189,164)</b>
<b>Expenditures:</b>				
Current:				
General Government	2,769,169	3,103,116	2,872,703	230,413
Education	9,560,961	9,722,175	9,526,097	196,078
Transportation	59	189	140	49
Resources and Economic Development	604,056	636,191	530,365	105,826
Individual and Family Services	7,485,058	7,345,513	6,884,183	461,330
Administration of Justice	2,938,106	3,065,651	2,983,904	81,747
Capital Outlay	10,261	15,814	4,535	11,279
<b>Total Expenditures</b>	<b>23,367,670</b>	<b>23,888,649</b>	<b>22,801,927</b>	<b>1,086,722</b>
Revenues Over (Under) Expenditures	(531,904)	(643,981)	253,577	897,558
<b>Other Financing Sources (Uses):</b>				
Transfers:				
Operating Transfers In	885,834	874,430	911,229	36,799
Operating Transfers Out	(433,016)	(442,031)	(439,543)	2,488
<b>Total Other Financing Sources (Uses)</b>	<b>452,818</b>	<b>432,399</b>	<b>471,686</b>	<b>39,287</b>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(79,086)	(211,582)	725,263	936,845
<b>Fund Balance, July 1</b>	<b>2,799,336</b>	<b>2,799,336</b>	<b>2,799,336</b>	<b>-</b>
<b>Fund Balance, June 30</b>	<b>\$ 2,720,250</b>	<b>\$ 2,587,754</b>	<b>\$ 3,524,599</b>	<b>\$ 936,845</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, 2020  
 (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	\$ 51,332	\$ 69,369	\$ 49,868	\$ 19,501
Financial Assistance to Localities -- From Sale of Alcoholic Beverages and Other Distributions	48,895	31,264	31,264	-
Financial Assistance for Special State Revenue Sharing -- From Sales Tax	1,486,302	1,514,900	1,503,934	10,966
Cash Management Improvement Act Payment to the Federal Government	1,078	1,078	1,078	-
Totals	<u>\$ 1,587,607</u>	<u>\$ 1,616,611</u>	<u>\$ 1,586,144</u>	<u>\$ 30,467</u>

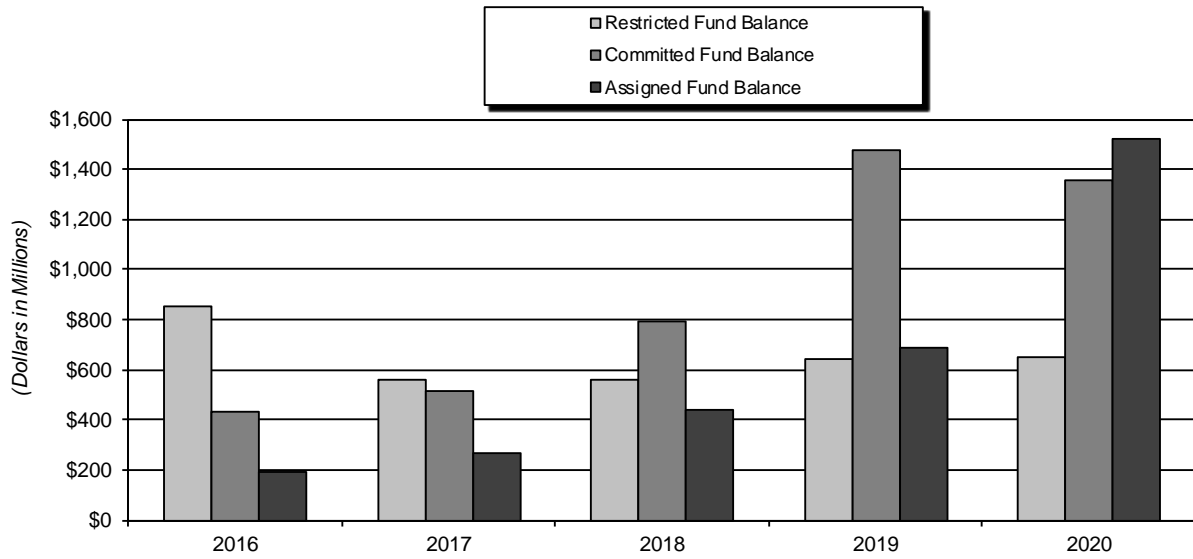
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**GENERAL FUND GRAPHICS AND SUPPLEMENTAL  
SCHEDULES**

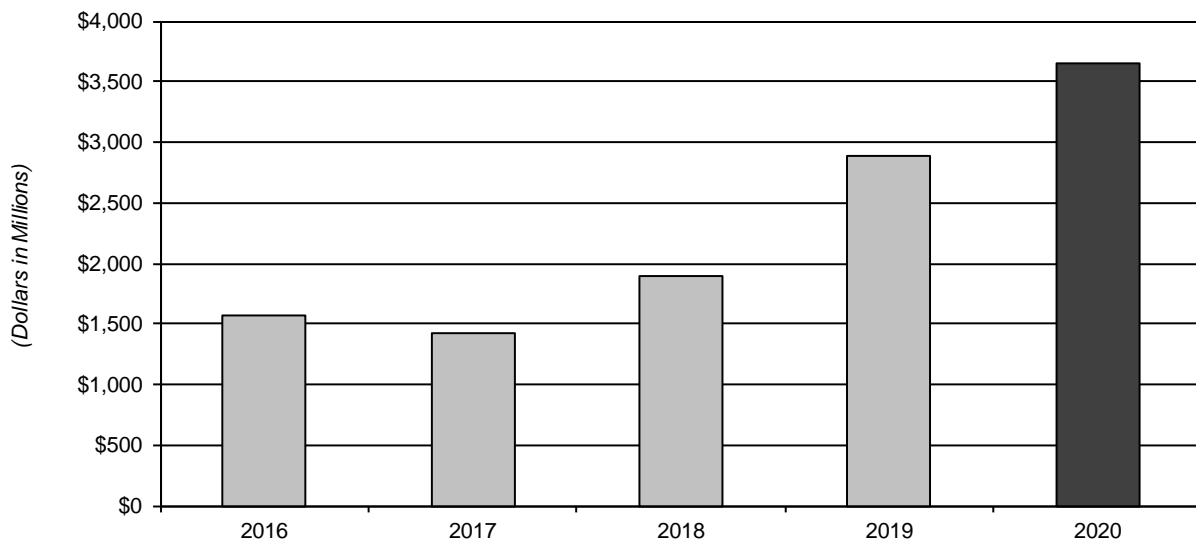


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**General Fund  
Fund Balance  
Fiscal Years 2016-2020**

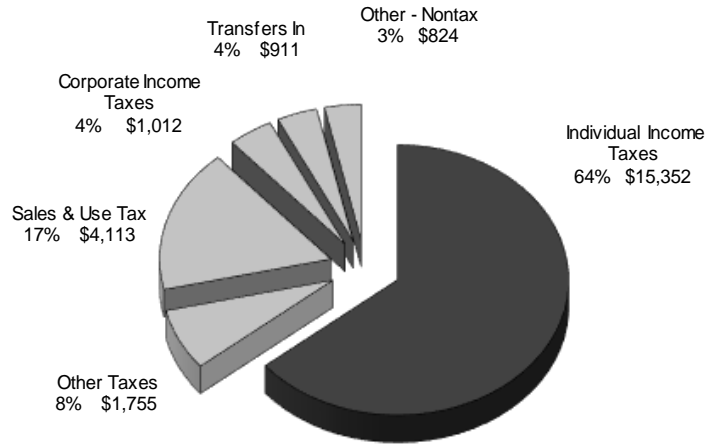


**General Fund  
Cash, Cash Equivalents, and Investments  
Fiscal Years 2016-2020**

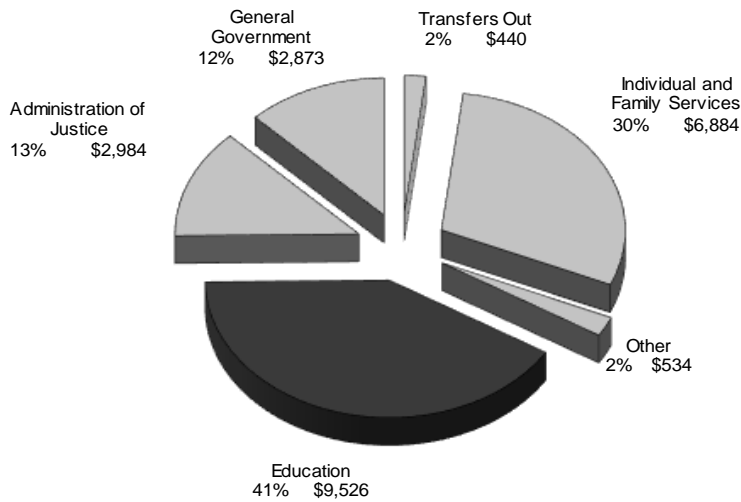




**General Fund  
Revenues by Revenue Class and Other Sources  
Fiscal Year 2020  
(Dollars in Millions)**

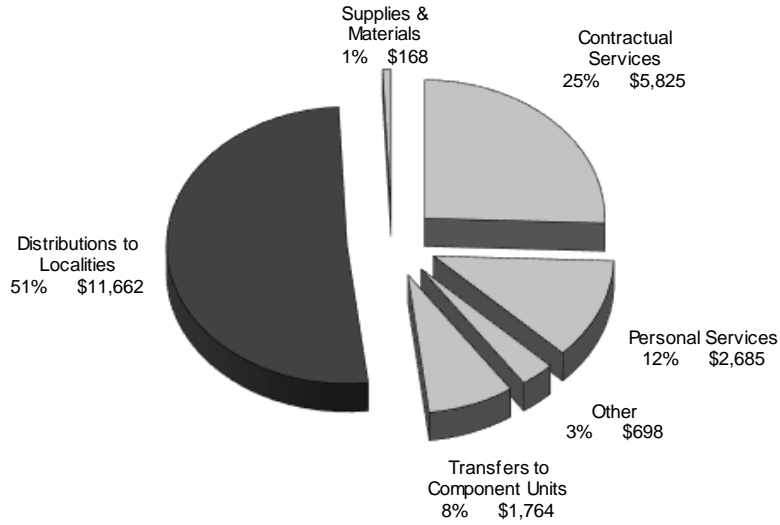


**General Fund  
Expenditures by Function and Other Uses  
Fiscal Year 2020  
(Dollars in Millions)**

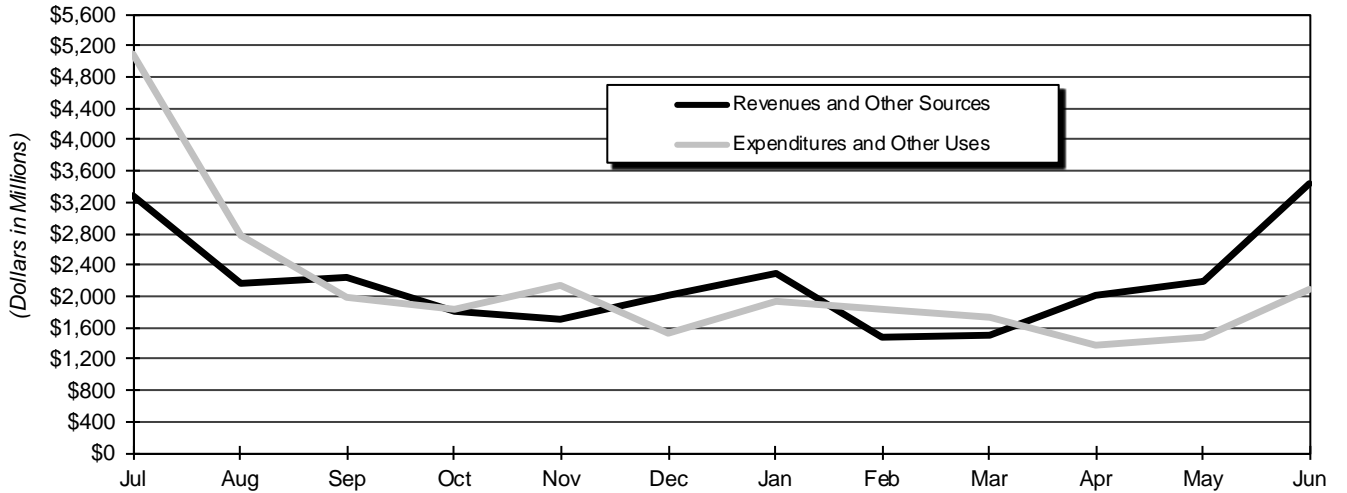


Note: General Government expenditures include \$950.0 million paid to localities pursuant to the Personal Property Tax Relief Act of 1998 and \$346.6 million in communication sales tax distributions. This represents 45.1 percent of the General Government expenditures.

**General Fund  
Expenditures by Object  
Fiscal Year 2020  
(Dollars in Millions)**



**General Fund  
Revenues and Other Sources and  
Expenditures and Other Uses by Month  
Fiscal Year 2020**



Note: July expenditures include \$1.2 billion in payments to Higher Education.

**General Fund  
Expenditures by Function and Significant Service Area  
Fiscal Year 2020  
(Dollars in Thousands)**

Function:	Significant Service Area:	Amount	Totals
Education	Grades K-12	\$ 7,201,008	
	Higher Education	2,182,183	
	Other	<u>142,906</u>	
			\$ 9,526,097
Individual and Family Services	Medical Assistance Services	4,978,410	
	Behavioral Health and Developmental Services	889,132	
	Social Services	421,381	
	Children's Services	263,247	
	Health	175,833	
	Other	<u>156,180</u>	
Administration of Justice	Corrections	1,613,936	
	Sheriffs and Inmate Confinement - Compensation Board	515,054	
	Courts	434,666	
	State Police	321,539	
	Other	<u>98,709</u>	
			2,983,904
General Government	Car Tax Relief (PPTRA)	950,000	
	Debt Service - Component Units	430,449	
	Taxpayer Relief Fund	425,185	
	Communication Sales Tax Distribution	346,569	
	Criminal Justice - Locality Assistance	191,746	
	Constitutional Officers - Compensation Board	182,020	
	Tax Administration	102,665	
	Other	<u>244,069</u>	
Resources and Economic Development	Economic Development Partnership	126,008	
	Conservation and Recreation	116,825	
	Housing and Community Development	47,912	
	Environmental Quality	44,578	
	Agriculture	34,843	
	Tourism	21,586	
	Forestry	19,953	
	Marine Resources	15,968	
	Mines, Minerals, and Energy	14,614	
	Innovation and Entrepreneurship Investment	12,900	
	Health - Water Improvement and Environmental Safety	11,184	
	Labor and Industry	10,424	
	Fort Monroe	6,149	
	Social Services - Regulation of Facilities and Services	6,062	
	Historic Resources	5,743	
Other	<u>35,616</u>		
			530,365
Other	Capital Outlay	4,535	
	Transportation	<u>140</u>	
			4,675
			<u>\$ 22,801,927</u>

**General Fund  
Other Financing Sources and Uses by Significant Service Area  
Fiscal Year 2020  
(Dollars in Thousands)**

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

<b>Significant Service Area</b>	<u><b>Amount</b></u>	<u><b>Total</b></u>
Lottery	\$ 613,450	
ABC Transfers	211,926	
Transfers from Other Funds	<u>85,853</u>	
		<u><u>\$ 911,229</u></u>

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

<b>Significant Service Area</b>	<u><b>Amount</b></u>	<u><b>Total</b></u>
Debt Service	\$ 333,667	
Transportation Programs	60,628	
Transfers to Other Funds	<u>45,248</u>	
		<u><u>\$ 439,543</u></u>

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## GENERAL FUND NOTES



# COMMONWEALTH OF VIRGINIA

## NOTES TO PRELIMINARY FINANCIAL STATEMENTS

JUNE 30, 2020

### 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, 2020.

#### B. Budget

Budgetary amounts shown in the General Fund Statement of Revenue Collections and Estimates represent Chapter 854, 2019 Acts of Assembly (original), and Chapter 1283, 2020 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, 2020. 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	\$ 23,244,668	\$ 23,055,504
Amount per Monthly Statement of Revenue	21,972,000	21,737,777
Variance	<u>\$ 1,272,668</u>	<u>\$ 1,317,727</u>
Variance Attributable to the Following:		
Public Education Standards of Quality Fund - Sales and Use Tax revenue included on the Preliminary Financial Statements	\$ 421,600	\$ 406,044
Virginia Communications Sales and Use Tax Fund - Sales and Use Tax revenue included on the Preliminary Financial Statements	350,000	347,101
Virginia Water Quality Improvement Fund - Deeds, Contracts, Wills & Suits Tax revenue included on the Preliminary Financial Statements	8,675	9,840
Virginia Health Care Fund - Tobacco Products Tax revenue included on the Preliminary Financial Statements	145,500	153,638
Virginia Communications Sales and Use Tax Fund - Rights and Privileges revenue included on the Preliminary Financial Statements	520	470
Revenue Stabilization Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	6,189
Lottery Proceeds Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	1,471	1,771
Water Supply Assistance Grant Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	59	60
Revenue Reserve Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	10,655
Virginia Water Quality Improvement Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	341	1,754
Commonwealth's Development Opportunity Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	654
Virginia Communications Sales and Use Tax Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	599
Virginia Health Care Fund - Fines, Forfeitures, Court Fees, Costs, Penalties, and Escheats revenue included on the Preliminary Financial Statements	2	1
Water Supply Assistance Grant Fund - Fines, Forfeitures, Court Fees, Costs, Penalties, and Escheats revenue included on the Preliminary Financial Statements	-	3
Virginia Water Quality Improvement Fund - Private Donations, Gifts and Contracts revenue included on the Preliminary Financial Statements	30	40
Virginia Health Care Fund - Tobacco Master Settlement revenue included on the Preliminary Financial Statements	56,000	54,134
Virginia Health Care Fund - Medicaid claims payable recoveries included as other revenue on the Preliminary Financial Statements	138,803	151,915
Commonwealth's Development Opportunity Fund - Other Revenue included on the Preliminary Financial Statements	-	4,787
Virginia Water Quality Improvement Fund - Other revenue included on the Preliminary Financial Statements	26	4,040
Lottery Proceeds Fund - Other revenue included on the Preliminary Financial Statements	316	76
Transfers from Fiduciary Funds and Component Units included in revenue on the Preliminary Financial Statements	6,875	10,893
Other items included in revenue on the Preliminary Financial Statements	142,450	153,063
	<u>\$ 1,272,668</u>	<u>\$ 1,317,727</u>



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

For fiscal year ended June 30, 2020, Appropriation Act transfers are \$1.4 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	\$ 885,492 (a)
Transfers Out	(23,288)
Intrafund Transfers between General Fund and:	
Public Education Standards of Quality Fund	406,044
Other Nongeneral Funds	76,941
Revenue - Other	5,508
Total Appropriation Act Transfers	<u>\$ 1,350,697</u>

(a) Includes ABC transfers of approximately \$211.9 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 Commonwealth Transportation Fund and nonrecurring expenditures. For fiscal year 2020, sufficient cash is not available to require deposits for the Commonwealth Transportation 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 \$77.4 million is required during fiscal year 2021 based on fiscal year 2019 revenue collections reduced by the refunds that were provided to taxpayers from the Taxpayer Relief Fund as required by Chapter 854. This required deposit is reported as a restricted component of fund balance. No deposit is required based on fiscal year 2020 revenue 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 2020.

The Revenue Stabilization Fund has principal and interest on deposit of \$558.4 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 2020 is included in the Preliminary Statement of Revenues, Expenditures, and Changes in Fund Balance. The remaining cash balance of \$12.9 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, 2020, the breakdown of Other Committed Fund Balance is as follows.

Other Committed	Amount (In Thousands)
Capital Outlay	\$ 2,272
Educational and Training Programs	1,295
Governmental Operations - Administrative Services	517
Contract and Debt Administration	161
Agriculture and Forestry	19
Total Other Committed Fund Balance	\$ <u>4,264</u>

## **B. OTHER ASSIGNED FUND BALANCE**

As of June 30, 2020, the breakdown of Other Assigned Fund Balance is as follows.

<u>Other Assigned</u>	<u>Amount (In Thousands)</u>
Governmental Operations - Administrative Services	\$ 7,763
Governmental Operations - Legislative Services	4,476
Educational and Training Programs	4,069
Employee Benefit Administration	2,601
Capital Outlay	1,253
Regulatory Oversight	8
Transportation Activities	4
Agriculture and Forestry	2
Total Other Assigned Fund Balance	<u>\$ 20,176</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 \$32.9 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 1283, 2020 Acts of Assembly Section 3-5.06, the Commonwealth collected and deposited in the General Fund \$173.6 million in accelerated sales and use taxes in June 2020. This portion of the \$4.1 billion sales and use tax collections recorded as fiscal year 2020 was accelerated from revenues that would otherwise have been collected in July 2020 and recorded as revenues in the fiscal year 2021 cash basis financial statements.

Additionally, due to the economic impact resulting from COVID-19 coupled with the fiscal year 2020 Accelerated Sales Tax collections being based on the June 2019 tax liability, the Department of Taxation estimates that approximately \$26.8 million will be refunded in fiscal year 2021.

## **11. VIRGINIA WATER QUALITY IMPROVEMENT FUND**

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. The Fund has \$65.0 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, 2020, revenues collected did not exceed the official estimate, therefore, no commitment is required. The Balance Sheet reflects \$30.4 million as a component of committed fund balance that represents ten percent of the fiscal year 2020 unrestricted and uncommitted fund balance not required for reappropriation. Additionally, \$47.0 million for fiscal year 2019 activity is reported as a component of committed fund balance. Of this amount, \$32.4 million represents ten percent of the

fiscal year 2019 revenue collected in excess of the official estimate less the amount that was expected to be transferred to the Taxpayer Relief Fund, as required by Chapter 854, 2019 Acts of Assembly. The remaining \$14.6 million represents ten percent of fiscal year 2019 unrestricted and uncommitted fund balance not required for reappropriation. These amounts will be transferred to the Water Quality Improvement Fund during fiscal year 2021.

## 12. REVENUE RESERVE FUND

As of June 30, 2020, the fund has principal and interest on deposit of \$513.2 million committed as a part of the General Fund balance. These amounts are set aside to mitigate certain anticipated revenue shortfalls when appropriations based on previous revenue forecasts exceed expected revenues in subsequent forecasts.

Sections 2.2-1831.2 and 2.2-1831.3 of the *Code of Virginia* established the Revenue Reserve Fund and specified required deposits to the Fund. Whenever there is a fiscal year in which there is not a mandatory deposit to the Revenue Stabilization Fund, a deposit is required if the general fund revenue exceeds the official estimate. For the year ended June 30, 2020 revenues collected did not exceed the official estimate, therefore, no commitment is required.

Additionally, any required annual deposit cannot exceed 1.0 percent of the total general fund revenues for the prior fiscal year. The combined balance of the Revenue Reserve Fund and the Revenue Stabilization Fund cannot exceed 15.0 percent of the total Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years.

## 13. PLANNED DISBURSEMENTS

The amounts committed and assigned on the Balance Sheet represent plans for future utilization of current financial resources. For the year ended June 30, 2020, the Department of Planning and Budget certified total assigned fund balance of \$1.8 billion as follows.

Assigned Fund Balance	Amount (In Thousands)
Amount Required by Chapter 1289	\$ 1,185,284
Health and Public Safety	20,599
Environmental Quality and Natural Resource Preservation	12,253
Economic and Technological Development	7,408
Amount Required for Discretionary Reappropriations	506,168
Other	20,176
Total Assigned Fund Balance	\$ 1,751,888

The Balance Sheet reflects assigned fund balance of \$1.5 billion for the above purposes. Sufficient cash is not available for the remaining \$233.0 million of planned disbursements from assigned fund balance. Further, sufficient cash is not available to require deposits pursuant to Section 2.2-1514 of the *Code of Virginia* for the Commonwealth Transportation Fund and nonrecurring expenditures for 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 2020 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. Additionally, \$37.3 million represents general fund amounts that are available to address COVID-19 related costs.
  - **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 fund captured 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. This portion of fund balance represents the remaining amount that is expected to be refunded to taxpayers.
  - **COVID-19 General Fund** – This portion of fund balance represents activity related to the Governor's Executive Order and emergency declaration specifically related to COVID-19 General Fund disbursements.
  - **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 1289** – 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 2020 unexpended appropriations which the Department of Planning and Budget anticipates reappropriating 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:

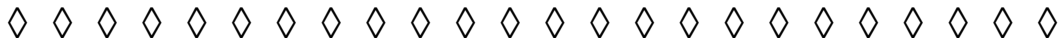
23. **General Government** – Expenditures to support the general activities of the state, regional, and local levels of government. Examples include administrative and support services, general financial assistance to localities, information systems management and direction. Also included is tax relief 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**

Copies of this report may be downloaded from The Department of Accounts' web site at **http://www.doa.virginia.gov**