







# COMMONWEALTH of VIRGINIA

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COMPTROLLER

Office of the Comptroller

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

August 15, 2005

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

Dear Governor Warner:

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

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

## **Revenue Stabilization Fund**

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

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

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

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

### **Amounts Available for Reappropriation**

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

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

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

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

### **Basis of Presentation**

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

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

The Honorable Mark R. Warner  
August 15, 2005  
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**Final Report and Award**

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

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

Respectfully submitted,

David A. Von Moll

Enclosure





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

**Assets**

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

**Liabilities and Fund Equity**

Liabilities:

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

Fund Equity:

Reserved Fund Balance:

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

Unreserved Fund Balance:

Designated:

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

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

Total Unreserved Fund Balance 1,126,576

Total Fund Equity \$ 1,865,343

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

The accompanying notes are an integral part of this statement.

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

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

The accompanying notes are an integral part of this statement.

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

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

The accompanying notes are an integral part of this statement.

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

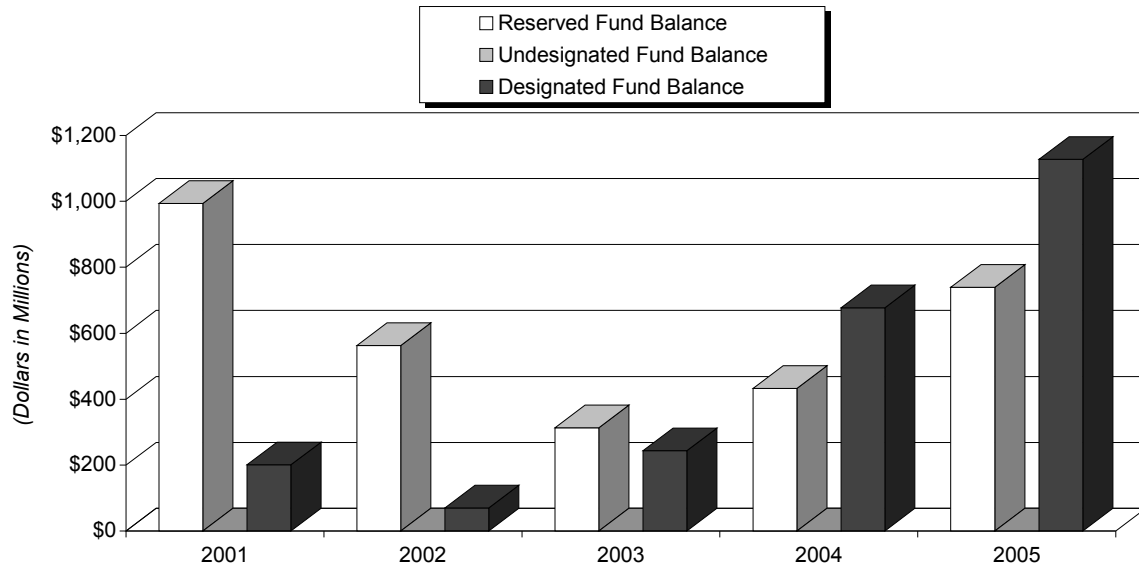
	<u>Final Budget Appropriations</u>	<u>Actual Expenditures</u>	<u>Amount Under Budget</u>
Enactment of Laws	\$ 31,491	\$ 25,040	\$ 6,451
Financial Assistance to Localities -- From Sale of Alcoholic Beverages and Other Distributions	32,921	32,748	173
Financial Assistance for Special State Revenue Sharing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



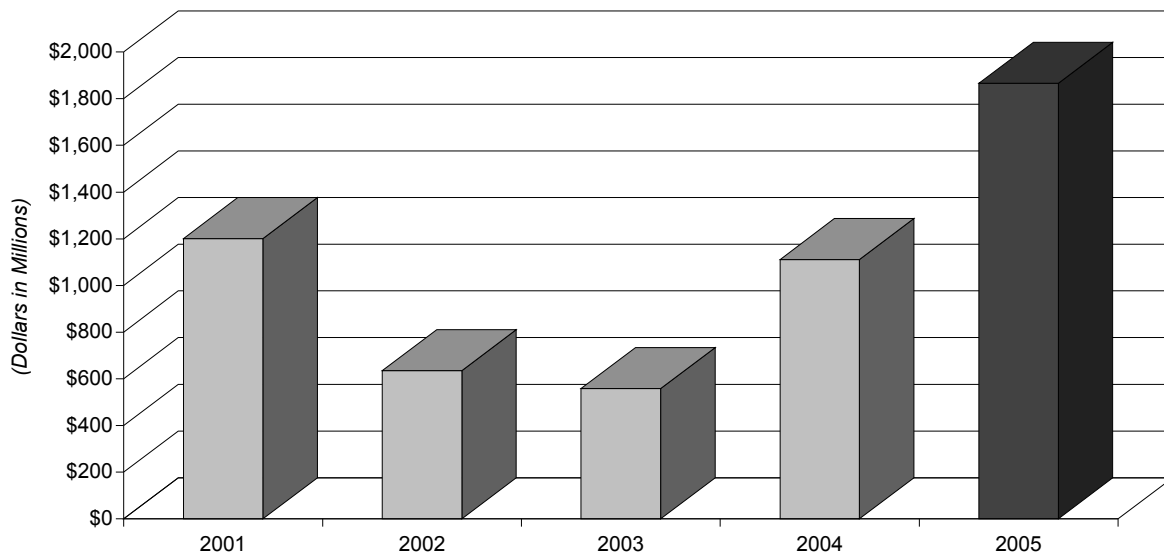




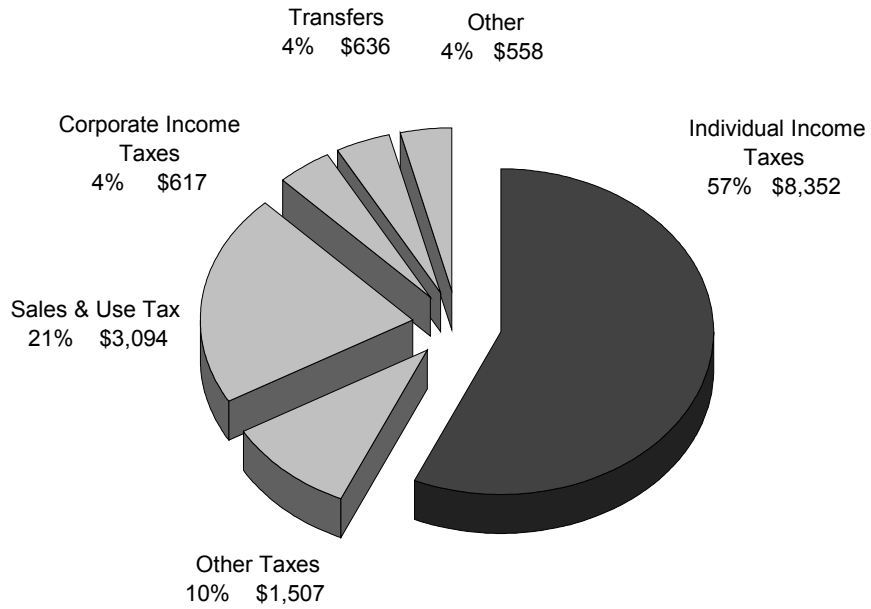
**General Fund  
Fund Balance  
Fiscal Years 2001-2005**



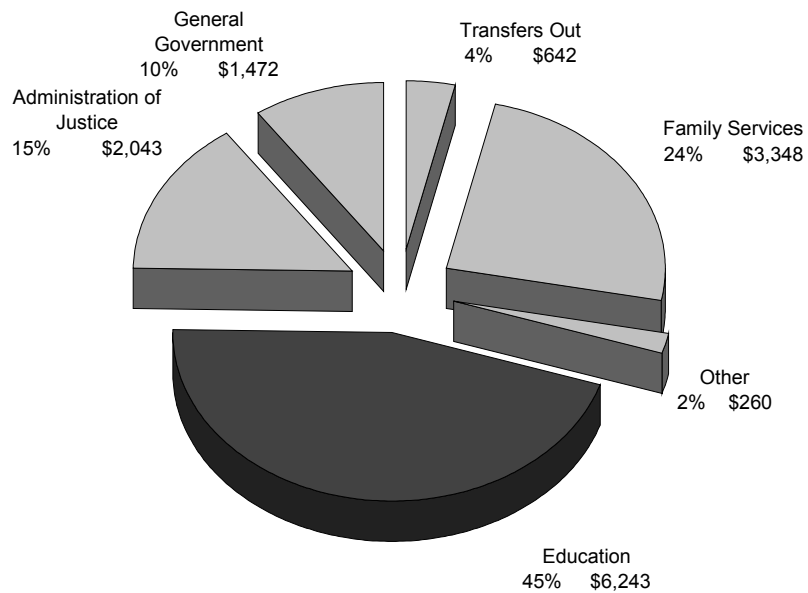
**General Fund  
Cash, Cash Equivalents, and Investments  
Fiscal Years 2001-2005**



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

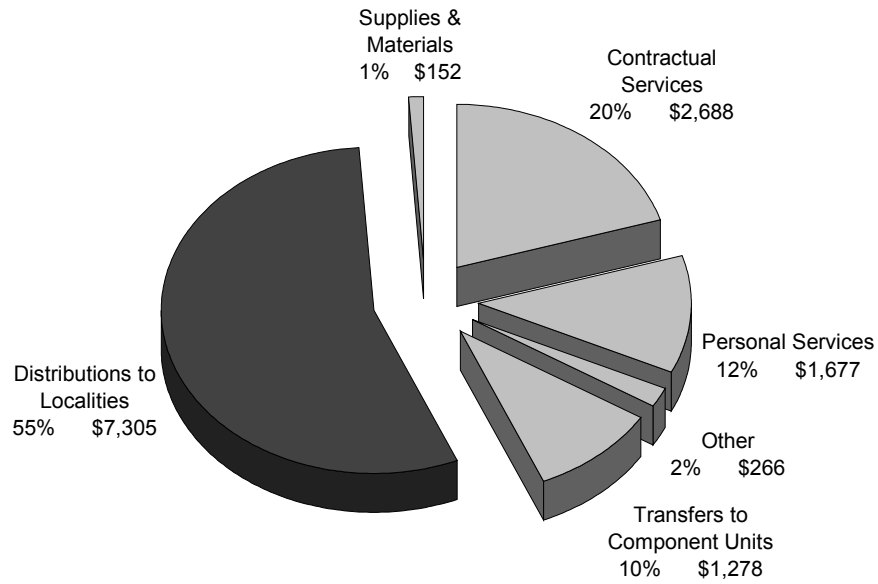


**General Fund  
Expenditures by Function and Other Uses  
Fiscal Year 2005  
(Dollars in Millions)**

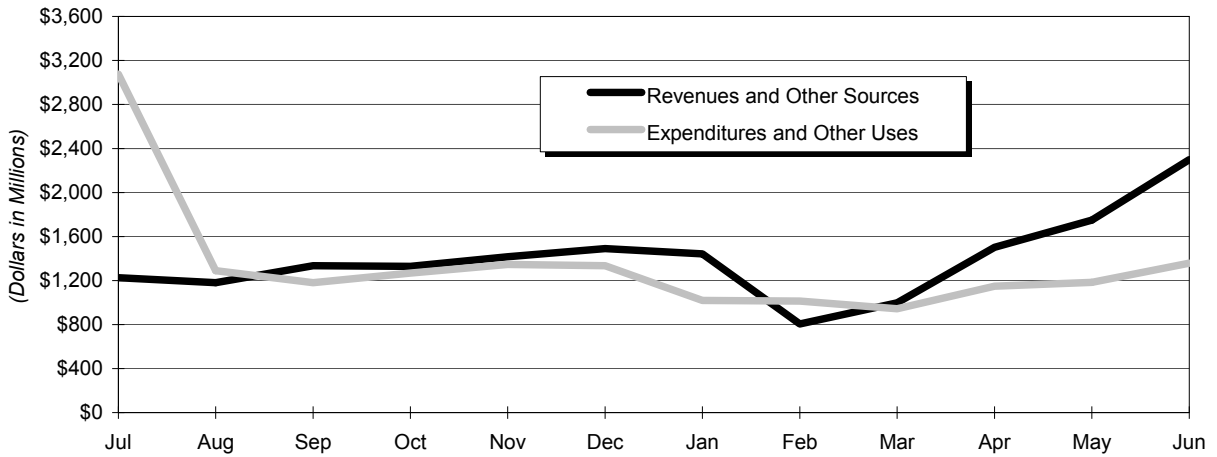


Note: General Government expenditures include \$907.3 million paid to localities pursuant to the Personal Property Tax Relief Act of 1998. This represents 62 percent of the General Government expenditures.

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



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



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





























