

COMMONWEALTH OF VIRGINIA

GENERAL FUND PRELIMINARY (UNAUDITED) ANNUAL REPORT

For the Fiscal Year Ended June 30, 2004

Presented on a Budgetary (Cash) Basis



**David A. Von Moll
Comptroller
August 13, 2004**

TABLE OF CONTENTS

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

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

GENERAL FUND GRAPHICS AND SUPPLEMENTAL SCHEDULES

General Fund - Fund Balance, Fiscal Years 2000-2004	9
General Fund - Cash, Cash Equivalents, and Investments, Fiscal Years 2000-2004	9
General Fund - Revenues by Revenue Class and Other Sources, Fiscal Year 2004	10
General Fund - Expenditures by Function and Other Uses, Fiscal Year 2004	10
General Fund - Expenditures by Object, Fiscal Year 2004	11
General Fund - Revenues and Other Sources and Expenditures and Other Uses by Month, Fiscal Year 2004	11
General Fund – Expenditures by Function and Significant Service Area, Fiscal Year 2004	12
General Fund – Other Financing Sources and Uses by Significant Service Area, Fiscal Year 2004	13

<u>GENERAL FUND NOTES</u>	15
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<u>GLOSSARY</u>	21
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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, 2004

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, 2004.

The Commonwealth ended fiscal year 2004 with a total fund balance in the General Fund of \$1.1 billion measured on the cash basis of activity. This is an increase of \$554.8 million, or 100 percent, from last year's ending fund balance of \$554.8 million, as restated (see Note 6). Planned (budgeted) increases in General Fund balance for this year were \$165.6 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 \$340.1 million reserved as a part of General Fund equity, including \$87.0 million deposited during FY 2004 in advance of the required deposit date based on increased FY 2004 General Fund collections. Consistent with past policy, the Department of Accounts has designated the remaining \$139.0 million of the required deposit based on FY 2004 revenues from General Fund balances for deposit into the Fund during FY 2006. In FY 2004, Section 2.2-1829(b) was added to the *Code of Virginia* to earmark an additional deposit into the Fund when specific criteria have been met. An additional \$113.0 million from General Fund balances has been designated for this purpose.

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 4-1.06a.1. of Chapter 1042, 2003 Acts of Assembly, requires reappropriation of 2004 fiscal year unexpended appropriations for Legislative and Judicial Departments, as well as independent Agencies. Additionally, this Section of the Act gives the Governor authority to reappropriate unexpended Executive Department appropriations. Section 4-1.06.a.2 gives the Governor authority to withhold reappropriations if funds are not available.

Based on an analysis by the Department of Planning and Budget of unexpended appropriations at June 30, 2004, \$82.7 million will be considered for mandatory reappropriation in fiscal year 2005 for operations and \$36.9 million will be considered for discretionary reappropriation in fiscal year 2005 for operations. Additional reappropriation amounts include \$21.1 million for capital outlay project needs and \$26.0 million for natural disaster sum sufficient amounts. Additionally, \$127.9 million is designated as available balances to meet the requirements of Chapter 4, 2004 Acts of Assembly, \$11.3 million for Public Education and \$38.7 million for the Water Quality Fund. Further, the Department of Planning and Budget has identified planned disbursements of \$23.8 million to the Transportation Trust Fund, \$68.3 million for House Bill 5018, and \$7.6 million for non-general fund interest payment. As of June 30, 2004, 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, 2004, \$32.4 and \$6.3 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, \$38.7 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 13, 2004
Page 3

Final Report and Award

The final Annual Report of the Comptroller, due on December 15, 2004, 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, 2003, 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 eighteenth 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 2003 Popular Report, entitled *Virginia Financial Perspective*. This is the ninth 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, 2004
(Dollars in Thousands)**

Assets		
Cash, Cash Equivalents, and Investments (1)	\$ 1,110,585	
Cash and Travel Advances	<u>1,076</u>	
Total Assets		<u><u>\$ 1,111,661</u></u>
 Liabilities and Fund Equity		
Liabilities:		
Deposits Pending Distribution	<u>2,090</u>	
Total Liabilities		\$ 2,090
 Fund Equity:		
Reserved Fund Balance:		
Revenue Stabilization Reserve Fund (Note 7)	340,067	
Payroll Reserve for July 1, 2004 Payroll	69,714	
Unexpended Lottery Proceeds (Note 8)	<u>11,398</u>	
Total Reserved Fund Balance		421,179
 Unreserved Fund Balance:		
Designated:		
Amount Required for Reappropriation of 2004 Unexpended Balances		
Mandatory Reappropriations	82,668	
Discretionary Reappropriations	36,913	
Capital Outlay	21,086	
Amount Required to Balance Chapter 4, 2004 Acts of Assembly	127,898	
Amount for Public Education	11,303	
Virginia Water Quality Improvement Fund - Part A (Note 9)	32,378	
Virginia Water Quality Improvement Fund - Part B (Note 9)	6,361	
Natural Disaster Sum Sufficient	26,034	
Accelerated Sales Tax for Transportation Trust Fund	23,814	
Revenue Stabilization Fund Contribution	139,025	
Revenue Stabilization Fund - Super Deposit	113,013	
Delay in Effective Date of House Bill 5018 (Tax Reform)	40,000	
Non-General Fund Interest Payment	7,568	
House Bill 5018 Additional Designation for Personal Exemption	<u>20,331</u>	
Total Designated Fund Balance	688,392	
Undesignated Fund Balance	<u>-</u>	
Total Unreserved Fund Balance		<u>688,392</u>
Total Fund Equity		<u>\$ 1,109,571</u>
Total Liabilities and Fund Balance		<u><u>\$ 1,111,661</u></u>

The accompanying notes are an integral part of this statement.

Commonwealth of Virginia
Preliminary Statement of Revenues, Expenditures,
and Changes in Fund Balance
General Fund - Budgetary (Cash) Basis (Unaudited)
For the Fiscal Years Ended June 30, 2000 through June 30, 2004
(Dollars in Thousands)

	Year Ended				
	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000
Revenues:					
Taxes:					
Individual and Fiduciary Income	\$ 7,384,887	\$ 6,775,746	\$ 6,710,772	\$ 7,226,309	\$ 6,828,906
Sales and Use (Note 3)	2,562,334	2,335,958	2,429,845	2,272,954	2,201,533
Corporation Income	425,716	343,319	290,215	363,757	565,909
Public Service Corporations	86,870	91,247	77,152	93,427	104,197
Premiums of Insurance Companies	351,278	333,004	292,702	268,060	251,074
Other Taxes	668,300	573,445	487,826	434,332	438,616
Total Taxes	<u>11,479,385</u>	<u>10,452,719</u>	<u>10,288,512</u>	<u>10,658,839</u>	<u>10,390,235</u>
Rights and Privileges	69,809	63,216	37,997	36,928	34,098
Sales of Property and Commodities	2,035	1,019	281	66	1,146
Assessments and Receipts for Support of Special Services	306	383	445	399	170
Institutional Revenue	9,633	7,896	9,194	7,888	9,142
Interest, Dividends, and Rents	67,275	105,700	138,121	171,177	150,545
Fines, Forfeitures, Court Fees, Penalties, and Escheats	193,675	178,487	152,801	134,162	127,280
Receipts from Cities, Counties, and Towns	8,962	9,117	9,060	8,805	9,368
Private Donations, Gifts and Contracts	1	7	-	-	5
Tobacco Master Settlement	51,359	60,012	59,846	51,276	66,938
Other	64,782	109,200	41,215	80,350	24,717
Total Revenues (Note 2)	<u>11,947,222</u>	<u>10,987,756</u>	<u>10,737,472</u>	<u>11,149,890</u>	<u>10,813,644</u>
Expenditures:					
General Government	1,404,023	1,362,222	1,345,368	1,069,409	809,485
Education	5,512,857	5,441,934	5,542,589	4,188,331	3,921,500
Transportation	48	36	16,002	29,703	232
Resources and Economic Development	214,116	206,743	251,856	241,704	226,280
Individual and Family Services	2,907,139	2,769,780	2,550,020	2,488,152	2,333,410
Administration of Justice	1,906,455	1,867,835	1,910,280	1,939,881	1,780,235
Capital Outlay	17,830	19,752	119,046	36,714	40,076
Total Expenditures	<u>11,962,468</u>	<u>11,668,302</u>	<u>11,735,161</u>	<u>9,993,894</u>	<u>9,111,218</u>
Revenues Over (Under) Expenditures	<u>(15,246)</u>	<u>(680,546)</u>	<u>(997,689)</u>	<u>1,155,996</u>	<u>1,702,426</u>
Other Financing Sources (Uses):					
Transfers:					
Operating Transfers In	1,033,161	987,805	820,466	525,101	452,636
Operating Transfers In From Component Units (Note 4)	-	-	-	2,660	1,940
Operating Transfers Out	(463,135)	(383,066)	(383,915)	(623,677)	(324,743)
Operating Transfers Out To Component Units (Note 4)	-	-	-	(1,721,304)	(1,576,558)
Total Other Financing Sources (Uses)	<u>570,026</u>	<u>604,739</u>	<u>436,551</u>	<u>(1,817,220)</u>	<u>(1,446,725)</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	554,780	(75,807)	(561,138)	(661,224)	255,701
Fund Balance, July 1					
Reserved	313,165	562,965	993,154	745,488	616,589
Unreserved, as restated (Note 6)	241,626	70,004	200,953	1,109,843	983,041
Fund Balance, July 1, as restated	<u>554,791</u>	<u>632,969</u>	<u>1,194,107</u>	<u>1,855,331</u>	<u>1,599,630</u>
Fund Balance, June 30					
Reserved	421,179	313,165	562,965	993,154	745,488
Unreserved	688,392	243,997	70,004	200,953	1,109,843
Fund Balance, June 30	<u>\$ 1,109,571</u>	<u>\$ 557,162</u>	<u>\$ 632,969</u>	<u>\$ 1,194,107</u>	<u>\$ 1,855,331</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, 2004
(Dollars in Thousands)

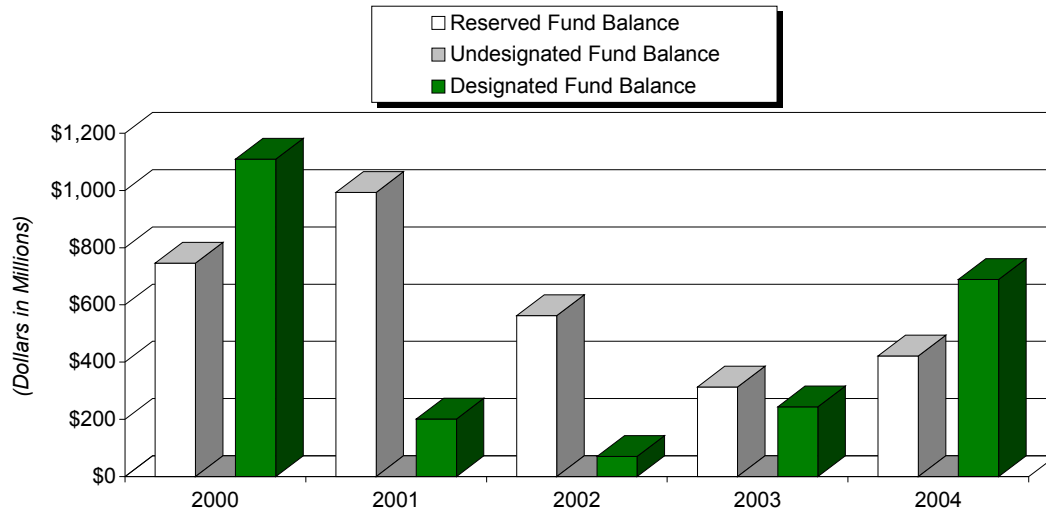
	General Fund			Final Budget/ Actual Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues:				
Taxes:				
Individual and Fiduciary Income	\$ 7,211,500	\$ 7,235,400	\$ 7,384,887	\$ 149,487
Sales and Use (Note 3)	2,460,000	2,507,200	2,562,334	55,134
Corporation Income	315,900	365,900	425,716	59,816
Public Service Corporations	83,800	84,400	86,870	2,470
Premiums of Insurance Companies	336,100	347,800	351,278	3,478
Other Taxes	470,000	585,400	668,300	82,900
Rights and Privileges	66,500	65,900	69,809	3,909
Sales of Property and Commodities	9,100	9,200	2,035	(7,165)
Assessments and Receipts for Support of Special Services	400	400	306	(94)
Institutional Revenue	9,300	9,300	9,633	333
Interest, Dividends, and Rents	80,300	64,300	67,275	2,975
Fines, Forfeitures, Court Fees, Penalties, and Escheats	200,100	194,500	193,675	(825)
Receipts from Cities, Counties, and Towns	9,400	9,400	8,962	(438)
Private Donations, Gifts and Contracts	-	-	1	1
Tobacco Master Settlement	53,000	50,500	51,359	859
Other	83,838	87,239	64,782	(22,457)
Total Revenues (Note 2)	<u>11,389,238</u>	<u>11,616,839</u>	<u>11,947,222</u>	<u>330,383</u>
Expenditures:				
Current:				
General Government	1,577,333	1,452,975	1,404,023	48,952
Education	5,490,550	5,541,591	5,512,857	28,734
Transportation	72,974	48	48	-
Resources and Economic Development	222,707	223,275	214,116	9,159
Individual and Family Services	2,838,051	2,917,733	2,907,139	10,594
Administration of Justice	1,899,963	1,928,911	1,906,455	22,456
Capital Outlay	16,210	32,788	17,830	14,958
Total Expenditures	<u>12,117,788</u>	<u>12,097,321</u>	<u>11,962,468</u>	<u>134,853</u>
Revenues Over (Under) Expenditures	<u>(728,550)</u>	<u>(480,482)</u>	<u>(15,246)</u>	<u>465,236</u>
Other Financing Sources (Uses):				
Transfers:				
Operating Transfers In	829,358	1,079,340	1,033,161	(46,179)
Operating Transfers Out	(213,652)	(433,299)	(463,135)	(29,836)
Total Other Financing Sources (Uses)	<u>615,706</u>	<u>646,041</u>	<u>570,026</u>	<u>(76,015)</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(112,844)	165,559	554,780	389,221
Fund Balance, July 1, as restated	<u>554,791</u>	<u>554,791</u>	<u>554,791</u>	<u>-</u>
Fund Balance, June 30	<u>\$ 441,947</u>	<u>\$ 720,350</u>	<u>\$ 1,109,571</u>	<u>\$ 389,221</u>

The accompanying notes are an integral part of this statement.

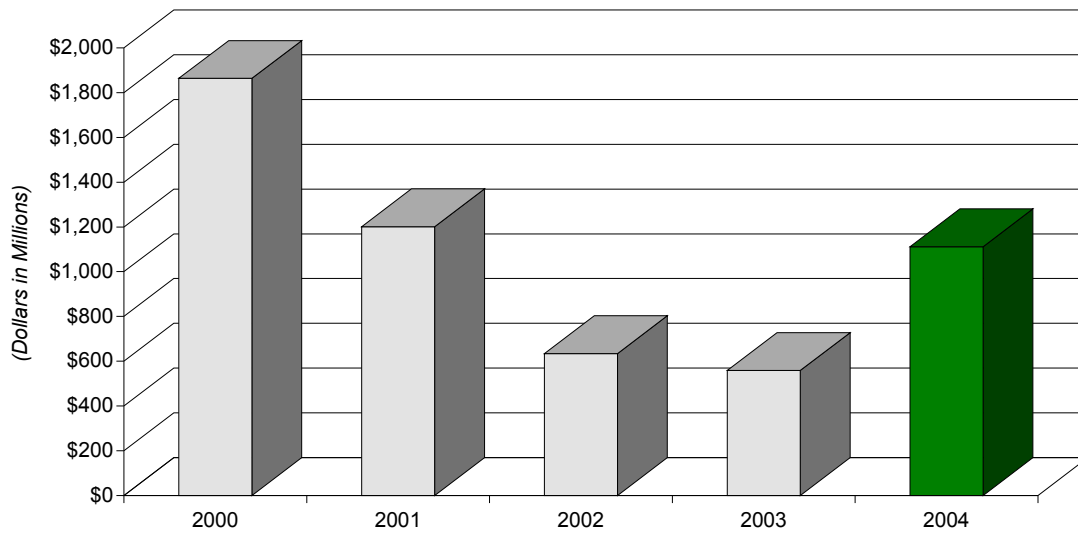
Commonwealth of Virginia
Preliminary Comparison of Sum-Sufficient Final Budget Appropriations
with Actual Expenditures
General Fund - Budgetary (Cash) Basis (Unaudited)
For the Fiscal Year Ended June 30, 2004
(Dollars in Thousands)

	<u>Final Budget Appropriations</u>	<u>Actual Expenditures</u>	<u>Amount Under Budget</u>
Enactment of Laws	\$ 29,018	\$ 24,736	\$ 4,282
Financial Assistance to Localities -- From Sale of Alcoholic Beverages and Other Distributions	42,277	42,277	-
Financial Assistance for Special State Revenue Sharing -- From Sales Tax and Lottery Proceeds	1,000,382	993,687	6,695
Cash Management Improvement Act Payment to the Federal Government	410	170	240
	<hr/>	<hr/>	<hr/>
Totals	<u>\$ 1,072,087</u>	<u>\$ 1,060,870</u>	<u>\$ 11,217</u>

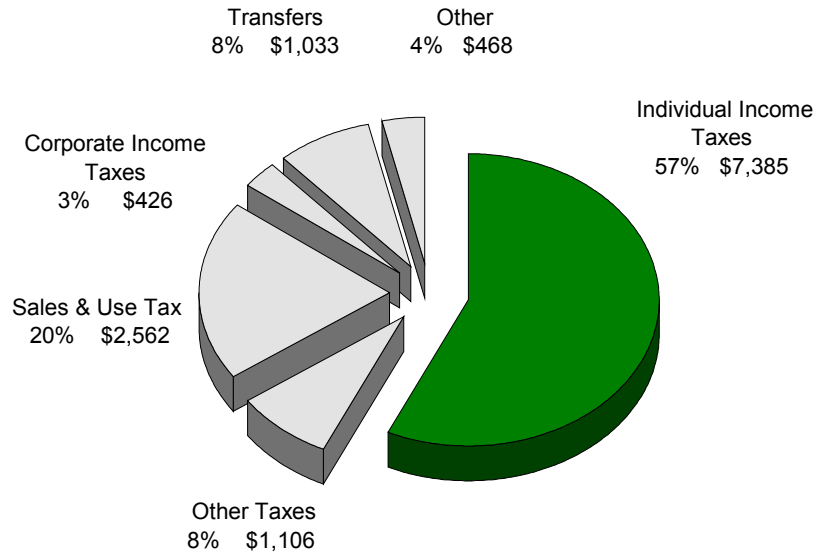
**General Fund
Fund Balance
Fiscal Years 2000-2004**



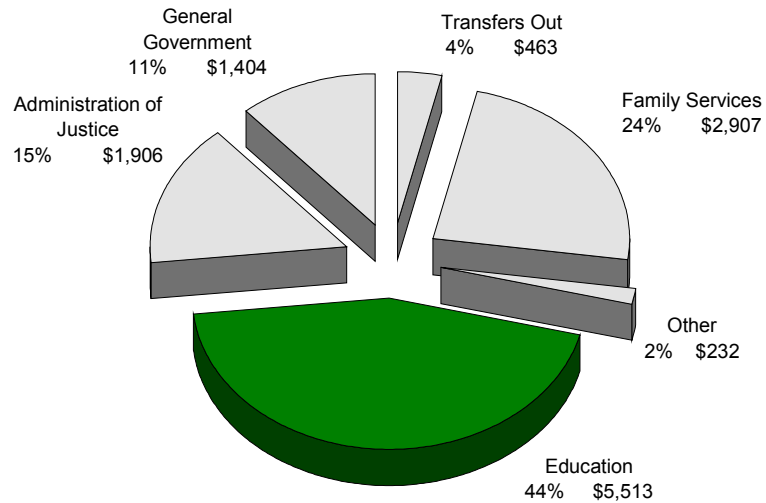
**General Fund
Cash, Cash Equivalents, and Investments
Fiscal Years 2000-2004**



**General Fund
Revenues by Revenue Class and Other Sources
Fiscal Year 2004
(Dollars in Millions)**

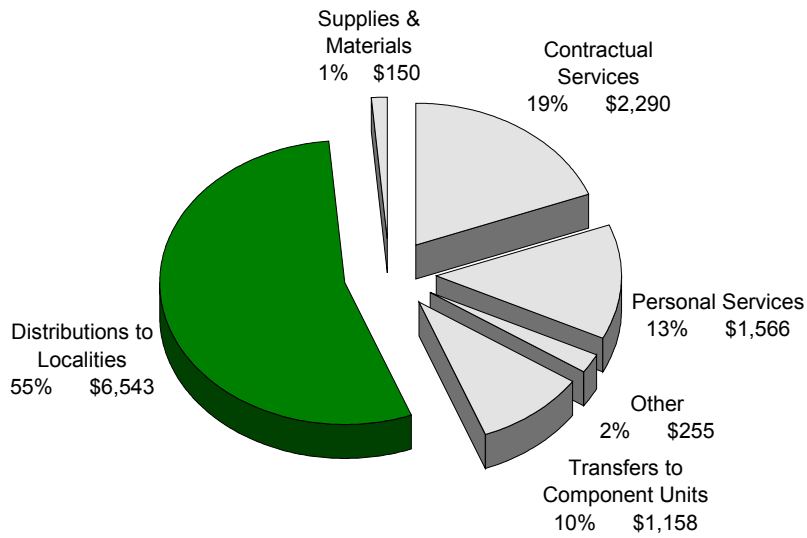


**General Fund
Expenditures by Function and Other Uses
Fiscal Year 2004
(Dollars in Millions)**

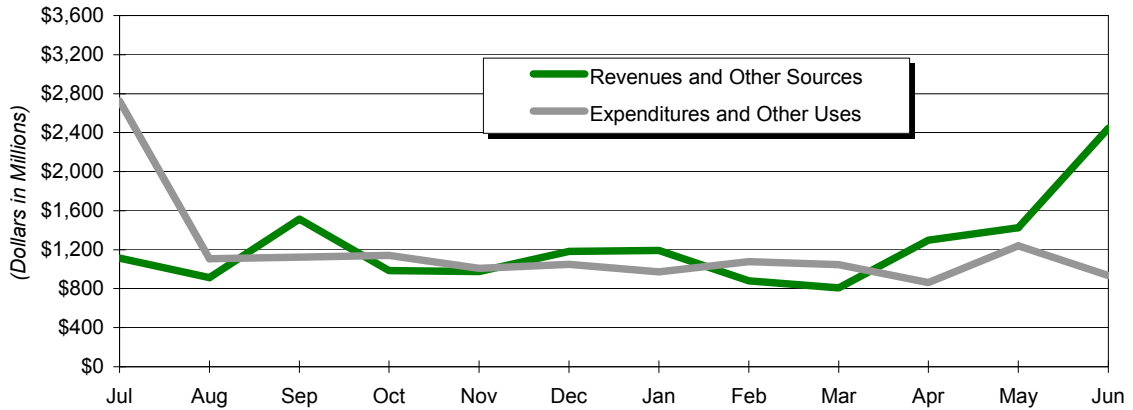


Note: General Government expenditures include \$881.1 million paid to localities pursuant to the Personal Property Tax Relief Act of 1998. This represents 63 percent of the General Government expenditures.

**General Fund
Expenditures by Object
Fiscal Year 2004
(Dollars in Millions)**



**General Fund
Revenues and Other Sources and
Expenditures and Other Uses by Month
Fiscal Year 2004**



Note: July expenditures include \$1.121 billion in payments to Higher Education.

**General Fund
Expenditures by Function and Significant Service Area
Fiscal Year 2004
(Dollars in Thousands)**

Function:	Significant Service Area:	Amount	Totals
Education	Higher Education	\$ 1,303,908	\$
	Grades K-12	4,088,204	
	Other	120,745	
		<hr/>	5,512,857
Individual and Family Services	Medical Assistance Services	1,895,370	
	Mental Health, Mental Retardation and Substance Abuse Services	393,206	
	Social Services	277,826	
	Comprehensive Services for At-Risk Youth and Families	148,800	
	Health	127,256	
	Other	64,681	
		<hr/>	
Administration of Justice	Corrections	992,843	
	Compensation Board	449,503	
	Courts	260,599	
	State Police	159,810	
	Other	43,700	
	<hr/>	1,906,455	
General Government	Car Tax Relief (PPTRA)	881,061	
	Criminal Justice - Locality Assistance	168,775	
	Debt Service - Component Units	75,986	
	Tax Administration	64,727	
	Other	213,474	
	<hr/>	1,404,023	
Resources and Economic Development	Environmental Quality	35,457	
	Conservation and Recreation	27,579	
	Agriculture	23,966	
	Housing and Community Development	18,372	
	Economic Development Partnership	15,395	
	Forestry	13,831	
	Other	79,516	
	<hr/>	214,116	
Other	Capital Outlay	17,830	
	Transportation	48	
	<hr/>	17,878	<hr/>
			\$ 11,962,468

General Fund
Other Financing Sources and Uses by Significant Service Area
Fiscal Year 2004
(Dollars in Thousands)

Other Financing Sources (Transfers In):

Significant Service Area	<u>Amount</u>	<u>Total</u>
Lottery	\$ 406,573	\$
Federal Fiscal Relief	240,706	
Tax Amnesty	94,571	
ABC Transfers	74,856	
Transfers from Other Funds	<u>216,455</u>	
		<u><u>\$ 1,033,161</u></u>

Other Financing Uses (Transfers Out):

Significant Service Area	<u>Amount</u>	<u>Total</u>
Debt Service	\$ 190,974	
Transportation Programs	167,784	
Disaster Relief	53,721	
Transfers to Other Funds	<u>50,656</u>	
		<u><u>\$ 463,135</u></u>

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COMMONWEALTH OF VIRGINIA

NOTES TO PRELIMINARY FINANCIAL STATEMENTS

JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying General Fund financial statements of the Commonwealth of Virginia have been prepared on a budgetary (cash) basis of accounting. Revenues and expenditures are recorded at the time cash is actually received or disbursed according to the provisions of the Appropriation Act; therefore, no accruals of revenues or expenditures have been included.

The General Fund includes transactions related to cash received and used for those services traditionally provided by a state government, which are not accounted for in other funds. It is a governmental fund and therefore its focus is on the measurement of financial position and related changes thereto, rather than on income determination. No other funds are presented in this report.

All funds will be presented using the appropriate bases of accounting as defined by generally accepted accounting principles in the Annual Report of the Comptroller, to be issued December 15, 2004.

B. Budget

Budgetary amounts shown in the financial statements represent Chapter 1042, Acts of Assembly (original) and Chapter 943, Acts of Assembly (final), both as adjusted for executive and other administrative actions. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. The Governor, as required by the *Code of Virginia*, submits to the General Assembly a State budget composed of all proposed expenditures, estimated revenues and borrowings for a biennium.

The budget is prepared on a biennial basis; however, the budget of the General Fund contains separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor. For management control purposes, the budget is controlled at the program level. The Director of the Department of Planning and Budget may transfer an appropriation within a State agency or from one State agency to another, provided that total fund appropriations, as contained within the budget, are not exceeded. Increases in General Fund appropriations must be approved by the General Assembly.

2. ANALYSIS OF GENERAL FUND REVENUE

The Department of Accounts produces a monthly General Fund Statement of Revenue Collections, Estimates, and Transfers. The following analysis relates components of the Preliminary General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual with the monthly revenue report for June 30, 2004.

<i>(Dollars in Thousands)</i>	Preliminary Financial Statements	Monthly Statement of Revenue	Variance
Total Final Budgeted Revenue	\$ 11,616,839	\$ 11,594,100	\$ 22,739 (a)
(a) Appropriation Act transfers included in budgeted revenue on the Preliminary Financial Statements		22,755	
Other transfers/items included in budgeted revenue on the Preliminary Financial Statements		(16)	
		<u>\$ 11,616,839</u>	
Total Actual Revenue	\$ 11,947,222	\$ 11,917,867	\$ 29,355 (b)
(b) Reversal of prior year reclass of Non-sufficient Fund Checks not reflected on the Revenue Report		\$ 1,845	
Interest on the Revenue Stabilization Fund not reported in the Revenue Report		5,586	
Appropriation Act transfers recorded as revenue on the Preliminary Financial Statements		19,022	
Other transfers recorded as revenue on the Preliminary Financial Statements		3,203	
Personal Property Tax Relief Act - Refund of Prior Year Disbursements not included in the Revenue Report		910	
Interest on Lottery Proceeds Fund not reported in the Revenue Report		11	
Non-sufficient Fund Checks & Other items reclassified as a reduction in revenue for financial reporting purposes		(1,222)	
		<u>\$ 11,947,222</u>	

3. ACCELERATED SALES TAX COLLECTIONS

Pursuant to section 58.1-615 *Code of Virginia* as amended by section 4-12 of Chapter 1042, 2003 Acts of Assembly, the Commonwealth collected \$167.8 million in accelerated sales and use taxes in June 2004. This portion of the \$2.6 billion sales and use tax collections recorded as fiscal year 2004 revenues was accelerated from revenues that would otherwise have been collected in July 2004 and recorded as fiscal year 2005 revenues in next year's cash basis financial statements. Section 4-12 of Chapter 1042, 2003 Acts of Assembly retains this acceleration through fiscal year 2005, with a gradual phase-out during fiscal years 2006-2012. Subsequent to June 30, 2004, \$23.8 million of accelerated sales tax collections is designated for transfer to the Transportation Trust Fund.

4. APPROPRIATION ACT TRANSFERS

For fiscal year ended June 30, 2004, Appropriation Act transfers are \$1,012.8 million. The following analysis shows where Appropriation Act transfers are reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

<u>(Dollars in Thousands)</u>	<u>Appropriation Act Transfers</u>
Revenue - Other	\$ 19,022
Transfers In	1,025,165 (c)
Transfers Out	<u>(31,374)</u>
Total Appropriation Act Transfers	<u>\$ 1,012,813</u>

(c) Includes ABC transfers of approximately \$74.9 million

5. OPERATING TRANSFERS IN FROM/OUT TO COMPONENT UNITS

Prior to fiscal year ended June 30, 2002, operating transfers in from and out to component units were reported on a separate line item. Pursuant to the Governmental Accounting Standards Board, Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, which was effective beginning in fiscal year 2002, these line items have been eliminated. Accordingly, these amounts have been reclassified as revenues or expenditures in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balance.

6. RESTATEMENT OF BEGINNING BALANCE

The restatement of \$2.371 million resulted from computational errors made by the Alcoholic Beverage Control Board (ABC). The errors were detected during the Auditor of Public Accounts’ FY 2003 ABC audit.

7. 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.

The Revenue Stabilization Fund has principal and interest on deposit of \$340.1 million reserved as a part of General Fund equity. The amount on deposit cannot exceed ten percent of the Commonwealth’s average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. The maximum amount allowed is \$958.3 million and \$975.3 million for FY 2004 and FY 2005, respectively. The FY 2005 maximum is pending certification by the Auditor of Public Accounts.

8. UNEXPENDED LOTTERY PROCEEDS

In accordance with Article X, Section 7-A of the *Constitution of Virginia*, lottery proceeds must be distributed to the Commonwealth’s localities and the school divisions to be expended for the purposes of public education. The lottery transfers to the General Fund for FY 2004 totaled \$407.8

million. During FY 2004, the Commonwealth appropriated and expended \$396.4 million. The remaining cumulative lottery transfers of \$11.4 million are reserved for the year ended June 30, 2004.

Lottery has reported total proceeds of \$408.1 million. This amount has been certified by the Auditor of Public Accounts. The additional proceeds will be transferred to the General Fund. Accordingly, the additional proceeds are not included in the accompanying financial statements, but will be included in the Annual Report of the Comptroller, to be issued December 15, 2004.

9. 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, 2004, \$32.4 and \$6.3 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, \$38.7 million will be transferred from the General Fund to the Virginia Water Quality Improvement Fund.

10. DESIGNATED FUND BALANCE

The amounts designated on the Balance Sheet represent tentative plans for future utilization of current financial resources. For FY 2004, the Department of Planning and Budget certified total designations of \$696.3 million. This amount consists of \$252.0 for the Revenue Stabilization Fund, \$82.7 million for mandatory reappropriation in fiscal year 2005 for operations, \$36.9 million for discretionary reappropriation in fiscal year 2005 for operations, \$21.1 million for capital outlay projects needs and \$26.0 million for natural disaster sum sufficient amounts. Additionally, \$127.9 million is designated as available balances to meet the requirements of Chapter 4, \$11.3 million for Public Education and \$38.7 million for the Water Quality Fund. Further, the Department of Planning and Budget has identified planned disbursements of \$23.8 million to the Transportation Trust Fund, \$68.3 million for House Bill 5018, and \$7.6 million for non-general fund interest payment. The Balance Sheet reflects \$688.4 million designated for the above purposes. Sufficient cash is not available to designate \$8.0 million of these designated amounts.

BALANCE SHEET

1. **Cash, Cash Equivalents, and Investments** - All cash, cash equivalents, and investments are maintained by the Treasurer of Virginia. Cash includes demand deposits, time deposits, and certificates of deposit. Cash equivalents are investments with an original maturity of three months or less. Short-term investments held are stated at cost, which approximates market value.
2. **Cash and Travel Advances** - Funds advanced to agencies to make immediate cash payments for authorized purposes. Also included are funds advanced to agency employees to cover expenses incurred while traveling on State business.
3. **Deposits Pending Distribution** - This represents miscellaneous amounts held by several agencies in suspense accounts pending distribution.
4. **Reserved Fund Balance** - Items are reserved to indicate that a particular portion of fund balance is not available to fund operations at the end of the fiscal year.
5. **Designated Fund Balance** - Consists of designations established to reflect tentative plans for future utilization of current financial resources. Designated Fund Balance represents:
 - **Amount Required for Reappropriation of 2004 Unexpended Balances, Mandatory Reappropriations, Discretionary Reappropriations, and Capital Outlay** – This portion of fund balance represents the fiscal year 2004 unexpended appropriations which the Department of Planning and Budget anticipates reappropriating in the next fiscal year.
 - **Amount Required by Chapter 4, 2004 Acts of Assembly** – This portion of fund balance represents the amount that must be carried forward to the following year to balance the biennial budget.
 - **Amount for Public Education** – This portion of fund balance represents the amount planned to be used for public education subsequent to June 30.
 - **Virginia Water Quality Improvement Fund** – This portion of fund balance represents amounts to be transferred to the Virginia Water Quality Improvement Fund upon appropriation by the General Assembly.
 - **Natural Disaster Sum Sufficient** – This portion of fund balance represents the estimated costs of responding to and recovering from damage caused by hurricanes, blizzards, severe storms/tornadoes, and floods.
 - **Accelerated Sales Tax for Transportation Trust Fund** – This portion of fund balance represents the accelerated sales tax collections planned to be transferred to the Transportation Trust Fund subsequent to June 30.
 - **House Bill 5018** – This portion of the fund balance represents amounts attributable to tax changes.
 - **Non-General Fund Interest Payment** – This portion of the fund balance represents fourth quarter interest planned to be transferred to non-general funds subsequent to June 30.
6. **Undesignated Fund Balance** - The amount of fund balance remaining from operations of the current and prior years, net of amounts established as reserved and designated. As of June 30, 2004, there is no unreserved undesignated fund balance remaining.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Revenues:

7. **Taxes** - Charges of money imposed by the Commonwealth on persons or property for public purposes.
8. **Rights and Privileges** - Registration fees, licenses, and permits. Examples include domestic and foreign corporate registration fees and marriage licenses.

9. **Sales of Property and Commodities** - Revenue collected from sales of Commonwealth assets and goods. Examples include sales of State publications.
10. **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.
11. **Institutional Revenue** - Revenue generated primarily from sales by the Departments of Corrections and Mental Health, Mental Retardation and Substance Abuse Services. Examples include the sale of farm and dairy products.
12. **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.
13. **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.
14. **Receipts from Cities, Counties, and Towns** - Revenue collected from city and county treasurers representing miscellaneous fees and allowances of local law enforcement officials.
15. **Private Donations, Gifts, and Contracts** - This amount represents donations and grants from individuals and private companies to State programs.
16. **Tobacco Master Settlement** - This amount represents the revenue generated from the Tobacco Master Settlement Agreement with tobacco companies.
17. **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, excess fees paid into the State Treasury, and recovery of Statewide indirect costs.

Expenditures:

18. **General Government** - Expenditures to support the general activities of the state, regional, and local levels of government. Examples include administrative and support services, general financial assistance to localities, information systems management and direction. Also included is tax relief reported as expenditures pursuant to the Personal Property Tax Relief Act (PPTRA) of 1998. The tax relief level was 12.5 percent, 27.5 percent, 47.5 percent, and 70.0 percent for tax years 1998 to 2002, respectively, and remained at 70 percent for 2003 and 2004. The expenditures associated with this relief were \$181.3 million, \$322.1 million, \$604.1 million, \$826.2 million, \$856.7 million, and 881.1 for fiscal years 1999 to 2004, respectively.
19. **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.
20. **Transportation** - Expenditures related to the movement of people, goods, and services and their regulation. Examples include ground, water and air transportation.
21. **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.
22. **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.

23. **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.
24. **Capital Outlay** - Construction and preparation of Commonwealth assets.

Other Financing Sources (Uses):

25. **Operating Transfers In** - This balance reflects transfers in from other nongeneral funds.
26. **Operating Transfers Out** - The balance represents transfers from the General Fund to other nongeneral funds.

If you have any questions or comments regarding information contained in this report, please contact us at

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