
COMMONWEALTH OF VIRGINIA

GENERAL FUND PRELIMINARY (UNAUDITED) ANNUAL REPORT

For the Fiscal Year Ended June 30, 2016

Presented on a Cash Basis



David A. Von Moll
Comptroller
August 15, 2016



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COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA
COMPTROLLER

Office of the Comptroller

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

August 15, 2016

The Honorable Terence R. McAuliffe
Governor
Commonwealth of Virginia
State Capitol
Richmond, Virginia 23219

Dear Governor McAuliffe:

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, 2016.

The Commonwealth ended fiscal year 2016 with a total fund balance in the General Fund of \$1.5 billion measured on the cash basis of activity. This is a decrease of \$280.7 million, or 16.0 percent, from last year's ending fund balance of \$1.8 billion. Planned (budgeted) decreases in General Fund balance for this year were \$380.7 million. The difference between the planned decrease and actual decrease is primarily attributed to revenue collections and other sources being approximately \$238.4 million less than expected and expenditures and other uses being approximately \$338.4 million less than budgeted. The Commonwealth implemented Governmental Accounting Standards Board Statement No. 54 (GASB No. 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. This standard affected the funds included in this report as well as the fund balance classifications. Accordingly, \$162.5 million of the ending fund balance is attributable to the funds included pursuant to GASB No. 54, such as the Virginia Water Quality Improvement Fund and the Commonwealth's Development Opportunity Fund. Further, fund balance classifications are shown in the first graph on page 9 and additional information on GASB No. 54 is located in Note 5.

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 \$235.5 million restricted as a part of the General Fund balance. During fiscal year 2016, 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 withdrawal of \$235.5 million was made from the fund.

Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, a deposit of \$605.6 million is required during fiscal year 2017 based on fiscal year 2015 revenue collections. This required deposit is included as a restricted component of fund balance and includes the advance reservation of \$129.5 million provided in Chapter 665, 2015 Acts of Assembly. No deposit is required based on fiscal year 2016 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 2016.

Amounts Available for Reappropriation

Section 4-1.05a.1 of Chapter 732 requires reappropriation of 2016 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 2.2-5005 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, 2016, the following amounts have been committed: \$141.9 million for capital outlay project needs; \$44.3 million for health care services, \$10.3 million for central capital planning; \$35.9 million for communication sales and use tax distributions; \$25.6 million for natural disaster sum sufficient amounts; and \$58.5 million for mandatory reappropriations.

In addition, the Department of Planning and Budget has identified \$276.5 million as available balances to meet the requirements of Chapter 780. The Department of Planning and Budget has also identified \$90.3 million to be assigned for discretionary reappropriations. As of June 30, 2016, sufficient cash is not available to assign these amounts. Therefore, \$149.9 million is assigned on the accompanying Balance Sheet as the amount available to meet the requirements of Chapter 780.

Additionally, restricted balances of \$5.3 million, committed balances of \$113.0 million and assigned balances of \$44.2 million are being reported due to the inclusion of additional funds pursuant to GASB No. 54 which redefined funds for financial reporting purposes and requires selected activity that was previously excluded from the General Fund to be included.

Virginia Water Quality Improvement Fund

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. The Fund has \$15.8 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 prior years, we have committed the amount that represents ten percent of the revenue collected in excess of the official estimate and ten percent of any unrestricted and uncommitted fund balance not required for reappropriation. For the year ended June 30, 2016, no such commitment is required since the specified criteria were not met. For additional information regarding the Virginia Water Quality Improvement Fund, see Note 11.

Basis of Presentation

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

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

Final Report and Award

The final Annual Report of the Comptroller, due on December 15, 2016, 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, 2015, 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 30 consecutive years. In addition, Virginia received a companion award from the GFOA for its fiscal year 2015 Popular Report, entitled *Virginia Financial Perspective*. Virginia's Popular Report has received this award for 21 consecutive years.

Respectfully submitted,

David A. Von Moll



SUMMARY OF GENERAL FUND ACTIVITY



Commonwealth of Virginia
Preliminary Balance Sheet
General Fund - Cash Basis (Unaudited)
June 30, 2016
(Dollars in Thousands)

Assets		
Cash, Cash Equivalents, and Investments	\$ 1,561,197	
Cash and Travel Advances	501	
Other Assets	<u>89</u>	
 Total Assets		 <u>\$ 1,561,787</u>
 Liabilities and Fund Equity		
Liabilities:		
Payments Awaiting Disbursement (Note 4)	77,460	
Deposits Pending Distribution	<u>5,882</u>	
Total Liabilities		\$ 83,342
 Fund Equity (Note 5):		
Restricted Fund Balance:		
Revenue Stabilization Fund (Note 6)	235,485	
Revenue Stabilization Reserve 2017 (Note 6)	605,572	
Lottery Proceeds Fund (Note 7)	8,599	
Water Supply Assistance Grant Fund	<u>5,345</u>	
Total Restricted Fund Balance		<u>855,001</u>
 Committed Fund Balance (Note 8):		
Amount Required for Reappropriation of		
2016 Unexpended Balances for Capital Outlay and Restoration Projects	141,890	
Virginia Health Care Fund	44,287	
Central Capital Planning Fund	10,325	
Communication Sales and Use Tax (Note 9)	35,864	
Commonwealth's Development Opportunity Fund	24,957	
Natural Disaster Sum Sufficient	25,573	
Amount Required for Mandatory Reappropriation	58,465	
Virginia Water Quality Improvement Fund (Note 11)	15,776	
Economic and Technological Development	45,260	
Health and Public Safety	13,517	
Other	<u>13,476</u>	
Total Committed Fund Balance		<u>429,390</u>
 Assigned Fund Balance (Note 8):		
Amount Required by Chapter 780	149,886	
Health and Public Safety	19,062	
Economic and Technological Development	7,253	
Environmental Quality and Natural Resource Preservation	6,378	
Other	<u>11,475</u>	
Total Assigned Fund Balance (Note 12)		<u>194,054</u>
 Total Fund Equity		 <u>\$ 1,478,445</u>
 Total Liabilities and Fund Balance		 <u>\$ 1,561,787</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, 2012 through June 30, 2016
(Dollars in Thousands)

	Year Ended				
	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012
Revenues:					
Taxes:					
Individual and Fiduciary Income	\$ 12,555,624	\$ 12,328,675	\$ 11,253,348	\$ 11,339,966	\$ 10,612,836
Sales and Use	3,651,400	3,587,849	3,400,486	3,441,195	3,335,601
Corporation Income	764,948	831,907	757,491	796,728	859,923
Communications Sales and Use (Note 9)	406,707	417,209	422,823	427,262	424,257
Deeds, Contracts, Wills, and Suits	377,699	354,461	318,998	388,633	330,938
Premiums of Insurance Companies	339,081	300,641	320,421	262,242	252,895
Alcoholic Beverage Sales	217,594	207,802	199,225	195,192	186,377
Tobacco Products	178,741	178,996	180,626	187,874	192,453
Estate	222	98	196	-	298
Public Service Corporations	92,586	98,537	98,156	96,222	94,429
Other Taxes	32,107	30,251	28,760	18,036	20,442
Total Taxes	<u>18,616,709</u>	<u>18,336,426</u>	<u>16,980,530</u>	<u>17,153,350</u>	<u>16,310,449</u>
Rights and Privileges	84,628	78,654	79,085	76,931	72,817
Sales of Property and Commodities	42,671	28,930	30,682	25,477	30,146
Assessments and Receipts for Support of Special Services	3,539	1,582	931	858	2,570
Institutional Revenue	36,819	38,240	36,143	37,210	38,134
Interest, Dividends, and Rents	57,680	54,626	78,333	72,958	83,055
Fines, Forfeitures, Court Fees, Penalties, and Escheats	222,039	216,698	211,512	216,788	216,032
Federal Grants and Contracts	3,868	6,416	9,454	6,354	-
Receipts from Cities, Counties, and Towns	16,951	16,533	16,318	15,813	16,209
Private Donations, Gifts and Contracts	364	775	438	439	680
Tobacco Master Settlement	47,664	48,207	48,693	74,010	49,136
Other	225,342	158,807	190,636	238,148	282,731
Total Revenues (Note 2)	<u>19,358,274</u>	<u>18,985,894</u>	<u>17,682,755</u>	<u>17,918,336</u>	<u>17,101,959</u>
Expenditures:					
General Government	2,497,121	2,273,965	2,215,179	2,173,327	2,096,588
Education	8,095,292	7,928,734	7,755,863	7,587,805	7,123,221
Transportation	328	836	773	172	462
Resources and Economic Development	413,406	413,053	406,052	389,221	353,567
Individual and Family Services	6,238,651	5,765,208	5,525,897	5,383,507	5,027,601
Administration of Justice	2,678,980	2,586,618	2,519,888	2,443,464	2,284,948
Capital Outlay	26,010	6,510	10,663	6,274	7,627
Total Expenditures	<u>19,949,788</u>	<u>18,974,924</u>	<u>18,434,315</u>	<u>17,983,770</u>	<u>16,894,014</u>
Revenues Over (Under) Expenditures	<u>(591,514)</u>	<u>10,970</u>	<u>(751,560)</u>	<u>(65,434)</u>	<u>207,945</u>
Other Financing Sources (Uses):					
Transfers:					
Operating Transfers In	775,363	866,913	770,542	712,400	799,070
Operating Transfers Out	(464,559)	(468,029)	(490,310)	(509,749)	(621,163)
Total Other Financing Sources (Uses)	<u>310,804</u>	<u>398,884</u>	<u>280,232</u>	<u>202,651</u>	<u>177,907</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(280,710)</u>	<u>409,854</u>	<u>(471,328)</u>	<u>137,217</u>	<u>385,852</u>
Fund Balance, July 1					
Restricted (Note 5)	1,082,618	943,491	940,906	707,401	456,384
Committed (Note 5)	328,791	365,220	556,076	518,619	461,140
Assigned (Note 5)	347,746	40,590	323,647	457,392	380,036
Fund Balance, July 1	<u>1,759,155</u>	<u>1,349,301</u>	<u>1,820,629</u>	<u>1,683,412</u>	<u>1,297,560</u>
Fund Balance, June 30					
Restricted (Note 5)	855,001	1,082,618	943,491	940,906	707,401
Committed (Note 5)	429,390	328,791	365,220	556,076	518,619
Assigned (Note 5)	194,054	347,746	40,590	323,647	457,392
Fund Balance, June 30	<u>\$ 1,478,445</u>	<u>\$ 1,759,155</u>	<u>\$ 1,349,301</u>	<u>\$ 1,820,629</u>	<u>\$ 1,683,412</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, 2016
(Dollars in Thousands)

General Fund				
	Original Budget	Final Budget	Actual	Final Budget/ Actual Variance Favorable (Unfavorable)
Revenues:				
Taxes:				
Individual and Fiduciary Income	\$ 12,219,700	\$ 12,823,000	\$ 12,555,624	\$ (267,376)
Sales and Use	3,686,000	3,734,400	3,651,400	(83,000)
Corporation Income	820,700	722,800	764,948	42,148
Communications Sales and Use	425,000	419,000	406,707	(12,293)
Deeds, Contracts, Wills, and Suits	328,300	389,506	377,699	(11,807)
Premiums of Insurance Companies	326,800	322,700	339,081	16,381
Alcoholic Beverage Sales	207,900	207,900	217,594	9,694
Tobacco Products	177,032	181,100	178,741	(2,359)
Estate	-	-	222	222
Public Service Corporations	96,800	98,900	92,586	(6,314)
Other Taxes	25,512	29,972	32,107	2,135
Rights and Privileges	87,967	85,179	84,628	(551)
Sales of Property and Commodities	33,352	1,819	42,671	40,852
Assessments and Receipts for Support of Special Services	900	2,450	3,539	1,089
Institutional Revenue	42,409	46,422	36,819	(9,603)
Interest, Dividends, and Rents	66,233	47,089	57,680	10,591
Fines, Forfeitures, Court Fees, Penalties, and Escheats	203,624	221,405	222,039	634
Federal Grants and Contracts	3,868	3,868	3,868	-
Receipts from Cities, Counties, and Towns	10,032	15,682	16,951	1,269
Private Donations, Gifts and Contracts	475	239	364	125
Tobacco Master Settlement	53,166	47,962	47,664	(298)
Other	186,357	208,007	225,342	17,335
Total Revenues (Note 2)	19,002,127	19,609,400	19,358,274	(251,126)
Expenditures:				
Current:				
General Government	2,571,224	2,571,068	2,497,121	73,947
Education	8,070,533	8,142,706	8,095,292	47,414
Transportation	-	363	328	35
Resources and Economic Development	426,942	475,598	413,406	62,192
Individual and Family Services	5,998,805	6,291,377	6,238,651	52,726
Administration of Justice	2,584,339	2,700,068	2,678,980	21,088
Capital Outlay	27,692	110,556	26,010	84,546
Total Expenditures	19,679,535	20,291,736	19,949,788	341,948
Revenues Over (Under) Expenditures	(677,408)	(682,336)	(591,514)	90,822
Other Financing Sources (Uses):				
Transfers:				
Operating Transfers In	749,323	762,600	775,363	12,763
Operating Transfers Out	(471,368)	(460,976)	(464,559)	(3,583)
Total Other Financing Sources (Uses)	277,955	301,624	310,804	9,180
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(399,453)	(380,712)	(280,710)	100,002
Fund Balance, July 1	1,759,155	1,759,155	1,759,155	-
Fund Balance, June 30	\$ 1,359,702	\$ 1,378,443	\$ 1,478,445	\$ 100,002

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, 2016
 (Dollars in Thousands)**

	<u>Original Budget Appropriations</u>	<u>Final Budget Appropriations</u>	<u>Actual Expenditures</u>	<u>Amount Under Final Budget</u>
Enactment of Laws	\$ 38,428	\$ 50,271	\$ 41,560	\$ 8,711
Financial Assistance to Localities -- From Sale of Alcoholic Beverages and Other Distributions	49,465	30,015	30,015	-
Financial Assistance for Special State Revenue Sharing -- From Sales Tax	1,322,300	1,324,853	1,324,853	-
Cash Management Improvement Act Payment to the Federal Government	2	2	2	-
Totals	<u>\$ 1,410,195</u>	<u>\$ 1,405,141</u>	<u>\$ 1,396,430</u>	<u>\$ 8,711</u>

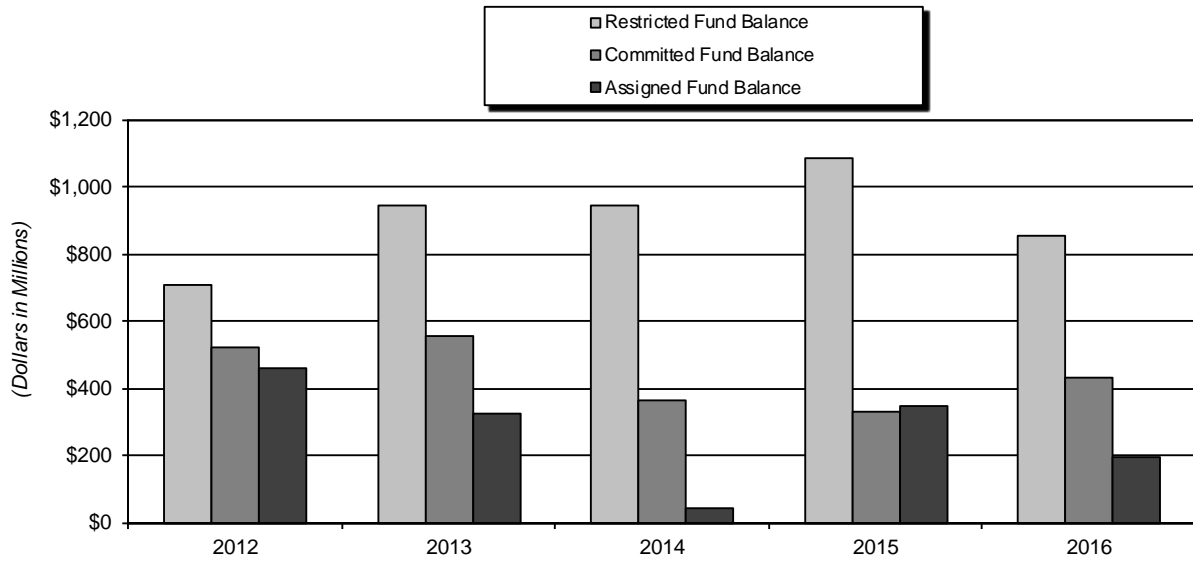


GENERAL FUND GRAPHICS AND SUPPLEMENTAL SCHEDULES

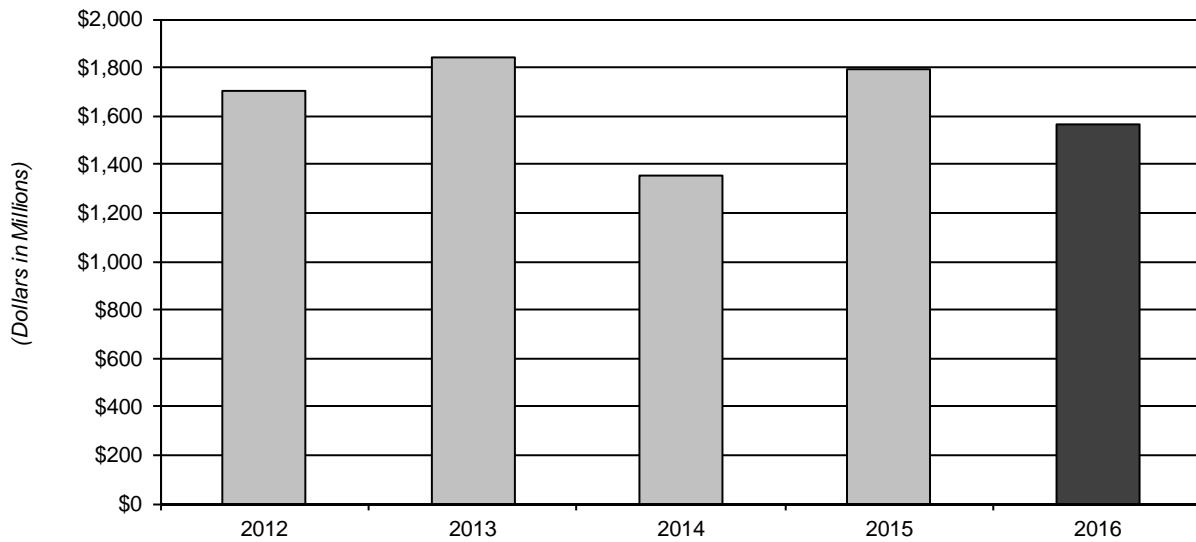




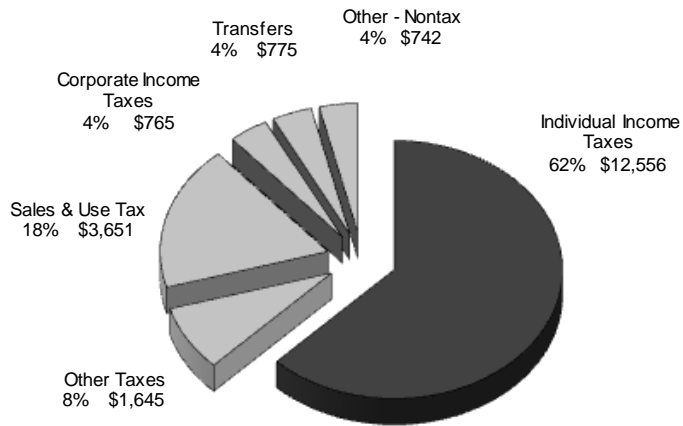
**General Fund
Fund Balance
Fiscal Years 2012-2016**



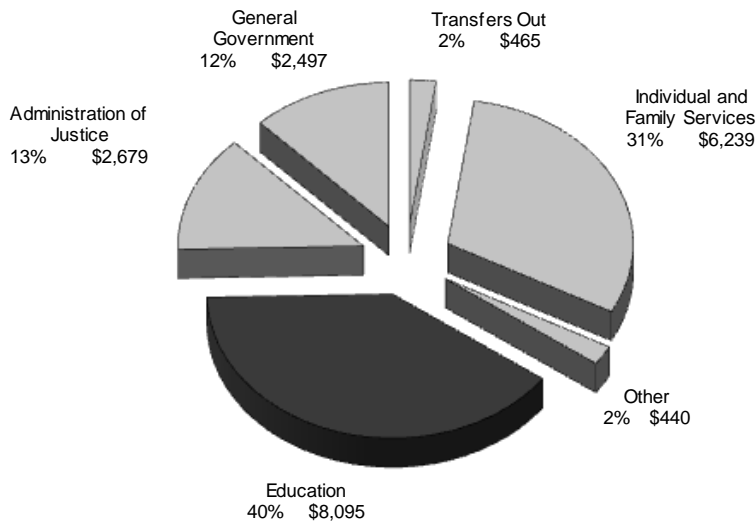
**General Fund
Cash, Cash Equivalents, and Investments
Fiscal Years 2012-2016**



**General Fund
Revenues by Revenue Class and Other Sources
Fiscal Year 2016
(Dollars in Millions)**

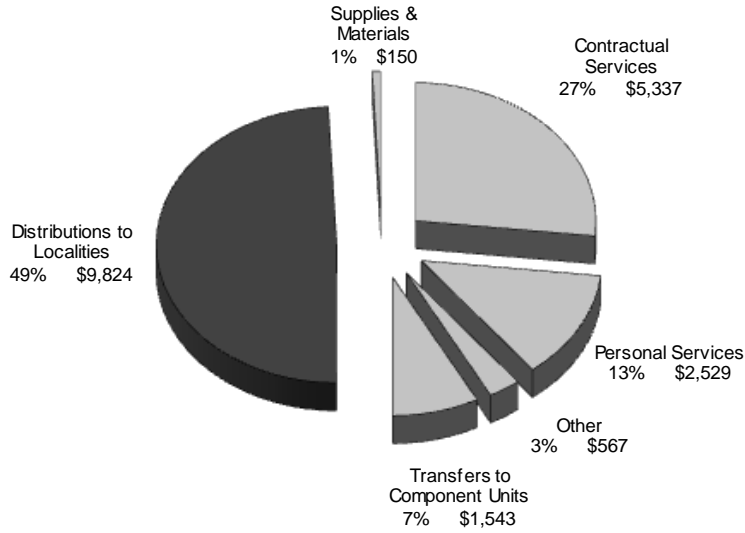


**General Fund
Expenditures by Function and Other Uses
Fiscal Year 2016
(Dollars in Millions)**

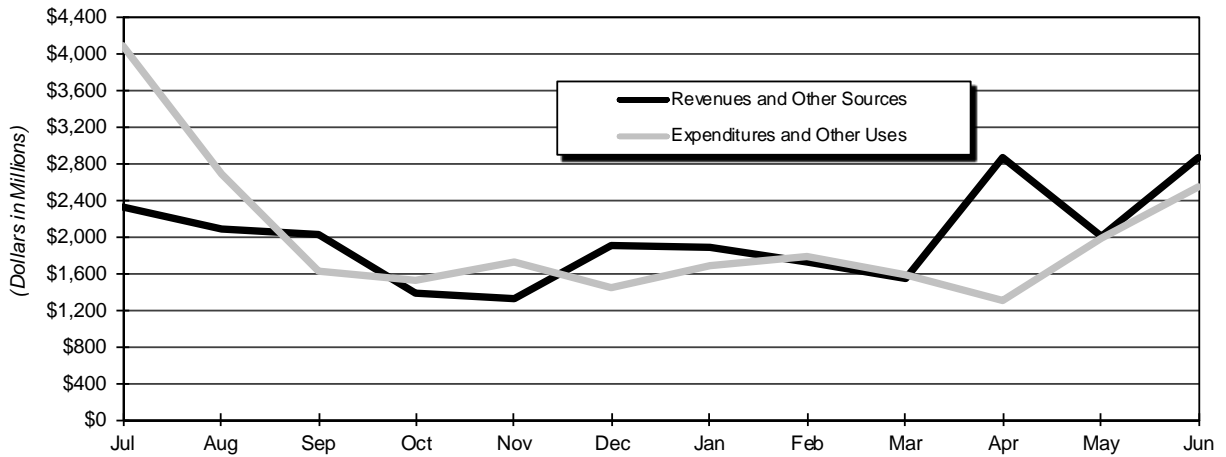


Note: General Government expenditures include \$950.0 million paid to localities pursuant to the Personal Property Tax Relief Act of 1998 and \$407.2 million in communication sales tax distributions. This represents 54.4 percent of the General Government expenditures.

**General Fund
Expenditures by Object
Fiscal Year 2016
(Dollars in Millions)**



**General Fund
Revenues and Other Sources and
Expenditures and Other Uses by Month
Fiscal Year 2016**



Note: July expenditures include \$1.0 billion in payments to Higher Education.

**General Fund
Expenditures by Function and Significant Service Area
Fiscal Year 2016
(Dollars in Thousands)**

Function:	Significant Service Area:	Amount	Totals
Education	Grades K-12	\$ 6,110,369	
	Higher Education	1,854,363	
	Other	130,560	
		<u>8,095,292</u>	\$ 8,095,292
Individual and Family Services	Medical Assistance Services	4,665,106	
	Behavioral Health and Developmental Services	675,841	
	Social Services	398,617	
	Children's Services	196,622	
	Health	158,934	
	Other	143,531	
		<u>6,238,651</u>	6,238,651
Administration of Justice	Corrections	1,409,461	
	Sheriffs and Inmate Confinement - Compensation Board	493,663	
	Courts	414,197	
	State Police	270,402	
	Other	91,257	
		<u>2,678,980</u>	2,678,980
General Government	Car Tax Relief (PPTRA)	950,000	
	Communication Sales Tax Distribution	407,247	
	Debt Service - Component Units	321,520	
	VRS 2010-2012 Payment	172,683	
	Criminal Justice - Locality Assistance	172,413	
	Constitutional Officers - Compensation Board	162,979	
	Tax Administration	94,737	
	Other	215,542	
		<u>2,497,121</u>	2,497,121
	Resources and Economic Development	Economic Development Partnership	81,458
Conservation and Recreation		78,493	
Environmental Quality		46,244	
Housing and Community Development		33,267	
Agriculture		32,530	
Tourism		23,003	
Forestry		16,408	
Mines, Minerals, and Energy		12,742	
Marine Resources		12,050	
Health - Water Improvement and Environmental Safety		10,976	
Innovation and Entrepreneurship Investment		7,963	
Fort Monroe		5,285	
Small and Minority Business Assistance		3,742	
Other		49,245	
		<u>413,406</u>	413,406
Other	Capital Outlay	26,010	
	Transportation	328	
	<u>26,338</u>	26,338	
		<u>\$ 19,949,788</u>	<u>\$ 19,949,788</u>

**General Fund
Other Financing Sources and Uses by Significant Service Area
Fiscal Year 2016
(Dollars in Thousands)**

Other Financing Sources (Transfers In):

Significant Service Area	<u>Amount</u>	<u>Total</u>
Lottery	\$ 538,956	
ABC Transfers	161,017	
Transfers from Other Funds	<u>75,390</u>	
		<u><u>\$ 775,363</u></u>

Other Financing Uses (Transfers Out):

Significant Service Area	<u>Amount</u>	<u>Total</u>
Debt Service	\$ 351,511	
Transportation Programs	89,311	
Transfers to Other Funds	<u>23,737</u>	
		<u><u>\$ 464,559</u></u>



GENERAL FUND NOTES



COMMONWEALTH OF VIRGINIA

NOTES TO PRELIMINARY FINANCIAL STATEMENTS

JUNE 30, 2016

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 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 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, 2016.

B. Budget

Budgetary amounts shown in the General Fund Statement of Revenue Collections and Estimates represent Chapter 665, 2015 Acts of Assembly (original), and Chapter 732, 2016 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, 2016. 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>	Final Revenue Budget	Total Actual Revenue
Amount per Preliminary Financial Statements	\$ 19,609,400	\$ 19,358,274
Amount per Monthly Statement of Revenue	<u>18,309,000</u>	<u>18,040,133</u>
Variance	<u>\$ 1,300,400</u>	<u>\$ 1,318,141</u>
Variance Attributable to the Following:		
Public Education Standards of Quality Fund - Sales and Use Tax revenue included on the Preliminary Financial Statements	\$ 366,700	\$ 355,547
Virginia Communications Sales and Use Tax Fund - Sales and Use Tax revenue included on the Preliminary Financial Statements	419,000	406,707
Virginia Water Quality Improvement Fund - Deeds, Contracts, Wills & Suits Tax revenue included on the Preliminary Financial Statements	6,506	8,616
Virginia Health Care Fund - Tobacco Products Tax revenue included on the Preliminary Financial Statements	181,100	178,741
Virginia Communications Sales and Use Tax Fund - Rights and Privileges revenue included on the Preliminary Financial Statements	5,900	360
Revenue Stabilization Fund Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	3,253
Lottery Proceeds Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	400	495
Virginia Water Quality Improvement Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	216
Commonwealth's Development Opportunity Fund- Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	188
Virginia Communications Sales and Use Tax Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	187
Virginia Health Care Fund - Fines, Forfeitures, Court Fees, Costs, Penalties, and Escheats revenue included on the Preliminary Financial Statements	2	2
Virginia Water Quality Improvement Fund - Private Donations, Gifts and Contracts included on the Preliminary Financial Statements	15	5
Virginia Health Care Fund - Tobacco Master Settlement revenue included on the Preliminary Financial Statements	47,962	47,664
Virginia Health Care Fund - Medicaid claims payable recoveries included as other revenue on the Preliminary Financial Statements	137,285	172,972
Commonwealth's Development Opportunity Fund - Other Revenue included on the Preliminary Financial Statements	-	2,537
Virginia Water Quality Improvement Fund - Other revenue included on the Preliminary Financial Statements	460	147
Lottery Proceeds Fund - Other revenue included on the Preliminary Financial Statements	-	82
Transfers from Fiduciary Funds and Component Units included in revenue on the Preliminary Financial Statements	6,023	7,961
Other items included in revenue on the Preliminary Financial Statements	129,047	132,461
	<u>\$ 1,300,400</u>	<u>\$ 1,318,141</u>

3. **APPROPRIATION ACT TRANSFERS**

For fiscal year ended June 30, 2016, Appropriation Act transfers are \$1.1 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>	Appropriation Act Transfers
Transfers In	\$ 763,044 (a)
Transfers Out	(12,700)
Intrafund Transfers between General Fund and:	
Public Education Standards of Quality Fund	355,547
Other Nongeneral Funds	16,679
Revenue - Other	6,070
Total Appropriation Act Transfers	<u>\$ 1,128,640</u>

(a) Includes ABC transfers of approximately \$161.0 million

4. **PAYMENTS AWAITING DISBURSEMENT**

Historically, the Commonwealth's general ledger, the Commonwealth Accounting and Reporting System (CARS), has reflected an expenditure and offsetting reduction to cash when a payment has been recorded in the general ledger even though the disbursement may be awaiting the payment due date. As a result of the Commonwealth implementing its replacement general ledger, Cardinal, this accounting treatment has been modified. Cardinal reflects an expenditure and offsetting liability when a payment has been recorded in the general ledger and the disbursement has not yet been made. While this system processing method affects both the cash and liability amounts, it has no impact on the ending fund balance or expenditures reflected in the accompanying financial statements.

5. **FUND EQUITY**

Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances are amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The authority in the Commonwealth is the General Assembly and Governor. Assigned fund balances are those that the government intends to use for a planned purpose, but which are not restricted or committed. Unassigned fund balances are those that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific or planned purposes within the General Fund. Pursuant to Section 2.2-1514 of the *Code of Virginia*, any unassigned balances in the General Fund are automatically committed for transfer to the Transportation Trust Fund and nonrecurring expenditures. For fiscal year 2016, sufficient cash is not available to require deposits for the Transportation Trust Fund and nonrecurring expenditures. GASB No. 54 also redefined funds for financial reporting purposes and requires selected activity that was previously excluded from the General Fund to be included as part of the General Fund for financial reporting purposes when there is insufficient funding from sources external to the General Fund. As of June 30, \$162.5 million of fund equity is attributable to these reclassified funds, which consist of \$5.3 million restricted balances, \$113.0 million committed balances, and \$44.2 million assigned balances.

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. During fiscal year 2016, 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 withdrawal of \$235.5 million was made from the fund.

Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, a deposit of \$605.6 million is required during fiscal year 2017 based on fiscal year 2015 revenue collections. This required deposit is included as a restricted component of fund balance and includes the advance reservation of \$129.5 million provided in Chapter 665, 2015 Acts of Assembly. No deposit is required based on fiscal year 2016 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 2016.

The Revenue Stabilization Fund has principal and interest on deposit of \$235.5 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 2016 is included in the Preliminary Statement of Revenues, Expenditures, and Changes in Fund Balance. The remaining cash balance of \$8.6 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, 2016, the breakdown of Other Committed Fund Balance is as follows.

Other Committed	Amount (In Thousands)
Environmental Quality and Natural Resource Preservation	\$ 10,817
Educational and Training programs	1,435
Capital Outlay	1,036
Governmental Operations - Administrative Services	96
Agriculture and Forestry	92
Total Other Committed Fund Balance	<u>\$ 13,476</u>

B. OTHER ASSIGNED FUND BALANCE

As of June 30, 2016, the breakdown of Other Assigned Fund Balance is as follows.

Other Assigned	Amount (In Thousands)
Governmental Operations - Legislative Services	\$ 3,403
Governmental Operations - Administrative Services	2,880
Educational and Training programs	2,668
Capital Outlay	1,186
Employee benefit administration	973
Contract and Debt Administration	324
Regulatory oversight	27
Transportation activities	12
Agriculture and Forestry	2
Total Other Assigned Fund Balance	<u>\$ 11,475</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 \$35.9 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 872, 2010 Acts of Assembly, Section 3-5.14, the Commonwealth collected \$205.5 million in accelerated sales and use taxes in June 2016. This portion of the \$3.7 billion sales and use tax collections recorded as fiscal year 2016 was accelerated from revenues that would otherwise have been collected in July 2016 and recorded as revenues in the fiscal year 2017 cash basis financial statements.

11. VIRGINIA WATER QUALITY IMPROVEMENT FUND

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. Prior to fiscal year 2011, the Fund was reported as a non-general governmental fund. However, with the implementation of GASB No. 54 in fiscal year 2011, this fund is now included in the General Fund for financial reporting purposes, and the balance on deposit (\$15.8 million) is reported as committed fund balance.

The Fund was established to provide Water Quality Improvement Grants to various entities to assist in pollution prevention and reduction. The Fund shall consist of amounts appropriated by the General Assembly. Unless otherwise specified by the general appropriation act, these appropriations shall consist of ten percent of revenues collected in excess of the official estimate and ten percent of any unrestricted and uncommitted fund balance not required for reappropriations. In prior years, we have committed the amount that represents ten percent of the revenue collected in excess of the official estimate and ten percent of any unrestricted and uncommitted fund balance not required for reappropriation. For the year ended June 30, 2016, no such commitment is required since the specified criteria were not met.

12. 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, 2016, the Department of Planning and Budget certified total assigned fund balance of \$410.9 million as follows.

Assigned Fund Balance	Amount (In Thousands)
Amount Required by Chapter 780	\$ 276,461
Health and Public Safety	19,062
Economic and Technological Development	7,253
Environmental Quality and Natural Resource Preservation	6,378
Amount Required for Discretionary Reappropriations	90,298
Other	11,475
Total Assigned Fund Balance	\$ 410,927

The Balance Sheet reflects assigned fund balance of \$194.1 million for the above purposes. Sufficient cash is not available for the remaining \$216.9 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 Transportation Trust Fund and nonrecurring expenditures for fiscal year 2016.

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. **Payments Awaiting Disbursement** – This represents amounts where a payment has been recorded in the general ledger and the disbursement has not yet been made.
5. **Deposits Pending Distribution** – This represents miscellaneous amounts held by several agencies in suspense accounts pending distribution.
6. **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 required for future deposit pursuant to constitutional provisions. 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.
7. **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 2016 unexpended appropriations which the Department of Planning and Budget will reappropriate in the next fiscal year.
 - **Virginia Health Care Fund** – This portion of fund balance represents amounts collected from tobacco taxes and a portion of the Tobacco Master Settlement Agreement receipts and is to be used for the provision of health care services.
 - **Central Capital Planning Fund** – This portion of fund balance represents amounts for preplanning and detailed planning costs for potential capital outlay projects.
 - **Communication Sales and Use Tax** – This portion of fund balance represents Communication Sales and Use Tax collections that will be distributed to localities subsequent to June 30.
 - **Commonwealth's Development Opportunity Fund** – This portion of fund balance represents amounts the Governor may use as incentives to attract economic development prospects.
 - **Natural Disaster Sum Sufficient** – This portion of fund balance represents the estimated costs of responding to and recovering from damage caused by hurricanes, blizzards, severe storms/tornadoes, and floods.

- **Virginia Water Quality Improvement Fund** – This portion of fund balance represents amounts currently on deposit in 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.
 - **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.
8. **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 780** – 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.
 - **Economic and Technological Development** – This portion of fund balance represents amounts anticipated to be used to promote growth in the Commonwealth’s economy.
 - **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.
 - **Amount Required for Discretionary Reappropriation** – This portion of fund balance represents fiscal year 2016 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:

9. **Taxes** – Charges of money imposed by the Commonwealth on persons or property for public purposes.
10. **Rights and Privileges** – Registration fees, licenses, and permits. Examples include domestic and foreign corporate registration fees and marriage licenses.
11. **Sales of Property and Commodities** – Revenue collected from sales of Commonwealth assets and goods. Examples include sales of State publications.
12. **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.
13. **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.
14. **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.
15. **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.
16. **Federal Grants and Contracts** – Revenue collected from the Federal government that can be used for any purpose within the mission of the receiving agencies.

17. **Receipts from Cities, Counties, and Towns** – Revenue collected from city and county treasurers representing miscellaneous fees and allowances of local law enforcement officials.
18. **Private Donations, Gifts, and Contracts** – This amount represents donations and grants from individuals and private companies to State programs.
19. **Tobacco Master Settlement** – This amount represents the revenue generated from the Tobacco Master Settlement Agreement with tobacco companies.
20. **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:

21. **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.
22. **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.
23. **Transportation** – Expenditures related to the movement of people, goods, and services and their regulation. Examples include ground, water and air transportation.
24. **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.
25. **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.
26. **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.
27. **Capital Outlay** - Construction and preparation of Commonwealth assets.

Other Financing Sources (Uses):

28. **Operating Transfers In** – This balance reflects transfers in from other nongeneral funds.
29. **Operating Transfers Out** – This balance represents transfers from the General Fund to other nongeneral funds.



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