

Management's Discussion and Analysis (Unaudited)

The following is a discussion and analysis of the Commonwealth of Virginia's (the Commonwealth) financial performance, including an overview and analysis of the financial activities of the Commonwealth for the fiscal year ended June 30, 2021. Readers should consider this information in conjunction with the transmittal letter, which is located in the Introductory Section of this report, and the Commonwealth's financial statements, including the notes to the financial statements, which are located after this analysis.

Financial Highlights

Government-wide Highlights

The primary government's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2021, by \$33.7 billion. Net position of governmental activities increased by \$4.4 billion and net position of business-type activities increased by \$153.0 million. Component units reported an increase in net position of \$8.3 billion from June 30, 2020.

Fund Highlights

At the end of the fiscal year, the Commonwealth's governmental funds reported a combined ending fund balance of \$14.3 billion, an increase of \$4.8 billion in comparison with the prior year. Of this total fund balance, \$419.4 million represents nonspendable fund balance, \$4.4 billion represents restricted fund balance, \$6.7 billion represents committed fund balance, and \$2.7 billion represents assigned fund balance. These amounts are offset by a negative \$49.6 million unassigned fund balance. The Enterprise Funds reported net position at June 30, 2021, of \$1.9 billion, an increase of \$152.2 million during the year which is primarily attributable to increases for the Virginia College Saving Plan (major) and capital contributions for the Alcoholic Beverage Control Authority (nonmajor) offset by a decrease for the Unemployment Compensation Fund (major). See page 33 for additional information regarding the Virginia College Savings Plan and Unemployment Compensation Fund.

The General Fund recognized higher total fund assets, total fund liabilities, revenues, and expenditures when compared to fiscal year 2020. See page 34 for additional information.

Long-term Debt

The Commonwealth's total debt rose during the fiscal year to \$52.6 billion, an increase of \$4.0 billion, or 8.3 percent. During the fiscal year, the Commonwealth issued new debt in the amount of \$1.5 billion and \$6.1 billion for the primary government and component units. These debt issuances increased the total debt balances for the primary government and component units to \$18.1 billion and \$34.5 billion, respectively.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Commonwealth's basic financial statements, which include three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. The report also contains additional required supplementary information and other information.

Government-wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Commonwealth's finances in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Commonwealth's financial position which helps readers determine whether the Commonwealth's financial position has improved or deteriorated during the fiscal year. These statements include all non-fiduciary financial activity on the full accrual basis of accounting. This means that all revenue and expenditures are reflected in the financial statements even if the related cash has not been received or paid as of June 30.

The Statement of Net Position (pages 40 and 41) presents information on all of the Commonwealth's assets and deferred outflows of resources, and liabilities and deferred inflows of resources; net position represents the difference between all other elements in a statement of financial position and is displayed in three components – net investment in capital assets; restricted; and unrestricted. Over time, increases or decreases in net position may indicate whether the financial position of the Commonwealth is improving or deteriorating.

The Statement of Activities (pages 42 through 44) presents information showing how the Commonwealth's net position changed during fiscal year 2021. All changes in net position are reported as soon as the underlying event giving rise to the change occurs,

regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the Statement of Net Position and Statement of Activities report three separate activities. These activities are described as follows:

Governmental Activities – account for functions of the Commonwealth that are primarily supported by taxes and intergovernmental revenues. The majority of the Commonwealth’s basic services, such as education, individual and family services, transportation, resources and economic development, administration of justice, and general government, fall within this category.

Business-type Activities – account for functions that are intended to recover all or a significant portion of their costs through user fees and charges. The major business-type activities of the Commonwealth include the Virginia Lottery, Virginia College Savings Plan, and Unemployment Compensation Fund.

Discretely Presented Component Units – account for functions of legally separate entities for which the Commonwealth is financially accountable. The Commonwealth has 26 non-higher education component units and 22 higher education institutions that are reported as discretely presented component units. Information regarding the individual financial statements of the component units is presented in the notes to the financial statements.

This report includes two schedules (pages 48 and 52) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities on the appropriate government-wide statements (full accrual accounting). The following indicates some of the reporting differences between the government-wide financial statements and the fund financial statements.

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Long-term liabilities, unless due and payable, are not included in the fund financial statements. These liabilities are only included in the government-wide statements.
- Internal service funds are reported as governmental activities in the government-wide statements, but are reported as proprietary funds in the fund financial statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in the governmental fund statements, but not deferred in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures in the fund financial statements.
- Bond proceeds provide current financial resources on the fund financial statements, but are recorded as long-term liabilities in the government-wide financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Commonwealth’s funds can be divided into three categories: governmental, proprietary, and fiduciary. Each of these categories uses different accounting approaches. Fund financial statements begin on page 46 and provide detailed information about the major individual funds.

- **Governmental funds** – Most of the basic services provided by the Commonwealth are reported in the governmental funds. These statements provide a detailed, short-term view of the functions reported as governmental activities in the government-wide financial statements. The government-wide financial statements are reported using the full accrual basis of accounting, but the governmental fund financial statements are reported using the modified accrual basis of accounting. This allows the reader to focus on assets that can be readily converted to cash and determine whether there are adequate resources to meet the Commonwealth’s current needs.

Because the focus of governmental funds is more limited than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison can help readers better understand the long-term impact of the Commonwealth’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Commonwealth reports 15 individual governmental funds. Information is presented separately in the governmental fund statements for the General, Commonwealth Transportation, Federal Trust, and Literary funds, which are all considered major funds. Data from the other 11 governmental funds are aggregated into a single column on the fund statements. Individual fund data for these nonmajor governmental funds is provided in the combining financial statements immediately following the required supplementary information.

- **Proprietary funds** – The Commonwealth maintains two different types of proprietary funds: enterprise and internal service. These funds report activities that operate more like those of private-sector business and use the full accrual basis of accounting.

Enterprise funds report activities that charge fees for supplies or services to the general public like the Virginia Lottery. Enterprise funds are reported as business-type activities on the government-wide financial statements. The enterprise funds use the full accrual basis of accounting and the only differences between amounts reported on the government-wide statements and the enterprise fund statements are due to internal service fund activity (see reconciliations on pages 54 and 56).

Internal service funds report activities that charge fees for supplies and services to other Commonwealth agencies, like Fleet Management. Internal service funds are reported as governmental activities in the government-wide statements because these types of services predominantly benefit governments rather than business-type functions.

The Commonwealth reports 27 individual proprietary funds. Information is presented separately in the proprietary fund statements for the Virginia Lottery, Virginia College Savings Plan, and Unemployment Compensation Funds, all of which are considered major funds. Data from the other enterprise funds is aggregated into a single column on the fund statements. All internal service funds are aggregated into a single column on the fund statements. Individual fund data for all nonmajor proprietary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Fiduciary funds** – These funds are used to account for resources held for the benefit of parties outside the government and use the full accrual basis of accounting in accordance with GASB Statement No. 84, *Fiduciary Activities*. Fiduciary funds are excluded from the government-wide financial statements because the resources of these funds are restricted and cannot be used to finance the Commonwealth's operations. The Commonwealth's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position beginning on page 64.

The Commonwealth's fiduciary funds are the:

- Private Purpose Trusts, which reports the activities for four separate funds and accounts for transactions of trust arrangements in which the principal and income benefit individuals, private organizations, or other governments;
- Pension and Other Employee Benefit Trusts, which reports the activities of nine separate pension and other employment retirement plans for employees;
- Custodial Funds - External Investment Pool, which accounts for the activity of the external investment pool not meeting the GASB Statement No. 84 trust criteria; and,
- Custodial Funds - Other, which accounts for 10 separate funds similar to Private Purpose Trust Funds except they do not have a trust that meets GASB Statement No. 84 criteria.

Individual fund data for all fiduciary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Component Units** – The government-wide financial statements report information for all component units aggregated in a single column. Information is provided separately in the component unit fund statements for the Virginia Housing Development Authority, Virginia Public School Authority, Virginia Resources Authority, and Virginia College Building Authority, all of which are considered major component units. Data from the other component units is aggregated into a single column on the fund statements. Individual fund data for all nonmajor component units is provided in the combining financial statements immediately following the required supplementary information.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the component unit fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at June 30. It also includes information concerning net pension liability, other postemployment benefit liability plans, and employer contributions for pension and other postemployment benefit plans, as well as trend information for Commonwealth-managed risk pools.

Other Information

The combining statements referred to earlier in connection with nonmajor funds and component units can be found beginning on page 237 of this report. The individual fund information is aggregated into a single total on the combining financial statements, which carries forward to the fund financial statements.

Government-wide Financial Analysis

The primary government's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$33.7 billion during the fiscal year. The net position of the governmental activities increased \$4.4 billion, or 16.2 percent, primarily due to increases in cash and investments in the General Fund (major) and increases in capital assets offset by increases in total liabilities. The General Fund is discussed further on page 34. Capital assets are discussed further on page 35, and long-term liabilities are discussed further on page 36. Business-type activities had an increase of \$153.0 million, or 8.6 percent, primarily due to increases in the Virginia College Savings Plan (major) and capital contributions for the Alcoholic Beverage Control Authority (nonmajor) offset by a decrease for the Unemployment Compensation Fund (major). See page 33 for additional information regarding the Virginia College Savings Plan and Unemployment Compensation Fund. As discussed in Note 2, the government-wide beginning balance was restated for the correction of prior year errors to arrive at a restated beginning balance of \$29.1 billion.

Figure 12
Net Position as of June 30, 2021 and 2020
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2020		2021	2020	2020	
	2021	as restated			2021	as restated
Current and other assets	\$ 32,367,895	\$ 23,726,326	\$ 4,489,084	\$ 4,482,810	\$ 36,856,979	\$ 28,209,136
Capital assets	35,044,803	34,245,604	151,529	64,478	35,196,332	34,310,082
Total Assets	67,412,698	57,971,930	4,640,613	4,547,288	72,053,311	62,519,218
Deferred outflows of resources	1,548,153	1,243,790	52,461	41,913	1,600,614	1,285,703
Total assets and deferred outflows of resources	68,960,851	59,215,720	4,693,074	4,589,201	73,653,925	63,804,921
Long-term liabilities outstanding	16,057,289	14,431,997	2,079,094	2,155,127	18,136,383	16,587,124
Other liabilities	15,581,996	11,655,764	660,714	627,657	16,242,710	12,283,421
Total Liabilities	31,639,285	26,087,761	2,739,808	2,782,784	34,379,093	28,870,545
Deferred inflows of resources	5,586,303	5,815,872	21,457	27,624	5,607,760	5,843,496
Total liabilities and deferred inflows of resources	37,225,588	31,903,633	2,761,265	2,810,408	39,986,853	34,714,041
Net position:						
Net investment in capital assets	26,280,177	26,394,331	150,758	63,514	26,430,935	26,457,845
Restricted	3,868,045	2,238,129	137,428	665,621	4,005,473	2,903,750
Unrestricted	1,587,041	(1,320,373)	1,643,623	1,049,658	3,230,664	(270,715)
Total net position	\$ 31,735,263	\$ 27,312,087	\$ 1,931,809	\$ 1,778,793	\$ 33,667,072	\$ 29,090,880

The largest portion of the primary government's net position reflects its investment in capital assets (e.g., land, buildings, equipment, infrastructure, construction-in-progress, and intangible assets including water rights, easements and software), less any related outstanding debt and deferred inflows of resources used to acquire those assets. These assets are recorded net of depreciation in the financial statements. The primary government uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the primary government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (**Figure 12**).

An additional portion of the primary government's net position represents restricted net position. These resources are subject to external restrictions or constitutional provisions specifying how they may be used. The remaining balance of \$3.2 billion is unrestricted net position (**Figure 12**). The significant increase in restricted net position is primarily due to the required constitutional deposit to the Revenue Stabilization Fund discussed in Note 5.

Approximately 45.0 percent of the primary government's total revenue came from taxes. While the primary government's expenses cover many services, the largest expenses are for education and individual and family services. General revenues normally fund governmental activities. For fiscal year 2021, program and general revenues exceeded governmental expenses by \$3.4 billion. Program revenues exceeded expenses from business-type activities by \$1.2 billion. The following condensed financial information (**Figure 13**) was derived from the Government-wide Statement of Activities and provides detail regarding the change in net position (see page 42).

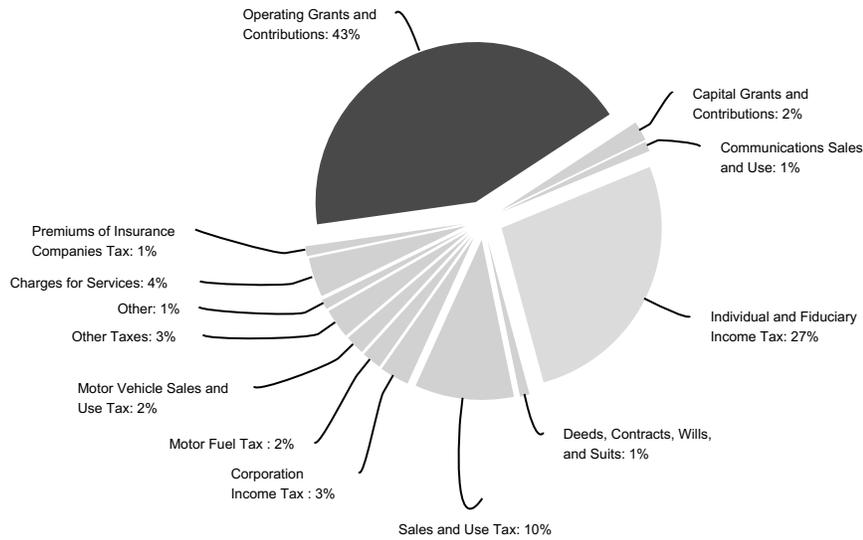
Figure 13
Changes in Net Position for the Fiscal Years Ended June 30, 2021 and 2020
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2021	2020 as restated	2021	2020	2021	2020 as restated
	Revenues:					
Program Revenues:						
Charges for Services	\$ 2,778,521	\$ 2,697,042	\$ 6,230,463	\$ 4,315,012	\$ 9,008,984	\$ 7,012,054
Operating Grants and Contributions	26,952,001	19,170,408	257,017	66,304	27,209,018	19,236,712
Capital Grants and Contributions	1,390,079	1,463,023	76,941	9,969	1,467,020	1,472,992
General Revenues:						
Taxes:						
Individual and Fiduciary Income	17,066,596	15,666,185	—	—	17,066,596	15,666,185
Sales and Use	6,527,477	5,720,715	—	—	6,527,477	5,720,715
Corporation Income	1,579,303	1,074,334	—	—	1,579,303	1,074,334
Motor Fuel	1,421,963	1,112,042	—	—	1,421,963	1,112,042
Motor Vehicle Sales and Use	1,118,962	940,706	—	—	1,118,962	940,706
Communications Sales and Use	312,477	346,831	—	—	312,477	346,831
Deeds, Contracts, Wills, and Suits	810,105	554,295	—	—	810,105	554,295
Premiums of Insurance Companies	551,005	549,082	—	—	551,005	549,082
Alcoholic Beverage Sales	220,078	193,675	—	—	220,078	193,675
Tobacco Products	287,856	162,294	—	—	287,856	162,294
Estate	810	—	—	—	810	—
Public Service Corporations	117,596	110,481	—	—	117,596	110,481
Beer and Beverage Excise	42,548	42,199	—	—	42,548	42,199
Wine and Spirits/ABC Liter	32,845	30,487	—	—	32,845	30,487
Bank Stock	26,788	26,721	—	—	26,788	26,721
Other Taxes	1,152,087	814,828	9,141	9,141	1,161,228	823,969
Unrestricted Grants and Contributions	102,053	56,326	—	—	102,053	56,326
Investment Earnings	36,840	246,685	715	2,091	37,555	248,776
Miscellaneous	380,659	469,124	2,389	23	383,048	469,147
Total Revenues	62,908,649	51,447,483	6,576,666	4,402,540	69,485,315	55,850,023
Expenses:						
General Government	5,106,906	4,017,712	—	—	5,106,906	4,017,712
Education	12,765,718	11,534,515	—	—	12,765,718	11,534,515
Transportation	6,148,039	5,554,711	—	—	6,148,039	5,554,711
Resources and Economic Development	1,422,926	1,158,473	—	—	1,422,926	1,158,473
Individual and Family Services	30,575,148	24,119,766	—	—	30,575,148	24,119,766
Administration of Justice	3,235,150	3,169,458	—	—	3,235,150	3,169,458
Interest and Charges on Long-term Debt	271,799	262,104	—	—	271,799	262,104
Virginia Lottery	—	—	2,483,875	1,542,387	2,483,875	1,542,387
Virginia College Savings Plan	—	—	124,169	56,103	124,169	56,103
Unemployment Compensation	—	—	1,199,074	1,245,599	1,199,074	1,245,599
Alcoholic Beverage Control	—	—	904,400	792,159	904,400	792,159
Risk Management	—	—	10,978	17,923	10,978	17,923
Local Choice Health Care	—	—	474,924	421,706	474,924	421,706
Line of Duty	—	—	19,681	16,696	19,681	16,696
Advantage Vanpool Self Insurance Fund	—	—	86	273	86	273
Virginia Industries for the Blind	—	—	65,204	52,050	65,204	52,050
Consolidated Laboratory	—	—	12,694	13,770	12,694	13,770
eVA Procurement System	—	—	22,223	22,056	22,223	22,056
Department of Environmental Quality Title V	—	—	11,738	12,193	11,738	12,193
Wireless E-911	—	—	49,178	43,200	49,178	43,200
Museum and Library Gift Shops	—	—	4,928	6,148	4,928	6,148
Behavioral Health Canteen and Work Activity	—	—	285	355	285	355
Total Expenses	59,525,686	49,816,739	5,383,437	4,242,618	64,909,123	54,059,357
Excess before transfers	3,382,963	1,630,744	1,193,229	159,922	4,576,192	1,790,666
Transfers	1,040,213	855,786	(1,040,213)	(855,786)	—	—
Increase (Decrease) in net position	4,423,176	2,486,530	153,016	(695,864)	4,576,192	1,790,666
Net position, July 1, as restated	27,312,087	24,825,557	1,778,793	2,474,657	29,090,880	27,300,214
Net position, June 30	\$ 31,735,263	\$ 27,312,087	\$ 1,931,809	\$ 1,778,793	\$ 33,667,072	\$ 29,090,880

Governmental Activities Revenues

Figure 14 is a graphical representation of the Statement of Activities revenues for governmental activities. Governmental activities revenues increased by \$11.5 billion, or 22.3 percent. The net increase is mainly attributable to increases in the Federal Fund, which are discussed on page 35.

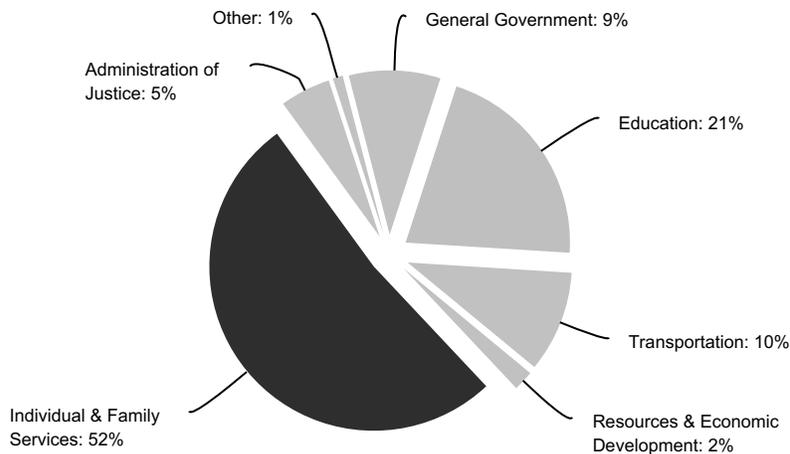
**Figure 14
Revenues by Source – Governmental Activities
Fiscal Year 2021**



Governmental Activities Expenses

Figure 15 is a graphical representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses increased by \$9.7 billion, or 19.5 percent. While there were increases in all expense types, the largest increase was in individual and family services. See pages 34 and 35 for additional information.

**Figure 15
Expenses by Type – Governmental Activities
Fiscal Year 2021**



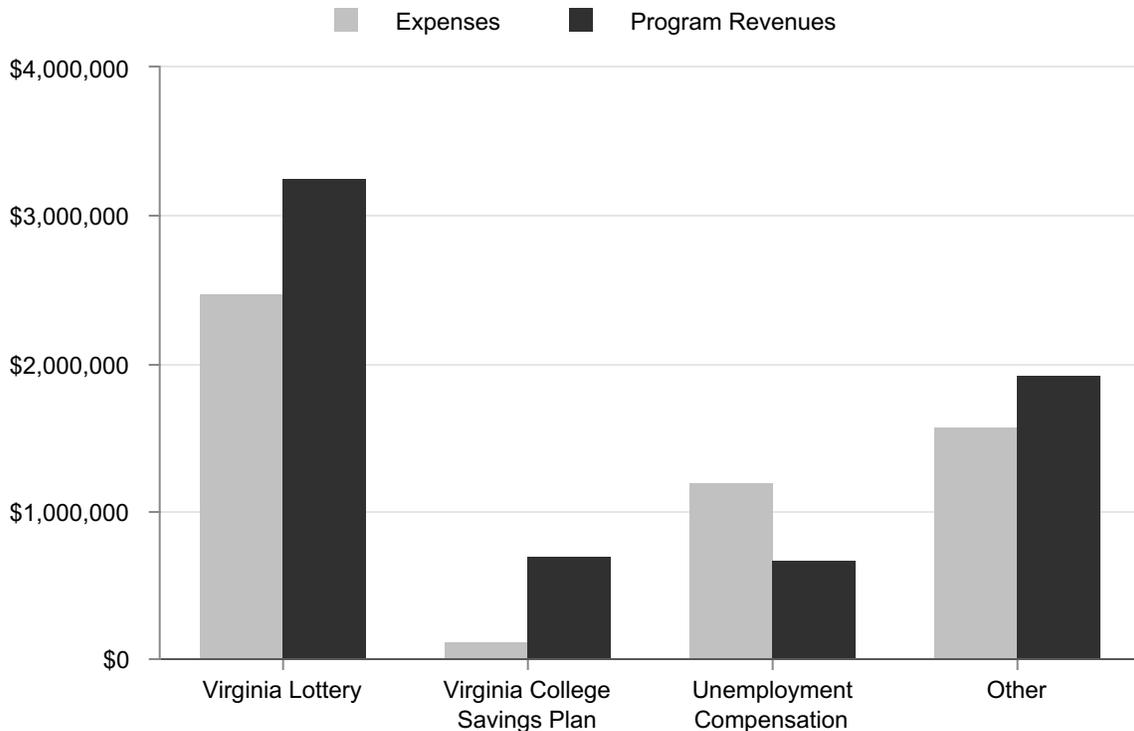
Net Position of Business-type Activities

Net position of business-type activities increased by \$153.0 million during the fiscal year. As shown in **Figure 16**, highlights of the changes in net position for the major enterprise funds were as follows:

- Lottery sales were \$3.3 billion, an increase of \$1.1 billion over the prior year. Income before transfers was \$777.1 million, an increase of \$168.1 million (27.6 percent) from fiscal year 2020. Sales of scratch games increased by \$135.3 million (11.6 percent) and online sales increased by \$975.0 million (99.3 percent). Total expenses also increased by \$941.0 million (61.0 percent), primarily attributable to the cost of prizes.
- Virginia College Savings Plan's net position increased by \$582.7 million (54.5 percent) during the fiscal year as a result of total revenues exceeding expenses incurred. While Prepaid529 is closed to new participants, existing customers are still being serviced. Additionally, a new savings option has been introduced called the Tuition Track Portfolio. During the fiscal year, the majority of the net position increase is attributed to investment earnings associated with Prepaid529. While the Tuition Track Portfolio activity is expected to grow in future years, it was not significant to the current year change.
- Unemployment Compensation Fund net position decreased by \$528.4 million during fiscal year 2021, as a result of an increase in benefit claims exceeding operating revenues, primarily related to the COVID-19 pandemic. During the fiscal year, the Unemployment Trust Fund was exhausted because of the COVID-19 pandemic. Short-term loans totaling \$164.1 million were taken from the U.S. Department of Labor in order to continue paying claims. These loans were repaid prior to fiscal year end, and no loans were outstanding at June 30, 2021.

Over the one-year period from July 1, 2020, to June 30, 2021, the unemployment rate dropped from 8.4 percent to 4.3 percent. Additionally, there were approximately 220,145 less initial unemployment claims filed than in the previous year. These decreases were offset by an increase in the average weekly benefit amounts from approximately \$245.80 to \$279.74 and in the average benefit duration from 4.7 weeks to 13.6 weeks in fiscal year 2021. These multiple influences led to a decrease in the total benefit payments of \$46.5 million over the prior year.

Figure 16
Business-type Activities
Program Revenues and Expenses
Fiscal Year 2021
(Dollars in Thousands)



Fund Statements Financial Analysis

As of the end of the fiscal year, the primary government's governmental funds reported combined ending fund balances of \$14.3 billion, including a negative unassigned fund balance of \$49.6 million indicating that restricted and committed amounts exceed the available modified accrual basis fund balance. The remainder of fund balance is nonspendable, restricted, committed, or assigned to indicate that it is not available for new spending.

General Fund Highlights

At the end of the fiscal year, the General Fund reported a combined ending fund balance of \$7.1 billion, an increase of \$3.8 billion in comparison with the prior year. Of this total fund balance, \$147.1 million represents nonspendable fund balance, \$1.9 billion represents restricted fund balance, \$2.4 billion represents committed fund balance, and \$2.7 billion represents assigned fund balance.

Fiscal year 2021 General Fund revenues were 11.5 percent, or \$2.7 billion, higher than fiscal year 2020 revenues. This revenue change results from increases of \$2.9 billion primarily attributable to individual and fiduciary income taxes (\$1.4 billion), corporation income taxes (\$509.8 million), sales and use taxes (\$488.5 million), deeds, contracts, wills, and suits taxes (\$201.4 million), tobacco product taxes (\$125.5 million), other revenue predominantly related to prior year expenditures refunded in the current fiscal year (\$74.6 million), tobacco master settlement (\$46.4 million), alcoholic beverage sales tax (\$29.0 million), fines, forfeitures, and penalties (\$16.0 million), and premiums of insurance companies taxes (\$14.4 million). This was offset by decreases of \$255.9 million primarily attributable to interest, dividends, and rents (\$192.4 million), communications sales and use taxes (\$34.4 million), and sales of property and commodities (\$20.1 million).

Fiscal year 2021 expenditures increased by 3.8 percent, or \$833.4 million, when compared to fiscal year 2020. This was primarily attributable to increases in education and individual and family services expenditures of \$534.0 million and \$293.8 million, respectively. Net other financing sources and uses increased by \$224.2 million, which is primarily due to higher transfers in from nongeneral funds and a decrease in transfers out to nongeneral funds.

Budget Highlights

The General Fund began the year with an original revenue budget that was \$846.4 million, or 3.6 percent, higher than the final fiscal year 2020 revenue budget. Additionally, the final revenue budget was lower (\$334.8 million or 1.4 percent) than the original budget. The change between the original and final budget was primarily attributable to decreases in the final budget for individual and fiduciary income taxes of \$713.1 million, premiums of insurance companies taxes of \$105.2 million, interest, dividends, and rents of \$20.8 million, sales and use taxes of \$19.0 million, and sales of property and commodities of \$17.2 million. This was offset by increases in the final budget for corporation income taxes of \$269.5 million, deeds, contracts, wills, and suits taxes of \$212.5 million, tobacco master settlement of \$37.7 million, alcoholic beverage sales taxes of \$13.9 million, and tobacco product taxes of \$12.4 million. Total actual General Fund revenues were higher than final budgeted revenues by \$2.7 billion primarily due to individual and fiduciary income taxes (\$1.9 billion), sales and use taxes (\$323.6 million) and corporation income taxes (\$227.0 million).

Total final budget expenditures were lower than original budget expenditures by \$649.1 million, or 2.6 percent. This change between the original and final budget was primarily attributable to decreases of budgeted expenditures for individual and family services of \$773.2 million and administration of justice of \$22.5 million. This was offset by increases for general government of \$95.3 million and education of \$54.3 million.

The Commonwealth spent less than planned so actual expenditures were \$1.2 billion, or 4.8 percent, lower than final budget expenditures. This was primarily attributable education (\$459.8 million), general government (\$260.2 million) and individual and family services (\$189.5 million).

Budget Outlook

Virginia's economy began to recover in fiscal year 2021 from the recession caused by the COVID-19 pandemic. Economic activity measured by Gross Domestic Product, personal income, and consumer spending showed some improvement due to a relaxing of COVID-19 restrictions, introduction of vaccines and the roll-out of federal fiscal stimulus and relief spending. Meanwhile, housing demand was sustained by low mortgage interest rates and increased consumer demand for suburban homes for remote work. Home prices jumped due to increased demand and restricted inventory, while housing construction rose. Additionally, the Commonwealth continued budget solutions, such as accelerated sales taxes, to mitigate difficult economic conditions that have arisen from the 2007-2008 recession and the COVID-19 pandemic. During fiscal year 2021, the two General Fund revenue sources most closely tied to current economic activity - individual income taxes and retail sales taxes - experienced increases when compared to the 2020 collections by \$2.0 billion (12.7 percent) and \$459.4 million (12.4 percent), respectively. The individual income tax collections were more than the estimated revenue by \$1.9 billion (12.0 percent) and the retail sales taxes were more than the estimated revenue by \$286.9 million (7.4 percent).

The fiscal year 2021 revenue collections exceeded fiscal year 2020 and the fiscal year 2021 collections estimate. Based on the July 2021 General Fund revenue estimate, the fiscal year 2022 revenue is projected to decrease by 8.0 percent when compared to

the fiscal year 2021 revenue collections. This projected planned decrease is primarily a result of the economic uncertainty arising from the ongoing COVID-19 pandemic. The Governor will release his amendments to the 2021-2022 biennial budget on December 16, 2021.

Major Special Revenue Fund Highlights

The Commonwealth Transportation Fund ended the fiscal year with a fund balance of \$3.6 billion. Approximately \$5.2 billion is contractually committed for various highways, public transportation, and rail preservation projects; \$984.9 million for individual contracts awarded with a contract value of \$1.0 million or more for operational and tolling services, facilities, and other non-highway construction-type contracts (see Note 21). Additionally, revenues increased \$1.2 billion, or 18.2 percent, and expenditures increased \$1.2 billion, or 21.7 percent. The revenue increase was primarily due to increases in tax collections of \$852.5 million, or 21.6 percent and receipts from localities of \$568.0 million, or 145.9 percent, offset by decreases in other revenues of \$142.5 million, or 71.0 percent and federal income of \$95.7 million, or 9.5 percent. Expenditures increased mainly for highway maintenance, acquisition, and construction.

The Federal Trust Fund balance increased by \$263.2 million, or 115.2 percent during the current year. The change is primarily due to an increase in Federal Grants and Contracts revenue of approximately \$5.2 billion, or 24.9 percent, offset by a significant increase in expenditures of \$7.6 billion, or 40.3 percent. This change in the Federal Grants and Contracts revenue was mainly attributed to the funding received from the federal government for COVID-19 (\$3.3 billion) to assist the Commonwealth in navigating the economic difficulties caused by the pandemic, Unemployment funding (\$1.6 billion) and Medicaid funding (\$1.6 billion). The remaining difference is distributed over many other federal programs. Expenditures increased primarily due to Unemployment and Medicaid spending. Net other financing sources and uses experienced a decrease of \$6.0 million, or 104.2 percent, primarily attributable to additional transfers out to other funds.

The Literary Fund ended the year with a deficit net position of \$49.6 million and the ending balance decreased by \$90.5 million, or 221.5 percent. These decreases resulted from both operating results and accruals. Net expenditures exceeded net receipts by \$185.7 million in fiscal year 2021, and the transfers from other funds representing escheated property and unclaimed prizes from the Unclaimed Property Special Revenue Fund (nonmajor) and the Virginia Lottery Enterprise Fund (major), respectively, decreased by \$83.9 million, or 46.8 percent. The loans of \$185.5 million owed to the Virginia Public School Authority (major component unit) exceeded accrued receivables by \$85.1 million. Additionally, increased transfers out of the fund for teacher retirement has reduced the amount available to issue loans, and ultimately, investment earnings on the loans which has contributed to the deficit.

Capital Asset and Long-term Debt

Capital Assets. The primary government's investment in capital assets for its governmental and business-type activities as of June 30, 2021, amounts to \$35.2 billion (net of accumulated depreciation totaling \$17.0 billion). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, construction-in-progress, and intangible assets including water rights, easements, and software. Infrastructure assets are items that are normally immovable such as roads, bridges, drainage systems, and other similar assets. The increase in the primary government's net investment in capital assets was primarily attributable to increases in Construction in Progress of \$583.3 million. These changes are primarily attributable to transportation. The primary government reports equipment with a value of \$50,000 or greater and an expected useful life of two or more years. The primary government capitalizes all land, buildings, infrastructure, and intangible assets that have a cost or value greater than \$100,000 and an expected useful life of two or more years. Additional information on the primary government's capital assets can be found in Note 13, Capital Assets.

Figure 17
Capital Assets as of June 30, 2021
(Net of Depreciation)
(Dollars in Thousands)

	Governmental Activities	Business-type Activities	Total
Land	\$ 3,638,778	\$ 11,758	\$ 3,650,536
Buildings	2,703,415	61,084	2,764,499
Equipment	569,841	44,213	614,054
Water Rights/Easements	120,208	—	120,208
Infrastructure	23,355,877	—	23,355,877
Software	497,479	22,313	519,792
Construction-in-Progress	4,159,205	12,161	4,171,366
Total	\$ 35,044,803	\$ 151,529	\$ 35,196,332

Long-term Debt. The Commonwealth is prohibited from issuing general obligation bonds for operating purposes. At the end of the current fiscal year, the Commonwealth had total debt outstanding of \$52.6 billion, including total tax-supported debt of \$24.3 billion and total debt not supported by taxes of \$28.3 billion. Bonds backed by the full faith and credit of the government and tax-supported total \$1.2 billion. Debt is considered tax-supported if Commonwealth tax revenues are used or pledged for debt service payments. An additional \$914.4 million is considered moral obligation debt which is not tax-supported. The Commonwealth has no direct or indirect pledge of tax revenues to fund reserve deficiencies. However, in some cases, the Commonwealth has made a moral obligation pledge to consider funding deficiencies in debt service reserves that may occur. The remainder of the Commonwealth's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

During fiscal year 2021, the Commonwealth issued \$7.6 billion of new debt for various projects. Of this new debt, \$1.5 billion was for the primary government and \$6.1 billion for the component units. Additional information on the Commonwealth's outstanding debt can be found in Note 27, Long-Term Liabilities, as well as in the Debt Schedules beginning on page 306. The Commonwealth maintains a "triple A" bond rating for general obligation debt from the three rating agencies: Moody's Investors Service, S & P Global Ratings, and Fitch Ratings.

State statutes limit the amount of general obligation debt the Commonwealth may issue for each specific type of debt. The 9(a) bonds, which may be issued to fund the defense of the Commonwealth, to meet casual deficits in revenue or in anticipation of the collection of revenues, or to redeem previous debt obligations, are limited to 30.0 percent of 1.15 times the annual tax revenues for fiscal year 2021. The 9(b) bonds, which have been authorized by the citizens of Virginia through bond referenda to finance capital projects, are limited to 1.15 times the average of selected tax revenues for fiscal years 2019, 2020, and 2021. The 9(c) bonds, which have been issued to finance capital projects that will generate revenue upon their completion, are limited to 1.15 times the average of selected tax revenues for fiscal years 2019, 2020, and 2021. The current debt limitation for the Commonwealth is shown below for the 9(a), 9(b), and 9(c) general obligation bond issues. These limits significantly exceed the Commonwealth's outstanding general obligation debt.

Figure 18
Debt Issuance Margin and Outstanding Debt as of June 30, 2021
General Obligation Bonds
(Dollars in Thousands)

	Debt Issuance Margin	Outstanding Debt			Component Units
		Primary Government			
		Governmental Activities	Business-type Activities	Total	
General obligation bonds					
9(a)	\$ 8,088,426	\$ —	\$ —	\$ —	\$ —
9(b)	24,116,792	278,221	—	278,221	—
9(c)	23,432,644	6,640	—	6,640	955,729
Total		\$ 284,861	\$ —	\$ 284,861	\$ 955,729

Economic Factors and Review

During fiscal year 2021, the Commonwealth's economy showed a marked improvement, although still feeling some residual effects of the COVID-19 pandemic on labor market indicators. The Gross Domestic Product grew by 1.2 percent after a fall to -0.8 percent during the prior year. State personal income growth improved to 4.1 percent, due to an expansion of personal current transfer receipts and wages and salary growth. The state unemployment rate for fiscal year 2021 rose to an average 5.6 percent from an average 4.3 percent the fiscal year before, compared to the national rate increase to an average 6.9 percent from an average 5.9 percent over the same period. Total taxable sales increased by 5.8 percent during fiscal year 2021 from a decrease of 1.9 percent in the prior year, representing the largest increase in taxable sales in over 14 years. The Virginia housing market continued to improve, with an increase in single-family homes, townhomes and condos of 26.3 percent and an increase in building permits for new privately-owned housing units of 11.4 percent, compared to 6.1 percent in fiscal year 2020. Virginia's economy is expected to continue to grow due, in part, to an increase in consumer spending and the continued effects of Federal fiscal stimulus. There are, however, new challenges to economic growth, including the spread of the "Delta Variant", supply chain bottlenecks, difficulties finding workers in some industries and an increase in inflation, as well as an expected increase in interest rates.

Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State Comptroller's Office, Commonwealth of Virginia, P. O. Box 1971, Richmond, Virginia 23218. This report is also available for download at www.doa.virginia.gov.

The Commonwealth's component units issue their own separate financial statements. Contact information regarding each component unit is provided in Note 1.B.