

INTRODUCTORY SECTION

Comptroller's Letter of Transmittal
Certificate of Achievement for Excellence in Financial Reporting
Organization of Executive Branch of Government
Organization of Government – Selected Government Officials – Executive Branch
Organization of the Department of Accounts



COMMONWEALTH of VIRGINIA

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December 15, 2022

The Honorable Glenn Youngkin, Governor
Members of the Virginia General Assembly
Citizens of Virginia

It is my pleasure to present the Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2022, in accordance with Section 2.2-813 of the *Code of Virginia*. This report consists of management's representations concerning the Commonwealth of Virginia's finances. Management assumes full responsibility for the completeness and reliability of all information presented. This report reflects my commitment to you, to the citizens of the Commonwealth, and to the financial community to maintain our financial statements in conformance with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB). Data presented in this report is believed to be accurate in all material respects, and all disclosures that are necessary to enable the reader to obtain a thorough understanding of the Commonwealth's financial activities have been included.

The 2022 ACFR is presented in three sections. The Introductory Section includes this transmittal letter and organization charts for state government. The Financial Section includes the State Auditor's Report, management's discussion and analysis (MD&A), audited government-wide and fund financial statements and notes thereto, required supplementary information other than MD&A, and the underlying combining and individual fund financial statements and supporting schedules. The Statistical Section sets forth selected unaudited economic, financial trend, and demographic information for the Commonwealth on a multi-year basis.

The Commonwealth's management is responsible for the establishment and maintenance of internal accounting controls that ensure assets are safeguarded and financial transactions are properly recorded and adequately documented. To ensure that the costs of controls do not exceed the benefits obtained, management is required to use cost estimates and judgments to attain reasonable assurance as to the adequacy of such controls. The Commonwealth's established internal controls fulfill these requirements and provide reasonable, but not absolute assurance, that the accompanying financial statements are free of material misstatement.

In accordance with Section 30-133 of the *Code of Virginia*, the Auditor of Public Accounts has audited the Commonwealth's financial statements for the year ended June 30, 2022. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. The auditor's opinion is included in the Financial Section of this report. Audit testing for compliance with the U. S. Office of Management and Budget Compliance Supplement and the related Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, is performed at the statewide level. The Commonwealth's Single Audit Report will be issued at a later date. I would like to acknowledge the Auditor of Public Accounts' staff for their many contributions to the preparation of this report.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. In addition to the financial analysis addressing the Commonwealth's governmental and business-type activities, the MD&A focuses on the Commonwealth's major funds: General, Commonwealth Transportation Special Revenue, Federal Trust Special Revenue, Literary Special Revenue, Virginia Lottery, Virginia College Savings Plan, and Unemployment Compensation. The Commonwealth's MD&A can be found on page 27 immediately following the independent auditor's report.

PROFILE OF THE GOVERNMENT

Reporting Entity

For financial reporting purposes, the Commonwealth's reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable or for which the resources of the component unit primarily benefit the primary government (blended component units), and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete (discrete component units). The funds and accounts of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included. Further information can be found in Note 1.B. to the Financial Statements.

Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards* describes the criteria for determining which organizations, functions, and activities should be considered part of the Commonwealth for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, as well as the Commonwealth's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth. The Commonwealth's discretely presented major component units are the Virginia Housing Development Authority, Virginia Public School Authority, Virginia Resources Authority, and Virginia College Building Authority.

The Commonwealth and its component units provide a wide range of services and funding to its citizens, including elementary, secondary and higher education; health and human services; economic development; environmental and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general government services. The financial activities associated with these services are reflected in both summary and detail throughout the ACFR.

Budgetary Control

In addition to the internal controls previously discussed, the Commonwealth maintains budgetary controls to ensure compliance with the legal provisions of the Commonwealth's Appropriation Act, which reflects the General Assembly's approval of a biennial budget. The financial transaction process begins with development and approval of the budget, after which budgetary control is maintained through a formal appropriation and allotment system. The budgeted amounts reflected in the accompanying financial statements represent summaries of agency budgets.

The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly on a biennial basis at the program level. The Commonwealth monitors spending activity to ensure the expenditures do not exceed the appropriated amounts at the agency level. The State Comptroller maintains a central general ledger that records total appropriations and related expenditures for all agencies and institutions included in the approved budget. Systemic controls are in place to prevent disbursements that exceed authorized appropriations. Additional information regarding the Commonwealth's budgetary process can be found in Note 1.E. to the Financial Statements.

ECONOMIC REVIEW

Local Economy

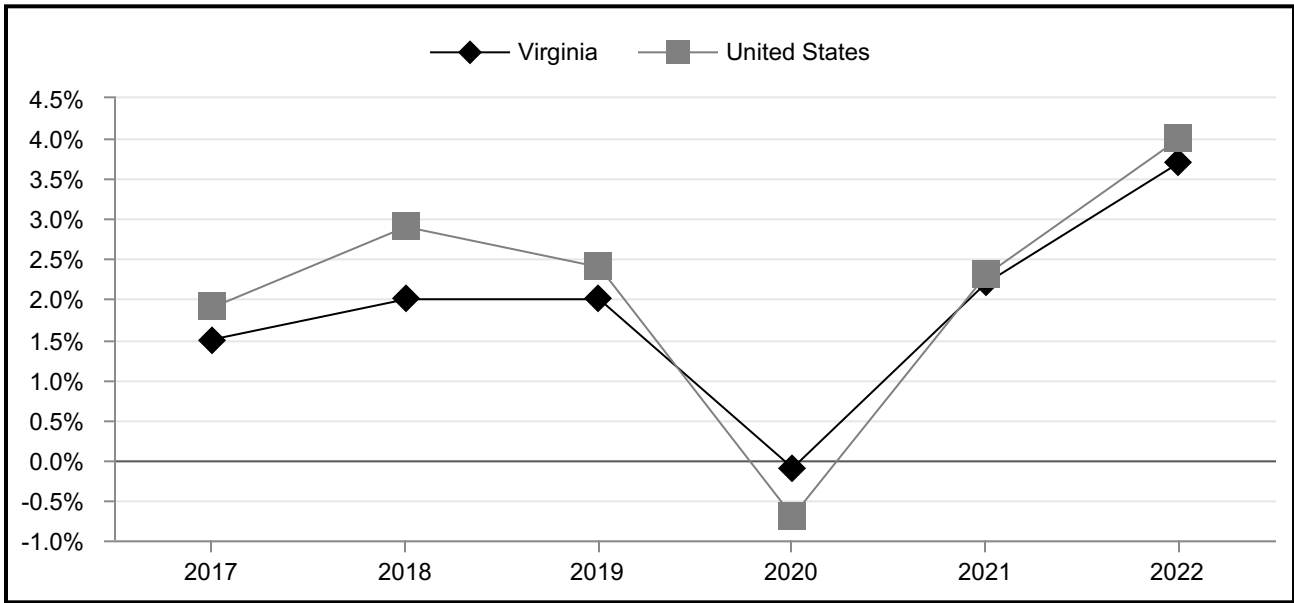
Introduction

This overview of the economy of the Commonwealth of Virginia was prepared by the Weldon Cooper Center for Public Service at the University of Virginia. In fiscal year 2022, Virginia's economy continued to rebound from the negative effects of the COVID-19 pandemic. Because of prior pandemic federal fiscal stimulus and relief policies, accommodative Federal Reserve actions, supply chain disruptions, labor shortages, and commodity supply shocks, the inflation rate climbed to levels last seen nearly 40 years ago. Many measures of state economic activity such as Gross Domestic Product, employment, and taxable sales showed significant improvement. Unemployment rates dropped to near pre-pandemic levels, but this change partly reflected the fact that labor force participation had failed to fully recover from the pandemic. The Virginia housing picture was more mixed, with slowing home permit growth and declining home sales. At the same time, housing inventory remained more limited, which contributed to rapid home price appreciation. Continued tightening of monetary policy in an effort by the Federal Reserve to quell inflation is expected to substantially slow economic growth in the next fiscal year with either a "soft landing" or shallow recession representing the most likely outcomes. International factors, including economic tensions surrounding the Russian-Ukrainian conflict and a slowdown in China's growth, represent significant downside risks to the economy.

Gross Domestic Product

Gross Domestic Product is the broadest measure of overall economic activity. It represents the value of all finished goods and services produced in the economy. **Figure 1** shows that Gross Domestic Product grew in Virginia by 3.7 percent in fiscal year 2022, which was an improvement over 2.2 percent in fiscal year 2021. The state's rate of growth rate was slightly slower than the nation (4.0 percent) in fiscal year 2022. Virginia typically experiences less volatility in economic activity than the nation due to its higher concentration of federal government and skilled services employment.

Figure 1
Annual Percentage Change in Real Gross Domestic Product
 Fiscal Years 2017 – 2022

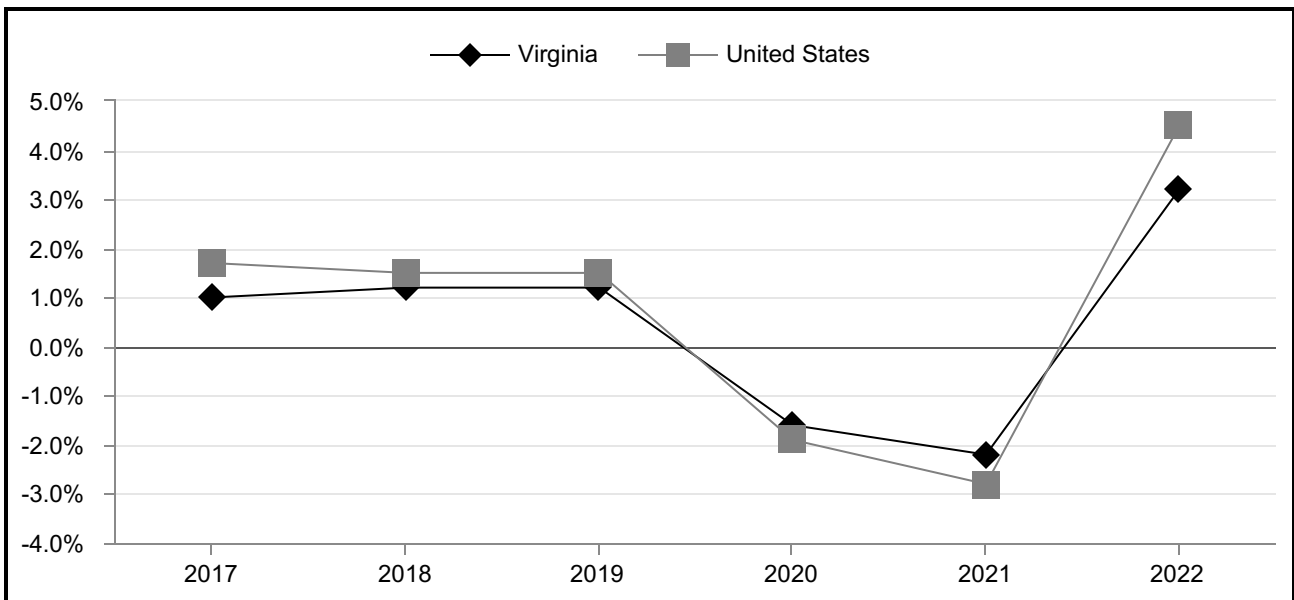


Source: U.S. Bureau of Economic Analysis, Billions of Chained 2012 Dollars

Employment

Employment recovered rapidly during fiscal year 2022, growing at a rate of 3.1 percent after two consecutive years of employment loss due to the pandemic (**Figure 2**). The national rate of employment growth was 4.5 percent.

Figure 2
Annual Percentage Change in Nonfarm Payroll Employment
 Fiscal Years 2017 – 2022



Source: U. S. Bureau of Labor Statistics

Virginia gained approximately 120,800 jobs in fiscal year 2022 after losing a total of about 155,500 jobs during the previous two fiscal years. The gains were broad-based recovery, but particularly rapid rebounds occurred in service sectors that consumers avoided due to pandemic-related health and safety concerns such as leisure and hospitality.

Figure 3 illustrates changes in Virginia’s nonfarm employment by industry for fiscal years 2017 through 2022, along with the employment change between fiscal years 2021 and 2022 for Virginia and the U.S. Virginia’s changes generally mirrored those of the U.S. The largest employment gains occurred in leisure and hospitality (55,100). Though this gain represented a growth rate of nearly 17.0 percent, it had still recovered only 93.7 percent of its pre-pandemic fiscal year (2019) employment level. Other growing sectors included professional and business services (19,600), education and health services (14,000), state and local government (10,900), and retail trade (6,100). Rounding out the sectors with job growth were other services (5,500), transportation and utilities (5,200), wholesale trade (2,800), information (2,200), construction (1,200), manufacturing (500) and mining and logging (200). Two sectors that were less affected by the pandemic, federal government (-1,700) and financial services (-800) experienced small employment losses. In general, goods producing sectors such as manufacturing grew slower than services sectors that involve greater customer contact as consumers shifted their spending from goods to services when pandemic concerns abated.

Figure 3
Nonfarm Payroll Employment in Virginia’s Industries
 Fiscal Years 2017 – 2022

Industry*	Virginia Employment (000)						Change, FY 2021 to FY 2022		
							Virginia		
	2017	2018	2019	2020	2021	2022	Number (000)	Percent	U.S., Percent
Mining and logging	7.9	7.9	7.9	7.5	6.9	7.1	0.2	2.9%	6.7%
Construction	190.8	196.0	201.1	203.2	204.2	205.4	1.2	0.6%	3.0%
Manufacturing	233.9	237.1	243.3	238.4	235.5	236.0	0.5	0.2%	3.3%
Wholesale trade	110.3	110.5	110.1	108.8	106.2	109.0	2.8	2.6%	3.0%
Retail trade	419.0	416.7	410.0	394.1	396.2	402.3	6.1	1.5%	3.1%
Transportation and utilities	132.0	134.3	139.9	141.7	144.8	150.0	5.2	3.6%	7.4%
Information	68.2	67.9	67.5	67.1	65.2	67.4	2.2	3.4%	6.9%
Financial activities	202.9	206.9	210.0	211.9	209.3	208.5	-0.8	-0.4%	1.8%
Professional and business services	722.1	740.7	758.3	765.4	764.9	784.5	19.6	2.6%	5.8%
Education and health services	530.9	540.8	550.0	541.9	530.1	544.1	14.0	2.6%	2.6%
Leisure and hospitality	404.8	408.5	412.4	371.4	331.5	386.6	55.1	16.6%	14.6%
Other services	199.3	198.6	198.3	189.0	181.0	186.5	5.5	3.0%	4.9%
Federal government	178.3	178.3	180.7	183.5	187.6	185.9	-1.7	-0.9%	-2.2%
State government	159.6	159.7	160.5	161.5	154.1	153.9	-0.2	-0.1%	1.7%
Local government	377.9	381.3	384.9	382.6	361.9	373.0	11.1	3.1%	2.1%
Total	3,937.9	3,985.2	4,034.9	3,968.0	3,879.4	4,000.2	120.8	3.1%	4.5%

Source: U. S. Bureau of Labor Statistics; some prior year numbers were revised to reflect the incorporation of newly available and revised source data

* North American Industry Classification System (NAICS)

Figure 4 shows the annual percentage change in nonfarm employment for 10 of the 11 Metropolitan Statistical Areas (MSAs) in Virginia. The Kingsport-Bristol MSA is not included in this table because most of it is located in Tennessee, and data for this indicator are not reported separately for the Virginia portion of the MSA. All 10 of the remaining Virginia metropolitan areas saw employment growth during the fiscal year. The largest percentage increases occurred in Blacksburg MSA (6.4 percent) followed by the Charlottesville (4.2 percent), Harrisonburg (4.1 percent), Northern Virginia (3.5 percent) and Winchester MSAs (3.3 percent). The remaining metropolitan areas experienced growth rates below the Virginia average of 3.1 percent, including Richmond and Staunton-Waynesboro (2.6 percent), Lynchburg (2.2 percent), Virginia Beach-Norfolk-Newport News (1.9 percent), and Roanoke (1.7 percent).

Figure 4
Annual Percentage Change in Nonfarm Payroll Employment in Virginia’s MSAs
 Fiscal Years 2017 – 2022

Area	2017	2018	2019	2020	2021	2022
Virginia	1.1%	1.2%	1.2%	-1.7%	-2.2%	3.1%
Metropolitan areas (a)						
Blacksburg-Christiansburg-Radford	-0.7%	0.7%	1.3%	-2.6%	-1.0%	6.4%
Charlottesville	2.2%	1.8%	1.8%	-1.3%	-4.8%	4.2%
Harrisonburg	1.9%	1.3%	1.5%	-1.4%	-2.3%	4.1%
Lynchburg	-0.4%	0.6%	1.3%	-2.4%	-2.8%	2.2%
Northern Virginia	1.7%	1.6%	1.9%	-1.0%	-2.0%	3.5%
Richmond	1.1%	1.2%	1.5%	-1.8%	-2.5%	2.6%
Roanoke	-0.1%	0.0%	0.8%	-2.2%	-1.7%	1.7%
Staunton-Waynesboro	0.5%	0.6%	1.7%	-1.4%	-2.2%	2.6%
Virginia Beach-Norfolk-Newport News (b)	0.9%	1.4%	0.8%	-2.1%	-2.3%	1.9%
Winchester (c)	1.8%	1.9%	1.8%	0.2%	0.8%	3.3%

Source: U. S. Bureau of Labor Statistics; some prior year numbers were revised to reflect the incorporation of newly available and revised source data

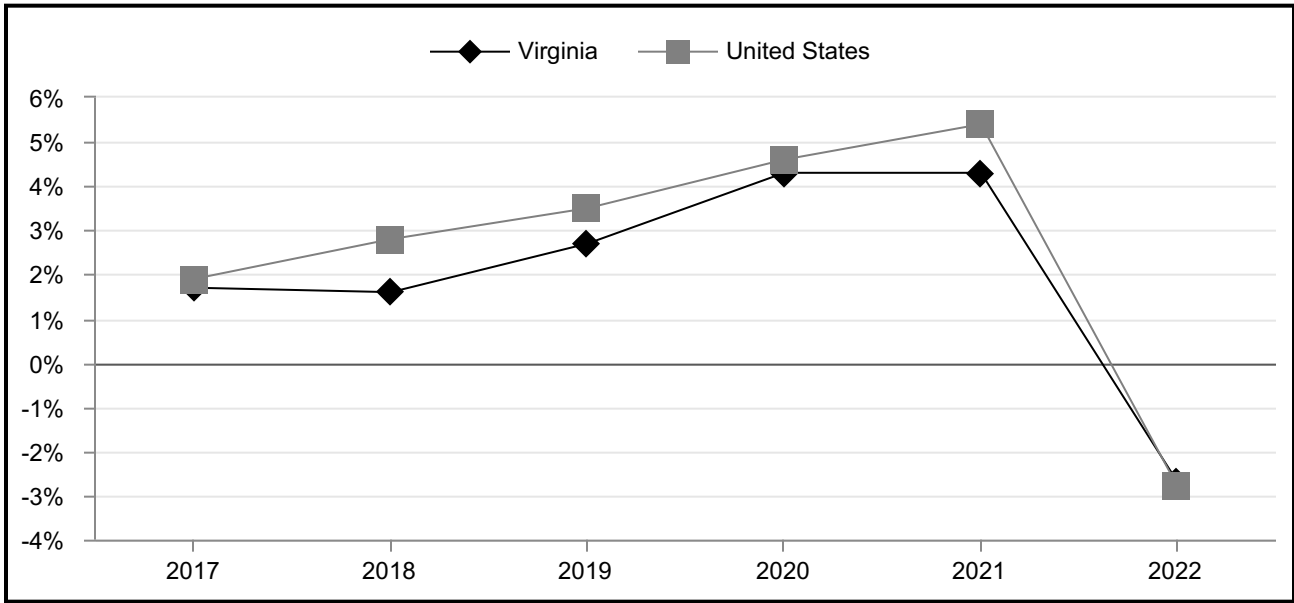
- (a) Excludes Kingsport-Bristol MSA, and TN-VA, most of which is located in Tennessee
- (b) Includes portion in North Carolina
- (c) Includes portion in West Virginia

Personal Income

Personal income provides another important gauge of the health of Virginia’s economy. While personal income is traditionally a key determinant of consumer spending and strongly correlated with state government revenues such as income tax and retail sales tax collections, it is slightly more disconnected from consumer spending potential in the current environment because of federal government relief programs that provided a temporary fillip to household incomes and savings. As a result, household balance sheets and creditworthiness markedly improved, which provides a financial cushion for households to draw on for current and future consumer spending.

As shown in **Figure 5**, state personal income growth dropped 2.7 percent in fiscal year 2022 compared to 4.3 percent increases in fiscal years 2020 and 2021. Personal income shrunk by a similar relative magnitude (2.8 percent) at the national level in fiscal year 2022 after rapid growth the previous two fiscal years. These drops reflect a sharp decrease in personal current transfer receipts due to the expiration of COVID-19 relief programs that supported payments to individuals such as expanded unemployment benefits and multiple rounds of stimulus checks. Virginia transfer receipts decreased by 16.7 percent in fiscal year 2022 compared to growth in excess of 20.4 percent during each of the previous two fiscal years. Real wages and salaries, which make up most of total personal income and better reflect the state of the economy during the fiscal year, grew 2.1 percent in fiscal year 2022, which is in line with an average 2.1 percent growth rate during the previous five fiscal years (2017-2021).

Figure 5
Annual Percentage Change in Real Personal Income
 Fiscal Years 2017 – 2022

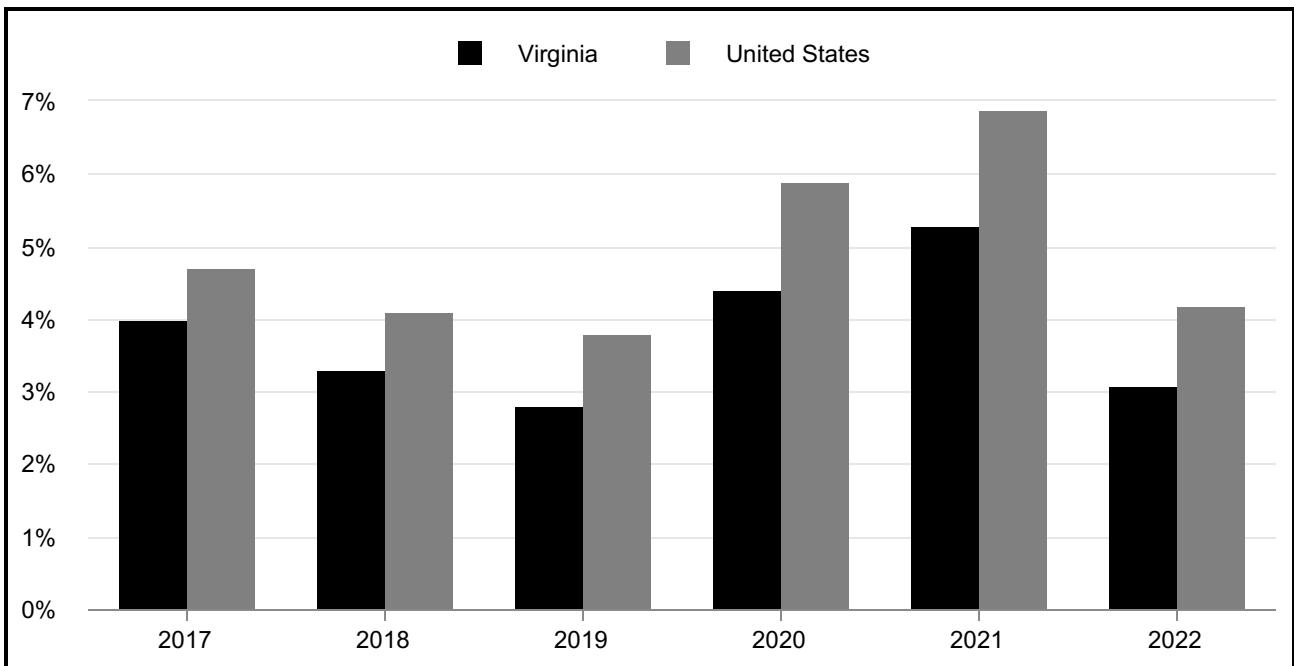


Source: U.S. Bureau of Economic Analysis, Billions of Chained 2012 Dollars

Unemployment

Virginia's unemployment rate dropped precipitously during fiscal year 2022. **Figure 6** shows that the state unemployment decreased from an average of 5.3 percent in fiscal year 2021 to an average of 3.1 percent in fiscal year 2022. This rate was only slightly higher than the 2.8 percent rate seen in the pre-pandemic fiscal year (2019). The state unemployment rate was lower than the national rate (4.2 percent). Rapidly declining unemployment rates were supported by a growing economy as well as a labor force that failed to keep pace with the increased economic activity due to temporary and permanent exits from the workforce resulting from the pandemic.

Figure 6
Civilian Unemployment Rate
 Fiscal Years 2017 – 2022



Source: U.S. Bureau of Labor Statistics

Figure 7 shows unemployment rates for Virginia’s metropolitan and non-metropolitan regions. Every region experienced a substantial decrease in the unemployment rate. The metropolitan area unemployment average decreased from 5.2 percent in fiscal year 2021 to 3.1 percent in fiscal year 2022. Three metropolitan areas had unemployment rates above the statewide average, including the Virginia Beach-Norfolk-Newport News (3.6 percent), Richmond (3.4 percent), and Lynchburg (3.3 percent) metropolitan areas. These same three metro areas have experienced unemployment rates persistently above the statewide average throughout the past six fiscal years (2017-2022). The nonmetropolitan area unemployment rate decreased to 3.6 percent in fiscal year 2022 from 5.7 percent the fiscal year before.

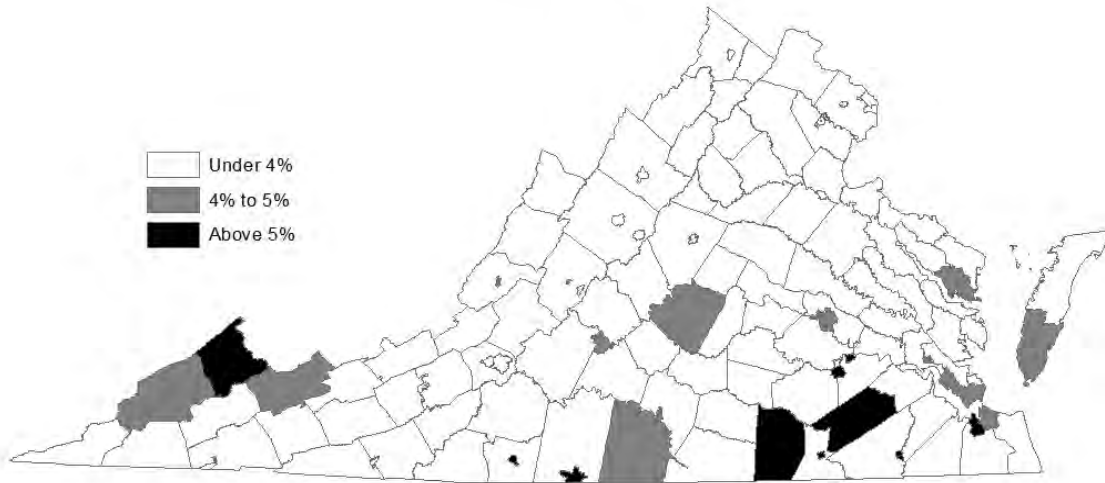
Figure 7
Civilian Unemployment Rate for Virginia’s MSAs
 Fiscal Years 2017 – 2022

Area	2017	2018	2019	2020	2021	2022
Virginia	4.0%	3.3%	2.8%	4.4%	5.3%	3.1%
Metropolitan Areas	3.8%	3.2%	2.8%	4.4%	5.2%	3.1%
Blacksburg-Christiansburg-Radford	4.7%	3.5%	3.0%	4.6%	4.3%	2.8%
Charlottesville	3.5%	3.0%	2.6%	4.1%	4.7%	2.8%
Harrisonburg	3.9%	3.3%	2.8%	4.2%	4.2%	2.8%
Kingsport-Bristol	4.6%	3.7%	3.4%	4.8%	4.9%	3.1%
Lynchburg	4.5%	3.9%	3.3%	4.6%	5.2%	3.3%
Northern Virginia	3.3%	2.8%	2.4%	3.9%	4.8%	2.7%
Richmond	4.1%	3.5%	3.0%	4.7%	5.7%	3.4%
Roanoke	4.0%	3.3%	2.8%	4.4%	4.9%	3.1%
Staunton-Waynesboro	3.8%	3.2%	2.6%	4.0%	4.4%	2.8%
Virginia Beach-Norfolk-Newport News	4.4%	3.6%	3.2%	5.0%	6.1%	3.6%
Winchester	3.6%	3.1%	2.8%	4.0%	3.9%	2.5%
Non-metropolitan Areas	5.1%	4.1%	3.5%	5.2%	5.7%	3.6%

Source: U.S. Bureau of Labor Statistics; some prior year numbers were revised to reflect the incorporation of newly available and revised source data

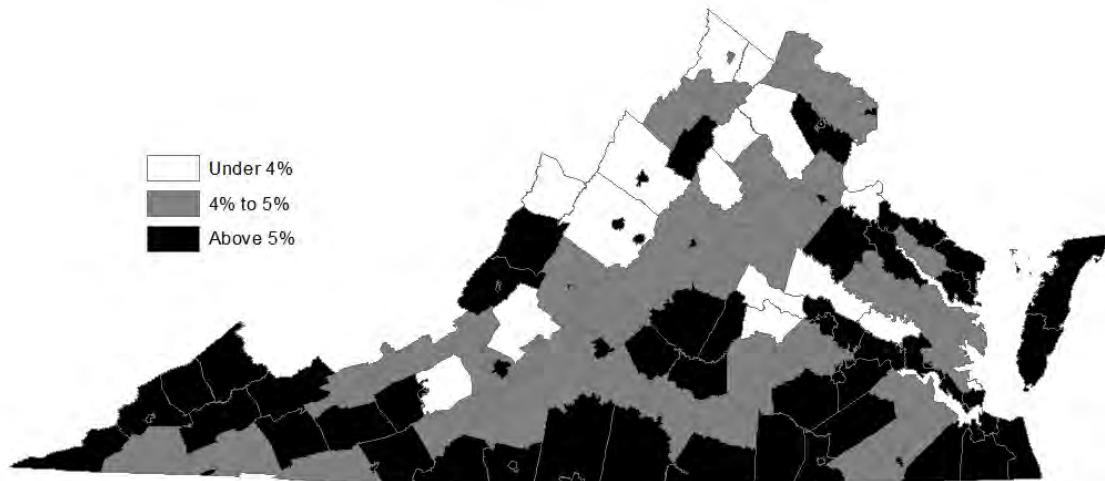
Figures 8a and **8b** show changes in the spatial pattern of unemployment rates in Virginia during the last two fiscal years using locality-level data. The maps illustrate that the regions with unemployment rates above 4.0 percent receded from an area encompassing most of the state to 25 dispersed independent cities and rural counties. The state’s highest unemployment rates were found in several independent cities, including Petersburg (8.4 percent), Emporia (6.5 percent), Martinsville and Hopewell (6.0 percent each). All 133 of Virginia’s localities experienced unemployment rate decreases in fiscal year 2022.

Figure 8a
Unemployment Rate by Locality
Fiscal Year 2022



Source: Virginia Employment Commission

Figure 8b
Unemployment Rate by Locality
Fiscal Year 2021

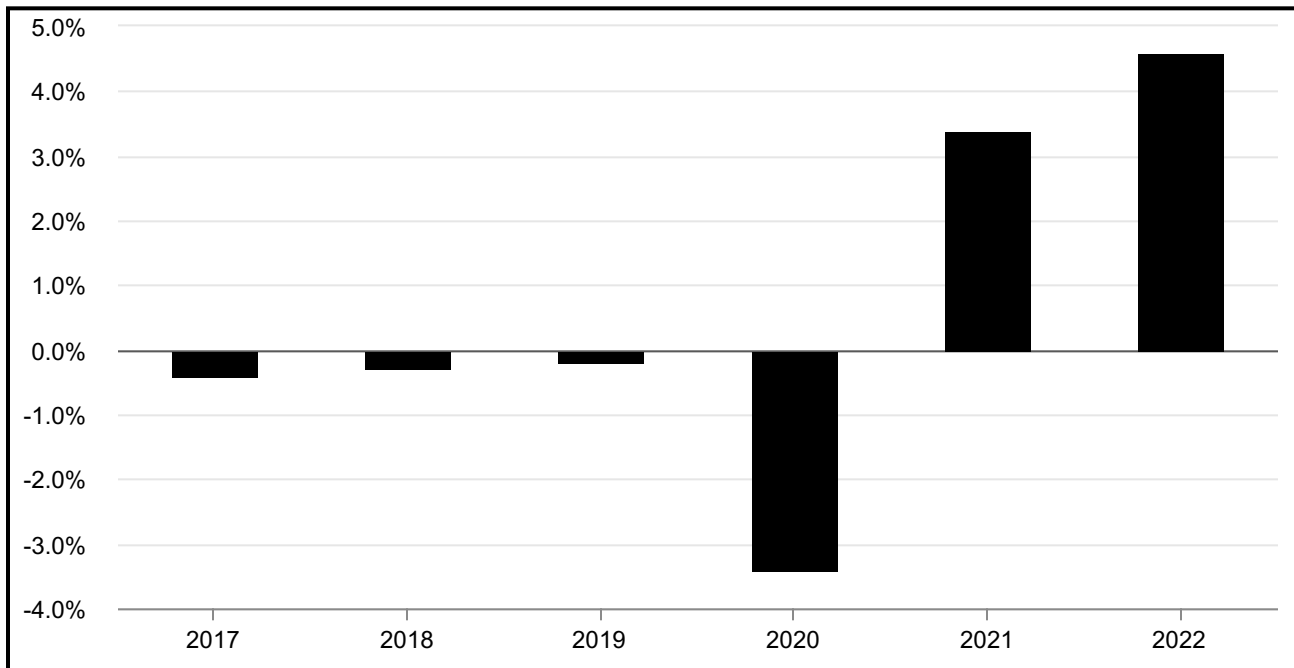


Source: Virginia Employment Commission

Taxable Sales

Changes in state retail sales are represented here using information on real taxable sales. This measure is a useful proxy for retail sales, but omits some goods (e.g., motor vehicles, motor fuel sales) that appear in the comparable national measure and includes some services (e.g., restaurant sales, lodging sales) not included in that measure. **Figure 9** shows that the real taxable sales increased by 4.6 percent during fiscal year 2022. This was up from a 3.4 percent rate of increase the previous fiscal year and represents the largest increase in real taxable sales in 15 years.

Figure 9
Annual Percentage Change in Real Taxable Sales in Virginia
Fiscal Years 2017 - 2022



Source: Virginia Department of Taxation.

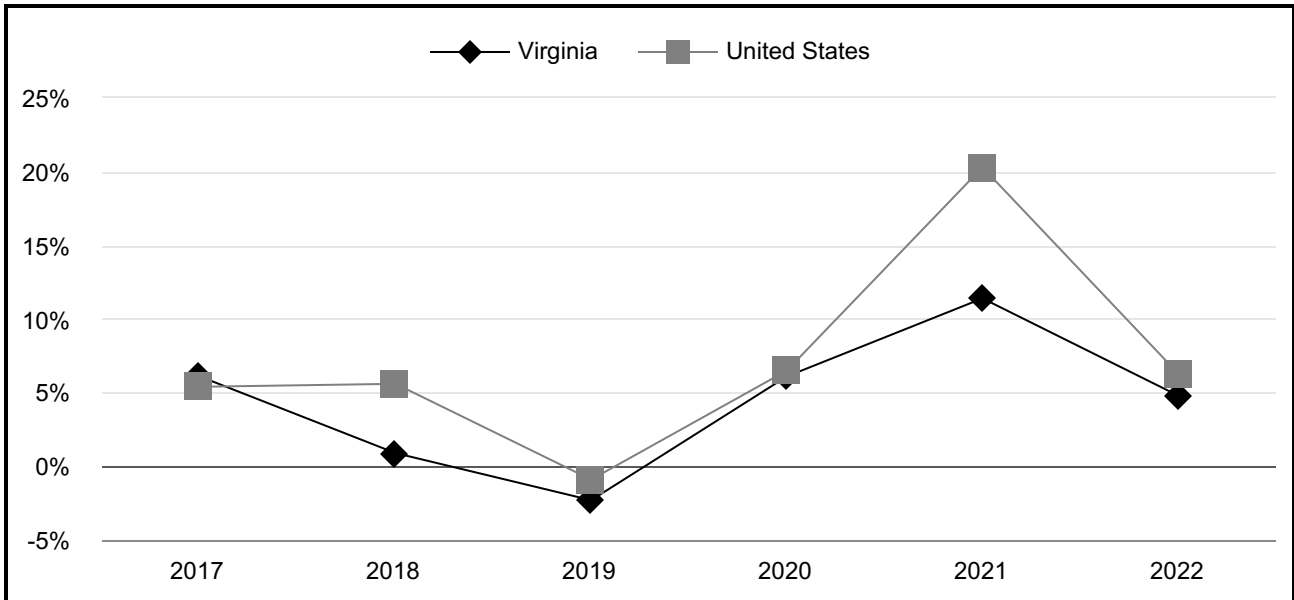
Taxable sales are adjusted for inflation using the Bureau of Labor Statistics Consumer Price Index for All Urban Consumers, All Items.

Housing Market

Virginia housing market outcomes were mixed during fiscal year 2022. Sales of existing homes decreased while the growth rate of home building permit issuance slowed. According to data available from the Virginia Association of Realtors, sales of single-family homes, townhomes, and condos decreased from 156,251 units in fiscal year 2021 to 146,015 units in fiscal year 2022. This represents a 6.6 percent rate of decrease compared to a 27.1 percent rate of increase in fiscal year 2021. Building permit data show the number of new privately-owned housing units authorized for construction in Virginia grew by 4.8 percent in fiscal year 2022 (**Figure 10**). This represents a slowing from the 11.4 percent increase in fiscal year 2021 and was lower than the 6.3 percent rate of increase experienced nationwide in fiscal year 2022.

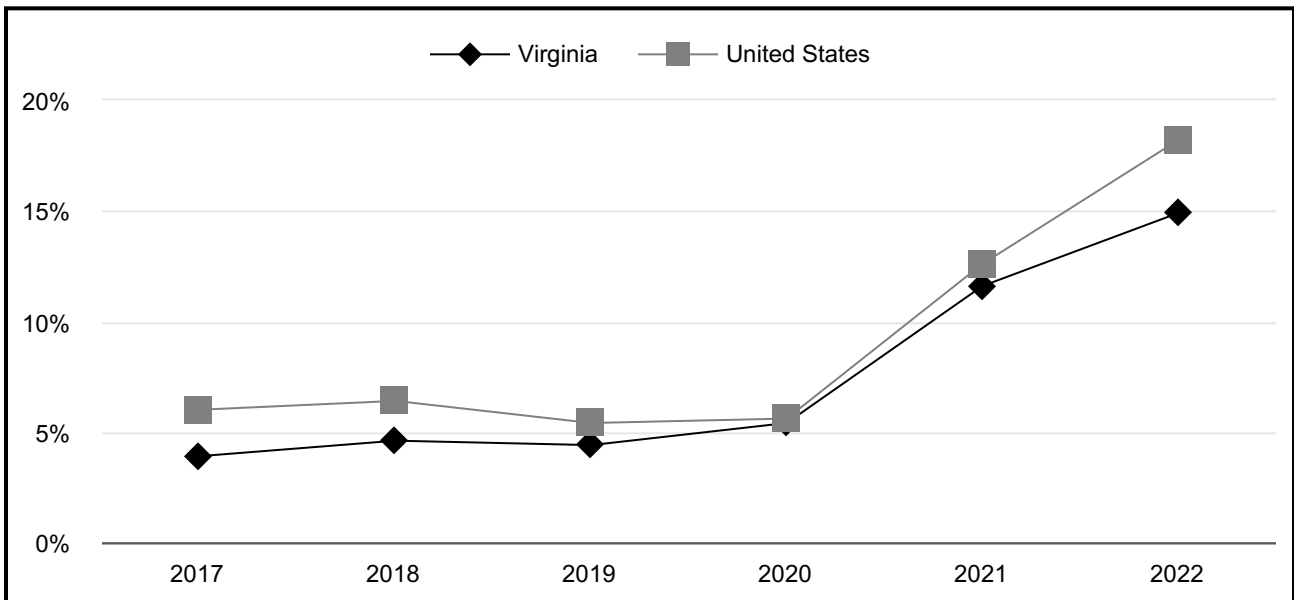
Housing prices published by the Federal Housing Finance Agency indicate that prices continued to grow rapidly during the fiscal year. **Figure 11** shows the percentage change in housing prices for Virginia and the nation. Virginia housing prices increased 14.9 percent in fiscal year 2022, up from 11.6 percent in fiscal year 2021. This is the highest rate of price appreciation since the 15.8 percent rate of increase in fiscal year 2005 before the real estate bubble that precipitated the Great Recession. This rate was lower than the 18.2 percent national growth rate in fiscal year 2022. Consumer demand for housing was dampened by higher mortgage rates during the second half of the fiscal year. Throughout the fiscal year homebuilders continued to grapple with labor and material shortages and housing inventories remained low.

Figure 10
New Privately Owned Housing Units Authorized, Annual Percentage Change
 Fiscal Years 2017 – 2022



Source: U.S. Census Bureau

Figure 11
Annual Percentage Change in Housing Prices
 Fiscal Years 2017 – 2022



Source: Federal Housing Finance Agency

Conclusion

Virginia's economy continued to rebound from the effects of the COVID-19 pandemic in fiscal year 2022. However, the effects of the pandemic could still be felt during the fiscal year in the form of depressed labor force participation, supply chain bottlenecks, consumer spending reallocation from goods to services, and the residual effects of fiscal and monetary stimulus policies introduced during the pandemic. These factors contributed to a more inflationary environment, with inflation measured by the Consumer Price Index (CPI) reaching nearly 9.0 percent by the end of the fiscal year. The pace of state Gross Domestic Product growth picked up further from the year before. While personal incomes decreased due to the expiration of pandemic relief programs, wages and salaries continued to grow at a steady rate. Moreover, savings accumulated due to pandemic restrictions and federal relief programs resulted in improved household balance sheets that supported robust consumer spending. The Virginia housing market showed mixed performance. Existing home sales decreased, and the growth rate of building permit issuance slowed. However, housing prices increased more rapidly than the previous year due to continued builder challenges in securing labor and materials and low housing inventories.

By the end of fiscal year 2022, the nation's economy was growing, but was on more uncertain footing due to inflationary conditions, more restrictive Federal Reserve monetary policy, and unfavorable global economic developments. Economic activity is expected to slow or even decrease in the next fiscal year, as interest rates ratchet upward and consumer spending plateaus due to erosion in real household incomes from inflation and the gradual depletion of accumulated excess savings. Global economic conditions may exert an additional drag. The European Union economy has been hampered by an energy crisis resulting from the Russian-Ukrainian conflict, while China's growth has significantly slowed due to its Zero-Covid policy and housing market turmoil.

MAJOR INITIATIVES

The ACFR has received unmodified audit opinions from fiscal year 1986 through fiscal year 2021. During this period, the Commonwealth has also received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. While we are very proud of these unmodified audit opinions and awards, we must be mindful of the fact that they are not automatic. The successes of the State Comptroller's office are directly attributable to not only the professionalism, experience and integrity of the State Comptroller's technical and accounting personnel, but also to the professionalism, experience and integrity of the financial and accounting personnel throughout the Commonwealth. These major initiatives will support efforts to continue our legacy of quality financial management.

Long-term Financial Planning

In 1992, an amendment to the Constitution of Virginia required the establishment of a Revenue Stabilization Fund. Annually, revenue collections are evaluated to determine whether deposits are required to the Fund. Withdrawals can only occur if the general fund revenues appropriated exceed the revised general fund revenue forecast by more than 2.0 percent of the certified tax revenues collected in the most recently ended fiscal year. Additionally, a withdrawal from the Fund cannot compensate for more than one-half of the difference between the general fund appropriations and revised estimate nor can it exceed more than one-half of the Fund balance. Further, pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed 15.0 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. This is an increase of the previous limit of 10.0 percent.

During fiscal year 2018, the *Code of Virginia* established the Revenue Reserve Fund to mitigate certain anticipated revenue shortfalls when appropriations based on previous revenue forecasts exceed expected revenues in subsequent forecasts. Annually, revenue collections are evaluated to determine whether deposits are required to the Fund. Generally, withdrawals can only occur if a revised general fund revenue forecast is less than appropriated general fund revenues and the decrease is 2.0 percent or less of general fund revenues collected in the most recently ended fiscal year. Additionally, a withdrawal from the Fund may not exceed more than one-half of the Fund balance. The combined balance of the Revenue Reserve Fund and Revenue Stabilization Fund cannot exceed 20.0 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. Pursuant to Chapter 1, 2022 Acts of Assembly Special Session I, this is an increase to the previous 15.0 percent limit.

During fiscal year 2022, a deposit of \$498.7 million was made to the Revenue Reserve Fund pursuant to Chapter 1, 2022 Acts of Assembly Special Session I. This amount represents an advance reservation for the fiscal year 2024 mandatory deposit to the Revenue Stabilization Fund. This amount will be transferred from the Revenue Reserve Fund to the Revenue Stabilization Fund during fiscal year 2024.

Enterprise Application Project

The Cardinal Project represents a shared vision between the offices of the Secretary of Transportation, Secretary of Finance, Secretary of Administration, and the Virginia Information Technologies Agency to replace aging statewide enterprise applications. This effort began with the effort to replace the Commonwealth's financial system (CARS) and the Virginia Department of Transportation's (VDOT) financial system with a modern, enterprise-wide financial system (base financial system). The base financial system provides a solid foundation for the Commonwealth to expand system functionality and facilitates better integration

of key administrative systems across the state. This foundation enables the Commonwealth to re-engineer activities to include taking advantage of shared services, increasing functionality for better fiscal management, and reducing redundant agency financial systems and related cost. This phase of the Cardinal Application Project has been completed. Effective July 1, 2016 (fiscal year 2017), Cardinal became the official general ledger accounting system for the Commonwealth, and CARS was retired.

The next phase of this project involves a partnership between the Department of Accounts (DOA) and the Department of Human Resource Management (DHRM) to replace the existing statewide payroll system (CIPPS), along with the Commonwealth's statewide Personnel Management Information System (PMIS) and Benefits Eligibility System (BES), and integrate these statewide systems into Cardinal. The Human Capital Management System (HCM) was implemented in phases. The first phase was implemented October 2, 2021, and second phase was implemented April 4, 2022. The third and final phase of the Cardinal HCM project was implemented October 3, 2022. Cardinal HCM is now the official payroll, benefits, human resource and absence management system for the Commonwealth. Additionally, Cardinal HCM serves over 231,000 users in 233 state agencies and 363 localities. I, as State Comptroller, chair the Cardinal Steering Committee, and both DOA and DHRM have assigned full-time resources to this project. A Cardinal Governance Committee is being formed, and an evaluation to identify the next phase of the Cardinal Enterprise Project will begin shortly.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth for its ACFR for the fiscal year ended June 30, 2021. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized annual comprehensive financial report that conforms to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and all applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. The Commonwealth has received a Certificate of Achievement for the last 36 consecutive years (fiscal years 1986-2021). I believe that this year's report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA.

This report could not have been prepared without the full cooperation of all state agencies within the Executive Branch, the Legislature, the Judiciary, the Component Units, and especially the dedication and professionalism of the financial reporting staff in the Department of Accounts.

Respectfully submitted,



Lewis R. McCabe
Comptroller of the Commonwealth of Virginia



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For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2021

Christopher P. Morill

Executive Director/CEO