

FINANCIAL SECTION

Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Required Supplementary Information
Combining and Individual Fund Statements and Schedules



Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 15, 2022

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Virginia, as of and for the year ended June 30, 2022, and the related notes to the financial statements as listed in the table of contents.

In our opinion, based on our audit and the reports of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Virginia as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Virginia College Savings Plan (major fund and private purpose trust fund,) which is discussed on pages 53 and 276, and certain blended and discretely presented component units of the Commonwealth, which are discussed at Note 1.B. The Virginia College Savings Plan and component units account for the following percentages of total assets and deferred outflows of resources; revenues, additions, and other financing sources; and net position/fund balance of the opinion units affected as of June 30, 2022.

Opinion Unit	Total Assets and Deferred Outflows	Net Position/Fund Balance	Revenues, Additions, and Other Financing Sources
Governmental Activities	2.85 %	5.31 %	2.26 %
Business-type Activities	53.22 %	47.71 %	-1.01 %
Virginia College Savings Plan Major Enterprise Fund	100.00 %	100.00 %	100.00 %
Aggregate Remaining Fund Information	6.81 %	7.43 %	6.22 %
Aggregate Discretely Presented Component Units	30.00 %	23.32 %	13.37 %

Those financial statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Virginia College Savings Plan and certain blended and discretely presented component units, are based solely on the reports of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (Government Auditing Standards). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commonwealth of Virginia, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

The financial statements of Danville Science Center Inc., Library of Virginia Foundation, Science Museum of Virginia Foundation, and Virginia Museum of Fine Arts Foundation, which were audited by other auditors upon whose reports we are relying, were not audited in accordance with Government Auditing Standards.

Emphasis of Matters

Change in Accounting Principle

As discussed in Note 2 of the accompanying financial statements, in fiscal year 2022 the Commonwealth of Virginia implemented the Governmental Accounting Standards Board's Statement No. 87, *Leases*. The government-wide and fund statements have been restated to reflect the provisions of this standard. Our opinions are not modified with respect to this matter.

Correction of 2021 Financial Statements

As discussed in Note 2 of the accompanying financial statements, the fiscal year 2021 governmental activities, nonmajor governmental and private purpose trust funds have been restated to correct misstatements. Our opinions are not modified with respect to this matter.

Investments with Values that are not Readily Determined

As discussed in Note 7, the Pension and Other Employee Benefit Trust Funds include investments valued at approximately \$46.2 billion (34.2% of the aggregate remaining fund information's total assets, respectively), whose fair values have been estimated by management using a roll-forward process in the absence of readily determinable fair values. In addition, the Virginia College Savings Plan major enterprise fund includes investments valued at \$1.8 billion (58.1% and 31.1% of the major enterprise fund and business-type activity total assets, respectively) and \$299.7 million for the private purpose trust fund (0.2% of the aggregate remaining fund information's total assets), whose fair values have been estimated by management based on information provided by the fund managers or the general partners. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commonwealth of Virginia's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth of Virginia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commonwealth of Virginia's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements: Management's Discussion and Analysis on pages 27 through 37; Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Major Special Revenue Funds, the Schedule of Changes in Employer's Net Pension Liability, Schedule of Employer Contributions - Pension Plans, Schedule of Changes in Employers' Net Other Postemployment Benefit Liability (Asset), Schedule of the Commonwealth's Proportionate Share of the Net Other Postemployment Benefit Liability, Schedule of Employer Contributions - Other Postemployment Benefit Plans, Schedule of Changes in Employers' Total Other Postemployment Benefit Liability, and Claims Development Information on pages 200 through 236. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Virginia's basic financial statements. The Combining and Individual Fund Statements and Schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Fund Statements and Schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section and statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, our report dated December 15, 2022, on our consideration of the Commonwealth of Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters is issued in the Commonwealth of Virginia Single Audit Report. We anticipate releasing that report on or before February 13, 2023. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Commonwealth of Virginia's internal control over financial reporting and compliance.

AUDITOR OF PUBLIC ACCOUNTS