

Commonwealth of Virginia
General Fund Preliminary (Unaudited)
Annual Report

For the Fiscal Year Ended June 30, 2003
Presented on a Budgetary (Cash) Basis



David A. Von Moll
Comptroller
August 15, 2003

TABLE OF CONTENTS

| | |
|-------------------------------------|-----|
| Comptroller's Letter of Transmittal | iii |
|-------------------------------------|-----|

SUMMARY OF GENERAL FUND ACTIVITY

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

GENERAL FUND GRAPHICS

| | |
|--|----|
| General Fund - Fund Balance, Fiscal Years 1999-2003 | 9 |
| General Fund - Cash, Cash Equivalents, and Investments, Fiscal Years 1999-2003 | 9 |
| General Fund - Revenues by Revenue Class and Other Sources, Fiscal Year 2003 | 10 |
| General Fund - Expenditures by Function and Other Uses, Fiscal Year 2003 | 10 |
| General Fund - Expenditures by Object, Fiscal Year 2003 | 11 |
| General Fund - Revenues and Other Sources and Expenditures and Other Uses by Month, Fiscal Year 2003 | 11 |

| | |
|----------------------------------|----|
| <u>GENERAL FUND NOTES</u> | 13 |
|----------------------------------|----|

| | |
|------------------------|----|
| <u>GLOSSARY</u> | 19 |
|------------------------|----|



COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA
COMPTROLLER

Office of the Comptroller

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

August 15, 2003

The Honorable Mark R. Warner
Governor
Commonwealth of Virginia
State Capitol
Richmond, Virginia 23219

Dear Governor Warner:

In compliance with the provisions of Section 2.2-813 of the *Code of Virginia*, I hereby submit my preliminary annual report on the financial condition of the General Fund of the Commonwealth for the fiscal year ended June 30, 2003.

The Commonwealth ended fiscal year 2003 with a total fund balance in the General Fund of \$557.2 million measured on the cash basis of activity. This is a decrease of \$75.8 million, or 12 percent, from last year's ending fund balance of \$632.9 million. Planned (budgeted) decreases in General Fund balance for this year were \$326.0 million. The first graph on page 9 shows a comparison of the General Fund balance for the last five years.

The decrease in fund balance resulted primarily from budgeted spending from the Revenue Stabilization reserve of \$247 million, which was partially offset by revenues and net transfers exceeding the official estimate by \$55.2 million and agencies not expending all of their fiscal year 2003 appropriations.

Revenue Stabilization Fund

The Revenue Stabilization Fund has principal and interest on deposit of \$247.5 million reserved as a part of General Fund equity. In fiscal year 2003 no deposit other than interest earnings was required for the Revenue Stabilization Fund, however, a transfer of \$247,481,034 was made from the Revenue Stabilization Fund to the General Fund as required by Section 1-84 item 278 Chapter 1042, 2003 Acts of Assembly.

The Revenue Stabilization Fund is routinely segregated from the General Fund but Virginia law directs that the Revenue Stabilization Fund be included as a component of the General Fund for financial reporting purposes. Therefore, it is included here both as a cash asset and as a reserved component of fund balance. The Revenue Stabilization Fund can be used only for constitutionally authorized purposes. A deposit based on fiscal year 2003 revenues is not required.

Amounts Available for Reappropriation

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

Based on an analysis by the Department of Planning and Budget of unexpended appropriations at June 30, 2003, \$134.5 million will be considered for mandatory reappropriation in fiscal year 2004 for operations and \$20.2 million will be considered for discretionary reappropriation in fiscal year 2004 for operations. Additional reappropriation amounts include \$24.4 million for capital outlay project needs and \$5.0 million for natural disaster sum sufficient amounts. Additionally, \$20.4 million is designated as available balances to meet the requirements of Chapter 1042, \$11.4 million for the Lottery Proceeds Fund and \$7.9 million for the Water Quality Fund. Further, the Department of Planning and Budget has identified planned disbursements of \$23.6 million to the Transportation Trust Fund. As of June 30, 2003, sufficient cash is not available to designate these entire amounts.

Virginia Water Quality Improvement Fund

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. The Fund was established to provide Water Quality Improvement Grants to various entities to assist in pollution prevention and reduction. The Fund shall consist of amounts appropriated by the General Assembly. Unless otherwise specified by the general appropriation act, these appropriations shall consist of ten percent of revenues collected in excess of the official estimate and ten percent of any unreserved fund balance not required for reappropriation. In prior years, the amounts that represent ten percent of the excess revenue collections and ten percent of the unreserved fund balance not required for reappropriation have been designated. For the year ended June 30, 2003, \$6.0 and \$1.9 million that represent ten percent of the excess revenue collections and ten percent of the unreserved fund balance not required for reappropriation, respectively, have been designated. Upon appropriation by the General Assembly, \$7.9 million will be transferred from the General Fund to the Virginia Water Quality Improvement Fund.

Appropriation Act Transfers

A \$10 million transfer from the Department of Motor Vehicles' (DMV) operating fund to the General Fund was made pursuant to Chapter 1042, 2003 Acts of Assembly. DMV did not have the full \$10 million in non-general fund cash available to make the required transfer. A \$6 million treasury loan was made from available non-general fund cash balances to DMV in accordance with the provisions of Section 4-3.02 of Chapter 1042 to partially fund this transfer obligation. The effect of this transaction on the accompanying Balance Sheet has been eliminated by reducing cash and transfers in balances by \$6 million. Repayment of the DMV non-general fund treasury loan will be completed during fiscal year 2004.

Basis of Presentation

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

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

Final Report and Award

The final Annual Report of the Comptroller, due on December 15, 2003, will include certain accruals and other information required for conformance with generally accepted accounting principles. It will be audited and will include any material adjustments recommended by the Auditor of Public Accounts.

We are proud to report that the Comprehensive Annual Financial Report for the year ended June 30, 2002, was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA). This is the seventeenth consecutive year that Virginia's Annual Report has received this award. In addition, Virginia received a companion award from the GFOA for its fiscal year 2002 Popular Report, entitled *Virginia Financial Perspective*. This is the eighth consecutive year that Virginia's Popular Report has received this award.

Respectfully submitted,

David A. Von Moll

Enclosure

Commonwealth of Virginia
Preliminary Balance Sheet
General Fund - Budgetary (Cash) Basis (Unaudited)
June 30, 2003
(Dollars in Thousands)

| | | |
|---|---------------|-------------------|
| Assets | | |
| Cash, Cash Equivalents, and Investments | \$ 558,118 | |
| Cash and Travel Advances | <u>1,148</u> | |
| Total Assets | | <u>\$ 559,266</u> |
| Liabilities and Fund Equity | | |
| Liabilities: | | |
| Deposits Pending Distribution | <u>2,104</u> | |
| Total Liabilities | | \$ 2,104 |
| Fund Equity: | | |
| Reserved Fund Balance: | | |
| Revenue Stabilization Reserve Fund (Note 7) | 247,481 | |
| Payroll Reserve for July 1, 2003 Payroll | <u>65,684</u> | |
| Total Reserved Fund Balance | | 313,165 |
| Unreserved Fund Balance: | | |
| Designated: | | |
| Amount Required for Reappropriation of 2003 Unexpended Balances | | |
| Mandatory Reappropriations | 134,470 | |
| Discretionary Reappropriations | 16,772 | |
| Capital Outlay | 24,463 | |
| Amount Required by Ch. 1042, 2003 Acts of Assembly | 20,429 | |
| Amount for Lottery Proceeds Fund | 11,411 | |
| Virginia Water Quality Improvement Fund - Part A (Note 9) | 6,043 | |
| Virginia Water Quality Improvement Fund - Part B (Note 9) | 1,864 | |
| Natural Disaster Sum Sufficient | 4,982 | |
| Accelerated Sales Tax for Transportation Trust Fund | <u>23,563</u> | |
| Total Designated Fund Balance | 243,997 | |
| Undesignated Fund Balance | <u>-</u> | |
| Total Unreserved Fund Balance | | <u>243,997</u> |
| Total Fund Equity | | <u>557,162</u> |
| Total Liabilities and Fund Balance | | <u>\$ 559,266</u> |

The accompanying notes are an integral part of this statement.

Commonwealth of Virginia
Preliminary Statement of Revenues, Expenditures,
and Changes in Fund Balance
General Fund - Budgetary (Cash) Basis (Unaudited)
For the Fiscal Years Ended June 30, 1999 through June 30, 2003
(Dollars in Thousands)

| | Year Ended | | | | |
|--|-------------------|-------------------|---------------------|---------------------|---------------------|
| | June 30, 2003 | June 30, 2002 | June 30, 2001 | June 30, 2000 | June 30, 1999 |
| Revenues: | | | | | |
| Taxes: | | | | | |
| Individual and Fiduciary Income | \$ 6,775,746 | \$ 6,710,772 | \$ 7,226,309 | \$ 6,828,906 | \$ 6,087,851 |
| Sales and Use (Note 3) | 2,335,958 | 2,429,845 | 2,272,954 | 2,201,533 | 2,065,265 |
| Corporation Income | 343,319 | 290,215 | 363,757 | 565,909 | 420,421 |
| Public Service Corporations | 91,247 | 77,152 | 93,427 | 104,197 | 111,949 |
| Premiums of Insurance Companies | 333,004 | 292,702 | 268,060 | 251,074 | 244,910 |
| Other Taxes | 573,445 | 487,826 | 434,332 | 438,616 | 450,656 |
| Total Taxes | <u>10,452,719</u> | <u>10,288,512</u> | <u>10,658,839</u> | <u>10,390,235</u> | <u>9,381,052</u> |
| Rights and Privileges | 63,216 | 37,997 | 36,928 | 34,098 | 34,623 |
| Sales of Property and Commodities | 1,019 | 281 | 66 | 1,146 | 2,955 |
| Assessments and Receipts for Support of Special Services | 383 | 445 | 399 | 170 | 323 |
| Institutional Revenue | 7,896 | 9,194 | 7,888 | 9,142 | 8,353 |
| Interest, Dividends, and Rents | 105,700 | 138,121 | 171,177 | 150,545 | 139,824 |
| Fines, Forfeitures, Court Fees, Penalties, and Escheats | 178,487 | 152,801 | 134,162 | 127,280 | 128,945 |
| Receipts from Cities, Counties, and Towns | 9,117 | 9,060 | 8,805 | 9,368 | 10,097 |
| Private Donations, Gifts and Contracts | 7 | - | - | 5 | 2 |
| Tobacco Master Settlement | 60,012 | 59,846 | 51,276 | 66,938 | - |
| Other | 109,200 | 41,215 | 80,350 | 24,717 | 10,019 |
| Total Revenues (Note 2) | <u>10,987,756</u> | <u>10,737,472</u> | <u>11,149,890</u> | <u>10,813,644</u> | <u>9,716,193</u> |
| Expenditures: | | | | | |
| General Government | 1,362,222 | 1,345,368 | 1,069,409 | 809,485 | 591,531 |
| Education | 5,441,934 | 5,542,589 | 4,188,331 | 3,921,500 | 3,713,657 |
| Transportation | 36 | 16,002 | 29,703 | 232 | 47 |
| Resources and Economic Development | 206,743 | 251,856 | 241,704 | 226,280 | 213,466 |
| Individual and Family Services | 2,769,780 | 2,550,020 | 2,488,152 | 2,333,410 | 2,082,840 |
| Administration of Justice | 1,867,835 | 1,910,280 | 1,939,881 | 1,780,235 | 1,658,837 |
| Capital Outlay | 19,752 | 119,046 | 36,714 | 40,076 | 32,557 |
| Total Expenditures | <u>11,668,302</u> | <u>11,735,161</u> | <u>9,993,894</u> | <u>9,111,218</u> | <u>8,292,935</u> |
| Revenues Over (Under) Expenditures | <u>(680,546)</u> | <u>(997,689)</u> | <u>1,155,996</u> | <u>1,702,426</u> | <u>1,423,258</u> |
| Other Financing Sources (Uses): | | | | | |
| Transfers: | | | | | |
| Operating Transfers Mandated by Appropriation Act (Note 4) | - | - | - | - | 396,453 |
| Operating Transfers In | 987,805 | 820,466 | 525,101 | 452,636 | 5,003 |
| Operating Transfers In From Component Units (Note 5) | - | - | 2,660 | 1,940 | 37 |
| Operating Transfers Out | (383,066) | (383,915) | (623,677) | (324,743) | (344,328) |
| Operating Transfers Out To Component Units (Note 5) | - | - | (1,721,304) | (1,576,558) | (1,325,031) |
| Total Other Financing Sources (Uses) | <u>604,739</u> | <u>436,551</u> | <u>(1,817,220)</u> | <u>(1,446,725)</u> | <u>(1,267,866)</u> |
| Revenues and Other Sources Over (Under) Expenditures and Other Uses | <u>(75,807)</u> | <u>(561,138)</u> | <u>(661,224)</u> | <u>255,701</u> | <u>155,392</u> |
| Fund Balance, July 1 | | | | | |
| Reserved | 562,965 | 993,154 | 745,488 | 616,589 | 473,722 |
| Unreserved | 70,004 | 200,953 | 1,109,843 | 983,041 | 970,516 |
| Fund Balance, July 1 | <u>632,969</u> | <u>1,194,107</u> | <u>1,855,331</u> | <u>1,599,630</u> | <u>1,444,238</u> |
| Fund Balance, June 30 | | | | | |
| Reserved | 313,165 | 562,965 | 993,154 | 745,488 | 616,589 |
| Unreserved | 243,997 | 70,004 | 200,953 | 1,109,843 | 983,041 |
| Fund Balance, June 30 | <u>\$ 557,162</u> | <u>\$ 632,969</u> | <u>\$ 1,194,107</u> | <u>\$ 1,855,331</u> | <u>\$ 1,599,630</u> |

The accompanying notes are an integral part of this statement.

Commonwealth of Virginia
Preliminary Statement of Revenues, Expenditures,
and Changes in Fund Balance - Budget and Actual
General Fund - Budgetary (Cash) Basis (Unaudited)
For the Fiscal Year Ended June 30, 2003
(Dollars in Thousands)

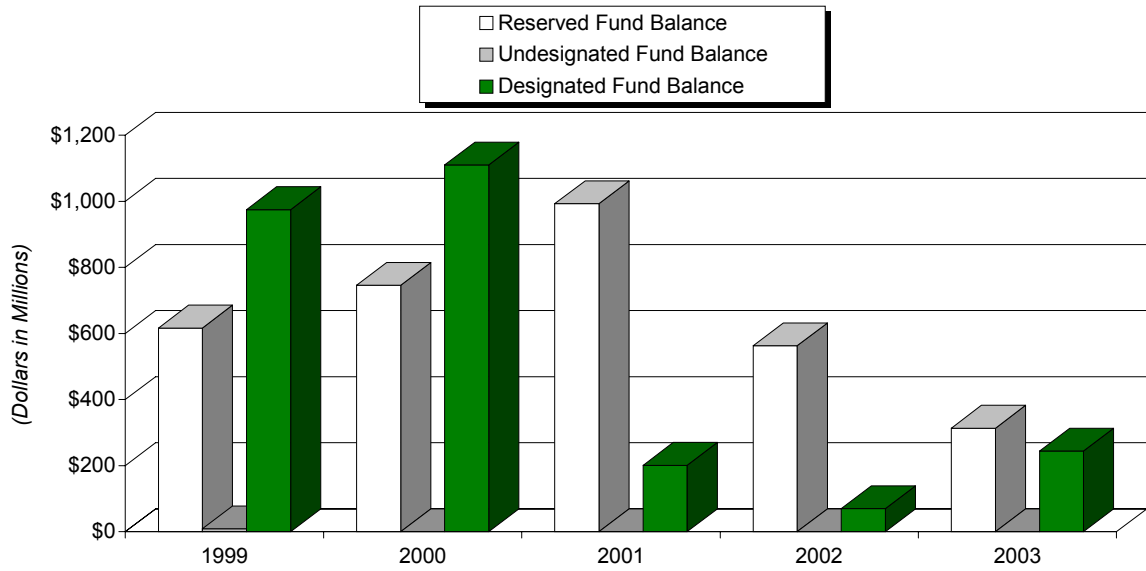
| | <u>General Fund</u> | | | Final Budget/ Actual Variance Favorable (Unfavorable) |
|--|----------------------------|-------------------------|-------------------|--|
| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | |
| Revenues: | | | | |
| Taxes: | | | | |
| Individual and Fiduciary Income | \$ 7,341,700 | \$ 6,798,900 | \$ 6,775,746 | \$ (23,154) |
| Sales and Use (Note 3) | 2,373,000 | 2,342,600 | 2,335,958 | (6,642) |
| Corporation Income | 298,900 | 301,200 | 343,319 | 42,119 |
| Public Service Corporations | 98,500 | 86,000 | 91,247 | 5,247 |
| Premiums of Insurance Companies | 298,000 | 311,600 | 333,004 | 21,404 |
| Other Taxes | 467,000 | 523,200 | 573,445 | 50,245 |
| Rights and Privileges | 50,400 | 64,900 | 63,216 | (1,684) |
| Sales of Property and Commodities | 10,000 | 4,000 | 1,019 | (2,981) |
| Assessments and Receipts for Support of Special Services | 300 | 400 | 383 | (17) |
| Institutional Revenue | 8,900 | 9,200 | 7,896 | (1,304) |
| Interest, Dividends, and Rents | 45,500 | 72,300 | 105,700 | 33,400 |
| Fines, Forfeitures, Court Fees, Penalties, and Escheats | 165,300 | 179,800 | 178,487 | (1,313) |
| Receipts from Cities, Counties, and Towns | 9,200 | 9,200 | 9,117 | (83) |
| Private Donations, Gifts and Contracts | - | - | 7 | 7 |
| Tobacco Master Settlement | 59,100 | 60,500 | 60,012 | (488) |
| Other | 114,999 | 144,896 | 109,200 | (35,696) |
| Total Revenues (Note 2) | <u>11,340,799</u> | <u>10,908,696</u> | <u>10,987,756</u> | <u>79,060</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General Government | 1,396,003 | 1,405,465 | 1,362,222 | 43,243 |
| Education | 5,580,506 | 5,464,597 | 5,441,934 | 22,663 |
| Transportation | 140,654 | 50,040 | 36 | 50,004 |
| Resources and Economic Development | 249,930 | 221,007 | 206,743 | 14,264 |
| Individual and Family Services | 2,730,616 | 2,775,305 | 2,769,780 | 5,525 |
| Administration of Justice | 2,007,378 | 1,895,238 | 1,867,835 | 27,403 |
| Capital Outlay | 25,845 | 43,714 | 19,752 | 23,962 |
| Total Expenditures | <u>12,130,932</u> | <u>11,855,366</u> | <u>11,668,302</u> | <u>187,064</u> |
| Revenues Over (Under) Expenditures | <u>(790,133)</u> | <u>(946,670)</u> | <u>(680,546)</u> | <u>266,124</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers: | | | | |
| Operating Transfers In | 820,226 | 983,311 | 987,805 | 4,494 |
| Operating Transfers Out | <u>(228,036)</u> | <u>(362,694)</u> | <u>(383,066)</u> | <u>(20,372)</u> |
| Total Other Financing Sources (Uses) | <u>592,190</u> | <u>620,617</u> | <u>604,739</u> | <u>(15,878)</u> |
| Revenues and Other Sources Over (Under) | | | | |
| Expenditures and Other Uses | (197,943) | (326,053) | (75,807) | 250,246 |
| Fund Balance, July 1 | <u>632,969</u> | <u>632,969</u> | <u>632,969</u> | <u>-</u> |
| Fund Balance, June 30 | <u>\$ 435,026</u> | <u>\$ 306,916</u> | <u>\$ 557,162</u> | <u>\$ 250,246</u> |

The accompanying notes are an integral part of this statement.

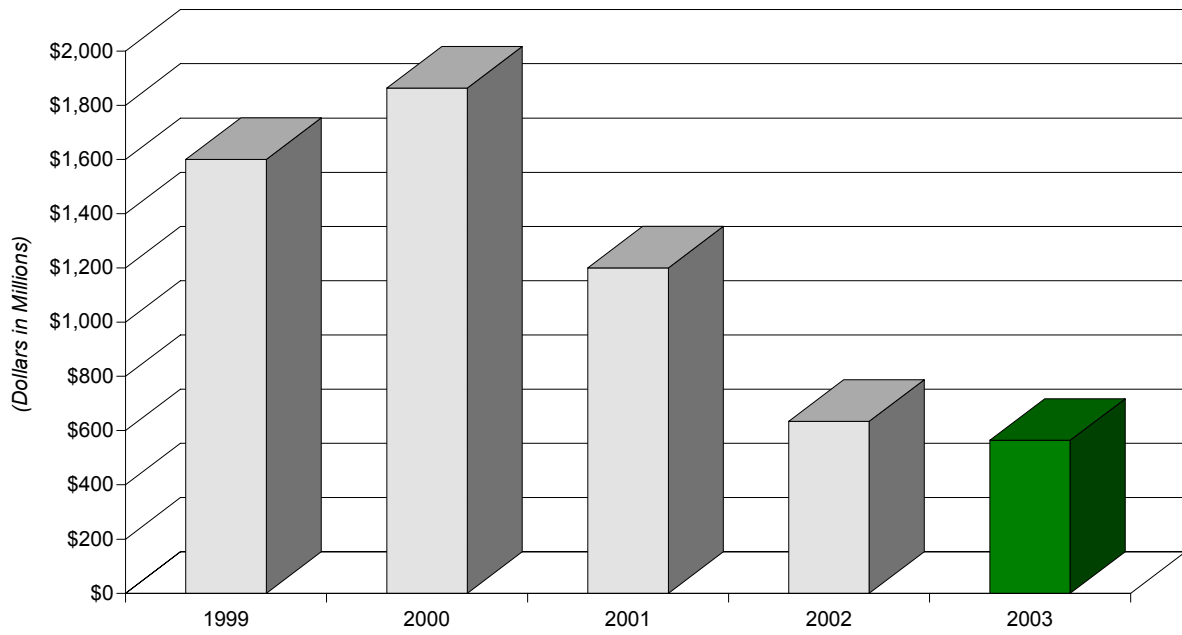
Commonwealth of Virginia
Preliminary Comparison of Sum-Sufficient Final Budget Appropriations
with Actual Expenditures
General Fund - Budgetary (Cash) Basis (Unaudited)
For the Fiscal Year Ended June 30, 2003
(Dollars in Thousands)

| | <u>Final Budget Appropriations</u> | <u>Actual Expenditures</u> | <u>Amount Under Budget</u> |
|--|--|--------------------------------|--------------------------------|
| Enactment of Laws | \$ 27,972 | \$ 23,680 | \$ 4,292 |
| Financial Assistance to Localities -- From Sale of Alcoholic Beverages and Other Distributions | 41,350 | 41,350 | - |
| Financial Assistance for Special State Revenue Sharing -- From Sales Tax and Lottery Proceeds | 948,202 | 940,152 | 8,050 |
| Cash Management Improvement Act Payment to the Federal Government | 410 | 410 | - |
| | <hr/> | <hr/> | <hr/> |
| Totals | <u>\$ 1,017,934</u> | <u>\$ 1,005,592</u> | <u>\$ 12,342</u> |

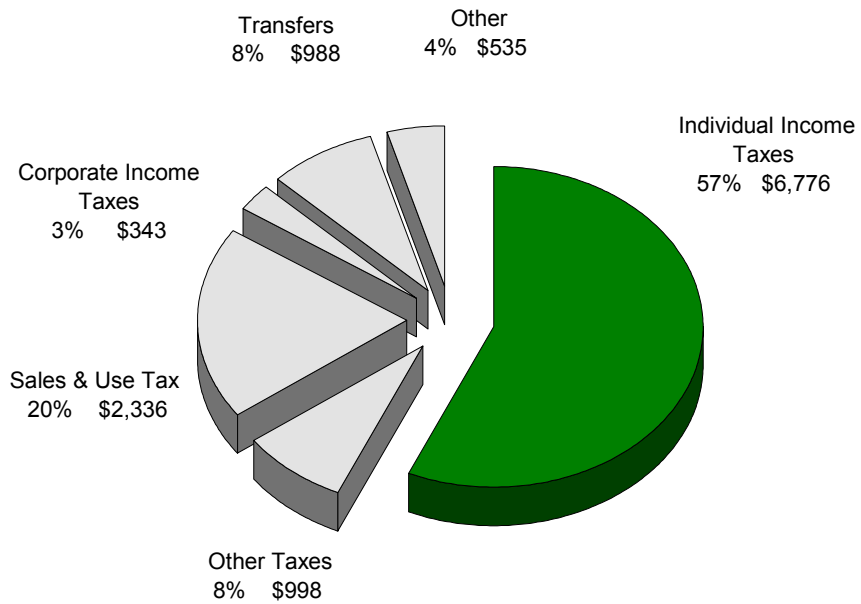
**General Fund
Fund Balance
Fiscal Years 1999-2003**



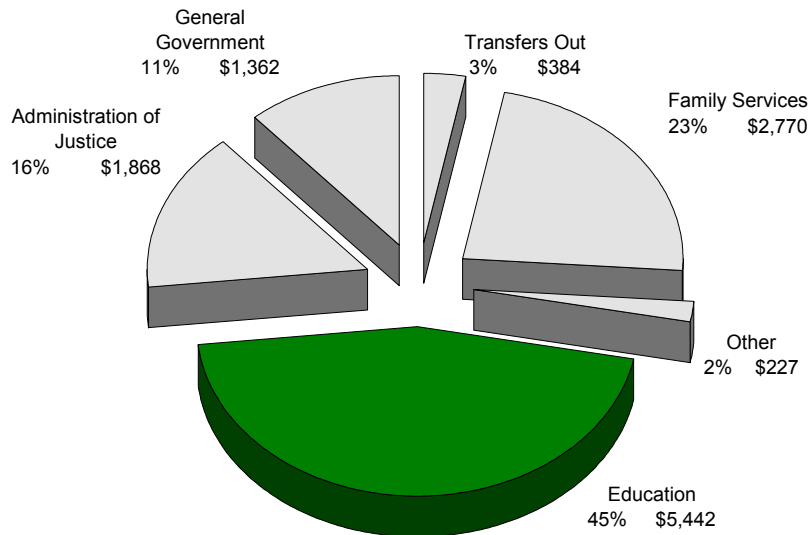
**General Fund
Cash, Cash Equivalents, and Investments
Fiscal Years 1999-2003**



**General Fund
Revenues by Revenue Class and Other Sources
Fiscal Year 2003
(Dollars in Millions)**

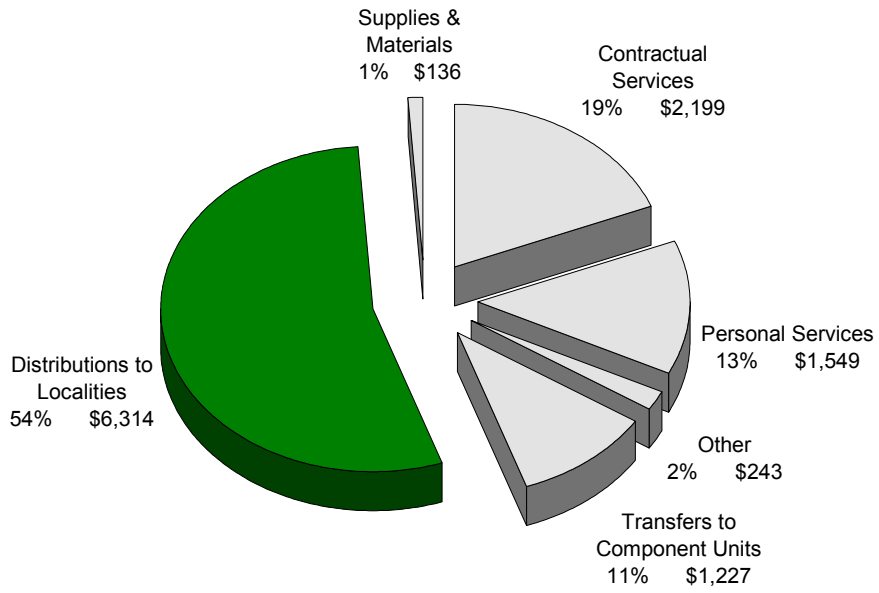


**General Fund
Expenditures by Function and Other Uses
Fiscal Year 2003
(Dollars in Millions)**

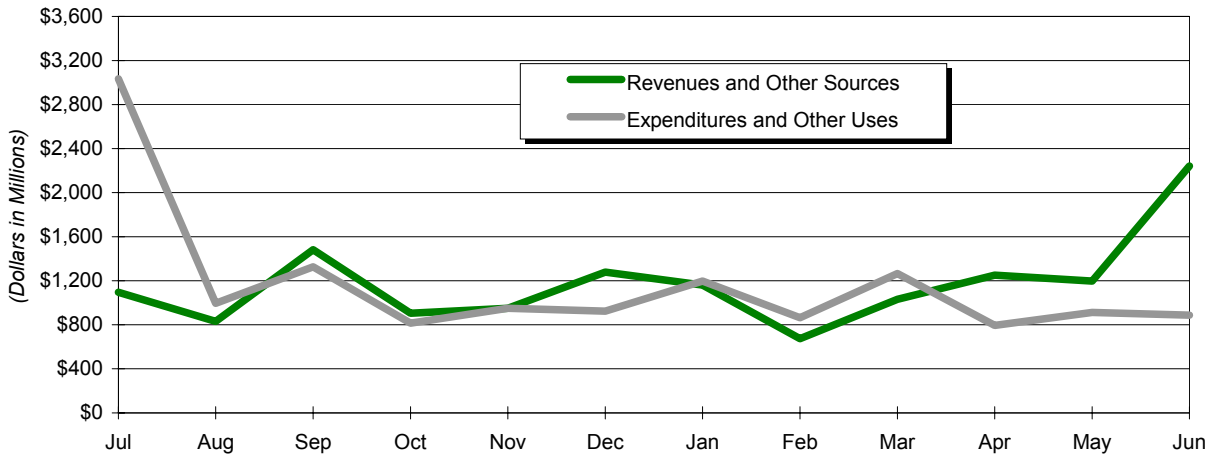


Note: General Government expenditures include \$856.7 million paid to localities pursuant to the Personal Property Tax Relief Act of 1998. This represents 63 percent of the General Government expenditures.

**General Fund
Expenditures by Object
Fiscal Year 2003
(Dollars in Millions)**



**General Fund
Revenues and Other Sources and
Expenditures and Other Uses by Month
Fiscal Year 2003**



Note: July expenditures include \$1.311 billion in payments to Higher Education.

COMMONWEALTH OF VIRGINIA

NOTES TO PRELIMINARY FINANCIAL STATEMENTS

JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

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

All funds will be presented using the appropriate bases of accounting as defined by generally accepted accounting principles in the Annual Report of the Comptroller, to be issued December 15, 2003.

B. Budget

Budgetary amounts shown in the financial statements represent Chapter 899, Acts of Assembly (original) and Chapter 1042, Acts of Assembly (final), both as adjusted for executive and other administrative actions. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. The Governor, as required by the *Code of Virginia*, submits to the General Assembly a State budget composed of all proposed expenditures, estimated revenues and borrowings for a biennium.

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

2. ANALYSIS OF GENERAL FUND REVENUE

The Department of Accounts produces a monthly General Fund Statement of Revenue Collections, Estimates, and Transfers. The following analysis relates components of the Preliminary General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual with the monthly revenue report for June 30, 2003.

| <i>(Dollars in Thousands)</i> | Preliminary Financial Statements | Monthly Statement of Revenue | Variance |
|--|---|---|-----------------|
| Total Final Budgeted Revenue | \$ 10,908,696 | \$ 10,806,600 | \$ 102,096 (a) |
| (a) Appropriation Act transfers included in budgeted revenue on the Preliminary Financial Statements | | 101,618 | |
| Other transfers/items included in budgeted revenue on the Preliminary Financial Statements | | 478 | |
| | | <u>\$ 10,908,696</u> | |
| Total Actual Revenue | \$ 10,987,756 | \$ 10,867,149 | \$ 120,607 (b) |
| (b) Reversal of prior year reclass of Non-sufficient Fund Checks not reflected on the Revenue Report | | \$ 1,355 | |
| Interest on the Revenue Stabilization Fund not reported in the Revenue Report | | 22,586 | |
| Appropriation Act transfers recorded as revenue on the Preliminary Financial Statements | | 96,271 | |
| Other transfers recorded as revenue on the Preliminary Financial Statements | | 2,062 | |
| Personal Property Tax Relief Act - Refund of Prior Year Disbursements not included in the Revenue Report | | 137 | |
| Interest on Lottery Proceeds Fund not reported in the Revenue Report | | 41 | |
| Non-sufficient Fund Checks & Other items reclassified as a reduction in revenue for financial reporting purposes | | (1,845) | |
| | | <u>\$ 10,987,756</u> | |

3. ACCELERATED SALES TAX COLLECTIONS

Pursuant to section 58.1-615 *Code of Virginia* as amended by section 4-12 of Chapter 1042, 2003 Acts of Assembly, the Commonwealth collected \$162.7 million in accelerated sales and use taxes in June 2003. This portion of the \$2.3 billion sales and use tax collections recorded as fiscal year 2003 revenues was accelerated from revenues that would otherwise have been collected in July 2003 and recorded as fiscal year 2004 revenues in next year's cash basis financial statements. Section 4-12 of Chapter 1042, 2003 Acts of Assembly retains this acceleration through fiscal year 2005, with a gradual phase-out during fiscal years 2006-2012. Subsequent to June 30, 2003, \$23.6 million is designated for transfer to the Transportation Trust Fund.

4. APPROPRIATION ACT TRANSFERS

Prior to fiscal year ended June 30, 2000, Appropriation Act transfers were reported on a separate line item. For fiscal year ended June 30, 2003, Appropriation Act transfers are \$1,267.3 million. The following analysis shows where Appropriation Act transfers are reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

| <u>(Dollars in Thousands)</u> | <u>Appropriation Act Transfers</u> |
|-----------------------------------|--|
| Revenue - Other | \$ 96,271 |
| Transfers In | 954,447 (c) |
| Transfers Out | <u>(36,877)</u> |
| Total Appropriation Act Transfers | <u>\$ 1,013,841 (d)</u> |

(c) Includes ABC transfers of approximately \$54.0 million and excludes DMV transfer of \$6.0 million discussed in Note 6.

(d) Excludes \$247,481,034 of transfers from the Revenue Stabilization Fund made during the year as required by Item 278.10B of Chapter 1042, 2003 Acts of Assembly. The Revenue Stabilization Fund is considered part of the General Fund in the Preliminary Financial Statements, and thus, this transfer is not reflected in the accompanying financial statements.

5. OPERATING TRANSFERS IN FROM/OUT TO COMPONENT UNITS

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

6. NONGENERAL FUND TREASURY LOAN

As discussed in the Transmittal Letter, a \$10 million transfer from the Department of Motor Vehicles’ (DMV) operating fund to the General Fund was made pursuant to Chapter 1042, 2003 Acts of Assembly. DMV did not have the full \$10 million in non-general fund cash available to make the required transfer. A \$6 million treasury loan was made from available non-general fund cash balances to DMV in accordance with the provisions of Section 4-3.02 of Chapter 1042 to partially fund this transfer obligation. Repayment of the DMV non-general fund treasury loan will be completed during fiscal year 2004.

Although the treasury loan will be repaid with non-general funds, in substance \$6 million of the \$10 million transfer into the General Fund is supported only by cash received from the treasury loan. Accordingly, the effects of this transaction have been eliminated in the accompanying statements by reducing the cash and transfers in balances by \$6 million.

7. REVENUE STABILIZATION FUND

In accordance with Article X, Section 8 of the *Constitution of Virginia*, the amount estimated as required for deposit to the Revenue Stabilization Fund must be appropriated for that purpose by the General Assembly. During fiscal year 2003, no deposit was required; however, a withdrawal of

\$247.5 million was made. A deposit is not required based on FY 2003 revenue collections; however, this is pending certification by the Auditor of Public Accounts.

The Revenue Stabilization Fund has principal and interest on deposit of \$247.5 million reserved as a part of General Fund equity. The amount on deposit cannot exceed ten percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. The maximum amount allowed is \$963.0 million and \$958.3 million for FY 2003 and FY 2004, respectively. The FY 2004 maximum is pending certification by the Auditor of Public Accounts.

8. UNEXPENDED LOTTERY PROCEEDS

In accordance with Article X, Section 7-A of the *Constitution of Virginia*, lottery proceeds must be distributed to the Commonwealth's localities and the school divisions to be expended for the purposes of public education. The lottery proceeds for FY 2003 totaled \$374.2 million and the FY 2002 unexpended proceeds totaled \$25.2 million. During FY 2003, the Commonwealth appropriated and expended \$401.7 million. Since unexpended lottery proceeds do not exceed the appropriation for lottery profits, a reservation is not required.

9. VIRGINIA WATER QUALITY IMPROVEMENT FUND

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. The Fund was established to provide Water Quality Improvement Grants to various entities to assist in pollution prevention and reduction. The Fund shall consist of amounts appropriated by the General Assembly. Unless otherwise specified by the general appropriation act, these appropriations shall consist of ten percent of revenues collected in excess of the official estimate and ten percent of any unreserved fund balance not required for reappropriation. For the year ended June 30, 2003, \$6.0 and \$1.9 million that represent ten percent of the excess revenue collections and ten percent of the unreserved fund balance not required for reappropriation, respectively, have been designated. Upon appropriation by the General Assembly, \$7.9 million will be transferred from the General Fund to the Virginia Water Quality Improvement Fund.

10. DESIGNATED FUND BALANCE

The amounts designated on the Balance Sheet represent tentative plans for future utilization of current financial resources. For FY 2003, the Department of Planning and Budget determined total designations are \$247.4 million. This amount consists of \$134.5 million for mandatory reappropriation in fiscal year 2004 for operations, \$20.2 million for discretionary reappropriation in fiscal year 2004 for operations, \$24.4 million for capital outlay projects needs and \$5.0 million for natural disaster sum sufficient amounts. Additionally, \$20.4 million is designated as available balances to meet the requirements of Chapter 1042, \$11.4 million for the Lottery Proceeds Fund and \$7.9 million for the Water Quality Fund. Further, the Department of Planning and Budget has identified planned disbursements of \$23.6 million to the Transportation Trust Fund. The Balance Sheet reflects \$244.0 million designated for the above purposes. Sufficient cash is not available to designate \$3.4 million of these designated amounts. Further, as there is no portion of fund balance not reserved or designated, there is no designation for nonrecurring expenditures as required by Section 2.2-1514 of the *Code of Virginia*.

BALANCE SHEET

1. **Cash, Cash Equivalents, and Investments** - All cash, cash equivalents, and investments are maintained by the Treasurer of Virginia. Cash includes demand deposits, time deposits, and certificates of deposit. Cash equivalents are investments with an original maturity of three months or less. Short-term investments held are stated at cost, which approximates market value.
2. **Cash and Travel Advances** - Funds advanced to agencies to make immediate cash payments for authorized purposes. Also included are funds advanced to agency employees to cover expenses incurred while traveling on State business.
3. **Deposits Pending Distribution** - This represents miscellaneous amounts held by several agencies in suspense accounts pending distribution.
4. **Reserved Fund Balance** - Items are reserved to indicate that a particular portion of fund balance is not available to fund operations at the end of the fiscal year.
5. **Designated Fund Balance** - Consists of designations established to reflect tentative plans for future utilization of current financial resources. Designated Fund Balance represents:
 - **Amount Required for Reappropriation of 2003 Unexpended Balances, Mandatory Reappropriations, Discretionary Reappropriations, and Capital Outlay** – This portion of fund balance represents the fiscal year 2003 unexpended appropriations which the Department of Planning and Budget anticipates reappropriating in the next fiscal year.
 - **Amount Required by Chapter 1042, 2003 Acts of Assembly** – This portion of fund balance represents the amount that must be carried forward to the following year to balance the biennial budget.
 - **Amount for Lottery Proceeds Fund** – This portion of fund balance represents the amount planned to be transferred to the Lottery Proceeds Fund subsequent to June 30.
 - **Virginia Water Quality Improvement Fund** – This portion of fund balance represents amounts to be transferred to the Virginia Water Quality Improvement Fund upon appropriation by the General Assembly.
 - **Natural Disaster Sum Sufficient** – This portion of fund balance represents the estimated costs of responding to and recovering from damage caused by hurricanes, blizzards, severe storms/tornadoes, and floods.
 - **Accelerated Sales Tax for Transportation Trust Fund** – This portion of fund balance represents the accelerated sales tax collections planned to be transferred to the Transportation Trust Fund subsequent to June 30.
6. **Undesignated Fund Balance** - The amount of fund balance remaining from operations of the current and prior years, net of amounts established as reserved and designated. As of June 30, 2003, there is no unreserved undesignated fund balance remaining.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Revenues:

7. **Taxes** - Charges of money imposed by the Commonwealth on persons or property for public purposes.
8. **Rights and Privileges** - Registration fees, licenses, and permits. Examples include domestic and foreign corporate registration fees and marriage licenses.
9. **Sales of Property and Commodities** - Revenue collected from sales of Commonwealth assets and goods. Examples include sales of State publications.

10. **Assessments and Receipts for Support of Special Services** - Revenues collected for services provided by the Commonwealth's agencies. An example is audit services provided to cities, counties, and towns.
11. **Institutional Revenue** - Revenue generated primarily from sales by the Departments of Corrections and Mental Health, Mental Retardation and Substance Abuse Services. Examples include the sale of farm and dairy products.
12. **Interest, Dividends, and Rent** - Interest earnings and rental income. Examples include interest on Commonwealth bank accounts and investments and interest on delinquent taxes. Interest allocated to various other funds is not included here.
13. **Fines, Forfeitures, Court Fees, Penalties, and Escheats** - Fines, penalties, etc., primarily collected by the Department of Taxation and the court system. Examples include court processing fees and penalties for nonpayment of taxes.
14. **Receipts from Cities, Counties, and Towns** - Revenue collected from city and county treasurers representing miscellaneous fees and allowances of local law enforcement officials.
15. **Private Donations, Gifts, and Contracts** - This amount represents donations and grants from individuals and private companies to State programs.
16. **Tobacco Master Settlement** - This amount represents the revenue generated from the Tobacco Master Settlement Agreement with tobacco companies.
17. **Other Revenue** - All other revenue collections that are not included in the above categories. Examples include refunds of expenditures and miscellaneous disbursements made in prior years, excess fees paid into the State Treasury, and recovery of Statewide indirect costs.

Expenditures:

18. **General Government** - Expenditures to support the general activities of the state, regional, and local levels of government. Examples include administrative and support services, general financial assistance to localities, information systems management and direction. Also included is tax relief reported as expenditures pursuant to the Personal Property Tax Relief Act (PPTRA) of 1998. The tax relief level was 12.5 percent, 27.5 percent, 47.5 percent, and 70.0 percent for tax years 1998 to 2002, respectively, and remained at 70 percent for 2003. The expenditures associated with this relief were \$181.3 million, \$322.1 million, \$604.1 million, \$826.2 million, and \$856.7 million for fiscal years 1999 to 2003, respectively.
19. **Education** - Expenditures to assist individuals in developing knowledge, skills, and cultural awareness. Examples include elementary and secondary education, instruction, supervision and assistance and higher education.
20. **Transportation** - Expenditures related to the movement of people, goods, and services and their regulation. Examples include ground, water and air transportation.
21. **Resources and Economic Development** - Expenditures to develop the economic base, including alternative natural resources and to regulate it with regard to varied public interests of the Commonwealth. Examples include resource management, economic development, promotion and improvement, as well as the regulation of professions and occupations.
22. **Individual and Family Services** - Expenditures to support the economic, social and physical well being of the individual and family. Included are disease research, prevention, and control, state health services and community health services.
23. **Administration of Justice** - Expenditures related to civil and criminal justice, including apprehension, trial, punishment, and rehabilitation of law violators. Examples include crime deterrence, suppression and control, adjudication, confinement and community custody.

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

Other Financing Sources (Uses):

25. **Operating Transfers In** - This balance reflects transfers in from other nongeneral funds.

26. **Operating Transfers Out** - The balance represents transfers from the General Fund to other nongeneral funds.

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

✉ Finrept@doa.state.va.us

For additional copies of this report, contact:

Department of Accounts

Financial Reporting Unit

☎ (804) 225-3102.

Copies also may be downloaded from
The Department of Accounts' web site at

<http://www.doa.state.va.us>

*Text and graphics were produced using Microsoft Word and Microsoft Excel in the Arial font.
Printed August 2003 at the Department of Accounts on a Tektronix Phaser 850 color printer.*

