
COMMONWEALTH OF VIRGINIA

GENERAL FUND PRELIMINARY (UNAUDITED) ANNUAL REPORT

For the Fiscal Year Ended June 30, 2008

Presented on a Budgetary (Cash) Basis



David A. Von Moll
Comptroller
August 15, 2008

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COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA
COMPTROLLER

Office of the Comptroller

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

August 15, 2008

The Honorable Timothy M. Kaine
Governor
Commonwealth of Virginia
State Capitol
Richmond, Virginia 23219

Dear Governor Kaine:

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, 2008.

The Commonwealth ended fiscal year 2008 with a total fund balance in the General Fund of \$2.22 billion measured on the cash basis of activity. This is a decrease of \$735.3 million, or 25 percent, from last year's ending fund balance of \$2.96 billion. Planned (budgeted) decreases in General Fund balance for this year were \$1.07 billion. The difference between the planned and actual decrease is primarily attributed to expenditures being approximately \$310 million less than budgeted and revenue collections being approximately \$20 million more than expected. The first graph on page 9 shows a comparison of the General Fund balance for the last five years.

Revenue Stabilization Fund

The Revenue Stabilization Fund is routinely segregated from the General Fund, but Virginia law directs that the Revenue Stabilization Fund be included as a component of the General Fund for financial reporting purposes. Therefore, it is included here both as a cash asset and as a reserved component of fund balance. The Revenue Stabilization Fund can be used only for constitutionally authorized purposes.

The Revenue Stabilization Fund has principal and interest on deposit of \$1.0 billion reserved as a part of the General Fund balance. A deposit of \$114.8 million was made during FY 2008 as required by Section 2.2-1829 of the *Code of Virginia*. During FY 2008, in accordance with the provisions of Article X, Section 8 of the *Constitution of Virginia* and Section 2.2-1830 of the *Code of Virginia*, a withdrawal of \$351.5 million was made from the fund. The \$21.3 million deposit calculated based on FY 2007 revenues and planned to be made in FY 2009 has been reserved.

The *Constitution* requires a deposit based on growth in income and retail sales tax revenue and allows revenue growth from increases in tax rates or the repeal of exemptions to be excluded, in whole or part, from the deposit calculation for up to six years. Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, a deposit is not required during FY 2010 based on FY 2008 revenue collections when revenue increases from tax reform were included or excluded (including those derived from estimates).

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the Fund when specific criteria have been met. No such designation is required since the specified criteria were not met for FY 2008.

Amounts Available for Reappropriation

Section 4-1.05a.1 of Chapter 847 requires reappropriation of 2008 fiscal year unexpended appropriations for Legislative and Judicial Departments, as well as Independent Agencies. Additionally, this Section of the Act gives the Governor discretionary authority to reappropriate all or a portion of the unexpended balances in Executive Department appropriations. Section 4-0.01b provides that all appropriations, however, are declared to be conditioned on the receipt of sufficient revenue to support them.

Based on an analysis by the Department of Planning and Budget of unexpended appropriations at June 30, 2008, \$382.9 million is designated for capital outlay project needs; \$50.0 million for central capital planning; \$21.1 million for natural disaster sum sufficient amounts; \$417.1 million for mandatory reappropriation in fiscal year 2009; \$8.5 million for Water Quality; \$17.1 million for FY 2008 budget reductions designated for FY 2009 budget reductions; and \$45.3 million for discretionary Reappropriation in fiscal year 2009 for operations. Additionally, \$149.8 million is designated as available balances to meet the requirements of Chapter 879.

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, 2008, \$1.6 and \$6.9 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, \$8.5 million will be transferred from the General Fund to the Water Quality Improvement Fund.

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.

The Honorable Timothy M. Kaine
August 15, 2008
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Final Report and Award

The final Annual Report of the Comptroller, due on December 15, 2008, will include certain accruals and other information required for conformance with generally accepted accounting principles. It will be audited by the Auditor of Public Accounts.

We are proud to report that the Comprehensive Annual Financial Report for the year ended June 30, 2007, 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 twenty-second consecutive year that Virginia's Annual Report has received this award. In addition, Virginia expects to receive a companion award from the GFOA for its fiscal year 2007 Popular Report, entitled *Virginia Financial Perspective*. Upon receipt of this award, Virginia's Popular Report will have received this award for the past thirteen consecutive years.

Respectfully submitted,

David A. Von Moll



SUMMARY OF GENERAL FUND ACTIVITY



**Commonwealth of Virginia
Preliminary Balance Sheet
General Fund - Budgetary (Cash) Basis (Unaudited)
June 30, 2008
(Dollars in Thousands)**

Assets

Cash, Cash Equivalents, and Investments	\$ 2,220,711	
Cash and Travel Advances	<u>957</u>	
Total Assets		<u><u>\$ 2,221,668</u></u>

Liabilities and Fund Equity

Liabilities:		
Deposits Pending Distribution	<u>1,878</u>	
Total Liabilities		\$ 1,878

Fund Equity:

Reserved Fund Balance:		
Revenue Stabilization Reserve Fund (Note 4)	1,014,870	
Revenue Stabilization Reserve 2007 (Note 4)	21,321	
Payroll Reserve for July 1, 2008 Payroll	<u>91,717</u>	
Total Reserved Fund Balance		<u>1,127,908</u>

Unreserved Fund Balance:

Designated:		
Amount Required for Reappropriation of 2008 Unexpended Balances for Capital Outlay	382,932	
Central Capital Planning Fund	50,000	
Natural Disaster Sum Sufficient	21,100	
Amount Required by Chapter 879	149,785	
Amount Required for Mandatory Reappropriation	417,138	
Virginia Water Quality Improvement Fund - Part A (Note 6)	1,589	
Virginia Water Quality Improvement Fund - Part B (Note 6)	6,934	
FY 2008 Budget Reductions Designated for FY 2009		
Budget Reductions	17,069	
Discretionary Reappropriations	<u>45,335</u>	

Total Designated Fund Balance (Note 7)	<u>1,091,882</u>	
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Total Unreserved Fund Balance		<u>1,091,882</u>
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Total Fund Equity		\$ 2,219,790
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Total Liabilities and Fund Balance		<u><u>\$ 2,221,668</u></u>
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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, 2004 through June 30, 2008
(Dollars in Thousands)

	Year Ended				
	June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004
Revenues:					
Taxes:					
Individual and Fiduciary Income	\$ 10,114,833	\$ 9,787,592	\$ 9,308,570	\$ 8,352,366	\$ 7,430,365
Sales and Use	3,302,181	3,274,286	3,029,949	3,093,725	2,582,797
Corporation Income	807,852	879,575	871,554	616,690	434,493
Deeds, Contracts, Wills, and Suits	456,348	582,946	694,712	596,058	340,578
Premiums of Insurance Companies	396,858	384,894	373,781	373,571	351,278
Alcoholic Beverage Sales	168,862	161,845	152,963	144,466	138,039
Tobacco Products	183,946	186,920	187,084	113,120	16,118
Estate	153,378	152,864	160,407	149,962	149,648
Public Service Corporations	96,390	87,961	89,992	88,309	86,870
Other Taxes	15,459	19,229	27,424	41,677	23,997
Total Taxes	<u>15,696,107</u>	<u>15,518,112</u>	<u>14,896,436</u>	<u>13,569,944</u>	<u>11,554,183</u>
Rights and Privileges	67,449	68,407	65,212	60,975	69,809
Sales of Property and Commodities	2,460	-	7,026	11,778	2,035
Assessments and Receipts for Support of Special Services	461	224	332	333	306
Institutional Revenue	7,590	7,169	8,235	9,198	9,633
Interest, Dividends, and Rents	252,284	229,007	114,500	90,118	86,719
Fines, Forfeitures, Court Fees, Penalties, and Escheats	195,716	193,280	145,189	181,116	193,675
Receipts from Cities, Counties, and Towns	10,091	10,281	9,999	9,446	8,962
Private Donations, Gifts and Contracts	31	16	-	1	1
Tobacco Master Settlement	53,684	50,087	47,852	52,126	51,359
Other	63,844	60,894	81,353	142,978	68,411
Total Revenues (Note 2)	<u>16,349,717</u>	<u>16,137,477</u>	<u>15,376,134</u>	<u>14,128,013</u>	<u>12,045,093</u>
Expenditures:					
General Government	1,789,768	1,750,274	1,314,782	1,471,632	1,407,323
Education	7,822,396	7,592,975	6,767,114	6,242,886	5,272,151
Transportation	25,971	44	43	44	48
Resources and Economic Development	329,729	308,657	280,689	234,857	214,116
Individual and Family Services	4,255,474	3,919,109	3,652,319	3,348,455	2,907,139
Administration of Justice	2,424,790	2,220,203	2,221,646	2,042,773	1,906,455
Capital Outlay	370,552	175,713	85,952	25,368	17,830
Total Expenditures	<u>17,018,680</u>	<u>15,966,975</u>	<u>14,322,545</u>	<u>13,366,015</u>	<u>11,725,062</u>
Revenues Over (Under) Expenditures	<u>(668,963)</u>	<u>170,502</u>	<u>1,053,589</u>	<u>761,998</u>	<u>320,031</u>
Other Financing Sources (Uses):					
Transfers:					
Operating Transfers In	634,513	611,041	651,262	636,063	697,884
Operating Transfers Out	(700,861)	(716,463)	(680,173)	(642,289)	(463,135)
Total Other Financing Sources (Uses)	<u>(66,348)</u>	<u>(105,422)</u>	<u>(28,911)</u>	<u>(6,226)</u>	<u>234,749</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(735,311)</u>	<u>65,080</u>	<u>1,024,678</u>	<u>755,772</u>	<u>554,780</u>
Fund Balance, July 1					
Reserved	1,424,793	1,085,538	738,767	432,482	313,165
Unreserved	1,530,308	1,804,483	1,126,576	677,089	241,626
Fund Balance, July 1	<u>2,955,101</u>	<u>2,890,021</u>	<u>1,865,343</u>	<u>1,109,571</u>	<u>554,791</u>
Fund Balance, June 30					
Reserved	1,127,908	1,424,793	1,085,538	738,767	432,482
Unreserved	1,091,882	1,530,308	1,804,483	1,126,576	677,089
Fund Balance, June 30	<u>\$ 2,219,790</u>	<u>\$ 2,955,101</u>	<u>\$ 2,890,021</u>	<u>\$ 1,865,343</u>	<u>\$ 1,109,571</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, 2008
(Dollars in Thousands)

General Fund				Final Budget/ Actual Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues:				
Taxes:				
Individual and Fiduciary Income	\$ 10,515,300	\$ 10,171,300	\$ 10,114,833	\$ (56,467)
Sales and Use	3,493,100	3,325,200	3,302,181	(23,019)
Corporation Income	794,900	699,100	807,852	108,752
Deeds, Contracts, Wills, and Suits	554,900	495,500	456,348	(39,152)
Premiums of Insurance Companies	411,100	418,400	396,858	(21,542)
Alcoholic Beverage Sales	163,000	170,000	168,862	(1,138)
Tobacco Products	185,200	183,700	183,946	246
Estate	129,400	118,500	153,378	34,878
Public Service Corporations	95,100	88,000	96,390	8,390
Other Taxes	27,600	23,600	15,459	(8,141)
Rights and Privileges	66,600	68,800	67,449	(1,351)
Sales of Property and Commodities	100	5,100	2,460	(2,640)
Assessments and Receipts for Support of Special Services	400	300	461	161
Institutional Revenue	8,800	7,500	7,590	90
Interest, Dividends, and Rents	251,777	227,574	252,284	24,710
Fines, Forfeitures, Court Fees, Penalties, and Escheats	198,200	202,400	195,716	(6,684)
Receipts from Cities, Counties, and Towns	10,200	10,300	10,091	(209)
Private Donations, Gifts and Contracts	-	-	31	31
Tobacco Master Settlement	52,929	54,006	53,684	(322)
Other	67,550	73,838	63,844	(9,994)
Total Revenues (Note 2)	<u>17,026,156</u>	<u>16,343,118</u>	<u>16,349,717</u>	<u>6,599</u>
Expenditures:				
Current:				
General Government	2,047,158	1,832,064	1,789,768	42,296
Education	7,980,285	7,863,398	7,822,396	41,002
Transportation	44	52,042	25,971	26,071
Resources and Economic Development	298,438	353,333	329,729	23,604
Individual and Family Services	4,281,480	4,275,525	4,255,474	20,051
Administration of Justice	2,312,213	2,439,998	2,424,790	15,208
Capital Outlay	256,590	511,963	370,552	141,411
Total Expenditures	<u>17,176,208</u>	<u>17,328,323</u>	<u>17,018,680</u>	<u>309,643</u>
Revenues Over (Under) Expenditures	<u>(150,052)</u>	<u>(985,205)</u>	<u>(668,963)</u>	<u>316,242</u>
Other Financing Sources (Uses):				
Transfers:				
Operating Transfers In	556,221	621,173	634,513	13,340
Operating Transfers Out	(554,145)	(702,134)	(700,861)	1,273
Total Other Financing Sources (Uses)	<u>2,076</u>	<u>(80,961)</u>	<u>(66,348)</u>	<u>14,613</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(147,976)	(1,066,166)	(735,311)	330,855
Fund Balance, July 1	<u>2,955,101</u>	<u>2,955,101</u>	<u>2,955,101</u>	<u>-</u>
Fund Balance, June 30	<u>\$ 2,807,125</u>	<u>\$ 1,888,935</u>	<u>\$ 2,219,790</u>	<u>\$ 330,855</u>

The accompanying notes are an integral part of this statement.

Commonwealth of Virginia
Preliminary Comparison of Selected Sum-Sufficient Final Budget
Appropriations with Actual Expenditures
General Fund - Budgetary (Cash) Basis (Unaudited)
For the Fiscal Year Ended June 30, 2008
(Dollars in Thousands)

	<u>Original Budget</u> <u>Appropriations</u>	<u>Final Budget</u> <u>Appropriations</u>	<u>Actual</u> <u>Expenditures</u>	<u>Amount (Over) Under</u> <u>Final Budget</u>
Enactment of Laws	\$ 30,121	\$ 37,459	\$ 32,872	\$ 4,587
Financial Assistance to Localities -- From Sale of Alcoholic Beverages and Other Distributions	54,530	36,966	36,966	-
Financial Assistance for Special State Revenue Sharing -- From Sales Tax	1,202,200	1,148,200	1,148,605	(405)
Cash Management Improvement Act Payment to the Federal Government	663	663	663	-
Totals	<u>\$ 1,287,514</u>	<u>\$ 1,223,288</u>	<u>\$ 1,219,106</u>	<u>\$ 4,182</u>

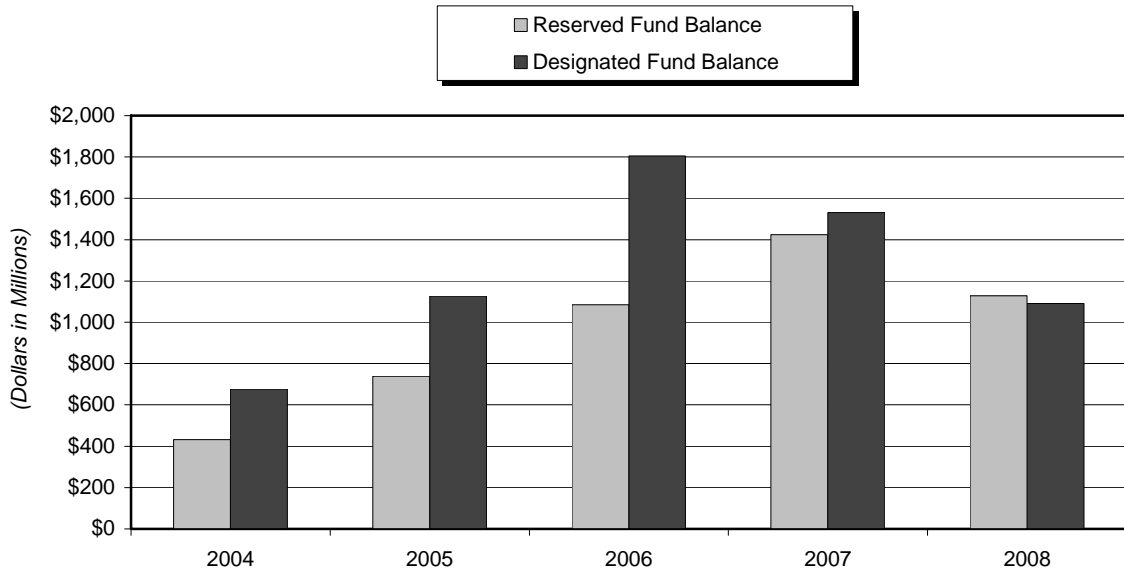


**GENERAL FUND GRAPHICS AND SUPPLEMENTAL
SCHEDULES**

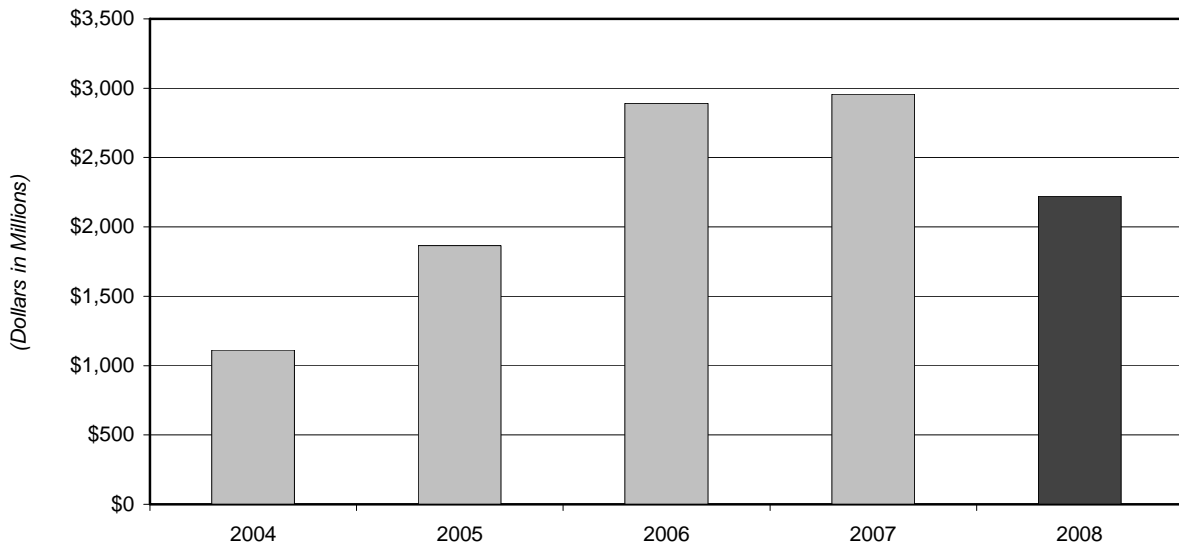




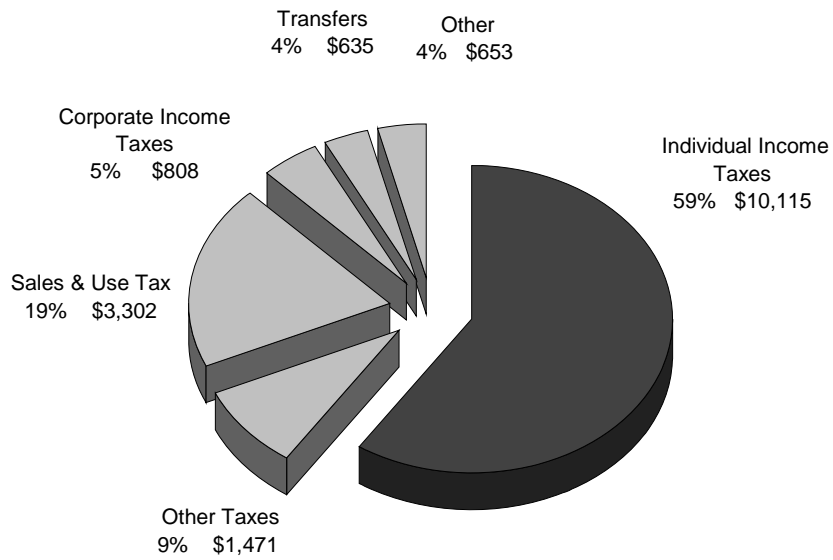
**General Fund
Fund Balance
Fiscal Years 2004-2008**



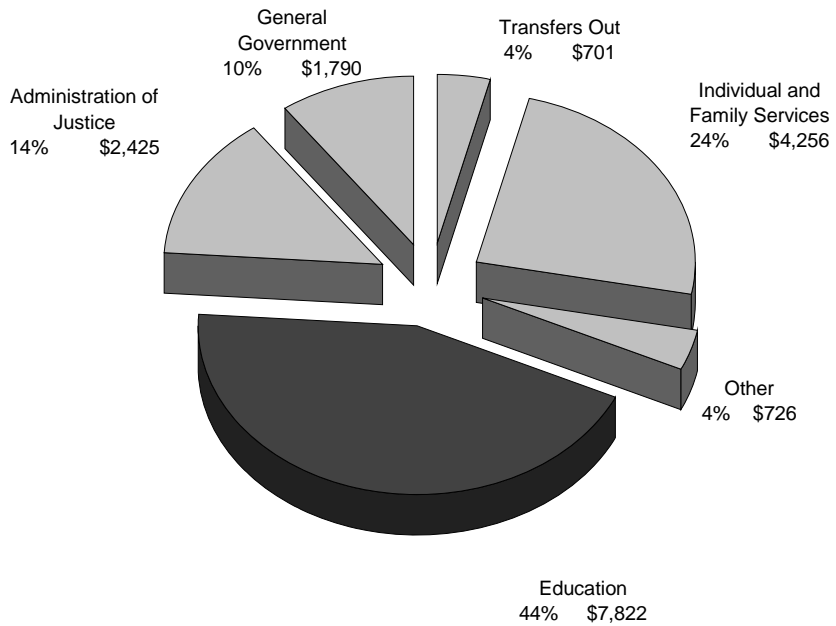
**General Fund
Cash, Cash Equivalents, and Investments
Fiscal Years 2004-2008**



**General Fund
Revenues by Revenue Class and Other Sources
Fiscal Year 2008
(Dollars in Millions)**

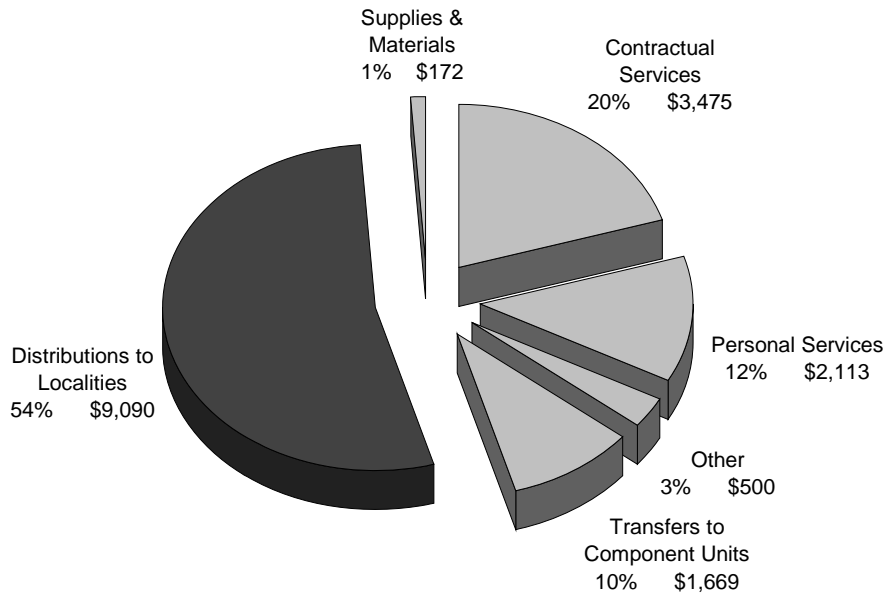


**General Fund
Expenditures by Function and Other Uses
Fiscal Year 2008
(Dollars in Millions)**

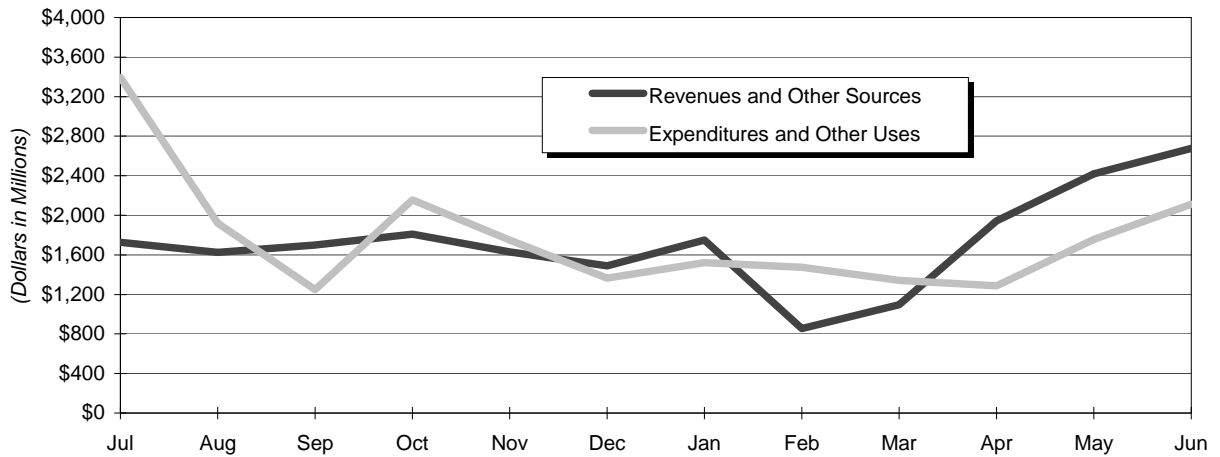


Note: General Government expenditures include \$950 million paid to localities pursuant to the Personal Property Tax Relief Act of 1998. This represents 53 percent of the General Government expenditures.

**General Fund
Expenditures by Object
Fiscal Year 2008
(Dollars in Millions)**



**General Fund
Revenues and Other Sources and
Expenditures and Other Uses by Month
Fiscal Year 2008**



Note: July expenditures include \$939 million in payments to Higher Education.

**General Fund
Expenditures by Function and Significant Service Area
Fiscal Year 2008
(Dollars in Thousands)**

Function:	Significant Service Area:	Amount	Totals
Education	Grades K-12	\$ 5,803,397	
	Higher Education	1,827,892	
	Other	191,107	
		<u> </u>	\$ 7,822,396
Individual and Family Services	Medical Assistance Services	2,860,035	
	Mental Health, Mental Retardation and Substance Abuse Services	523,550	
	Social Services	406,103	
	Comprehensive Services for At-Risk Youth and Families	238,458	
	Health	153,686	
	Other	73,642	
		<u> </u>	4,255,474
Administration of Justice	Corrections	1,316,616	
	Sheriffs and Inmate Confinement - Compensation Board	481,025	
	Courts	346,673	
	State Police	215,919	
	Other	64,557	
		<u> </u>	2,424,790
General Government	Car Tax Relief (PPTRA)	950,000	
	Criminal Justice - Locality Assistance	205,002	
	Constitutional Officers - Compensation Board	158,049	
	Debt Service - Component Units	107,391	
	Tax Administration	87,116	
	Other	282,210	
		<u> </u>	1,789,768
Resources and Economic Development	Environmental Quality	48,549	
	Conservation and Recreation	45,964	
	Housing and Community Development	39,422	
	Agriculture	27,297	
	Forestry	19,288	
	Economic Development Partnership	17,335	
	Tourism	15,277	
	Business Assistance	11,278	
	Other	105,319	
	<u> </u>	329,729	
Other	Capital Outlay	370,552	
	Transportation	25,971	
	<u> </u>	396,523	
			<u><u> </u></u>
			\$ 17,018,680

General Fund
Other Financing Sources and Uses by Significant Service Area
Fiscal Year 2008
(Dollars in Thousands)

Other Financing Sources (Transfers In):

Significant Service Area	<u>Amount</u>	<u>Total</u>
Lottery	\$ 458,180	
ABC Transfers	111,354	
Transfers from Other Funds	<u>64,979</u>	
		<u><u>\$ 634,513</u></u>

Other Financing Uses (Transfers Out):

Significant Service Area	<u>Amount</u>	<u>Total</u>
Transportation Programs	\$ 327,535	
Debt Service	294,474	
Semiconductor Memory/Logic Wafer		
Manufacturing Performance Grant	22,970	
Disaster Relief	8,200	
Water Supply Assistance Grant Fund	7,100	
Water Quality Improvement Fund	5,000	
Transfers to Other Funds	<u>35,582</u>	
		<u><u>\$ 700,861</u></u>



GENERAL FUND NOTES



COMMONWEALTH OF VIRGINIA

NOTES TO PRELIMINARY FINANCIAL STATEMENTS

JUNE 30, 2008

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, 2008.

B. Budget

Budgetary amounts shown in the financial statements represent Chapter 847, 2007 Acts of Assembly (original), and Chapter 847, 2008 Acts of Assembly (final), as adjusted for executive and other administrative actions. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. The Governor, as required by the *Code of Virginia*, submits to the General Assembly a State budget composed of all proposed expenditures, estimated revenues and borrowings for a biennium.

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

2. ANALYSIS OF GENERAL FUND REVENUE

The Department of Accounts produces a monthly General Fund Statement of Revenue Collections, Estimates, and Transfers which is published on the Secretary of Finance's website. The following analysis relates components of the Preliminary General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual with the monthly revenue report for June 30, 2008.

<i>(Dollars in Thousands)</i>	Final Revenue Budget	Total Actual Revenue
Amount per Preliminary Financial Statements	\$ 16,343,118	\$ 16,349,717
Amount per Monthly Statement of Revenue	15,751,100	15,766,951
Variance	<u>\$ 592,018</u>	<u>\$ 582,766</u>

Variance Attributable to the Following:

Public Education Standards of Quality Fund - Sales and Use Tax revenue included on the Preliminary Financial Statements	\$ 228,800	\$ 226,654
Virginia Health Care Fund - Tobacco Products Tax revenue included on the Preliminary Financial Statements	183,700	183,946
Virginia Health Care Fund - Tobacco Master Settlement revenue included on the Preliminary Financial Statements	54,006	53,684
Virginia Health Care Fund - Medicaid claims payable recoveries included as other revenue on the Preliminary Financial Statements	60,612	47,777
Revenue Stabilization Fund interest revenue included on the Preliminary Financial Statements	56,877	61,690
Transfers from Component Units and Fiduciary Funds included in revenue on the Preliminary Financial Statements	8,060	7,884
Other items included/(excluded) in revenue on the Preliminary Financial Statements	(37)	1,131
	<u>\$ 592,018</u>	<u>\$ 582,766</u>

3. **APPROPRIATION ACT TRANSFERS**

For fiscal year ended June 30, 2008, Appropriation Act transfers are \$812.5 million. The following analysis shows where Appropriation Act transfers are reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

<i>(Dollars in Thousands)</i>	Appropriation Act Transfers
Transfers In	\$ 610,812 (a)
Transfers Out	(32,201)
Intrafund Transfers between General Fund and Public Education Standards of Quality Fund	226,654
Revenue - Other	<u>7,267</u>
Total Appropriation Act Transfers	<u>\$ 812,532</u>

(a) Includes ABC transfers of approximately \$111.4 million

4. 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 FY 2007, \$32.1 million was identified to be deposited during FY 2009. Subsequent to the issuance of the FY 2007 preliminary annual report, this amount was adjusted to \$21.3 million. The General Assembly has appropriated \$21.3 million for deposit into the Fund during FY 2009. This amount was computed under the provisions of Article X, Section 8 of the *Constitution of Virginia*. During FY 2008, in accordance with the provisions of Article X, Section 8 of the *Constitution* and Section 2.2-1830 of the *Code of Virginia*, a withdrawal of \$351.5 million was made from the fund.

The *Constitution* requires a deposit based on growth in income and retail sales tax revenue and allows revenue growth from increases in tax rates or the repeal of exemptions to be excluded, in whole or part, from the deposit calculation for up to six years. A deposit is not required based on FY 2008 revenue collections when revenue increases from tax reform were included or excluded, including those derived from estimates.

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the Fund when specific criteria have been met. No such designation is required since the specified criteria were not met for FY 2008.

The Revenue Stabilization Fund has principal and interest on deposit of \$1.0 billion reserved as a part of General Fund balance. 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 \$1.30 billion and \$1.38 billion for FY 2008 and FY 2009, respectively. The FY 2009 maximum is pending certification by the Auditor of Public Accounts.

5. 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. During FY 2008, the Commonwealth appropriated sufficient funds so that expenditures related to public education exceeded the lottery proceeds. Since the appropriations exceeded the lottery proceeds, a reservation is not required.

Lottery has reported total proceeds of \$455.3 million for FY 2008. This amount has been certified by the Auditor of Public Accounts. The difference between the certified amount and the FY 2008 transfers of \$455.0 million will be transferred to the Lottery Proceeds Fund during FY 2009. Accordingly, the additional proceeds are not included in the accompanying financial statements, but will be included in the Annual Report of the Comptroller, to be issued December 15, 2008.

6. 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, 2008, \$1.6 and \$6.9 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, \$8.5 million will be transferred from the General Fund to the Water Quality Improvement Fund.

7. DESIGNATED FUND BALANCE

The amounts designated on the Balance Sheet represent tentative plans for future utilization of current financial resources. For FY 2008, the Department of Planning and Budget certified total designations of \$1,092.3 million as follows.

<u>Designation</u>	<u>Amount (in thousands)</u>
Amount Required for Reappropriation of 2008 Unexpended Balances for Capital Outlay	382,932
Central Capital Planning Fund	50,000
Natural Disaster Sum Sufficient	21,100
Amount Required by Chapter 879	149,785
Amount Required for Mandatory Reappropriation	417,138
Virginia Water Quality Improvement Fund - Part A	1,589
Virginia Water Quality Improvement Fund - Part B	6,934
FY 2008 Budget Reductions Designated for FY 2009 Budget Reductions	17,069
Amount Required for Discretionary Reappropriation	45,741
Total	<u>\$ 1,092,288</u>

The Balance Sheet reflects \$1,091.9 million designated for the above purposes. Sufficient cash is not available to designate the remaining \$406,000 of planned disbursements.

The Central Capital Planning Fund was established to fund preplanning and detailed planning costs for potential capital outlay projects. The General Assembly approves projects eligible for Central Capital Planning funds. Once projects are approved, bond proceeds will be used to reimburse the Central Capital Planning Fund.



GLOSSARY



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 Unexpended Balances, Capital Outlay and Mandatory Reappropriations** – This portion of fund balance represents fiscal year 2008 unexpended appropriations and amounts for the 2007 Transportation Initiative (Chapter 847, 2008 Acts of Assembly, Item 449.10) which the Department of Planning and Budget anticipates reappropriating in the next fiscal year.
 - **Central Capital Planning Fund** – This portion of fund balance represents amounts for preplanning and detailed planning costs for potential capital outlay projects.
 - **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.
 - **Amount Required by Chapter 879** – This portion of fund balance represents the amount that must be carried forward to the following year to balance the biennial budget.
 - **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.
 - **FY 2008 Budget Reductions Designated for FY 2009 Budget Reductions** – This portion of the fund balance represents unspent balances resulting from FY 2008 budget reversions that are planned to be used towards FY 2009 budget reductions.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Revenues:

6. **Taxes** - Charges of money imposed by the Commonwealth on persons or property for public purposes.
7. **Rights and Privileges** - Registration fees, licenses, and permits. Examples include domestic and foreign corporate registration fees and marriage licenses.
8. **Sales of Property and Commodities** - Revenue collected from sales of Commonwealth assets and goods. Examples include sales of State publications.
9. **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.
10. **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.
11. **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.
12. **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.
13. **Receipts from Cities, Counties, and Towns** - Revenue collected from city and county treasurers representing miscellaneous fees and allowances of local law enforcement officials.
14. **Private Donations, Gifts, and Contracts** - This amount represents donations and grants from individuals and private companies to State programs.
15. **Tobacco Master Settlement** - This amount represents the revenue generated from the Tobacco Master Settlement Agreement with tobacco companies.
16. **Other Revenue** - All other revenue collections that are not included in the above categories. Examples include refunds of expenditures and miscellaneous disbursements made in prior years and recovery of Statewide indirect costs.

Expenditures:

17. **General Government** - Expenditures to support the general activities of the state, regional, and local levels of government. Examples include administrative and support services, general financial assistance to localities, information systems management and direction. Also included is tax relief reported as expenditures pursuant to the Personal Property Tax Relief Act (PPTRA) of 1998. During Special Session 1 (2004), the General Assembly established a limit of \$950 million on the amount for personal property tax relief beginning with FY 2007. The expenditures for the past five fiscal years associated with this relief are as follows.

Fiscal Year	Expenditures
2008	\$ 950.0
2007	961.1
2006	723.7
2005	907.3
2004	881.1

The FY 2007 disbursements represent the \$950 million payment for tax year 2006 and \$11.1 million in payments made for tax years 2005 and prior as allowed under Item 459 of Chapter 847.

18. **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.
19. **Transportation** - Expenditures related to the movement of people, goods, and services and their regulation. Examples include ground, water and air transportation.
20. **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.
21. **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.
22. **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.
23. **Capital Outlay** - Construction and preparation of Commonwealth assets.

Other Financing Sources (Uses):

24. **Operating Transfers In** - This balance reflects transfers in from other nongeneral funds.
25. **Operating Transfers Out** - This balance represents transfers from the General Fund to other nongeneral funds.

If you have any questions or comments regarding information
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