
COMMONWEALTH OF VIRGINIA

GENERAL FUND PRELIMINARY (UNAUDITED) ANNUAL REPORT

For the Fiscal Year Ended June 30, 2010

Presented on a Budgetary (Cash) Basis



David A. Von Moll
Comptroller
August 13, 2010



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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 13, 2010

The Honorable Robert F. McDonnell
Governor
Commonwealth of Virginia
State Capitol
Richmond, Virginia 23219

Dear Governor McDonnell:

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, 2010.

The Commonwealth ended fiscal year 2010 with a total fund balance in the General Fund of \$870.9 million measured on the cash basis of activity. This is an increase of \$47.4 million, or 5.8 percent, from last year's ending fund balance of \$823.5 million. Planned (budgeted) decreases in General Fund balance for this year were \$444.3 million. The difference between the planned decrease and actual increase is primarily attributed to expenditures being approximately \$200 million less than budgeted and revenue collections being approximately \$292 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 \$295 million reserved as a part of the General Fund balance. During FY 2010, 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 \$295 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. Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, a deposit is not required during FY 2012 based on FY 2010 revenue collections whether 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 2010.

Amounts Available for Reappropriation

Section 4-1.05a.1 of Chapter 872 requires reappropriation of 2010 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, 2010, \$6.1 million is designated for capital outlay project needs; \$3.3 million for central capital planning; \$37.5 million for communication sales and use tax distributions; \$82.2 million for a one-time 3 percent bonus for state employees; \$23.9 million for natural disaster sum sufficient amounts; \$103.6 million for mandatory reappropriations; \$27.7 million for accelerated sales tax collections pending transfer to the Transportation Trust Fund; \$1.2 million for the federal portion of the Dominion Resources refund; and \$36.4 million for Water Quality. Additionally, \$49.1 million is designated as available balances to meet the requirements of Chapter 874, and \$71.2 million is designated for discretionary purposes.

Of the remaining unexpended balance of \$49 million, \$32.7 million is designated for deposit into the Transportation Trust Fund and \$16.3 million is designated for nonrecurring expenditures as required by Section 2.2-1514 of the *Code of Virginia*.

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, 2010, \$23.1 and \$13.3 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, \$36.4 million will be transferred from the General Fund to the Virginia 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 Robert F. McDonnell
August 13, 2010
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Final Report and Award

The final Annual Report of the Comptroller, due on December 15, 2010, 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, 2009, 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-fourth 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 2009 Popular Report, entitled *Virginia Financial Perspective*. This is the fifteenth consecutive year that Virginia's Popular Report has received this award.

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, 2010
(Dollars in Thousands)

Assets

Cash, Cash Equivalents, and Investments	\$ 870,505	
Cash and Travel Advances	<u>2,384</u>	
Total Assets		<u><u>\$ 872,889</u></u>

Liabilities and Fund Equity

Liabilities:		
Deposits Pending Distribution	<u>2,014</u>	
Total Liabilities		\$ 2,014

Fund Equity:

Reserved Fund Balance:		
Revenue Stabilization Reserve Fund (Note 4)	295,159	
Payroll Reserve for July 1, 2010 Payroll	83,051	
Lottery Proceeds Fund (Note 5)	<u>1,421</u>	
Total Reserved Fund Balance		<u>379,631</u>

Unreserved Fund Balance:

Designated:

Amount Required for Reappropriation of	
2010 Unexpended Balances for Capital Outlay	6,099
Central Capital Planning Fund	3,285
Communication Sales and Use Tax (Note 6)	37,492
3% Bonus for State Employees	82,200
Natural Disaster Sum Sufficient	23,851
Amount Required by Chapter 874	49,159
Amount Required for Mandatory Reappropriation	103,557
Accelerated Sales Tax for Transportation Trust Fund (Note 7)	27,748
Federal Portion of Dominion Resources Refund	1,243
Virginia Water Quality Improvement Fund - Part A (Note 8)	23,091
Virginia Water Quality Improvement Fund - Part B (Note 8)	13,352
Amount Required for Discretionary Reappropriations	71,158
Transportation Trust Fund	32,673
Nonrecurring Expenditures	<u>16,336</u>

Total Designated Fund Balance (Note 9) 491,244

Total Unreserved Fund Balance 491,244

Total Fund Equity \$ 870,875

Total Liabilities and Fund Balance \$ 872,889

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, 2006 through June 30, 2010
(Dollars in Thousands)

	Year Ended				
	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006
Revenues:					
Taxes:					
Individual and Fiduciary Income	\$ 9,088,252	\$ 9,481,109	\$ 10,114,833	\$ 9,787,592	\$ 9,308,570
Sales and Use	3,783,656	3,116,831	3,302,181	3,274,286	3,029,949
Corporation Income	806,473	648,033	807,852	879,575	871,554
Deeds, Contracts, Wills, and Suits	290,189	314,264	456,348	582,946	694,712
Premiums of Insurance Companies	261,881	255,019	396,858	384,894	373,781
Alcoholic Beverage Sales	175,093	173,227	168,862	161,845	152,963
Tobacco Products	176,057	183,750	183,946	186,920	187,084
Estate	5,671	6,006	153,378	152,864	160,407
Public Service Corporations	97,263	91,340	96,390	87,961	89,992
Other Taxes	26,269	28,230	15,459	19,229	27,424
Total Taxes	14,710,804	14,297,809	15,696,107	15,518,112	14,896,436
Rights and Privileges	68,460	67,426	67,449	68,407	65,212
Sales of Property and Commodities	824	1	2,460	-	7,026
Assessments and Receipts for Support of Special Services	373	396	461	224	332
Institutional Revenue	6,019	6,402	7,590	7,169	8,235
Interest, Dividends, and Rents	113,142	134,400	252,284	229,007	114,500
Fines, Forfeitures, Court Fees, Penalties, and Escheats	194,151	197,875	195,716	193,280	145,189
Receipts from Cities, Counties, and Towns	9,761	10,265	10,091	10,281	9,999
Private Donations, Gifts and Contracts	137	118	31	16	-
Tobacco Master Settlement	49,182	58,966	53,684	50,087	47,852
Other	168,429	102,568	63,844	60,894	81,353
Total Revenues (Note 2)	15,321,282	14,876,226	16,349,717	16,137,477	15,376,134
Expenditures:					
General Government	2,093,036	1,669,257	1,789,768	1,750,274	1,314,782
Education	7,007,842	8,045,614	7,822,396	7,592,975	6,767,114
Transportation	11,125	11,863	25,971	44	43
Resources and Economic Development	272,075	288,877	329,729	308,657	280,689
Individual and Family Services	4,004,995	4,012,450	4,255,474	3,919,109	3,652,319
Administration of Justice	2,120,477	2,300,008	2,424,790	2,220,203	2,221,646
Capital Outlay	13,477	47,421	370,552	175,713	85,952
Total Expenditures	15,523,027	16,375,490	17,018,680	15,966,975	14,322,545
Revenues Over (Under) Expenditures	(201,745)	(1,499,264)	(668,963)	170,502	1,053,589
Other Financing Sources (Uses):					
Transfers:					
Operating Transfers In	752,251	664,141	634,513	611,041	651,262
Operating Transfers Out	(503,106)	(561,192)	(700,861)	(716,463)	(680,173)
Total Other Financing Sources (Uses)	249,145	102,949	(66,348)	(105,422)	(28,911)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	47,400	(1,396,315)	(735,311)	65,080	1,024,678
Fund Balance, July 1					
Reserved	662,489	1,127,908	1,424,793	1,085,538	738,767
Unreserved	160,986	1,091,882	1,530,308	1,804,483	1,126,576
Fund Balance, July 1	823,475	2,219,790	2,955,101	2,890,021	1,865,343
Fund Balance, June 30					
Reserved	379,631	662,489	1,127,908	1,424,793	1,085,538
Unreserved	491,244	160,986	1,091,882	1,530,308	1,804,483
Fund Balance, June 30	\$ 870,875	\$ 823,475	\$ 2,219,790	\$ 2,955,101	\$ 2,890,021

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, 2010
(Dollars in Thousands)

	General Fund			Final Budget/ Actual Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues:				
Taxes:				
Individual and Fiduciary Income	\$ 10,034,100	\$ 8,960,100	\$ 9,088,252	\$ 128,152
Sales and Use	3,382,200	3,693,747	3,783,656	89,909
Corporation Income	724,000	730,700	806,473	75,773
Deeds, Contracts, Wills, and Suits	298,100	299,000	290,189	(8,811)
Premiums of Insurance Companies	283,100	242,500	261,881	19,381
Alcoholic Beverage Sales	181,000	174,800	175,093	293
Tobacco Products	337,000	170,300	176,057	5,757
Estate	-	3,600	5,671	2,071
Public Service Corporations	93,900	94,600	97,263	2,663
Other Taxes	19,600	24,000	26,269	2,269
Rights and Privileges	75,335	74,700	68,460	(6,240)
Sales of Property and Commodities	1,700	8,300	824	(7,476)
Assessments and Receipts for Support of Special Services	400	400	373	(27)
Institutional Revenue	7,500	5,900	6,019	119
Interest, Dividends, and Rents	167,886	116,765	113,142	(3,623)
Fines, Forfeitures, Court Fees, Penalties, and Escheats	214,800	204,200	194,151	(10,049)
Receipts from Cities, Counties, and Towns	10,100	10,200	9,761	(439)
Private Donations, Gifts and Contracts	1,700	1,753	137	(1,616)
Tobacco Master Settlement	61,348	57,186	49,182	(8,004)
Other	139,508	169,445	168,429	(1,016)
Total Revenues (Note 2)	<u>16,033,277</u>	<u>15,042,196</u>	<u>15,321,282</u>	<u>279,086</u>
Expenditures:				
Current:				
General Government	1,297,019	2,147,466	2,093,036	54,430
Education	7,861,895	7,042,173	7,007,842	34,331
Transportation	42	11,680	11,125	555
Resources and Economic Development	277,226	284,912	272,075	12,837
Individual and Family Services	4,239,678	4,065,874	4,004,995	60,879
Administration of Justice	2,433,258	2,151,618	2,120,477	31,141
Capital Outlay	18,774	19,477	13,477	6,000
Total Expenditures	<u>16,127,892</u>	<u>15,723,200</u>	<u>15,523,027</u>	<u>200,173</u>
Revenues Over (Under) Expenditures	<u>(94,615)</u>	<u>(681,004)</u>	<u>(201,745)</u>	<u>479,259</u>
Other Financing Sources (Uses):				
Transfers:				
Operating Transfers In	600,995	740,009	752,251	12,242
Operating Transfers Out	(497,682)	(503,274)	(503,106)	168
Total Other Financing Sources (Uses)	<u>103,313</u>	<u>236,735</u>	<u>249,145</u>	<u>12,410</u>
Revenues and Other Sources Over (Under)				
Expenditures and Other Uses	8,698	(444,269)	47,400	491,669
Fund Balance, July 1	<u>823,475</u>	<u>823,475</u>	<u>823,475</u>	<u>-</u>
Fund Balance, June 30	<u>\$ 832,173</u>	<u>\$ 379,206</u>	<u>\$ 870,875</u>	<u>\$ 491,669</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, 2010
(Dollars in Thousands)

	<u>Original Budget Appropriations</u>	<u>Final Budget Appropriations</u>	<u>Actual Expenditures</u>	<u>Amount (Over) Under Final Budget</u>
Enactment of Laws	\$ 32,545	\$ 38,365	\$ 31,254	\$ 7,111
Financial Assistance to Localities -- From Sale of Alcoholic Beverages and Other Distributions	46,945	25,872	25,840	32
Financial Assistance for Special State Revenue Sharing -- From Sales Tax	1,135,200	1,049,900	1,068,623	(18,723)
Cash Management Improvement Act Payment to the Federal Government	56	56	56	-
Totals	<u>\$ 1,214,746</u>	<u>\$ 1,114,193</u>	<u>\$ 1,125,773</u>	<u>\$ (11,580)</u>

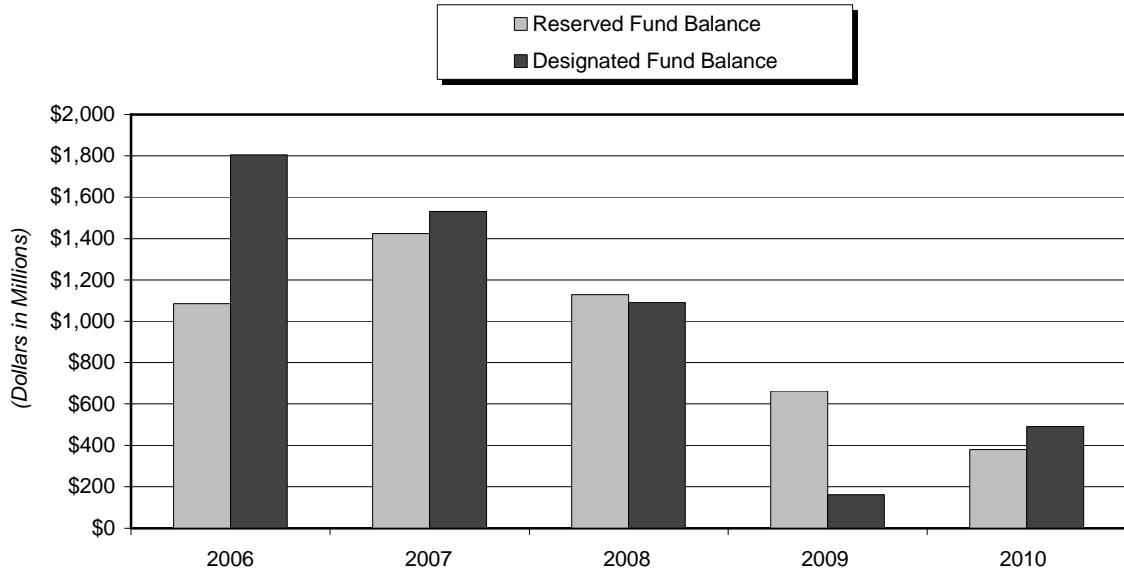


**GENERAL FUND GRAPHICS AND SUPPLEMENTAL
SCHEDULES**

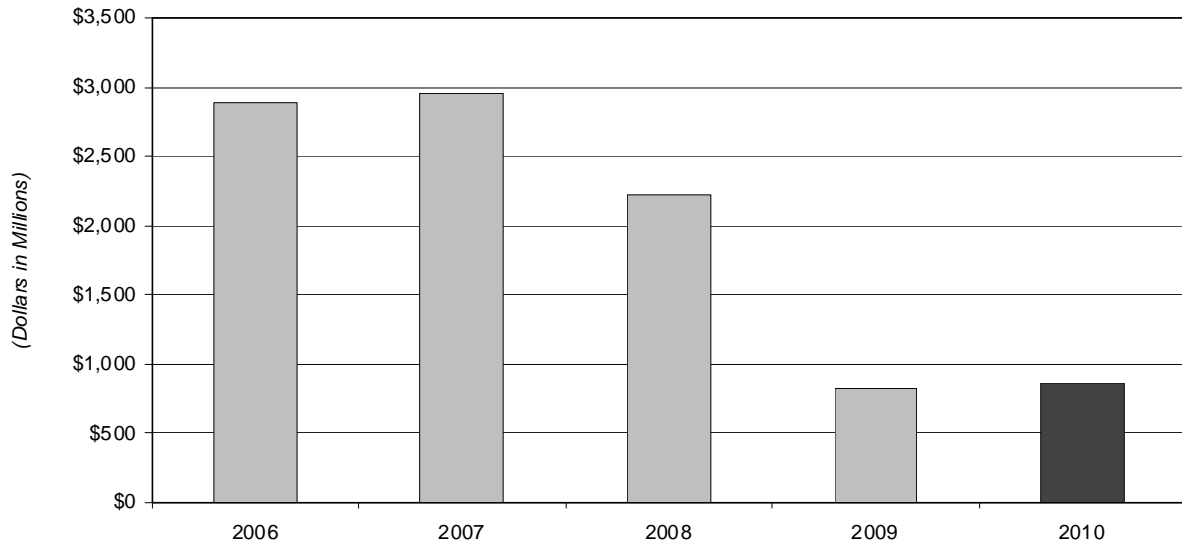




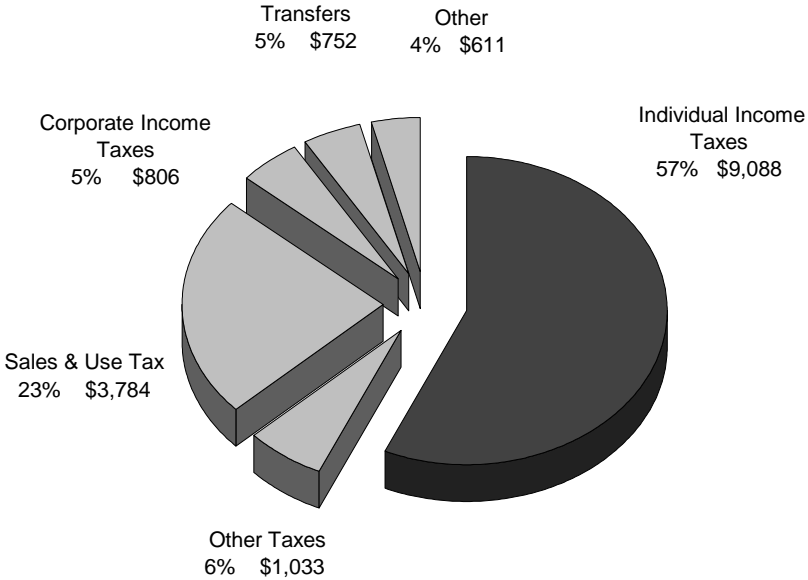
**General Fund
Fund Balance
Fiscal Years 2006-2010**



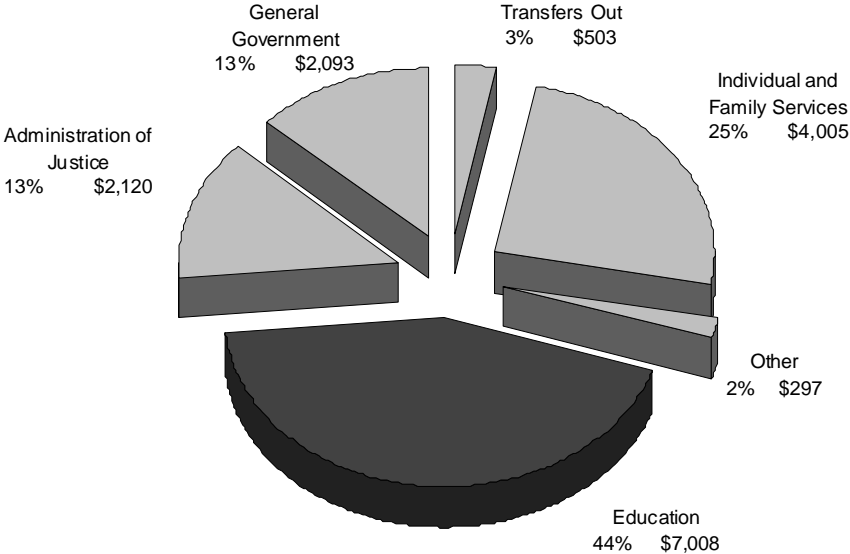
**General Fund
Cash, Cash Equivalents, and Investments
Fiscal Years 2006-2010**



**General Fund
Revenues by Revenue Class and Other Sources
Fiscal Year 2010
(Dollars in Millions)**

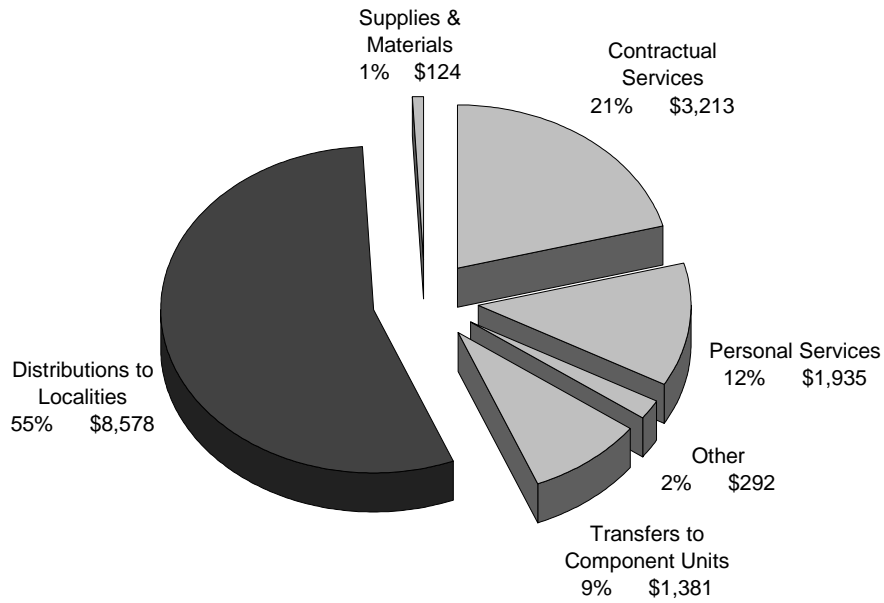


**General Fund
Expenditures by Function and Other Uses
Fiscal Year 2010
(Dollars in Millions)**

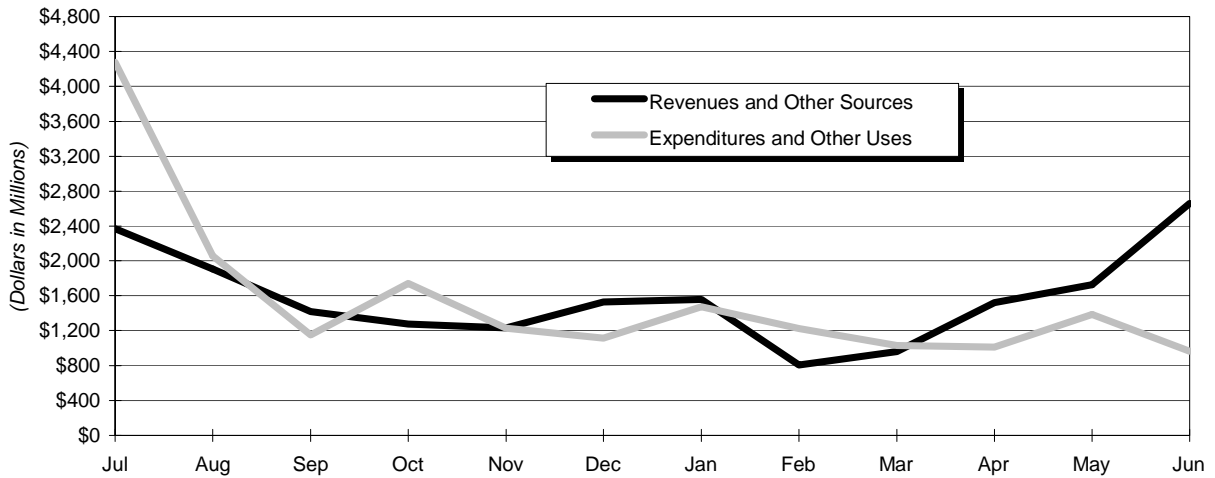


Note: General Government expenditures include \$950 million paid to localities pursuant to the Personal Property Tax Relief Act of 1998. This represents 45 percent of the General Government expenditures.

**General Fund
Expenditures by Object
Fiscal Year 2010
(Dollars in Millions)**



**General Fund
Revenues and Other Sources and
Expenditures and Other Uses by Month
Fiscal Year 2010**



Note: July expenditures include \$1.08 billion in payments to Higher Education.

**General Fund
Expenditures by Function and Significant Service Area
Fiscal Year 2010
(Dollars in Thousands)**

Function:	Significant Service Area:	<u>Amount</u>	<u>Totals</u>
Education	Grades K-12	\$ 5,250,156	
	Higher Education	1,621,258	
	Other	<u>136,428</u>	
			\$ 7,007,842
Individual and Family Services	Medical Assistance Services	2,705,735	
	Mental Health, Mental Retardation and Substance Abuse Services	498,469	
	Social Services	382,871	
	Comprehensive Services for At-Risk Youth and Families	211,338	
	Health	140,958	
	Other	<u>65,624</u>	
			4,004,995
Administration of Justice	Corrections	1,211,642	
	Courts	347,175	
	Sheriffs and Inmate Confinement - Compensation Board	306,557	
	State Police	190,898	
	Other	<u>64,205</u>	
			2,120,477
General Government	Car Tax Relief (PPTRA)	950,000	
	Communication Sales Tax Distribution	456,942	
	Criminal Justice - Locality Assistance	167,315	
	Constitutional Officers - Compensation Board	142,047	
	Debt Service - Component Units	114,818	
	Tax Administration	91,682	
	Other	<u>170,232</u>	
			2,093,036
Resources and Economic Development	Conservation and Recreation	40,540	
	Environmental Quality	34,655	
	Housing and Community Development	30,994	
	Agriculture	28,873	
	Economic Development Partnership	14,863	
	Base Realignment - Locality Assistance	14,518	
	Tourism	14,431	
	Forestry	14,099	
	Mines, Minerals, and Energy	11,172	
	Business Assistance	9,921	
	Other	<u>58,009</u>	
		272,075	
Other	Capital Outlay	13,477	
	Transportation	<u>11,125</u>	
			<u>24,602</u>
			<u>\$ 15,523,027</u>

**General Fund
Other Financing Sources and Uses by Significant Service Area
Fiscal Year 2010
(Dollars in Thousands)**

Other Financing Sources (Transfers In):

Significant Service Area	<u>Amount</u>	<u>Total</u>
Lottery	\$ 439,097	
ABC Transfers	125,249	
Transfers from Other Funds	<u>187,905</u>	
		<u><u>\$ 752,251</u></u>

Other Financing Uses (Transfers Out):

Significant Service Area	<u>Amount</u>	<u>Total</u>
Debt Service	\$ 359,330	
Transportation Programs	78,591	
Water Quality Improvement Fund	15,200	
Governor's Opportunity Fund	11,911	
Water Supply Assistance Grant Fund	4,117	
Disaster Relief	2,312	
Transfers to Other Funds	<u>31,645</u>	
		<u><u>\$ 503,106</u></u>



GENERAL FUND NOTES



COMMONWEALTH OF VIRGINIA

NOTES TO PRELIMINARY FINANCIAL STATEMENTS

JUNE 30, 2010

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, 2010.

B. Budget

Budgetary amounts shown in the financial statements represent Chapter 781, 2009 Acts of Assembly (original), and Chapter 872, 2010 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, 2010.

<i>(Dollars in Thousands)</i>	Final Revenue Budget	Total Actual Revenue
Amount per Preliminary Financial Statements	\$ 15,042,196	\$ 15,321,282
Amount per Monthly Statement of Revenue	13,988,600	14,219,477
Variance	<u>\$ 1,053,596</u>	<u>\$ 1,101,805</u>
Variance Attributable to the Following:		
Virginia Communications Sales and Use Tax Fund - Sales and Use Tax revenue included on the Preliminary Financial Statements	\$ 446,247	\$ 491,699
Public Education Standards of Quality Fund - Sales and Use Tax revenue included on the Preliminary Financial Statements	204,500	209,426
Virginia Health Care Fund - Tobacco Products Tax revenue included on the Preliminary Financial Statements	170,300	176,057
Transfers from Fiduciary Funds and Component Units included in revenue on the Preliminary Financial Statements	96,610	98,333
Virginia Health Care Fund - Medicaid claims payable recoveries included as other revenue on the Preliminary Financial Statements	66,765	52,291
Virginia Health Care Fund - Tobacco Master Settlement revenue included on the Preliminary Financial Statements	57,186	49,182
Virginia Communications Sales and Use Tax Fund - Rights and Privileges revenue included on the Preliminary Financial Statements	11,000	1,052
Revenue Stabilization Fund interest revenue included on the Preliminary Financial Statements	-	15,191
Other items included/(excluded) in revenue on the Preliminary Financial Statements	988	8,574
	<u>\$ 1,053,596</u>	<u>\$ 1,101,805</u>

3. **APPROPRIATION ACT TRANSFERS**

For fiscal year ended June 30, 2010, Appropriation Act transfers are \$1 billion. 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	\$ 729,029 (a)
Transfers Out	(27,970)
Intrafund Transfers between General Fund and:	
Public Education Standards of Quality Fund	209,426
Other Nongeneral Funds	1,011
Revenue - Other	94,790
Total Appropriation Act Transfers	<u>\$ 1,006,286</u>

(a) Includes ABC transfers of approximately \$125.2 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 2010, 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 \$295 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 2010 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 2010.

The Revenue Stabilization Fund has principal and interest on deposit of \$295 million 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 \$1.38 and \$1.35 billion, respectively, for FY 2010 and FY 2011. The FY 2011 maximum is pending certification by the Auditor of Public Accounts.

5. LOTTERY PROCEEDS FUND

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. Further, Section 58.1-4022.1 of the *Code of Virginia* directs the Lottery Proceeds Fund be included as a component of the General Fund for financial reporting purposes. Accordingly, the financial activity of the Lottery Proceeds Fund for FY 2010 is included in the Preliminary Statement of Revenues, Expenditures, and Changes in Fund Balance. The remaining cash balance of \$1.4 million is reserved as a component of the General Fund balance.

6. COMMUNICATION SALES AND USE TAX FUND

Effective for FY 2010, Item 271.10 Chapter 872, 2010 Acts of Assembly, directs the Communications Sales and Use Tax Fund be included as a component of the General Fund for financial reporting purposes. During the fiscal year, the Commonwealth collected \$491.7 million in communications sales and use taxes and disbursed as general government expenditures \$456.9 million to localities. The remaining cash balance is designated.

7. ACCELERATED SALES TAX COLLECTIONS

Pursuant to Section 58.1-615 *Code of Virginia* as amended by Chapter 872, 2010 Acts of Assembly, Section 3-5.14, the Commonwealth collected \$223.8 million in accelerated sales and use taxes in June 2010. This portion of the \$3.8 billion sales and use tax collections recorded as fiscal year 2010 was accelerated from revenues that would otherwise have been collected in July 2010 and recorded as revenues in the fiscal year 2011 cash basis financial statements. Subsequent to June 30, 2010, \$27.7 of accelerated sales tax collections is designated for transfer to the Transportation Trust Fund. Chapter 874, 2010 Acts of Assembly, Section 3-5.08 retains this acceleration through FY 2012, with a gradual phase-out beginning in 2013.

8. 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, 2010, \$23.1 and \$13.3 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, \$36.4 million will be transferred from the General Fund to the Virginia Water Quality Improvement Fund.

9. DESIGNATED FUND BALANCE

The amounts designated on the Balance Sheet represent tentative plans for future utilization of current financial resources. For FY 2010, the Department of Planning and Budget certified total designations of \$491.2 million as follows.

<u>Designation</u>	<u>Amount (in thousands)</u>
Amount Required for Reappropriation of 2010 Unexpended	
Balances for Capital Outlay	6,099
Central Capital Planning Fund	3,285
Communication Sales and Use Tax	37,492
3% Bonus for State Employees	82,200
Natural Disaster Sum Sufficient	23,851
Amount Required by Chapter 874	49,159
Amount Required for Mandatory Reappropriation	103,557
Accelerated Sales Tax for Transportation Trust Fund	27,748
Federal Portion of Dominion Resources Refund	1,243
Virginia Water Quality Improvement Fund - Part A	23,091
Virginia Water Quality Improvement Fund - Part B	13,352
Amount Required for Discretionary Reappropriations	71,158
Transportation Trust Fund	32,673
Nonrecurring Expenditures	16,336
Total	<u>\$ 491,244</u>

For reporting purposes, selected non-general budgetary funds are included in this report. One such fund, 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. Another such fund, the Communications Sales and Use Tax Fund, represents amounts that will be disbursed to local governments. Effective for FY 2010, Chapter 872, 2010 Act of Assembly, requires this fund to be included in the General Fund for reporting purposes.

Additionally, Chapter 872 authorizes a one-time three percent bonus to state employees if a combination of actual revenue collections exceed the official revenue estimate and discretionary unspent appropriations recommended for reversion equal or exceed \$82.2 million. As reported in the June 2010 Monthly Statement of Revenue, actual revenue collected exceeded the official revenue estimate by \$230.9 million. Accordingly, this \$82.2 million one-time bonus is designated in the accompanying balance sheet.

As of June 30, 2010, the cash balance exceeds all planned disbursements for the General Fund. Accordingly, pursuant to the *Code of Virginia* Section 2.2-1514, two thirds of the undesignated fund balance has been designated for transfer to the Transportation Trust Fund and the remaining one third has been designated for nonrecurring expenditures.

10. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENT

As previously reported, the GASB issued Statement No. 54 (GASB No. 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, for periods beginning after June 15, 2010. GASB No. 54 will affect the information included in this report beginning in FY 2011. The changes will modify classifications for both fund balance and individual funds. For illustrative purposes only, the fund balance classifications are reflected below:

<u>Current Classifications</u>	<u>GASB No. 54 Classifications</u>
Reserved	Restricted
Designated	Committed or Assigned

Additionally, GASB No. 54 redefines funds for reporting purposes. Therefore, some financial activity that is currently excluded from the General Fund will be included as part of the General Fund for reporting purposes. The Water Quality Improvement Fund is an example of a current nongeneral fund that will be reported as part of the General Fund for reporting purposes under GASB No. 54. During the 2010 General Assembly Session, legislation was adopted to incorporate conforming language changes in the *Code of Virginia*. However, it is important to note that the fund classification as reported in the preliminary annual report and CAFR will not affect the budgetary or statutory purpose of these funds.

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 or advanced to agency employees to cover expenses incurred while traveling on State business. Additionally, this represents cash provided to Tier III Institutions of Higher Education that remains unspent at June 30.
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 FY 2010 unexpended appropriations 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.
 - **Communication Sales and Use Tax** – This portion of fund balance represents Communication Sales and Use Tax collections that will be distributed to localities subsequent to June 30.
 - **3% Bonus for State Employees** – This portion of fund balance represents a one-time bonus for eligible state employees authorized by Chapter 872, Item 472 Q.1.
 - **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 874** – This portion of fund balance represents the amount that must be carried forward to the following year to balance the biennial budget.
 - **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.
 - **Federal Portion of Dominion Resources Refund** – This portion of fund balance represents amounts owed to the Federal Government for its share of the rebate received during FY 2010, and it will be paid subsequent to June 30.
 - **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.
 - **Transportation Trust Fund** – This portion of fund balance represents two-thirds of the cash balance in excess of planned disbursements. As required by the *Code of Virginia*, Section 2.2-1514, this portion of undesignated fund balance must be transferred to the Transportation Trust Fund.
 - **Nonrecurring Expenditures** – This portion of fund balance represents one-third of the cash balance in excess of planned disbursements. As required by the *Code of Virginia*, Section 2.2-1514, this portion of undesignated fund balance must be earmarked for nonrecurring expenditures.

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.

<u>Fiscal</u> <u>Year</u>	<u>Expenditures</u>
2010	\$ 950.0
2009	950.0
2008	950.0
2007	961.1
2006	723.7

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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