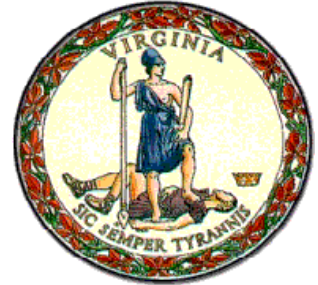

COMMONWEALTH OF VIRGINIA

GENERAL FUND PRELIMINARY (UNAUDITED) ANNUAL REPORT

For the Fiscal Year Ended June 30, 2015

Presented on a Cash Basis



David A. Von Moll
Comptroller
August 14, 2015



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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 14, 2015

The Honorable Terence R. McAuliffe
Governor
Commonwealth of Virginia
State Capitol
Richmond, Virginia 23219

Dear Governor McAuliffe:

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, 2015.

The Commonwealth ended fiscal year 2015 with a total fund balance in the General Fund of \$1.8 billion measured on the cash basis of activity. This is an increase of \$409.9 million, or 30.4 percent, from last year's ending fund balance of \$1.3 billion. Planned (budgeted) decreases in General Fund balance for this year were \$359.3 million. The difference between the planned decrease and actual increase is primarily attributed to revenue collections and other sources being approximately \$533.2 million more than expected and expenditures and other uses being approximately \$236.0 million less than budgeted. The Commonwealth implemented Governmental Accounting Standards Board Statement No. 54 (GASB No. 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. This standard affected the funds included in this report as well as the fund balance classifications. Accordingly, \$149.5 million of the ending fund balance is attributable to the funds included pursuant to GASB No. 54, such as the Virginia Water Quality Improvement Fund and the Commonwealth's Development Opportunity Fund. Further, fund balance classifications are shown in the first graph on page 9 and additional information on GASB No. 54 is located in Note 5.

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 restricted 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 \$467.7 million restricted as a part of the General Fund balance. A deposit of \$243.2 million was made during fiscal year 2015 as required by Section 2.2-1829 of the *Code of Virginia*, which includes the advance reservation of \$95.0 million provided in Chapter 2, 2014 Acts of Assembly. Additionally, during fiscal year 2015, 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 \$467.7 million was made from the fund. Further, Chapter 665, 2015 Acts of Assembly, authorizes an additional withdrawal estimated at \$235.0 million from the fund during fiscal year 2016.

Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, a deposit of \$605.6 million is required during fiscal year 2017 based on fiscal year 2015 revenue collections. This required deposit is included as a restricted component of fund balance and includes the advance reservation of \$129.5 million provided in Chapter 665, 2015 Acts of Assembly.

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 deposit is required since the specified criteria were not met for fiscal year 2015.

Amounts Available for Reappropriation

Section 4-1.05a.1 of Chapter 665 requires reappropriation of 2015 fiscal year unexpended appropriations for Legislative and Judicial Departments, as well as Independent Agencies and states that institutions of higher education reappropriations are subject to Section 2.2-5005 of the *Code of Virginia*. Additionally, this Section specifies that unexpended balances in the Executive Department will be reappropriated where required by the *Code of Virginia*, where necessary for the payment of preexisting obligations, or where the Governor determines reappropriation is appropriate. 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 and balances at June 30, 2015, the following amounts have been committed: \$21.5 million for capital outlay project needs; \$8.8 million for health care services, \$14.2 million for central capital planning; \$36.3 million for communication sales and use tax distributions; \$24.1 million for natural disaster sum sufficient amounts; \$58.5 million for mandatory reappropriations; \$437 thousand for the Federal Action Contingency Trust Fund; and \$61.7 million pending transfer to the Virginia Water Quality Improvement Fund.

In addition, the Department of Planning and Budget has identified \$247.2 million as available balances to meet the requirements of Chapter 665. The Department of Planning and Budget has also identified \$70.9 million to be assigned for discretionary reappropriations. As of June 30, 2015, sufficient cash is not available to assign the entire amount for discretionary reappropriations. Therefore, \$60.7 million is assigned on the accompanying Balance Sheet.

Additionally, restricted balances of \$6.5 million, committed balances of \$103.1 million and assigned balances of \$39.8 million are being reported due to the inclusion of additional funds pursuant to GASB No. 54 which redefined funds for financial reporting purposes and requires selected activity that was previously excluded from the General Fund to be included.

Virginia Water Quality Improvement Fund

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. The Fund has \$32.9 million on deposit committed as part of the General Fund balance. 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 unrestricted and uncommitted fund balance not required for reappropriation. For the year ended June 30, 2015, \$55.0 and \$6.7 million that represent ten percent of the excess revenue collections and ten percent of the unrestricted and uncommitted fund balance not required for reappropriation, respectively, have been committed. Upon appropriation by the General Assembly, \$61.7 million will be transferred from the General Fund to the Virginia Water Quality Improvement Fund. For additional information regarding the Virginia Water Quality Improvement Fund, see Note 11.

Basis of Presentation

This preliminary annual report is comprised of 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, 2015, 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, 2014, was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA). Virginia's Annual Report has received this award for 29 consecutive years. In addition, Virginia received a companion award from the GFOA for its fiscal year 2014 Popular Report, entitled *Virginia Financial Perspective*. Virginia's Popular Report has received this award for 20 consecutive years.

Respectfully submitted,

David A. Von Moll

A. OTHER COMMITTED FUND BALANCE

As of June 30, 2015, the breakdown of Other Committed Fund Balance is as follows.

Other Committed	Amount (In Thousands)
Health and Public Safety	\$ 9,110
Environmental Quality and Natural Resource Preservation	3,289
Educational and Training programs	928
Capital Outlay	567
Agriculture and Forestry	101
Governmental Operations - Administrative Services	83
Total Other Committed Fund Balance	\$ <u>14,078</u>

B. OTHER ASSIGNED FUND BALANCE

As of June 30, 2015, the breakdown of Other Assigned Fund Balance is as follows.

Other Assigned	Amount (In Thousands)
Governmental Operations - Legislative Services	\$ 2,972
Educational and Training programs	2,604
Capital Outlay	1,434
Governmental Operations - Administrative Services	1,253
Employee benefit administration	973
Contract and Debt Administration	107
Regulatory oversight	23
Agriculture and Forestry	2
Total Other Assigned Fund Balance	\$ <u>9,368</u>

9. COMMUNICATION SALES AND USE TAX FUND

The Appropriation Act directs the Communications Sales and Use Tax Fund be included as a component of the General Fund for financial reporting purposes. Previously, this activity was reported in another fund. The Commonwealth collects communication sales and use taxes and disburses these amounts to localities. The remaining cash balance of \$36.3 million is reported as committed fund balance.

10. 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 \$190.3 million in accelerated sales and use taxes in June 2015. This portion of the \$3.6 billion sales and use tax collections recorded as fiscal year 2015 was accelerated from revenues that would otherwise have been collected in July 2015 and recorded as revenues in the fiscal year 2016 cash basis financial statements.

11. VIRGINIA WATER QUALITY IMPROVEMENT FUND

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. Prior to fiscal year 2011, the Fund was reported as a non-general governmental fund. However, with the implementation of GASB No. 54 in fiscal year 2011, this fund is now included in the General Fund for financial reporting purposes, and the balance on deposit (\$32.9 million) is reported as committed fund balance.

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 unrestricted and uncommitted fund balance not required for reappropriations. For the year ended June 30, 2015, \$55.0 and \$6.7 million that represent ten percent of the excess revenue collections and ten percent of the unrestricted and uncommitted fund balance not required for reappropriation, respectively, have been committed. Upon appropriation by the General Assembly, \$61.7 million will be transferred from the General Fund to the Virginia Water Quality Improvement Fund.

12. PLANNED DISBURSEMENTS

The amounts committed and assigned on the Balance Sheet represent plans for future utilization of current financial resources. For the year ended June 30, 2015, the Department of Planning and Budget certified total assigned fund balance of \$358.0 million as follows.

<u>Assigned Fund Balance</u>	Amount (In Thousands)
Amount Required by Chapter 665	\$ 247,194
Health and Public Safety	15,588
Economic and Technological Development	8,986
Environmental Quality and Natural Resource Preservation	5,883
Amount Required for Discretionary Reappropriations	70,947
Other	9,368
Total Assigned Fund Balance	<u>\$ 357,966</u>

The Balance Sheet reflects assigned fund balance of \$347.7 million for the above purposes. Sufficient cash is not available for the remaining \$10.3 million of planned disbursements from assigned fund balance. Further, sufficient cash is not available to require deposits pursuant to Section 2.2-1514 of the *Code of Virginia* for the Transportation Trust Fund and nonrecurring expenditures for fiscal year 2015.

GLOSSARY



FINANCIAL STATEMENTS AND NOTES

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.
3. **Payments Awaiting Disbursement** – Amounts where a payment has been recorded in the general ledger and the disbursement has not yet been made.
4. **Deposits Pending Distribution** – This represents miscellaneous amounts held by several agencies in suspense accounts pending distribution.
5. **Restricted Fund Balance** – Includes amounts that have constraints placed on the use of resources by the *Constitution of Virginia* or a party external to the Commonwealth. Restricted Fund Balance represents:
 - **Revenue Stabilization Fund** – This portion of fund balance consists of amounts on deposit or required for future deposit pursuant to constitutional provisions. Amounts can only be used within the constraints imposed by the *Constitution of Virginia*.
 - **Lottery Proceeds Fund** – This portion of fund balance consists of amounts required to be distributed to localities and used for education purposes pursuant to constitutional provisions.
 - **Water Supply Assistance Grant Fund** – This portion of fund balance consists of amounts provided as matching funds for moneys available through the Federal Safe Drinking Water Act.
6. **Committed Fund Balance** – Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the General Assembly and Governor. Committed Fund Balance represents:
 - **Amount Required for Reappropriation, Capital Outlay/Restoration of Projects and Mandatory Reappropriations** – This portion of fund balance represents fiscal year 2015 unexpended appropriations which the Department of Planning and Budget will reappropriate in the next fiscal year.
 - **Virginia Health Care Fund** – This portion of fund balance represents amounts collected from tobacco taxes and a portion of the Tobacco Master Settlement Agreement receipts and is to be used for the provision of health care services.
 - **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.
 - **Commonwealth's Development Opportunity Fund** – This portion of fund balance represents amounts the Governor may use as incentives to attract economic development prospects.
 - **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.
 - **Federal Action Contingency Trust Fund** – This portion of fund balance represents the amount to assist in mitigating the effect of potential federal spend reductions as authorized by Chapter 665, Item 468 G.1.b.

- **Virginia Water Quality Improvement Fund** – This portion of fund balance represents amounts currently on deposit or to be transferred to the Virginia Water Quality Improvement Fund upon appropriation by the General Assembly. Amounts deposited to this fund are used to provide Water Quality Improvement Grants to various entities to assist in pollution prevention and reduction.
 - **Economic and Technological Development** – This portion of fund balance represents amounts that will be used to promote growth in the Commonwealth's economy.
7. **Assigned Fund Balance** – Includes amounts that are constrained by the government's intent to be used for planned purposes, but are neither restricted nor committed. Assigned Fund Balance represents:
- **Amount Required by Chapter 665** – This portion of fund balance represents the amount that must be carried forward to the following year to balance the biennial budget.
 - **Health and Public Safety** – This portion of fund balance represents amounts anticipated to be used to further the health and public safety of the Commonwealth's citizenry.
 - **Economic and Technological Development** – This portion of fund balance represents amounts anticipated to be used to promote growth in the Commonwealth's economy.
 - **Environmental Quality and Natural Resource Preservation** – This portion of fund balance represents amounts anticipated to be used to improve and preserve the Commonwealth's natural resources.
 - **Amount Required for Discretionary Reappropriation** – This portion of fund balance represents fiscal year 2015 unexpended appropriations which the Department of Planning and Budget anticipates reappropriating in the next fiscal year.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Revenues:

8. **Taxes** – Charges of money imposed by the Commonwealth on persons or property for public purposes.
9. **Rights and Privileges** – Registration fees, licenses, and permits. Examples include domestic and foreign corporate registration fees and marriage licenses.
10. **Sales of Property and Commodities** – Revenue collected from sales of Commonwealth assets and goods. Examples include sales of State publications.
11. **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.
12. **Institutional Revenue** – Revenue generated primarily by healthcare services provided by the two veteran care centers and from sales by the Departments of Corrections. Examples include the sale of farm and dairy products.
13. **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.
14. **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.
15. **Federal Grants and Contracts** – Revenue collected from the Federal government that can be used for any purpose within the mission of the receiving agencies.
16. **Receipts from Cities, Counties, and Towns** – Revenue collected from city and county treasurers representing miscellaneous fees and allowances of local law enforcement officials.

17. **Private Donations, Gifts, and Contracts** – This amount represents donations and grants from individuals and private companies to State programs.
18. **Tobacco Master Settlement** – This amount represents the revenue generated from the Tobacco Master Settlement Agreement with tobacco companies.
19. **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:

20. **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 \$950.0 million on the amount for personal property tax relief beginning with fiscal year 2007.
21. **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.
22. **Transportation** – Expenditures related to the movement of people, goods, and services and their regulation. Examples include ground, water and air transportation.
23. **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.
24. **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.
25. **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.
26. **Capital Outlay** - Construction and preparation of Commonwealth assets.

Other Financing Sources (Uses):

27. **Operating Transfers In** – This balance reflects transfers in from other nongeneral funds.
28. **Operating Transfers Out** – This 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.virginia.gov

Additional copies of this report may be downloaded from
The Department of Accounts' web site at
<http://www.doa.virginia.gov>