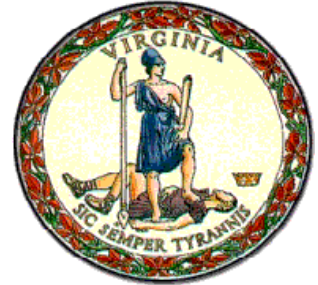

COMMONWEALTH OF VIRGINIA

GENERAL FUND PRELIMINARY (UNAUDITED) ANNUAL REPORT

For the Fiscal Year Ended June 30, 2017

Presented on a Cash Basis



David A. Von Moll
Comptroller
August 15, 2017



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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, 2017

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, 2017.

The Commonwealth ended fiscal year 2017 with a total fund balance in the General Fund of \$1.3 billion measured on the cash basis of activity. This is a decrease of \$138.6 million, or 9.4 percent, from last year's ending fund balance of \$1.5 billion. Planned (budgeted) decreases in General Fund balance for this year were \$625.3 million. The difference between the planned decrease and actual decrease is primarily attributed to revenue collections and other sources being approximately \$181.2 million more than expected and expenditures and other uses being approximately \$305.5 million less than budgeted. This report includes funds that are defined as part of the General Fund pursuant to Governmental Accounting Standards Board Statement No. 54 (GASB No. 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. Accordingly, \$166.4 million of the ending fund balance is attributable to these funds, such as the Water Quality Improvement Fund and the Commonwealth's Development Opportunity Fund. Additional information on GASB No. 54 is located in Note 6, and fund balance classifications are shown in the first graph on page 9.

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 \$548.8 million restricted as a part of the General Fund balance. A deposit of \$605.6 million was made during fiscal year 2017 as required by Section 2.2-1829 of the *Code of Virginia*, which includes the advance reservation of \$129.5 million provided in Chapter 665, 2015 Acts of Assembly. Additionally, during fiscal year 2017, 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 \$294.7 million was made from the fund. Further, Chapter 836, 2017 Acts of Assembly, authorizes an additional withdrawal estimated at \$272.5 million from the fund during fiscal year 2018.

Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, no deposit is required during fiscal year 2018 based on fiscal year 2016 revenue collections. Also, no deposit is required based on fiscal year 2017 revenue collections.

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 2017.

Amounts Available for Reappropriation

Section 4-1.05a.1 of Chapter 836 requires reappropriation of 2017 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 23.1-1002 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, 2017, the following amounts have been committed: \$103.2 million for capital outlay project needs; \$28.1 million for health care services, \$2.5 million for central capital planning; \$35.6 million for communication sales and use tax distributions; \$11.2 million for natural disaster sum sufficient amounts; \$66.2 million for mandatory reappropriations; \$22.5 pending transfer to the Water Quality Improvement Fund; \$60.4 million for the Revenue Cash Reserve; \$60.4 million for the Capital Projects Reserve; and \$500,000 for local government fiscal distress relief.

In addition, the Department of Planning and Budget has identified \$148.0 million as available balances to meet the requirements of Chapter 836 and \$80.0 million to be assigned for discretionary reappropriations.

Of the remaining unexpended balance of \$2.1 million, \$1.4 million is committed for deposit into the Transportation Trust Fund and \$694,000 is committed for nonrecurring expenditures as required by Section 2.2-1514 of the *Code of Virginia*.

Additionally, restricted balances of \$4.3 million, committed balances of \$122.2 million and assigned balances of \$39.9 million are being reported due to the inclusion of additional funds pursuant to GASB No. 54.

Virginia Water Quality Improvement Fund

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. The Fund has \$37.6 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, 2017, \$13.4 million and \$9.1 million that represent ten percent of the revenue collected in excess of the official estimate and ten percent of any unrestricted and uncommitted fund balance not required for reappropriation, respectively, have been committed. For additional information regarding the Virginia Water Quality Improvement Fund, see Note 12.

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, 2017, 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, 2016, 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 31 consecutive years. In addition, Virginia received a companion award from the GFOA for its fiscal year 2016 Popular Report, entitled *Virginia Financial Perspective*. Virginia's Popular Report has received this award for 22 consecutive years.

Respectfully submitted,

David A. Von Moll



SUMMARY OF GENERAL FUND ACTIVITY

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Commonwealth of Virginia
Preliminary Balance Sheet
General Fund - Cash Basis (Unaudited)
June 30, 2017
(Dollars in Thousands)

Assets		
Cash, Cash Equivalents, and Investments	\$ 1,424,646	
Cash and Travel Advances	490	
Other Assets	300	
Due From Other Funds (Note 4)	<u>75</u>	
Total Assets		<u>\$ 1,425,511</u>
Liabilities and Fund Equity		
Liabilities:		
Payments Awaiting Disbursement (Note 5)	76,380	
Deposits Pending Distribution	8,123	
Due To Other Funds (Note 4)	<u>1,148</u>	
Total Liabilities		\$ 85,651
Fund Equity (Note 6):		
Restricted Fund Balance:		
Revenue Stabilization Fund (Note 7)	548,820	
Lottery Proceeds Fund (Note 8)	3,991	
Water Supply Assistance Grant Fund	<u>4,291</u>	
Total Restricted Fund Balance		<u>557,102</u>
Committed Fund Balance (Note 9):		
Amount Required for Reappropriation of		
2017 Unexpended Balances for Capital Outlay and Restoration Projects	103,250	
Virginia Health Care Fund	28,056	
Central Capital Planning Fund	2,493	
Communication Sales and Use Tax (Note 10)	35,636	
Commonwealth's Development Opportunity Fund	15,039	
Natural Disaster Sum Sufficient	11,232	
Amount Required for Mandatory Reappropriation	66,152	
Virginia Water Quality Improvement Fund (Note 12)	37,642	
Virginia Water Quality Improvement Fund - Part A (Note 12)	13,411	
Virginia Water Quality Improvement Fund - Part B (Note 12)	9,121	
Revenue Cash Reserve (Note 13)	60,351	
Capital Projects Reserve (Note 14)	60,351	
Local Government Fiscal Distress	500	
Transportation Trust Fund (Note 15)	1,409	
Nonrecurring Expenditures (Note 15)	694	
Economic and Technological Development	46,425	
Health and Public Safety	10,618	
Environmental Quality and Natural Resource Preservation	8,361	
Other	<u>4,090</u>	
Total Committed Fund Balance		<u>514,831</u>
Assigned Fund Balance (Note 9):		
Amount Required by Chapter 836	148,036	
Health and Public Safety	13,593	
Economic and Technological Development	7,508	
Environmental Quality and Natural Resource Preservation	6,877	
Amount Required for Discretionary Reappropriations	79,986	
Other	<u>11,927</u>	
Total Assigned Fund Balance		<u>267,927</u>
 Total Fund Equity		 <u>\$ 1,339,860</u>
 Total Liabilities and Fund Balance		 <u>\$ 1,425,511</u>

The accompanying notes are an integral part of this statement.

Commonwealth of Virginia
Preliminary Statement of Revenues, Expenditures,
and Changes in Fund Balance
General Fund - Cash Basis (Unaudited)
For the Fiscal Years Ended June 30, 2013 through June 30, 2017
(Dollars in Thousands)

	Year Ended				
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Revenues:					
Taxes:					
Individual and Fiduciary Income	\$ 13,052,887	\$ 12,555,624	\$ 12,328,675	\$ 11,253,348	\$ 11,339,966
Sales and Use	3,720,552	3,651,400	3,587,849	3,400,486	3,441,195
Corporation Income	826,961	764,948	831,907	757,491	796,728
Communications Sales and Use (Note 10)	395,733	406,707	417,209	422,823	427,262
Deeds, Contracts, Wills, and Suits	403,459	377,699	354,461	318,998	388,633
Premiums of Insurance Companies	340,910	339,081	300,641	320,421	262,242
Alcoholic Beverage Sales	222,354	217,594	207,802	199,225	195,192
Tobacco Products	171,198	178,741	178,996	180,626	187,874
Estate	8,202	222	98	196	-
Public Service Corporations	95,084	92,586	98,537	98,156	96,222
Other Taxes	31,048	32,107	30,251	28,760	18,036
Total Taxes	<u>19,268,388</u>	<u>18,616,709</u>	<u>18,336,426</u>	<u>16,980,530</u>	<u>17,153,350</u>
Rights and Privileges	85,919	84,628	78,654	79,085	76,931
Sales of Property and Commodities	31,515	42,671	28,930	30,682	25,477
Assessments and Receipts for Support of Special Services	4,008	3,539	1,582	931	858
Institutional Revenue	36,137	36,819	38,240	36,143	37,210
Interest, Dividends, and Rents	61,130	57,680	54,626	78,333	72,958
Fines, Forfeitures, Court Fees, Penalties, and Escheats	222,600	222,039	216,698	211,512	216,788
Federal Grants and Contracts	6,720	3,868	6,416	9,454	6,354
Receipts from Cities, Counties, and Towns	18,360	16,951	16,533	16,318	15,813
Private Donations, Gifts and Contracts	476	364	775	438	439
Tobacco Master Settlement	49,019	47,664	48,207	48,693	74,010
Other	235,237	225,342	158,807	190,636	238,148
Total Revenues (Note 2)	<u>20,019,509</u>	<u>19,358,274</u>	<u>18,985,894</u>	<u>17,682,755</u>	<u>17,918,336</u>
Expenditures:					
General Government	2,388,305	2,497,121	2,273,965	2,215,179	2,173,327
Education	8,450,900	8,095,292	7,928,734	7,755,863	7,587,805
Transportation	236	328	836	773	172
Resources and Economic Development	445,102	413,406	413,053	406,052	389,221
Individual and Family Services	6,551,237	6,238,651	5,765,208	5,525,897	5,383,507
Administration of Justice	2,740,411	2,678,980	2,586,618	2,519,888	2,443,464
Capital Outlay	44,488	26,010	6,510	10,663	6,274
Total Expenditures	<u>20,620,679</u>	<u>19,949,788</u>	<u>18,974,924</u>	<u>18,434,315</u>	<u>17,983,770</u>
Revenues Over (Under) Expenditures	<u>(601,170)</u>	<u>(591,514)</u>	<u>10,970</u>	<u>(751,560)</u>	<u>(65,434)</u>
Other Financing Sources (Uses):					
Transfers:					
Operating Transfers In	904,255	775,363	866,913	770,542	712,400
Operating Transfers Out	(441,670)	(464,559)	(468,029)	(490,310)	(509,749)
Total Other Financing Sources (Uses)	<u>462,585</u>	<u>310,804</u>	<u>398,884</u>	<u>280,232</u>	<u>202,651</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(138,585)</u>	<u>(280,710)</u>	<u>409,854</u>	<u>(471,328)</u>	<u>137,217</u>
Fund Balance, July 1					
Restricted (Note 6)	855,001	1,082,618	943,491	940,906	707,401
Committed (Note 6)	429,390	328,791	365,220	556,076	518,619
Assigned (Note 6)	194,054	347,746	40,590	323,647	457,392
Fund Balance, July 1	<u>1,478,445</u>	<u>1,759,155</u>	<u>1,349,301</u>	<u>1,820,629</u>	<u>1,683,412</u>
Fund Balance, June 30					
Restricted (Note 6)	557,102	855,001	1,082,618	943,491	940,906
Committed (Note 6)	514,831	429,390	328,791	365,220	556,076
Assigned (Note 6)	267,927	194,054	347,746	40,590	323,647
Fund Balance, June 30	<u>\$ 1,339,860</u>	<u>\$ 1,478,445</u>	<u>\$ 1,759,155</u>	<u>\$ 1,349,301</u>	<u>\$ 1,820,629</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 - Cash Basis (Unaudited)
For the Fiscal Year Ended June 30, 2017
(Dollars in Thousands)

General Fund				
	Original Budget	Final Budget	Actual	Final Budget/ Actual Variance Favorable (Unfavorable)
Revenues:				
Taxes:				
Individual and Fiduciary Income	\$ 13,230,100	\$ 12,913,800	\$ 13,052,887	\$ 139,087
Sales and Use	3,885,910	3,752,210	3,720,552	(31,658)
Corporation Income	765,200	794,200	826,961	32,761
Communications Sales and Use	419,000	407,000	395,733	(11,267)
Deeds, Contracts, Wills, and Suits	397,900	398,600	403,459	4,859
Premiums of Insurance Companies	335,600	344,100	340,910	(3,190)
Alcoholic Beverage Sales	211,400	225,500	222,354	(3,146)
Tobacco Products	179,651	176,900	171,198	(5,702)
Estate	-	-	8,202	8,202
Public Service Corporations	98,900	97,800	95,084	(2,716)
Other Taxes	28,737	26,850	31,048	4,198
Rights and Privileges	82,443	100,561	85,919	(14,642)
Sales of Property and Commodities	619	31,533	31,515	(18)
Assessments and Receipts for Support of Special Services	3,050	3,050	4,008	958
Institutional Revenue	45,357	45,508	36,137	(9,371)
Interest, Dividends, and Rents	40,990	62,700	61,130	(1,570)
Fines, Forfeitures, Court Fees, Penalties, and Escheats	222,405	220,005	222,600	2,595
Federal Grants and Contracts	6,300	6,229	6,720	491
Receipts from Cities, Counties, and Towns	15,844	19,173	18,360	(813)
Private Donations, Gifts and Contracts	240	235	476	241
Tobacco Master Settlement	47,482	48,000	49,019	1,019
Other	179,292	190,034	235,237	45,203
Total Revenues (Note 2)	20,196,420	19,863,988	20,019,509	155,521
Expenditures:				
Current:				
General Government	2,550,041	2,474,935	2,388,305	86,630
Education	8,572,548	8,503,248	8,450,900	52,348
Transportation	58	263	236	27
Resources and Economic Development	481,718	494,179	445,102	49,077
Individual and Family Services	6,462,785	6,589,797	6,551,237	38,560
Administration of Justice	2,751,777	2,763,740	2,740,411	23,329
Capital Outlay	83,866	101,151	44,488	56,663
Total Expenditures	20,902,793	20,927,313	20,620,679	306,634
Revenues Over (Under) Expenditures	(706,373)	(1,063,325)	(601,170)	462,155
Other Financing Sources (Uses):				
Transfers:				
Operating Transfers In	779,032	878,536	904,255	25,719
Operating Transfers Out	(459,029)	(440,560)	(441,670)	(1,110)
Total Other Financing Sources (Uses)	320,003	437,976	462,585	24,609
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(386,370)	(625,349)	(138,585)	486,764
Fund Balance, July 1	1,478,445	1,478,445	1,478,445	-
Fund Balance, June 30	\$ 1,092,075	\$ 853,096	\$ 1,339,860	\$ 486,764

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 - Cash Basis (Unaudited)
 For the Fiscal Year Ended June 30, 2017
 (Dollars in Thousands)**

	<u>Original Budget Appropriations</u>	<u>Final Budget Appropriations</u>	<u>Actual Expenditures</u>	<u>Amount Under Final Budget</u>
Enactment of Laws	\$ 41,577	\$ 50,729	\$ 40,838	\$ 9,891
Financial Assistance to Localities -- From Sale of Alcoholic Beverages and Other Distributions	49,565	30,076	30,076	-
Financial Assistance for Special State Revenue Sharing -- From Sales Tax	1,382,929	1,347,400	1,346,993	407
Cash Management Improvement Act Payment to the Federal Government	39	39	39	-
Totals	<u>\$ 1,474,110</u>	<u>\$ 1,428,244</u>	<u>\$ 1,417,946</u>	<u>\$ 10,298</u>

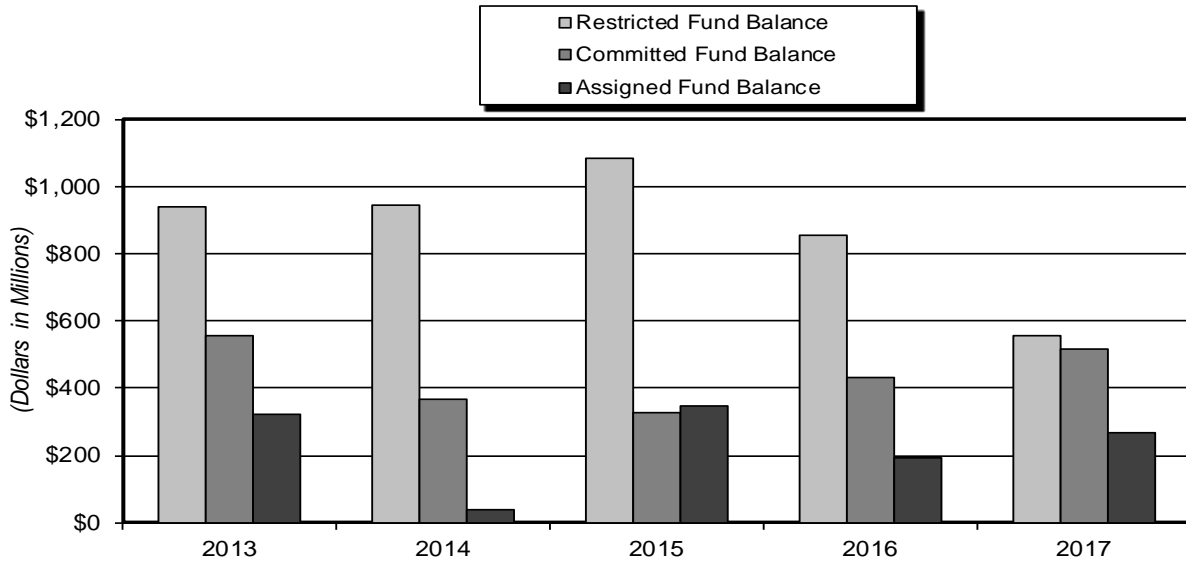


**GENERAL FUND GRAPHICS AND SUPPLEMENTAL
SCHEDULES**

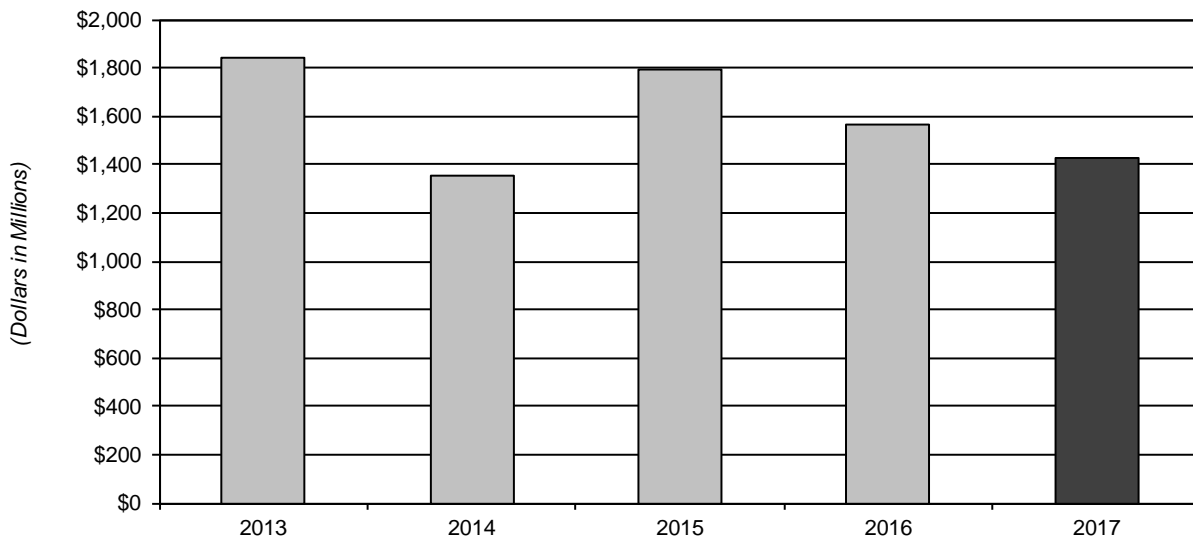




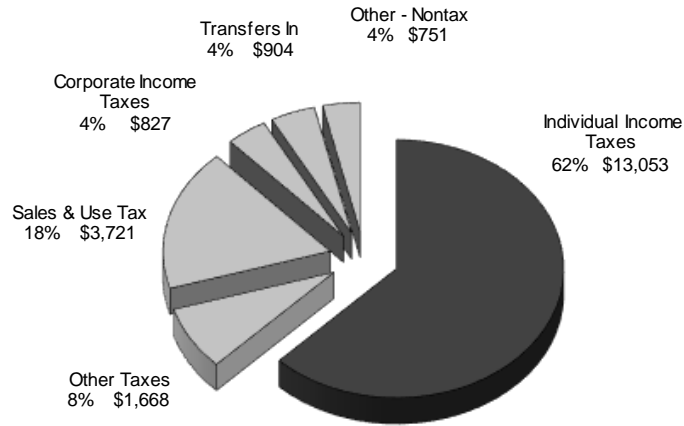
**General Fund
Fund Balance
Fiscal Years 2013-2017**



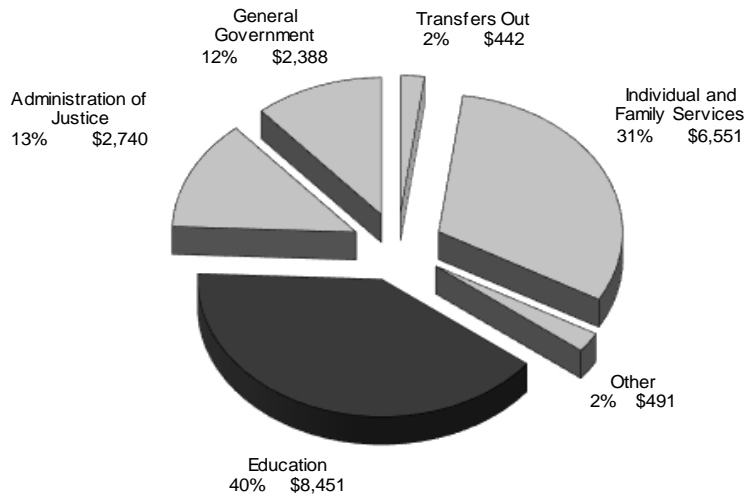
**General Fund
Cash, Cash Equivalents, and Investments
Fiscal Years 2013-2017**



**General Fund
Revenues by Revenue Class and Other Sources
Fiscal Year 2017
(Dollars in Millions)**

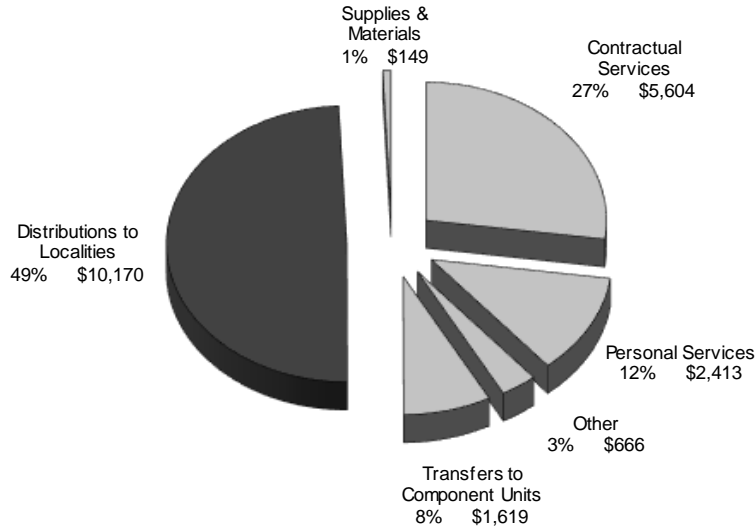


**General Fund
Expenditures by Function and Other Uses
Fiscal Year 2017
(Dollars in Millions)**

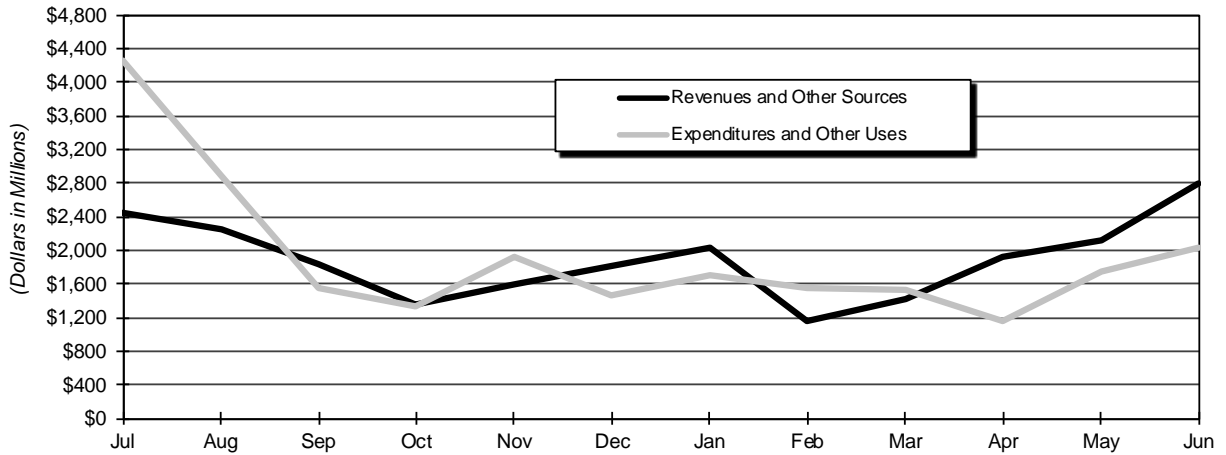


Note: General Government expenditures include \$950.0 million paid to localities pursuant to the Personal Property Tax Relief Act of 1998 and \$396.1 million in communication sales tax distributions. This represents 56.4 percent of the General Government expenditures.

**General Fund
Expenditures by Object
Fiscal Year 2017
(Dollars in Millions)**



**General Fund
Revenues and Other Sources and
Expenditures and Other Uses by Month
Fiscal Year 2017**



Note: July expenditures include \$1.1 billion in payments to Higher Education.

**General Fund
Expenditures by Function and Significant Service Area
Fiscal Year 2017
(Dollars in Thousands)**

Function:	Significant Service Area:	<u>Amount</u>	<u>Totals</u>
Education	Grades K-12	\$ 6,338,456	
	Higher Education	1,972,613	
	Other	<u>139,831</u>	
			\$ 8,450,900
Individual and Family Services	Medical Assistance Services	4,878,554	
	Behavioral Health and Developmental Services	710,830	
	Social Services	412,160	
	Children's Services	235,338	
	Health	161,643	
	Other	<u>152,712</u>	
			6,551,237
Administration of Justice	Corrections	1,452,400	
	Sheriffs and Inmate Confinement - Compensation Board	492,192	
	Courts	421,689	
	State Police	280,991	
	Other	<u>93,139</u>	
			2,740,411
General Government	Car Tax Relief (PPTRA)	950,000	
	Communication Sales Tax Distribution	396,132	
	Debt Service - Component Units	371,872	
	Criminal Justice - Locality Assistance	177,964	
	Constitutional Officers - Compensation Board	169,999	
	Tax Administration	97,666	
	Other	<u>224,672</u>	
Resources and Economic Development	Conservation and Recreation	100,611	
	Economic Development Partnership	92,567	
	Environmental Quality	42,486	
	Agriculture	35,696	
	Housing and Community Development	35,636	
	Tourism	21,580	
	Forestry	17,657	
	Mines, Minerals, and Energy	14,093	
	Marine Resources	12,174	
	Health - Water Improvement and Environmental Safety	11,282	
	Labor and Industry	9,069	
	Innovation and Entrepreneurship Investment	8,416	
	Social Services - Regulation of Facilities and Services	5,672	
	Historic Resources	5,524	
	Fort Monroe	5,096	
Other	<u>27,543</u>		
			445,102
Other	Capital Outlay	44,488	
	Transportation	<u>236</u>	
			<u>44,724</u>
			<u>\$ 20,620,679</u>

**General Fund
Other Financing Sources and Uses by Significant Service Area
Fiscal Year 2017
(Dollars in Thousands)**

Other Financing Sources (Transfers In):

Significant Service Area	<u>Amount</u>	<u>Total</u>
Lottery	\$ 599,982	
ABC Transfers	185,005	
Transfers from Other Funds	<u>119,268</u>	
		<u><u>\$ 904,255</u></u>

Other Financing Uses (Transfers Out):

Significant Service Area	<u>Amount</u>	<u>Total</u>
Debt Service	\$ 348,579	
Transportation Programs	61,144	
Transfers to Other Funds	<u>31,947</u>	
		<u><u>\$ 441,670</u></u>



GENERAL FUND NOTES



COMMONWEALTH OF VIRGINIA

NOTES TO PRELIMINARY FINANCIAL STATEMENTS

JUNE 30, 2017

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 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 reported 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.

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, due on December 15, 2017.

B. Budget

Budgetary amounts shown in the General Fund Statement of Revenue Collections and Estimates represent Chapter 780, 2016 Acts of Assembly (original), and Chapter 836, 2017 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 and Estimates 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, 2017. The inclusion of additional funds in the Preliminary General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual has no impact on either the budgetary or statutory purposes of the funds considered General Fund for financial reporting purposes.

<i>(Dollars in Thousands)</i>	Final Revenue Budget	Total Actual Revenue
Amount per Preliminary Financial Statements	\$ 19,863,988	\$ 20,019,509
Amount per Monthly Statement of Revenue	<u>18,561,000</u>	<u>18,695,075</u>
Variance	<u>\$ 1,302,988</u>	<u>\$ 1,324,434</u>
Variance Attributable to the Following:		
Public Education Standards of Quality Fund - Sales and Use Tax revenue included on the Preliminary Financial Statements	\$ 365,410	\$ 365,878
Virginia Communications Sales and Use Tax Fund - Sales and Use Tax revenue included on the Preliminary Financial Statements	407,000	395,733
Virginia Water Quality Improvement Fund - Deeds, Contracts, Wills & Suits Tax revenue included on the Preliminary Financial Statements	-	9,090
Virginia Health Care Fund - Tobacco Products Tax revenue included on the Preliminary Financial Statements	177,900	171,198
Virginia Communications Sales and Use Tax Fund - Rights and Privileges revenue included on the Preliminary Financial Statements	5,280	359
Revenue Stabilization Fund Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	2,416
Lottery Proceeds Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	400	887
Water Supply Assistance Grant Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	56
Virginia Water Quality Improvement Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	139	469
Commonwealth's Development Opportunity Fund- Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	240
Virginia Communications Sales and Use Tax Fund - Interest, Dividends and Rents revenue included on the Preliminary Financial Statements	-	291
Virginia Health Care Fund - Fines, Forfeitures, Court Fees, Costs, Penalties, and Escheats revenue included on the Preliminary Financial Statements	2	429
Virginia Water Quality Improvement Fund - Private Donations, Gifts and Contracts included on the Preliminary Financial Statements	-	6
Virginia Health Care Fund - Tobacco Master Settlement revenue included on the Preliminary Financial Statements	48,000	49,019
Virginia Health Care Fund - Medicaid claims payable recoveries included as other revenue on the Preliminary Financial Statements	114,901	146,413
Central Capital Planning Fund - Other Revenue included on the Preliminary Financial Statements	-	573
Commonwealth's Development Opportunity Fund - Other Revenue included on the Preliminary Financial Statements	-	3,088
Virginia Water Quality Improvement Fund - Other revenue included on the Preliminary Financial Statements	370	140
Lottery Proceeds Fund - Other revenue included on the Preliminary Financial Statements	-	212
Transfers from Fiduciary Funds and Component Units included in revenue on the Preliminary Financial Statements	33,107	39,794
Other items included in revenue on the Preliminary Financial Statements	150,479	138,143
	<u>\$ 1,302,988</u>	<u>\$ 1,324,434</u>

3. **APPROPRIATION ACT TRANSFERS**

For fiscal year ended June 30, 2017, Appropriation Act transfers are \$1.3 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	\$ 874,580 (a)
Transfers Out	(16,117)
Intrafund Transfers between General Fund and:	
Public Education Standards of Quality Fund	365,878
Other Nongeneral Funds	22,168
Revenue - Other	34,922
Total Appropriation Act Transfers	<u>\$ 1,281,431</u>

(a) Includes ABC transfers of approximately \$185.0 million

4. **DUE FROM / TO OTHER FUNDS**

These amounts are included in the accompanying statements pursuant to the requirements of GASB No. 54. The due from amount represents future reimbursements to be received from the Federal government. The due to amount represents an internal borrowing that will finance the tax amnesty program pursuant to Chapter 836, 2017 Acts of Assembly. The proportionate share of general and nongeneral funds used to repay the loan will be based upon actual amnesty tax collections.

5. **PAYMENTS AWAITING DISBURSEMENT**

Effective for fiscal year 2017, Cardinal became the Commonwealth's general ledger system of record. Cardinal reflects an expenditure and offsetting liability when a payment has been recorded in the general ledger and the disbursement has not yet been made. Prior to fiscal year 2017, the Commonwealth's general ledger, the Commonwealth Accounting and Reporting System (CARS), reflected an expenditure and offsetting reduction to cash when a payment had been recorded in the general ledger even though the disbursement may have been awaiting the payment due date. As a result of the Commonwealth implementing Cardinal, the historic accounting treatment has been modified. While Cardinal's processing method affects both the cash and liability amounts, it has no impact on the ending fund balance or expenditures reflected in the accompanying financial statements.

6. **FUND EQUITY**

Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances are amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The authority in the Commonwealth is the General Assembly and Governor. Assigned fund balances are those that the government intends to use for a planned purpose, but which are not restricted or committed. Unassigned fund balances are those that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific or planned purposes within the General Fund. Pursuant to Section 2.2-1514 of the *Code of Virginia*, any unassigned balances in the General Fund are automatically committed for transfer to the Transportation Trust Fund and nonrecurring expenditures as further discussed in Note 15.

7. REVENUE STABILIZATION FUND

In accordance with Article X, Section 8 of the *Constitution of Virginia*, the amount estimated as required for deposit to the Revenue Stabilization Fund must be appropriated for that purpose by the General Assembly. A deposit of \$605.6 million was made during fiscal year 2017 as required by Section 2.2-1829 of the *Code of Virginia*, which includes the advance reservation of \$129.5 million provided in Chapter 665, 2015 Acts of Assembly. Additionally, during fiscal year 2017, 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 \$294.7 million was made from the fund. Further, Chapter 836, 2017 Acts of Assembly, authorizes an additional withdrawal estimated at \$272.5 million from the fund during fiscal year 2018.

Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, no deposit is required during fiscal year 2018 based on fiscal year 2016 revenue collections. Also, no deposit is required based on fiscal year 2017 revenue collections.

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 2017.

The Revenue Stabilization Fund has principal and interest on deposit of \$548.8 million restricted as a part of General Fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed fifteen percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years.

8. 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 fiscal year 2017 is included in the Preliminary Statement of Revenues, Expenditures, and Changes in Fund Balance. The remaining cash balance of \$4.0 million is restricted as a component of the General Fund balance.

9. COMMITTED AND ASSIGNED FUND BALANCE

Committed Fund Balance represents amounts that must be spent for specific purposes that have been legislatively mandated by the Governor and General Assembly. Assigned Fund Balance represents amounts that the Commonwealth has identified for planned purposes but for which the intended use is not legislatively mandated. The accompanying Balance Sheet includes amounts that share the same purpose and title, such as Economic and Technological Development as both Committed and Assigned components of fund balance. The distinction between these classifications results from whether there is a statutory restriction on certain amounts contained within the fund.

A. OTHER COMMITTED FUND BALANCE

As of June 30, 2017, the breakdown of Other Committed Fund Balance is as follows.

Other Committed	Amount (In Thousands)
Educational and Training programs	\$ 2,546
Capital Outlay	1,504
Agriculture and Forestry	22
Governmental Operations - Administrative Services	18
Total Other Committed Fund Balance	<u>\$ 4,090</u>

B. OTHER ASSIGNED FUND BALANCE

As of June 30, 2017, the breakdown of Other Assigned Fund Balance is as follows.

Other Assigned	Amount (In Thousands)
Governmental Operations - Legislative Services	\$ 3,591
Educational and Training Programs	3,449
Governmental Operations - Administrative Services	2,026
Employee Benefit Administration	1,605
Capital Outlay	898
Contract and Debt Administration	324
Regulatory Oversight	27
Transportation Activities	5
Agriculture and Forestry	2
Total Other Assigned Fund Balance	<u>\$ 11,927</u>

10. 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. The Commonwealth collects communication sales and use taxes and disburses these amounts to localities. The remaining cash balance of \$35.6 million is reported as committed fund balance.

11. ACCELERATED SALES TAX COLLECTIONS

Pursuant to Section 58.1-615 *Code of Virginia* as amended by Chapter 872, 2010 Acts of Assembly, Section 3-5.06, the Commonwealth collected \$210.6 million in accelerated sales and use taxes in June 2017. This portion of the \$3.7 billion sales and use tax collections recorded as fiscal year 2017 was accelerated from revenues that would otherwise have been collected in July 2017 and recorded as revenues in the fiscal year 2018 cash basis financial statements.

12. VIRGINIA WATER QUALITY IMPROVEMENT FUND

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. As of June 30, 2017 the balance on deposit (\$37.6 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, 2017, \$13.4 million and \$9.1 million that represent ten percent of the revenue collected in excess of the official estimate and ten percent of any unrestricted and uncommitted fund balance not required for reappropriation, respectively, have been committed. Upon appropriation by the General Assembly, \$22.5 million will be transferred from the General Fund to the Virginia Water Quality Improvement Fund.

13. REVENUE CASH RESERVE

Chapter 836, 2017 Acts of Assembly, Enactment Clause 7, establishes a Revenue Cash Reserve to mitigate any potential revenue shortfalls that may arise during the remainder of the 2017-2018 biennium. Monies to be deposited represent the fiscal year 2017 revenues collected in excess of the estimate reduced by the fiscal year 2019 statutory deposit to the Revenue Stabilization Fund, amounts committed or assigned pursuant to GASB No. 54, and the statutory deposit regarding surplus revenue to the Water Quality Improvement Fund. For the year ended June 30, 2017, \$60.4 million is reported as committed fund balance.

14. CAPITAL PROJECTS RESERVE

Chapter 836, 2017 Acts of Assembly, Item 478.10, appropriates specified amounts to fund certain capital projects that have previously been authorized from Virginia College Building Authority or Virginia Public Building Authority bond issuances. The amounts appropriated represent the lesser of \$188.2 million or the fiscal year 2017 revenue collections reduced by the fiscal year 2019 statutory deposit to the Revenue Stabilization Fund, the statutory deposit regarding surplus revenue to the Water Quality Improvement Fund, and the "official revenue estimate" as defined by Chapter 836. Additionally, this computation also included a reduction for the amount identified for deposit to the Revenue Cash Reserve. For the year ended June 30, 2017, \$60.4 million is reported as committed fund balance.

15. TRANSPORTATION TRUST FUND AND NONRECURRING EXPENDITURES

Pursuant to *Code of Virginia* Section 2.2-1514, 67 percent of the general fund balance that has not been restricted, committed or assigned shall be committed for transfer to Transportation Trust Fund and the remaining balance shall be committed for nonrecurring expenditures. For the year ended June 30, 2017, \$1.4 million and \$694,000 are reported as committed fund balance for the Transportation Trust Fund and nonrecurring expenditures, respectively.

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. **Other Assets** – This represents miscellaneous assets, such as prepaid expenses, that cannot be classified on another line item.
4. **Due From Other Funds** – Amounts to be received from other nongeneral funds.
5. **Payments Awaiting Disbursement** – This represents amounts where a payment has been recorded in the general ledger and the disbursement has not yet been made.
6. **Deposits Pending Distribution** – This represents miscellaneous amounts held by several agencies in suspense accounts pending distribution.
7. **Due to Other Funds** – Amounts owed to other nongeneral funds.
8. **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.
9. **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 2017 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.
 - **Virginia Water Quality Improvement Fund, including Part A and Part B** – This portion of fund balance represents amounts currently on deposit in, 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.
 - **Revenue Cash Reserve** – This portion of fund balance represents amounts that will be used to mitigate any potential revenue shortfalls that may arise during the remainder of the 2017-2018 biennium.
 - **Capital Projects Reserve** – This portion of fund balance represents amounts that will be used for certain capital projects that are presently authorized for funding from debt issuances by either the Virginia College Building Authority or the Virginia Public Building Authority.
 - **Local Government Fiscal Distress** – This portion of fund balance may be used to provide technical assistance and intervention actions to local governments deemed to be fiscally distressed.
 - **Transportation Trust Fund** – This portion of fund balance represents 67 percent of the remaining balance available after certain restrictions, commitments and assignments. As required by the *Code of Virginia*, Section 2.2-1514, this portion of committed fund balance must be transferred to the Transportation Trust Fund.
 - **Nonrecurring Expenditures** – This portion of fund balance represents the remaining balance after certain restrictions, commitments and assignments. As required by the *Code of Virginia*, Section 2.2-1514, this portion of committed fund balance must be earmarked for nonrecurring expenditures.
 - **Economic and Technological Development** – This portion of fund balance represents amounts that will be used to promote growth in the Commonwealth's economy.
 - **Health and Public Safety** – This portion of fund balance represents amounts that will be used to further the health and public safety of the Commonwealth's citizenry.
 - **Environmental Quality and Natural Resource Preservation** – This portion of fund balance represents amounts to be used to improve and preserve the Commonwealth's natural resources.
10. **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 836** – 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 2017 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:

11. **Taxes** – Charges of money imposed by the Commonwealth on persons or property for public purposes.
12. **Rights and Privileges** – Registration fees, licenses, and permits. Examples include domestic and foreign corporate registration fees and marriage licenses.
13. **Sales of Property and Commodities** – Revenue collected from sales of Commonwealth assets and goods. Examples include sales of State publications.
14. **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.
15. **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.
16. **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.
17. **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.
18. **Federal Grants and Contracts** – Revenue collected from the Federal government that can be used for any purpose within the mission of the receiving agencies.
19. **Receipts from Cities, Counties, and Towns** – Revenue collected from city and county treasurers representing miscellaneous fees and allowances of local law enforcement officials.
20. **Private Donations, Gifts, and Contracts** – This amount represents donations and grants from individuals and private companies to State programs.
21. **Tobacco Master Settlement** – This amount represents the revenue generated from the Tobacco Master Settlement Agreement with tobacco companies.
22. **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:

23. **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.
24. **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.
25. **Transportation** – Expenditures related to the movement of people, goods, and services and their regulation. Examples include ground, water and air transportation.

- 26. **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.
- 27. **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.
- 28. **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.
- 29. **Capital Outlay** - Construction and preparation of Commonwealth assets.

Other Financing Sources (Uses):

- 30. **Operating Transfers In** – This balance reflects transfers in from other nongeneral funds.
- 31. **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**

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