INTRODUCTORY SECTION

COMMONWEALTH of VIRGINIA

SHARON H. LAWRENCE, CPA, CGMA
ACTING COMPTROLLER

Office of the Comptroller

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

December 15, 2023

The Honorable Glenn Youngkin, Governor
Members of the Virginia General Assembly
Citizens of Virginia

It is my pleasure to present the Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2023, in accordance with Section 2.2-813 of the *Code of Virginia*. This report consists of management's representations concerning the Commonwealth of Virginia's finances. Management assumes full responsibility for the completeness and reliability of all information presented. This report reflects my commitment to you, to the citizens of the Commonwealth, and to the financial community to maintain our financial statements in conformance with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB). Data presented in this report is believed to be accurate in all material respects, and all disclosures that are necessary to enable the reader to obtain a thorough understanding of the Commonwealth's financial activities have been included.

The 2023 ACFR is presented in three sections. The Introductory Section includes this transmittal letter and organization charts for state government. The Financial Section includes the State Auditor's Report, management's discussion and analysis (MD&A), audited government-wide and fund financial statements and notes thereto, required supplementary information other than MD&A, and the underlying combining and individual fund financial statements and supporting schedules. The Statistical Section sets forth selected unaudited economic, financial trend, and demographic information for the Commonwealth on a multi-year basis.

The Commonwealth's management is responsible for the establishment and maintenance of internal accounting controls that ensure assets are safeguarded and financial transactions are properly recorded and adequately documented. To ensure that the costs of controls do not exceed the benefits obtained, management is required to use cost estimates and judgments to attain reasonable assurance as to the adequacy of such controls. The Commonwealth's established internal controls fulfill these requirements and provide reasonable, but not absolute assurance, that the accompanying financial statements are free of material misstatement.

In accordance with Section 30-133 of the *Code of Virginia*, the Auditor of Public Accounts has audited the Commonwealth's financial statements for the year ended June 30, 2023. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. The auditor's opinion is included in the Financial Section of this report. Audit testing for compliance with the U. S. Office of Management and Budget Compliance Supplement and the related Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, is performed at the statewide level. The Commonwealth's Single Audit Report will be issued at a later date. I would like to acknowledge the Auditor of Public Accounts' staff for their many contributions to the preparation of this report.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. In addition to the financial analysis addressing the Commonwealth's governmental and business-type activities, the MD&A focuses on the Commonwealth's major funds: General, Commonwealth Transportation Special Revenue, Federal Trust Special Revenue, Literary Special Revenue, Virginia Lottery, Virginia College Savings Plan, and Unemployment Compensation. The Commonwealth's MD&A can be found on page 27 immediately following the independent auditor's report.

PROFILE OF THE GOVERNMENT

Reporting Entity

For financial reporting purposes, the Commonwealth's reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable or for which the resources of the component unit primarily benefit the primary government (blended component units), and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete (discrete component units). The funds and accounts of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included. Further information can be found in Note 1.B. to the Financial Statements.

Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards* describes the criteria for determining which organizations, functions, and activities should be considered part of the Commonwealth for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, as well as the Commonwealth's ability to impose its will on that organization, or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth. The Commonwealth's discretely presented major component units are the Virginia Housing Development Authority, Virginia Public School Authority, Virginia Resources Authority, and Virginia College Building Authority.

The Commonwealth and its component units provide a wide range of services and funding to its citizens, including elementary, secondary and higher education; health and human services; economic development; environmental and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general government services. The financial activities associated with these services are reflected in both summary and detail throughout the ACFR.

Budgetary Control

In addition to the internal controls previously discussed, the Commonwealth maintains budgetary controls to ensure compliance with the legal provisions of the Commonwealth's Appropriation Act, which reflects the General Assembly's approval of a biennial budget. The financial transaction process begins with development and approval of the budget, after which budgetary control is maintained through a formal appropriation and allotment system. The budgeted amounts reflected in the accompanying financial statements represent summaries of agency budgets.

The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly on a biennial basis at the program level. The Commonwealth monitors spending activity to ensure the expenditures do not exceed the appropriated amounts at the agency level. The State Comptroller maintains a central general ledger that records total appropriations and related expenditures for all agencies and institutions included in the approved budget. Systemic controls are in place to prevent disbursements that exceed authorized appropriations. Additional information regarding the Commonwealth's budgetary process can be found in Note 1.E. to the Financial Statements.

ECONOMIC REVIEW

Local Economy

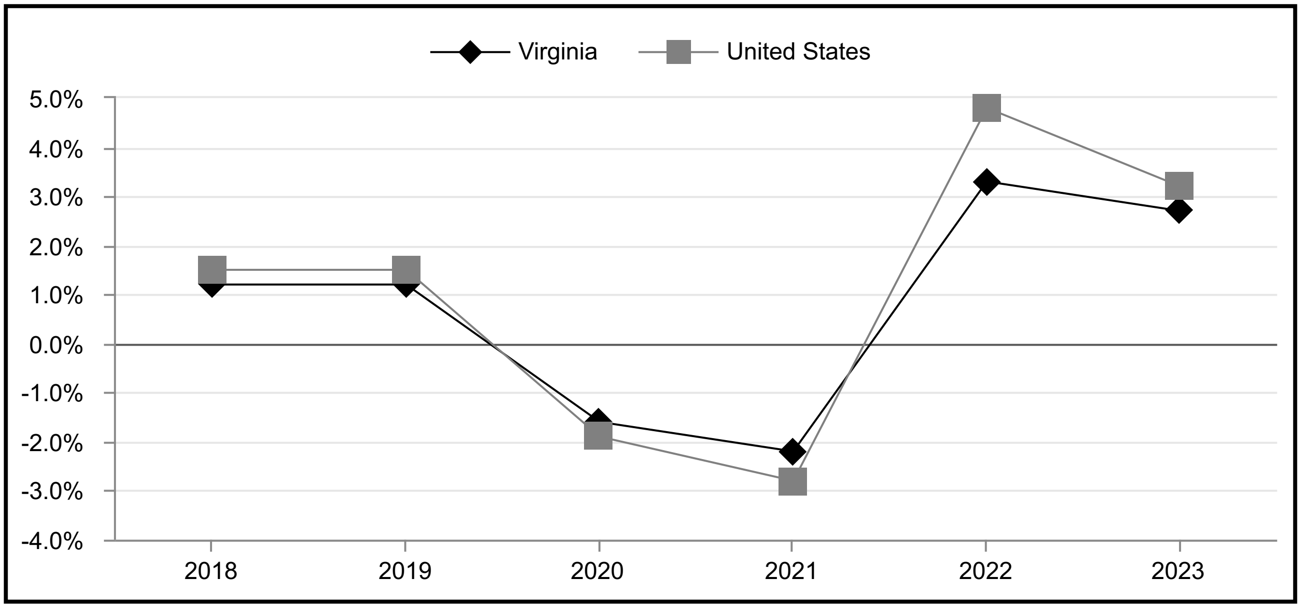
Introduction

This overview of the economy of the Commonwealth of Virginia was prepared by the Weldon Cooper Center for Public Service at the University of Virginia. In fiscal year 2023, Virginia's economy experienced continued economic momentum, two years after the COVID-19 pandemic induced downturn. In response to sustained inflation accompanying the economic rebound, the Federal Reserve took more aggressive action by raising interest rates to levels last seen before the 2007-09 recession. This restrictive policy reduced inflation, but it remained significantly higher than the Federal Reserve's two percent inflationary goal. Virginia employment continued to grow at a brisk pace, and real personal income increased during the fiscal year; but some other state economic activity measures, such as real taxable sales and residential building permits, declined. The state unemployment rate decreased only slightly because of as surge in the labor force, reflecting the return of 'missing workers' to the labor market. Climbing mortgage interest rates put a damper on Virginia home sales and building permit issuance. However, restricted housing inventory due to the reluctance of homeowners to move into homes financed by less affordable home mortgages, contributed to continued home price appreciation. The Federal Reserve may further tighten monetary policy or keep current rates high for a longer period of time in order to further reduce inflation. These actions are expected to lead to slower growth or a small recession in the next fiscal year.

Employment

Virginia non-farm employment continued to grow in fiscal year 2023 at a rate of 2.7 percent **(Figure 1)**. This was a modest slowdown from the rapid 3.3 percent rate of growth in fiscal year 2022 and mirrored the national pattern of slowing employment growth. The national rate of employment growth was 3.2 percent in fiscal year 2023, down from 4.8 percent the prior year.

Figure 1
Annual Percentage Change in Nonfarm Payroll Employment
Fiscal Years 2018 – 2023



Source: U. S. Bureau of Labor Statistics

Virginia gained 107,300 jobs in fiscal year 2023. This brought total employment to over 4.1 million, which eclipsed the pre-pandemic high of approximately 4.0 million employed in fiscal year 2019 and represents the highest fiscal year employment level in state history. The gains reflected a continued transition from consumer goods purchases to services due to pent up demand for the latter that built up during the pandemic. **Figure 2** illustrates changes in Virginia's nonfarm employment by industry for fiscal years 2018 through 2023, along with the employment change between fiscal years 2022 and 2023 for Virginia and the U.S. Virginia's changes looked similar to those of the U.S, with a few exceptions. The largest employment gains occurred in leisure and hospitality (25,100). The sector employed 402,700 workers in fiscal year 2023, which still lagged the pre-pandemic high of 412,800 observed in fiscal year 2019. Other growing sectors included education and health services (23,400), professional and business services (19,400), state and local government (11,600), transportation and utilities (6,700), other services (5,800), construction (5,400), manufacturing (5,100), wholesale trade (4,400), information (2,500), financial activities (2,200), federal government (200), and mining and logging (100). Retail trade was the only sector that lost jobs (-4,600) as consumers shifted their spending from goods to services.

Figure 2
Nonfarm Payroll Employment in Virginia's Industries
Fiscal Years 2018 – 2023

	Virginia Employment (000)						Change, FY 2022 to FY 2023		
							Virginia		
Industry*	2018	2019	2020	2021	2022	2023	Number (000)	Percent	U.S., Percent
Mining and logging	7.9	7.9	7.5	6.9	7.0	7.1	0.1	1.4%	8.1%
Construction	196.0	201.1	203.4	204.8	207.5	212.9	5.4	2.6%	3.5%
Manufacturing	237.1	243.3	238.4	235.2	240.7	245.8	5.1	2.1%	2.8%
Wholesale trade	110.5	110.1	108.8	106.5	110.3	114.7	4.4	4.0%	3.1%
Retail trade	416.7	410.0	394.1	396.4	398.0	393.4	-4.6	-1.2%	0.7%
Transportation and utilities	134.3	140.0	141.7	144.7	152.3	159.0	6.7	4.4%	3.9%
Information	67.9	67.5	67.1	65.2	68.4	70.9	2.5	3.7%	4.2%
Financial activities	206.9	210.0	211.9	209.5	213.7	215.9	2.2	1.0%	1.8%
Professional and business services	740.8	758.0	765.3	765.2	792.4	811.8	19.4	2.4%	3.6%
Education and health services	540.9	550.1	541.9	529.9	544.7	568.1	23.4	4.3%	3.9%
Leisure and hospitality	409.0	412.8	371.3	331.5	377.6	402.7	25.1	6.6%	7.2%
Other services	198.6	198.3	189.0	181.2	187.9	193.7	5.8	3.1%	3.4%
Federal government	178.3	180.7	183.5	187.6	186.1	186.3	0.2	0.1%	0.4%
State government	159.7	160.5	161.5	154.0	151.7	154.8	3.1	2.0%	0.8%
Local government	381.8	385.6	383.1	362.5	374.0	382.5	8.5	2.3%	2.0%
Total	3,986.4	4,035.9	3,968.5	3,881.1	4,012.3	4,119.6	107.3	2.7%	3.3%

Source: U. S. Bureau of Labor Statistics; some prior year numbers were revised to reflect the incorporation of newly available and revised source data

* North American Industry Classification System (NAICS)

Figure 3 shows the annual percentage change in nonfarm employment for 10 of the 11 Metropolitan Statistical Areas (MSAs) in Virginia. The Kingsport-Bristol MSA is not included in this table because most of it is located in Tennessee, and data for this indicator are not reported separately for the Virginia portion of the MSA. All 10 of the remaining Virginia metropolitan areas saw employment growth during the fiscal year, in a repeat of the previous year. The largest percentage increases occurred in the Staunton-Waynesboro MSA (3.9 percent) followed by Richmond (3.6 percent), Charlottesville and Winchester (3.3 percent each), Northern Virginia (2.9 percent) and Roanoke (2.8 percent) MSAs. The Blacksburg-Christiansburg-Radford MSA mirrored the Virginia average of 2.7 percent while the remaining metropolitan areas experienced growth rates below the Virginia average. These include Harrisonburg (2.3 percent), Lynchburg (2.1 percent) and Virginia Beach-Norfolk-Newport News (1.8 percent) MSAs. Slowing employment growth occurred throughout the state, however two MSAs grew faster in fiscal year 2023 than the previous year, Roanoke MSA and Staunton-Waynesboro MSA.

Figure 3
Annual Percentage Change in Nonfarm Payroll Employment in Virginia's MSAs
Fiscal Years 2018 – 2023

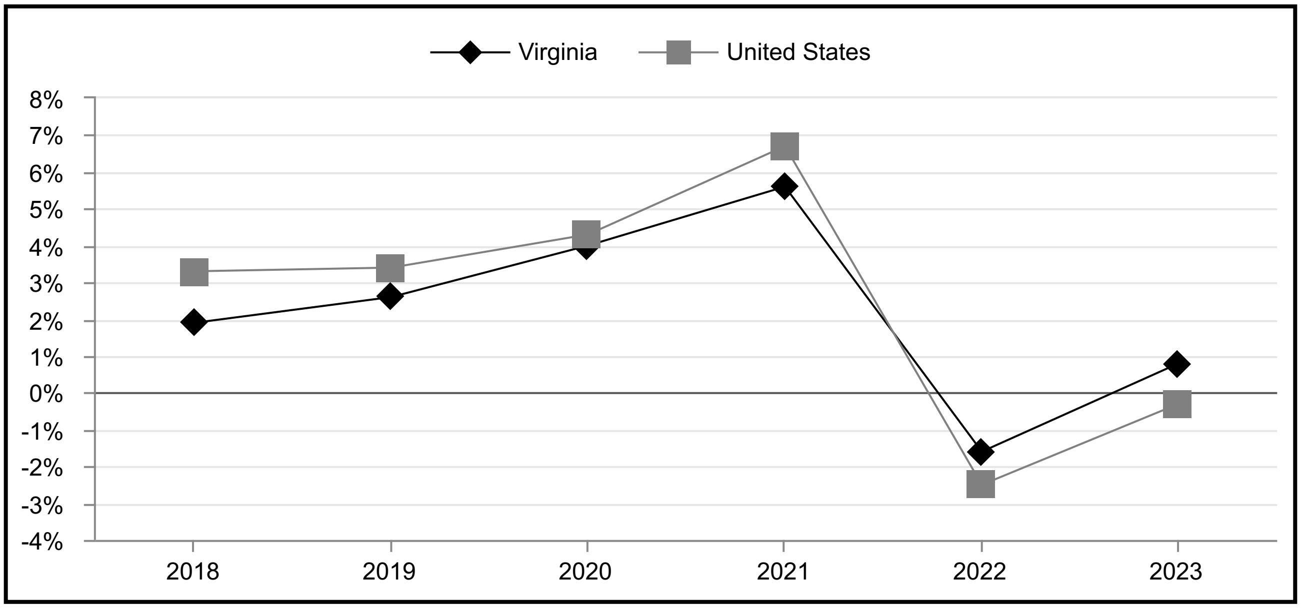
Area	2018	2019	2020	2021	2022	2023
Virginia	1.2%	1.2%	-1.7%	-2.2%	3.4%	2.7%
Metropolitan areas (a)						
Blacksburg-Christiansburg-Radford	0.7%	1.2%	-2.5%	-0.8%	5.1%	2.7%
Charlottesville	1.9%	1.6%	-1.3%	-4.6%	4.7%	3.3%
Harrisonburg	1.3%	1.5%	-1.5%	-2.3%	4.0%	2.3%
Lynchburg	0.6%	1.2%	-2.4%	-2.7%	2.1%	2.1%
Northern Virginia	1.6%	1.9%	-1.0%	-2.0%	3.8%	2.9%
Richmond	1.2%	1.5%	-1.9%	-2.4%	4.1%	3.6%
Roanoke	0.0%	0.8%	-2.2%	-1.8%	2.5%	2.8%
Staunton-Waynesboro	0.6%	1.8%	-1.4%	-2.1%	3.0%	3.9%
Virginia Beach-Norfolk-Newport News (b)	1.4%	0.7%	-2.1%	-2.3%	2.7%	1.8%
Winchester (c)	1.9%	1.8%	0.2%	0.8%	3.5%	3.3%

Source: U. S. Bureau of Labor Statistics; some prior year numbers were revised to reflect the incorporation of newly available and revised source data
(a) Excludes Kingsport-Bristol MSA, and TN-VA, most of which is located in Tennessee
(b) Includes portion in North Carolina
(c) Includes portion in West Virginia

Personal Income

Personal income provides another important gauge of the health of Virginia's economy. It is also a key determinant of consumer spending, which accounts for approximately 70.0 percent of GDP at the national level. Furthermore, changes in personal income are also strongly correlated with state government revenues such as income tax and retail sales tax collections. As shown in Figure 4, state real personal income increased by 0.8 percent in fiscal year 2023. This comes after a 1.6 percent decrease in fiscal year 2022 due to discontinuation of pandemic-related federal transfer payments. In comparison, real personal income shrank at the national level by 0.3 percent in fiscal year 2023. Virginia transfer receipts decreased by just 0.2 percent in fiscal year 2023 compared to a drop of 15.0 percent during fiscal year 2022. Real wages and salaries, which make up most of total personal income, grew 1.9 percent in fiscal year 2023, slightly lower than the average 2.2 percent growth rate during the previous five fiscal years (2018-2022). The next largest component is dividends, interest, and rent, which increased by 0.7 percent. Among other components, supplements to wages and salaries (which includes employer contributions to employee pensions, health insurance, social security/Medicare and other benefits) grew less than 0.1 percent, and proprietors' income dropped by 0.1 percent.

Figure 4
Annual Percentage Change in Real Personal Income
Fiscal Years 2018 – 2023

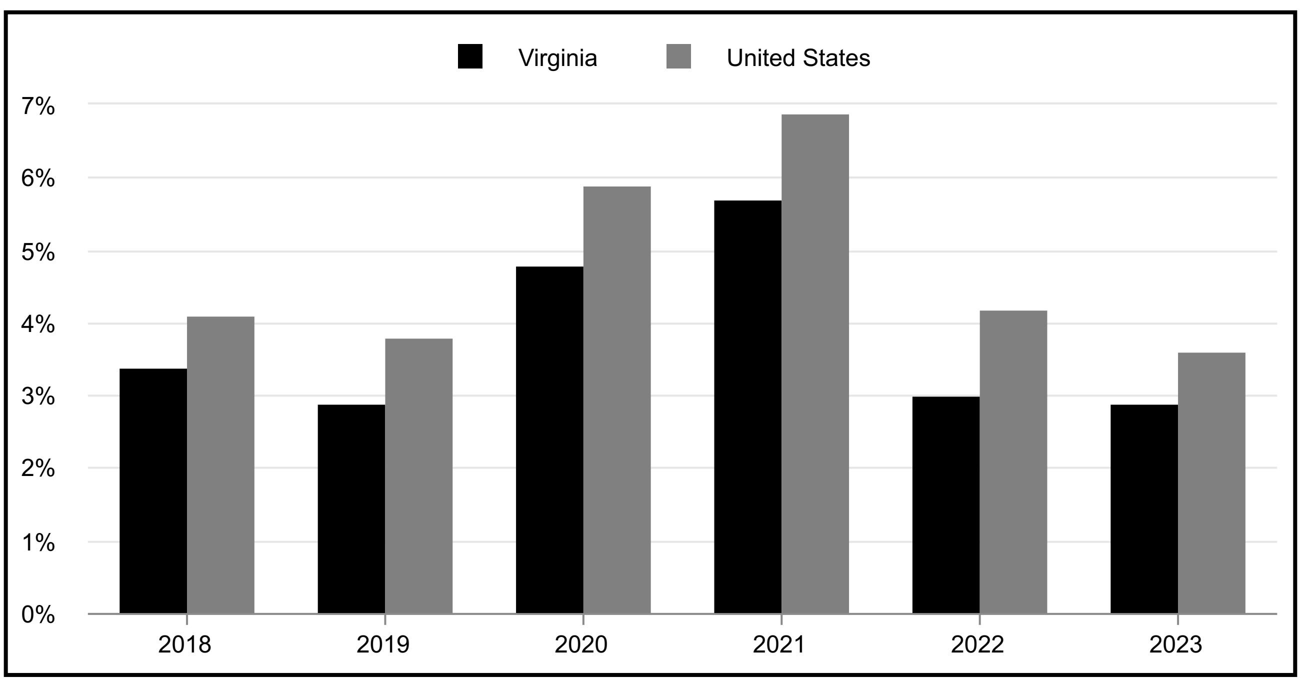


Source: U.S. Bureau of Economic Analysis, Billions of Chained 2017 Dollars

Unemployment

Virginia's unemployment rate inched down in fiscal year 2023. **Figure 5** shows that the state unemployment decreased from 3.0 percent in fiscal year 2022 to 2.9 percent in fiscal year 2023. This rate matched the 2.9 percent rate observed before the pandemic (fiscal year 2019). The state unemployment rate was lower than the national rate (3.6 percent), though the gap between the two has been closing. Improvement in the unemployment rate was relatively small because the labor force grew at a similar rate as employment in fiscal year 2023 as more job seekers flowed back into the labor market.

Figure 5
Civilian Unemployment Rate
Fiscal Years 2018 – 2023



Source: U.S. Bureau of Labor Statistics

Figure 6 shows unemployment rates for Virginia's metropolitan and non-metropolitan regions. The unemployment rate improved in metropolitan areas. The metropolitan area unemployment average decreased from 3.0 percent in fiscal year 2022 to 2.8 percent in fiscal year 2023, though the experiences of individual metro areas varied. Four metropolitan areas had unemployment rates above the statewide average of 2.9 percent, including the Lynchburg (3.4 percent), Virginia Beach-Norfolk-Newport News (3.2 percent), Kingsport-Bristol and Richmond (3.1 percent) metropolitan areas. Two of these metro areas (Richmond and Virginia Beach-Norfolk-Newport News) have experienced unemployment rates that were usually above the statewide average during the previous five fiscal years (2018-2022). Four metro areas, which included the Blacksburg-Christiansburg-Radford, Harrisonburg, Kingsport-Bristol and Lynchburg MSAs saw slight increases in their unemployment rates over the previous fiscal year. The nonmetropolitan area unemployment rate held steady at 3.5 percent in fiscal year 2023 from the prior fiscal year.

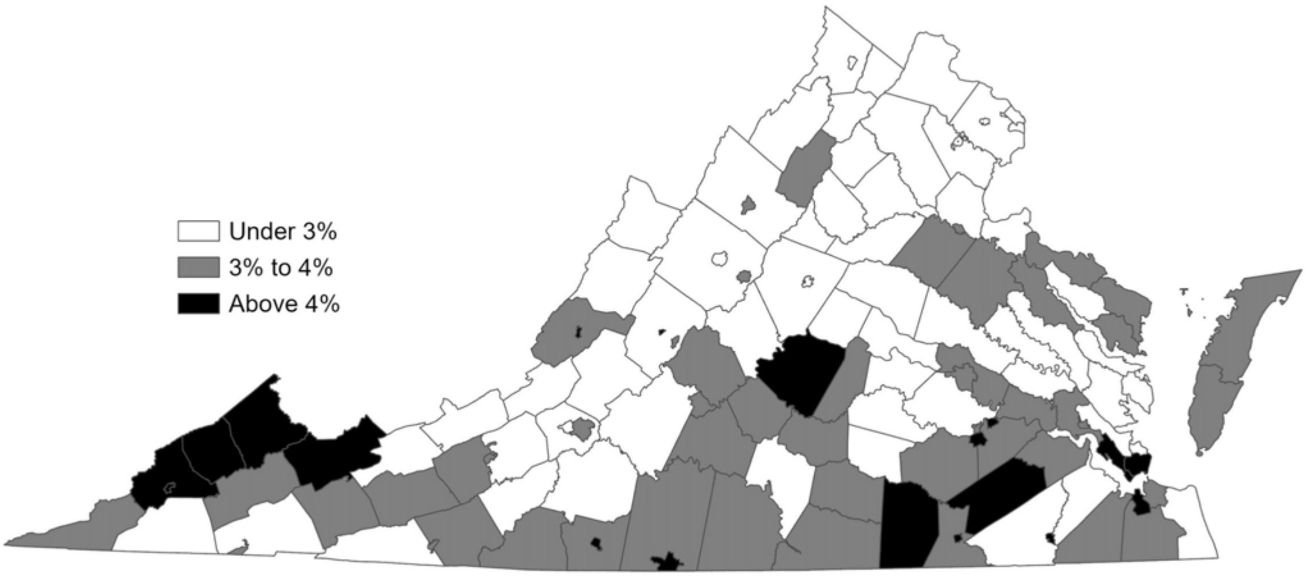
Figure 6
Civilian Unemployment Rate for Virginia's MSAs
Fiscal Years 2018 – 2023

Area	2018	2019	2020	2021	2022	2023
Virginia	3.3%	2.9%	4.6%	5.4%	3.0%	2.9%
Metropolitan Areas	3.2%	2.8%	4.5%	5.4%	3.0%	2.8%
Blacksburg-Christiansburg-Radford	3.5%	3.0%	4.7%	4.4%	2.8%	2.9%
Charlottesville	3.0%	2.6%	4.2%	4.8%	2.7%	2.7%
Harrisonburg	3.3%	2.8%	4.3%	4.3%	2.8%	2.9%
Kingsport-Bristol	3.7%	3.4%	5.0%	5.0%	3.0%	3.1%
Lynchburg	3.9%	3.3%	4.8%	5.3%	3.3%	3.4%
Northern Virginia	2.8%	2.4%	4.1%	5.0%	2.7%	2.5%
Richmond	3.5%	3.0%	4.9%	5.9%	3.2%	3.1%
Roanoke	3.4%	2.8%	4.6%	5.1%	3.0%	2.9%
Staunton-Waynesboro	3.2%	2.7%	4.1%	4.5%	2.8%	2.7%
Virginia Beach-Norfolk-Newport News	3.6%	3.2%	5.1%	6.2%	3.4%	3.2%
Winchester	3.1%	2.8%	4.1%	4.0%	2.6%	2.6%
Non-metropolitan Areas	4.1%	3.6%	5.4%	5.8%	3.5%	3.5%

Source: U.S. Bureau of Labor Statistics; some prior year numbers were revised to reflect the incorporation of newly available and revised source data

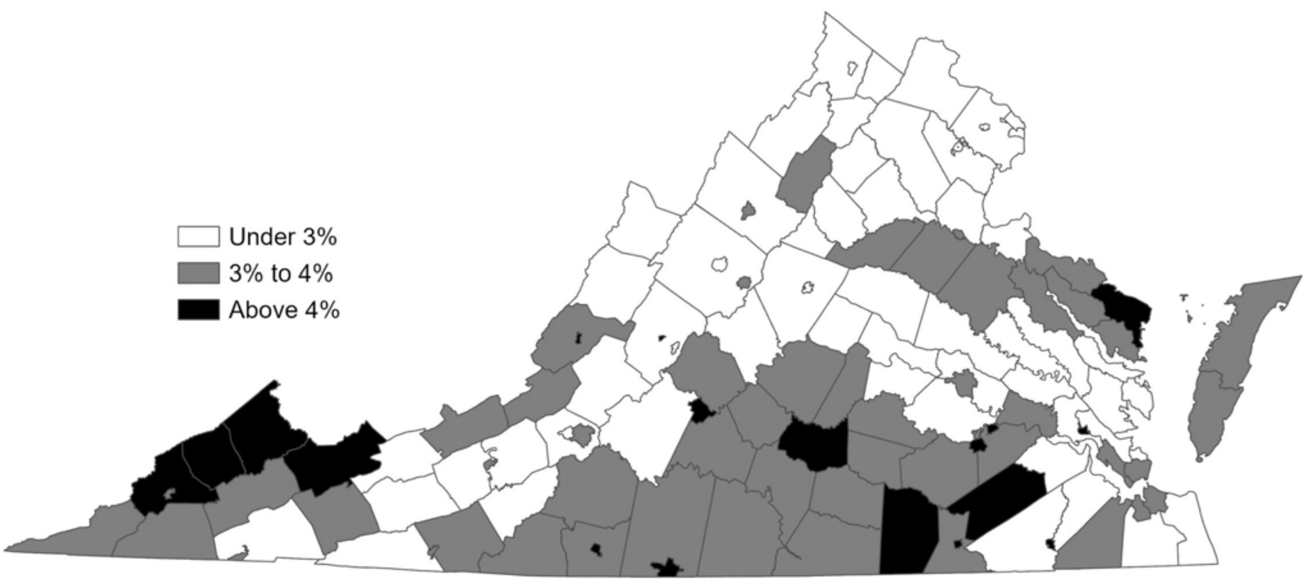
Figures 7a and **7b** show changes in the spatial pattern of unemployment rates in Virginia during the last two fiscal years using locality-level data. The maps illustrate that the spatial patterns were relatively stable between fiscal years 2022 and 2023. Nineteen localities had unemployment rates above 4.0 percent in fiscal year 2023 compared to 18 in fiscal year 2022. Reflecting long-standing trends, unemployment rates were generally higher in the Southside and Southwestern regions. The state's highest unemployment rates continued to be found in several independent cities, including Petersburg (7.0 percent), Emporia (5.8 percent), Martinsville (5.3 percent) and Hopewell (5.1 percent). Slightly over half (68) of Virginia's localities experienced unemployment rate decreases in fiscal year 2023.

Figure 7a
Unemployment Rate by Locality
Fiscal Year 2023



Source: Virginia Employment Commission

Figure 7b
Unemployment Rate by Locality
Fiscal Year 2022

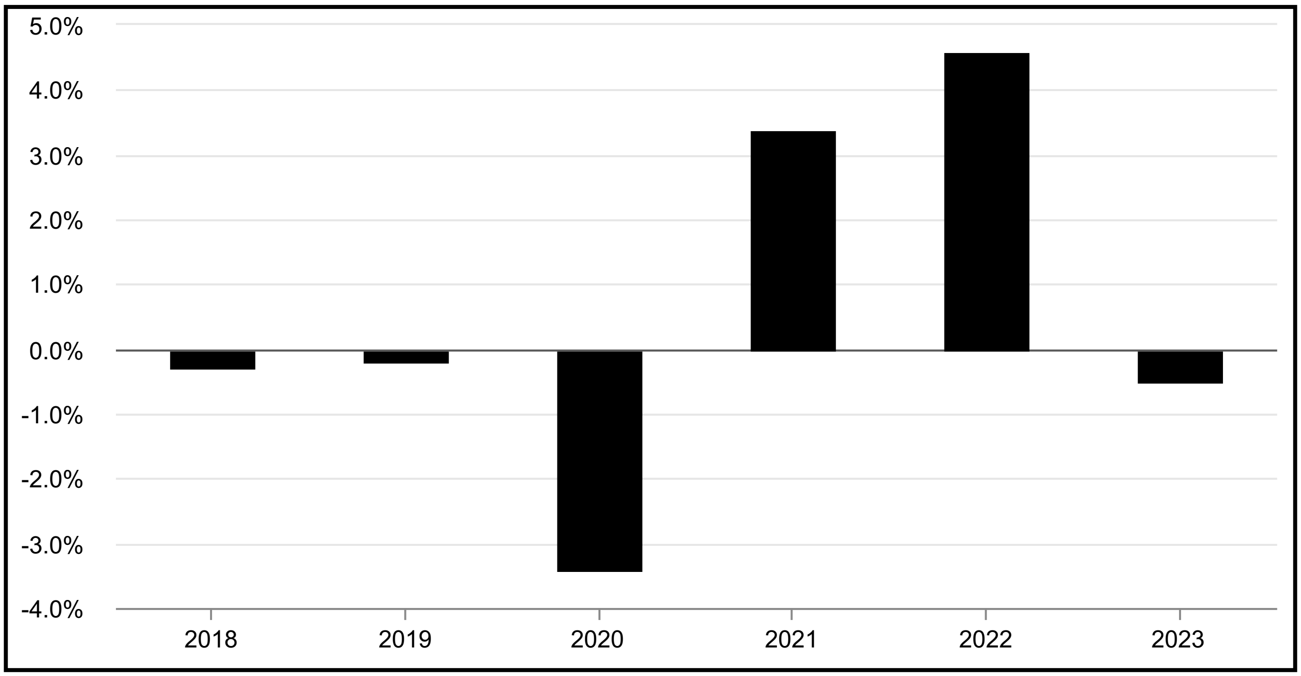


Source: Virginia Employment Commission

Taxable Sales

Changes in state retail sales are represented here using information on real taxable sales. This measure is a useful proxy for retail sales, but omits some goods (e.g., motor vehicles, motor fuel sales) that appear in the comparable national measure and includes some services (e.g., restaurant sales, lodging sales) not included in that measure. **Figure 8** shows that the real taxable sales decreased by 0.5 percent during fiscal year 2023. This was down from a 4.6 percent rate of increase the previous fiscal year. However, this decrease is similar in relative magnitude to that experienced at the national level in the most comparable measure (Real Retail and Food Services Sales), which decreased 0.4 percent for the same period and likely reflects the shift of consumer purchases from goods to services as a result of post-pandemic spending pattern changes.

Figure 8
Annual Percentage Change in Real Taxable Sales in Virginia
Fiscal Years 2018 - 2023



Source: Virginia Department of Taxation.

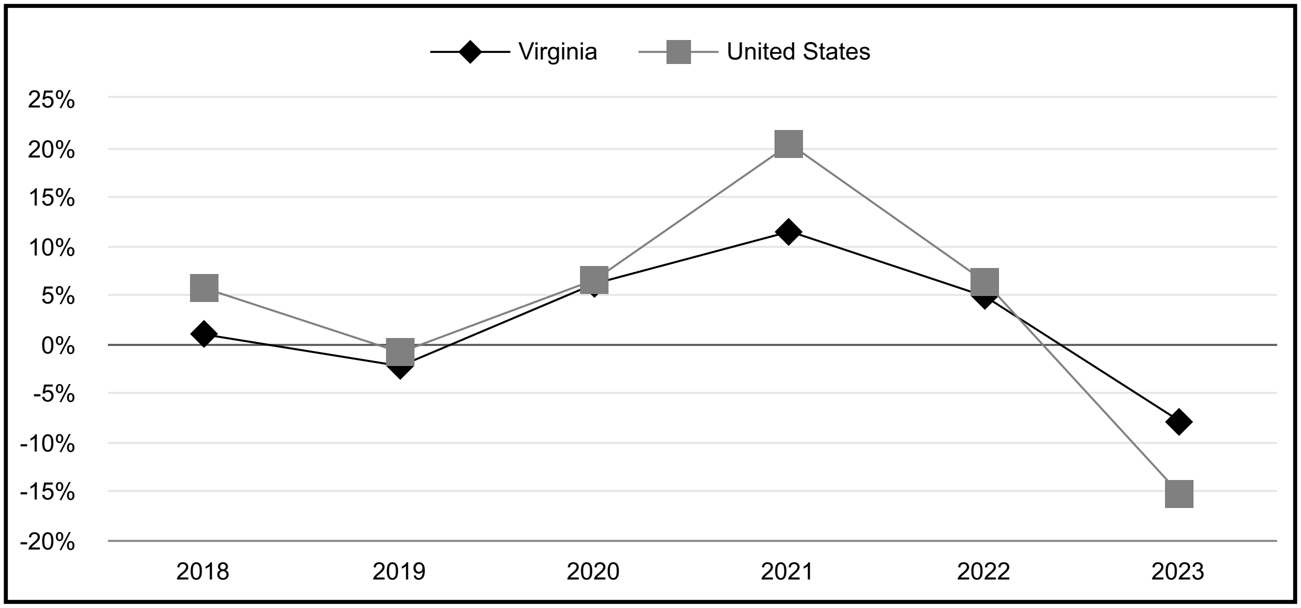
Taxable sales are adjusted for inflation using the Bureau of Labor Statistics Consumer Price Index for All Urban Consumers, All Items.

Housing Market

Virginia's housing market activity dropped during fiscal year 2023. Sales of existing homes and residential building permit issuance decreased. According to data available from the Virginia Association of Realtors, sales of single-family homes, townhomes, and condos decreased from 146,015 units in fiscal year 2022 to 107,571 units in fiscal year 2023. This represents a 26.3 percent rate of decrease compared to a 6.6 percent rate of decrease in fiscal year 2022. Building permit data show the number of new privately-owned housing units authorized for construction in Virginia decreased by 7.9 percent in fiscal year 2023 (**Figure 9**). This represents a drop from the 4.8 percent increase in fiscal year 2022, but was less severe than the 15.3 percent rate of decrease experienced nationwide in fiscal year 2023.

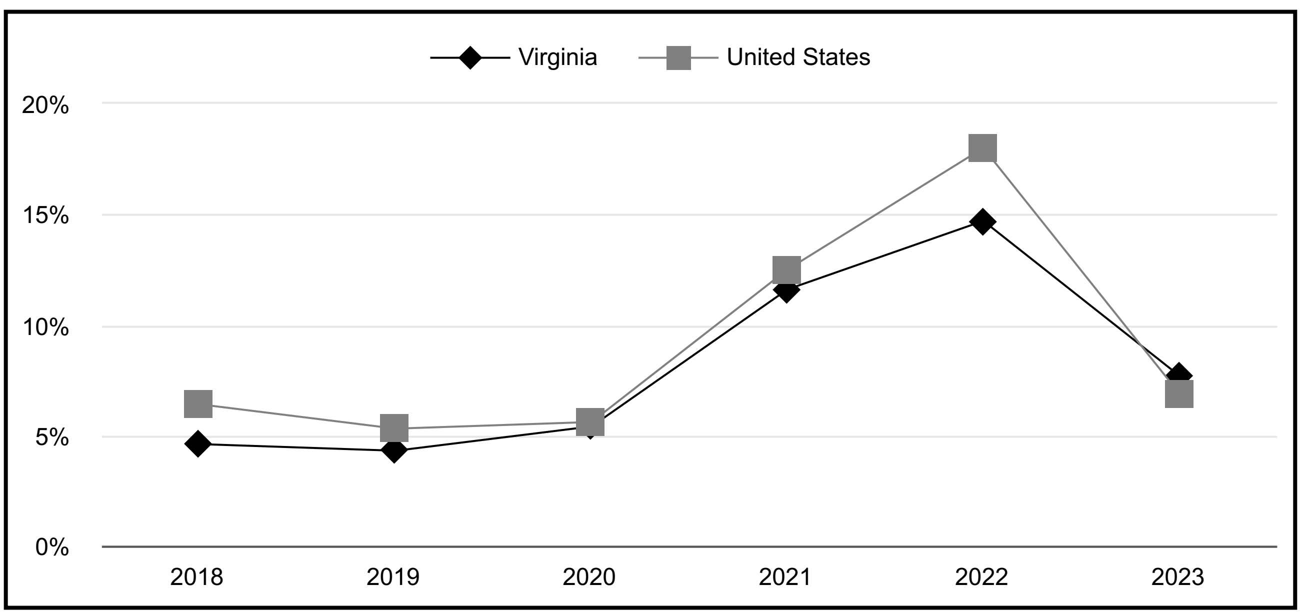
Housing prices published by the Federal Housing Finance Agency indicate that price appreciation slowed during the fiscal year. **Figure 10** shows the percentage change in housing prices for Virginia and the nation. Virginia housing prices increased 7.7 percent in fiscal year 2023, down from 14.7 percent in fiscal year 2022. This rate was higher than the 6.9 percent national growth rate in fiscal year 2023. Consumer demand for housing was dampened by higher mortgage rates during the fiscal year. However, inventories of homes remained below normal levels because these same high mortgage rates prevented many potential movers from placing their homes on the market.

Figure 9
New Privately Owned Housing Units Authorized, Annual Percentage Change
Fiscal Years 2018 – 2023



Source: U.S. Census Bureau

Figure 10
Annual Percentage Change in Housing Prices
Fiscal Years 2018 – 2023



Source: Federal Housing Finance Agency

Conclusion

Virginia's economy experienced its second year of employment growth in fiscal year 2023, although the rate of increase at 2.7 percent represented a slowing from the 3.3 percent the year before. Real personal incomes increased by 0.8 percent, largely due to the role of rising real wages and salaries. Some other economic metrics were not as favorable. Real taxable sales decreased by 0.5 percent, perhaps reflecting consumer spending adjustments to make up for dining, travel, and other service-related spending experiences that were prevented by the pandemic. Virginia housing market activity reflected the effects of rising mortgage interest rates. Existing home sales plunged, and residential building permit issuance decreased. Although housing price appreciation slowed, prices were still higher because of limited housing inventories caused by many homeowners' reluctance to put their homes up for sale when prospects for finding affordable homes elsewhere were bleak.

By the end of fiscal year 2023, the nation's economy had largely met or exceeded pre-pandemic levels on many economic indicators. Continued inflationary pressures required the Federal Reserve to maintain restrictive monetary policy. Federal Reserve monetary tightening had the effect of slowing employment growth and reducing inflation. However, the inflation rate remained above the Federal Reserve's target rate of approximately 2.0 percent. Economic activity is expected to slow further or even decrease in the next fiscal year as the Federal Reserve possibly raises rates further and/or extends the duration of higher rates to bring inflation under control.

MAJOR INITIATIVES

The ACFR has received unmodified audit opinions from fiscal year 1986 through fiscal year 2022. During this period, the Commonwealth has also received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. While we are very proud of these unmodified audit opinions and awards, we must be mindful of the fact that they are not automatic. The successes of the State Comptroller's office are directly attributable to not only the professionalism, experience and integrity of the State Comptroller's technical and accounting personnel, but also to the professionalism, experience and integrity of the financial and accounting personnel throughout the Commonwealth. These major initiatives will support efforts to continue our legacy of quality financial management.

Long-term Financial Planning

In 1992, an amendment to the Constitution of Virginia required the establishment of a Revenue Stabilization Fund. Annually, revenue collections are evaluated to determine whether deposits are required to the Fund. Withdrawals can only occur if the general fund revenues appropriated exceed the revised general fund revenue forecast by more than 2.0 percent of the certified tax revenues collected in the most recently ended fiscal year. Additionally, a withdrawal from the Fund cannot compensate for more than one-half of the difference between the general fund appropriations and revised estimate nor can it exceed more than one-half of the Fund balance. Further, pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed 15.0 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. This is an increase of the previous limit of 10.0 percent.

During fiscal year 2018, the *Code of Virginia* established the Revenue Reserve Fund to mitigate certain anticipated revenue shortfalls when appropriations based on previous revenue forecasts exceed expected revenues in subsequent forecasts. Annually, revenue collections are evaluated to determine whether deposits are required to the Fund. Generally, withdrawals can only occur if a revised general fund revenue forecast is less than appropriated general fund revenues and the decrease is 2.0 percent or less of general fund revenues collected in the most recently ended fiscal year. Additionally, a withdrawal from the Fund may not exceed more than one-half of the Fund balance. The combined balance of the Revenue Reserve Fund and Revenue Stabilization Fund cannot exceed 20.0 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. Pursuant to Chapter 1, 2022 Acts of Assembly Special Session I, this is an increase to the previous 15.0 percent limit.

During fiscal year 2022, a deposit of $498.7 million was made to the Revenue Reserve Fund pursuant to Chapter 1, 2022 Acts of Assembly Special Session I. This amount represents an advance reservation for the fiscal year 2024 mandatory deposit to the Revenue Stabilization Fund. This amount will be transferred from the Revenue Reserve Fund to the Revenue Stabilization Fund during fiscal year 2024.

Enterprise Application Project

The Cardinal Project represents a shared vision between the offices of the Secretary of Transportation, Secretary of Finance, Secretary of Administration, and the Virginia Information Technologies Agency to replace aging statewide enterprise applications. This effort began with the effort to replace the Commonwealth's financial system (CARS) and the Virginia Department of Transportation's (VDOT) financial system with a modern, enterprise-wide financial system (base financial system). The base financial system provides a solid foundation for the Commonwealth to expand system functionality and facilitates better integration of key administrative systems across the state. This foundation enables the Commonwealth to re-engineer activities to include taking advantage of shared services, increasing functionality for better fiscal management, and reducing redundant agency financial systems and related cost. This phase of the Cardinal Application Project has been completed. Effective July 1, 2016 (fiscal year 2017), Cardinal became the official general ledger accounting system for the Commonwealth, and CARS was retired.

The most recent phase of this project involves a partnership between the Department of Accounts (DOA) and the Department of Human Resource Management (DHRM) to replace the existing statewide payroll system (CIPPS), along with the Commonwealth's statewide Personnel Management Information System (PMIS) and Benefits Eligibility System (BES), and integrate these statewide systems into Cardinal. The Human Capital Management System (Cardinal HCM) was implemented in phases. The first phase was implemented October 2, 2021, and second phase was implemented April 4, 2022. The third and final phase of the Cardinal HCM project was implemented October 3, 2022. Cardinal HCM is now the official payroll, benefits, human resource and absence management system for the Commonwealth. Additionally, Cardinal HCM serves over 231,000 users in 233 state agencies and 363 localities. A Cardinal Governance Committee, co-chaired by the DHRM Director and me as Acting State Comptroller, has been formed. Coordination with the Secretaries of Finance and Administration is underway to evaluate and identify the next phase of the Cardinal Enterprise Project.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth for its ACFR for the fiscal year ended June 30, 2022. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized annual comprehensive financial report that conforms to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and all applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. The Commonwealth has received a Certificate of Achievement for the last 37 consecutive years (fiscal years 1986-2022). I believe that this year's report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA.

This report could not have been prepared without the full cooperation of all state agencies within the Executive Branch, the Legislature, the Judiciary, the Component Units, and especially the dedication and professionalism of the financial reporting staff in the Department of Accounts.

Respectfully submitted,

Sharon H. Lawrence

Sharon H. Lawrence
Acting Comptroller of the Commonwealth of Virginia

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

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Commonwealth of Virginia

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morrill

Executive Director/CEO