

A letter to the Governor

20th
Anniversary
1984-2004

TO: The Governor of Virginia
Members of the General Assembly
Citizens of the Commonwealth

On June 30, 2004, the Virginia Resources Authority completed its 20th year of operations. In that Virginia was one of the first states in the nation to create a bond bank for its localities, VRA's inception in 1984 reflects the forward thinking and wisdom of the General Assembly to provide affordable alternatives for communities burdened with increasing demands on limited financial resources.

Recognizing the responsibility inherent to the VRA's founding, the Board and Staff of the Authority seek to continue financial innovation with energy and dedication. From a single loan program with two project areas to 11 lending programs and seven project areas, the Virginia Resources Authority's growth over its first 20 years has been remarkable: the Authority has loaned over \$2.7 billion for 567 infrastructure projects throughout the Commonwealth.

Fiscal Year 2004 proved to be another milestone year for the Board and Staff of the Authority. Breaking its previous record by over \$170 million, VRA financed a total of \$463,698,556 in infrastructure projects, more dollar volume than any single year in our history. In addition, staff closed the first loan to fund open space preservation, utilizing the expansion in VRA's enabling legislation passed by the 2003 General Assembly. And, finally, staff closed the first bond issue through the Virginia Pooled Financing Program, an innovative improvement to the predecessor pooled program, and the first in the nation to utilize a senior/subordinate debt structure for local government infrastructure financing. The new VPFP both improves the credit on the bonds, achieving a natural "Aaa" on the senior structure or 70% of the bonds issued, and lessens the Authority's use of the state's moral obligation as only 30% of the bonds issued through the program are backed by the Commonwealth. Interest rates to VRA borrowers are lowered in the process, and the VPFP has been well received in the financial community.

The VRA Board and Staff consistently strive to discover new, creative ways to help further Virginia's environmental, economic development, and public safety goals with a commitment to professionalism and efficiency.

Following is the Annual Report of the Virginia Resources Authority, chronicling accomplishments for its 20th year, and looking ahead to the future. Please let us know how we may be of assistance to you in the coming year.

William G. O'Brien
Chairman, Board of Directors

Darrell V. Hill
Executive Director



William G. O'Brien
*Chairman
Board of Directors*



Darrell V. Hill
Executive Director

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Board of Directors

Appointed Members



William G. O'Brien
Chairman
Port Republic



Katrina C. Randolph Esquire
Vice Chairman
Richmond



Barbara M. Donnellan
Clifton



H. Hiter Harris, III
Richmond



J. Barry Purcell, III
Richmond



James H. Spencer, III
Tazewell

The VRA Board of Directors provides leadership in setting the Authority's administrative policies and approving loans for borrowers through VRA's bond and loan programs. Representing diverse backgrounds and geographic locations throughout Virginia, members of VRA's Board of Directors offer expertise on environmental, financial, business, and governmental issues. This diversity furthers the Board's representation of the citizens of the Commonwealth and affords VRA unique perspectives and insights from a broad range of specializations and experience.

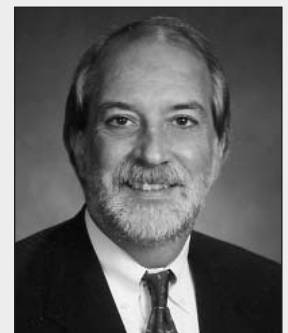
The VRA Board of Directors comprises seven citizen members appointed by the Governor and confirmed by the General Assembly and four ex officio members: the Treasurer of Virginia, the State Health Commissioner, and the Directors of the Virginia Department of Environmental Quality and the Virginia Department of Aviation.

In Fiscal Year 2004, John E. Heilmann, Vice Chairman; Richard N. Davenport; Robert T. Taylor; and Charles S. Macfarlane vacated their positions on the VRA Board of Directors. The VRA Board and staff recognize and appreciate the leadership and dedication they afforded the Authority during their tenures on the Board.

Ex Officio Members



Randall P. Burdette
Executive Director
Virginia Department of Aviation



Robert G. Burnley
Director
Virginia Department of Environmental Quality



Hari K. Thakkar
Virginia Beach



Robert B. Stroube
MD, MPH
Commissioner
Virginia Department of Health

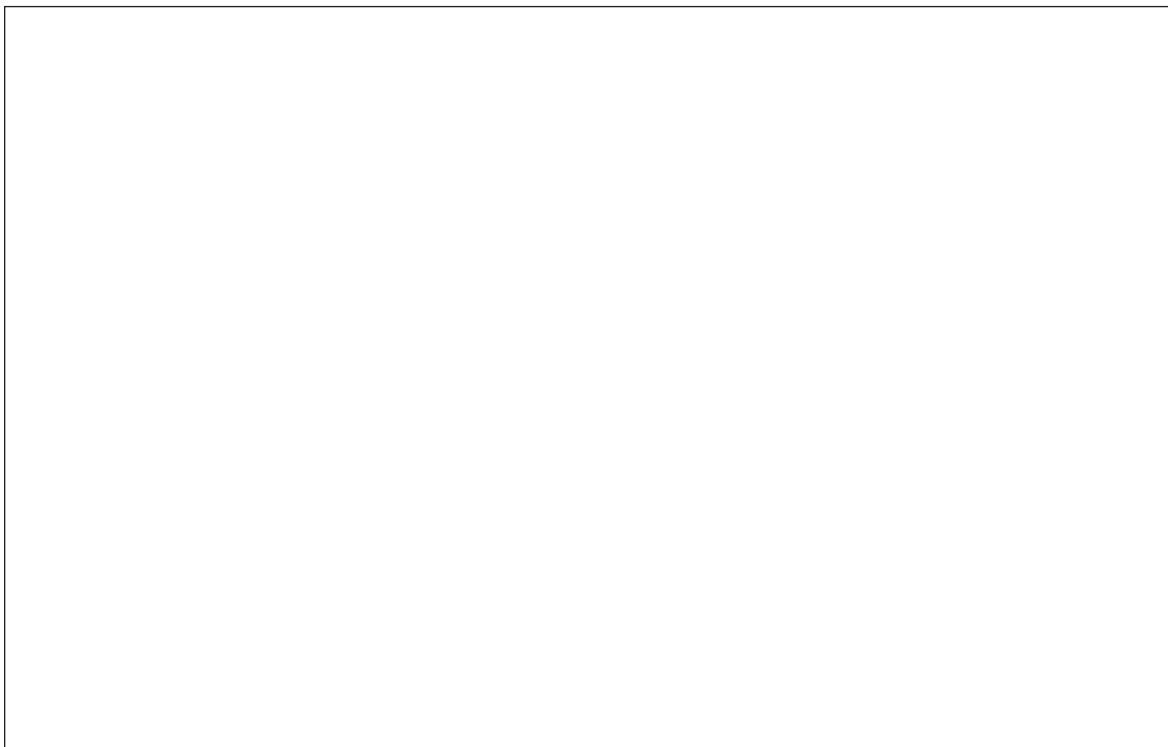


Jody M. Wagner
Esquire
Treasurer
Commonwealth of Virginia

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Virginia Resources Authority furthers the Commonwealth's goals in economic development, the environment, public health and safety, and transportation by providing local governments with affordable and innovative infrastructure financing.

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I-r: Yumei Li, Bonnie McRae, Genia Weeks, Mary Barnes, Jamie Shield, Anna Tunnell, Ceci Harrison, Diane Jones, Terri Dixon, Howard Estes, Darrell Hill

Staff

Darrell V. Hill
Executive Director

Howard P. Estes, Jr., Esquire
General Counsel and Deputy Director

Terri H. Dixon, CPA
Controller

Yumei Li
Assistant Controller

Diane P. Jones
Fiscal Manager

James A. Shield, III
Development Officer

Mary B. Barnes
Director of Loan Origination

Genia S. Weeks, CIDA
Program & Financial Analyst

Anna K. Tunnell
Financial & Compliance Analyst

Cecile F. Harrison
Director of Administration

Bonnie R. C. McRae
Executive Assistant

Advisors

Goodman & Company
Certified Public Accountants

McGuireWoods LLP
Bond Counsel

Public Financial Management, Inc.
Financial Advisor

LeClair Ryan
A Professional Corporation
Counsel for the Revolving Loan Funds

VRA Borrowers as of June 30, 2004

	Abingdon, Town of	Front Royal, Town of	Prince William County
	Albemarle County	Galax, City of	Prince William County Service Authority
	Albemarle County Service Authority	Glasgow, Town of	Pulaski County Public Service Authority
	Alberta, Town of	Gloucester County	Purcellville, Town of
	Alexandria Sanitation Authority	Goochland County	Rapidan Service Authority
	Alleghany County	Gordonsville, Town of	Rappahannock County
	Alleghany Highlands School Board	Greene County	Rappahannock County Water and Sewer Authority
	Altavista, Town of	Greensville County Water & Sewer Authority	Richcreek, Town of
	Amelia County	Halifax County Service Authority	Richlands, Town of
	Amelia Courthouse Sanitary District	Halifax County	Richmond, City of
	Appomattox River Water Authority	Hamilton, Town of	Rivanna Water & Sewer Authority
	Appomattox, Town of	Hampton Roads Sanitation District	Roanoke County
2004	Arlington County	Hanover County	Roanoke River Service Authority
	Aubon Water Company	Harrisonburg, City of	Rockbridge County Public Service Authority
	Augusta County	Harrisonburg/Rockingham Regional Sewer Authority	Rockingham County
2003	Augusta County Service Authority	Henrico County	Rocky Mount, Town of
	Bath County Service Authority	Henry County Public Service Authority	Round Hill, Town of
	Bedford County Public Service Authority	High Knob Utilities, Inc.	Rural Retreat, Town of
2002	Bedford, City of	Hillsville, Town of	Russell County
	Berryville, Town of	Honaker, Town of	Russell County Water and Sewer Authority
	Big Stone Gap, Town of	Hopewell, City of	Rye Valley Water Authority
2001	Blackstone, Town of	Iron Gate, Town of	Salem, City of
	Bland County Service Authority	John Flannagan Water Authority	Saltville, Town of
	Bluefield, City of	Jonesville, Town of	Scott County Public Service Authority
2000	Blue Ridge Airport Authority	Keysville, Town of	Shenandoah, Town of
	Boones Mill, Town of	Kilmarnock, Town of	Smith Creek Water & Waste Authority
	Botetourt County	King George County	Smithfield, Town of
1999	Bowling Green, Town of	King George County Service Authority	Smyth County
	Boydton, Town of	King William County	South Boston, Town of
	Bridgewater, Town of	LaCrosse, Town of	South Central Wastewater Authority
1998	Buchanan County Public Service Authority	Lawrenceville, Town of	South Hill, Town of
	Buchanan, Town of	Lee County	Southampton County
1997	Buckingham County	Lee County Public Service Authority	Southeastern Public Service Authority
	Calvary Pentecostal Tabernacle	Leesburg, Town of	Spotsylvania County
	Campbell County Utilities & Service Authority	Loudoun County	St. Charles, Town of
1996	Cape Charles, Town of	Loudoun County Sanitation Authority	St. Paul, Town of
	Capital Region Airport Commission	Louisa, Town of	Stafford County
	Caroline County	Lovettsville, Town of	Stafford Regional Airport Authority
1995	Carroll County Public Service Authority	Luray, Town of	Stanley, Town of
	Cedar Bluff, Town of	Lynchburg, City of	Staunton, City of
1994	Charlottesville-Albemarle Airport Authority	Manassas Park, City of	Stephens City, Town of
	Chesapeake, City of	Manassas, City of	Stoney Creek Sanitary District
	Chesterfield County	Marion, Town of	Strasburg, Town of
1993	Christiansburg, Town of	Martinsville, City of	Suffolk, City of
	Claremont, Town of	Mathews County	Surry County
	Clarke County	Maury Service Authority	Sussex County
1992	Clarke County Sanitary Authority	McKenney, Town of	Sussex Service Authority
	Clarksville, Town of	Middle Peninsula Planning District Commission	Tangier, Town of
	Cleveland, Town of	Middleburg, Town of	Tappahannock, Town of
1991	Clifton Forge, Town of	Monterey, Town of	Tazewell County
	Clintwood, Town of	Montgomery County	Tazewell County Airport Authority
	Clover, Town of	Montgomery County Public Service Authority	Tazewell County Public Service Authority
1990	Coalfield Water Development Fund	Mount Jackson, Town of	Tazewell, Town of
	Coalburn-Norton-Wise Regional Wastewater Treatment Authority	Narrows, Town of	Triangle Enterprises
1989	Colonial Beach, Town of	Nature Conservancy	TWW, Inc.
	Culpeper, Town of	Nelson County Service Authority	Upper Occoquan Sewage Authority
1988	Danville, City of	New Market, Town of	Urbanna, Town of
	Dickenson County Public Service Authority	New River Resource Authority	Victoria, Town of
	Dillwyn, Town of	Newport News, City of	Vinton, Town of
1987	Dinwiddie Airport and Industrial Authority	Nickelsville, Town of	Virginia Aviation Board
	Dinwiddie County Water Authority	Norfolk Airport Authority	Virginia Beach, City of
	Drakes Branch, Town of	Norfolk, City of	Virginia Peninsulas Public Service Authority
1986	Dumfries, Town of	Northern Neck Planning District Commission	Virginia Recreation Facilities Authority
	Emporia, City of	Norton, City of	Wakefield, Town of
	Exmore, Town of	Onancock, Town of	Warm Springs Sanitation Commission
1985	Fairfax County	Orange, Town of	Warsaw, Town of
	Fairfax County Water Authority	Pearisburg, Town of	Washington County Service Authority
	Farmville, Town of	Peninsula Airport Commission	Waterford Foundation
1984	Fauquier County	Pennington Gap, Town of	Waverly, Town of
	Fauquier County Water & Sanitation Authority	Pepper's Ferry Regional Wastewater Treatment Authority	Western Virginia Water Authority
	Ferrum Water and Sewerage Authority	Pittsylvania County Service Authority	West Point, Town of
	Fincastle, Town of	Pocahontas, Town of	Winchester Regional Airport Authority
	Franklin, City of	Poquoson, City of	Wise County
	Frederick County Sanitation Authority	Pound, Town of	Wise County Public Service Authority
	Fredericksburg, City of	Powhatan County	Woodstock, Town of
	Frederick-Winchester Service Authority	Prince George County	Wythe County

Bold indicates a first-time VRA borrower

VRA Loan Programs

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Virginia Resources Authority (VRA) was created 20 years ago to provide affordable financing alternatives for the Commonwealth's local governments – originally for drinking water and wastewater treatment projects. Today, VRA offers a host of financing programs for seven different types of infrastructure: drinking water, wastewater treatment, stormwater drainage, solid waste management, aviation, brownfields remediation and redevelopment, and public safety projects.

Focused on customer service and flexible financing while offering the lowest cost of financing, VRA has provided over 2.7 billion infrastructure dollars through 11 borrowing programs to Virginia localities over the last 20 years.

VRA's original bond program has evolved and grown significantly since the Authority's inception in 1984. For the first 19 years of VRA's history, all VRA's bonds were backed by the moral obligation of the Commonwealth of Virginia. Because of Virginia's strong fiscal position, Moody's and Standard & Poor's rated VRA's bonds "double A" and the bond program was able to offer financing to local governments at interest rates most could not realize on their own.



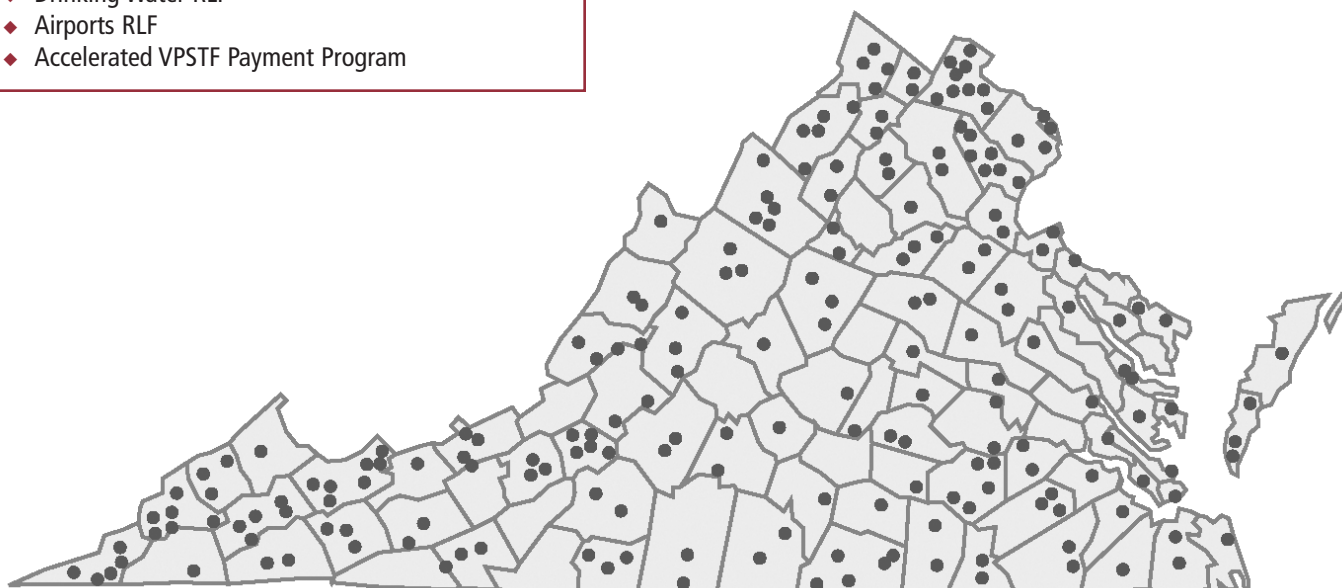
The Winchester Regional Airport Authority borrowed \$1,770,014 for the construction of nineteen T-hangers, along with refunding of two previous bond issues. The Authority is saving \$8,737 per year in interest costs by utilizing the Virginia Airports Revolving Fund Program.

In Fiscal Year 2004, VRA implemented the new Virginia Pooled Financing Program (VPFP), which further reduces interest rates for the borrowing localities and also reduces VRA's use of the state's moral obligation. VPFP bonds utilize a senior/ subordinate structure, and 70% of VPFP bonds are rated natural "AAA" by both Moody's and Standard & Poor's. The remaining 30% continues to be rated "AA" based on the moral obligation of the Commonwealth.

In addition to its bond program, VRA serves as financial administrator for several revolving funds. The ones currently funded and active include: the Virginia Water Facilities Revolving Fund (Wastewater RLF), the Virginia Water Supply Revolving Fund (Drinking Water RLF),

VRA Loan Programs

- ◆ Bond Program
- ◆ Wastewater RLF
 - Hardship Grant Program
 - Combined Sewer Overflow
- ◆ Drinking Water RLF
- ◆ Airports RLF
- ◆ Accelerated VPSTF Payment Program



VRA Program Participants

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and the Virginia Airports Revolving Fund (Airports RLF). In each of these programs, VRA serves as financial manager while its state-agency partners, the Virginia Department of Environmental Quality (DEQ), the Virginia Department of Health (VDH), and the Virginia Aviation Board (VAB), respectively, perform the programmatic functions, such as project prioritization for each fund.

Two funds, the Wastewater RLF and the Drinking Water RLF, receive federal monies or "capitalization grants" each year through the United States Environmental Protection Agency and a state match from the Commonwealth of Virginia. The Airports RLF is funded solely by the Commonwealth. In all three revolving funds, some combination of federal grant monies, state match monies, investment earnings, and/or loan repayments are loaned to Virginia's local governments for their capital projects. The loan repayments and investment earnings create a self-perpetuating financing vehicle. Both interest rates and costs of issuance are subsidized, resulting in significant savings to revolving fund borrowers. These funds represent Virginia's most cost-effective financing resource in these areas.

Over the years, the General Assembly has created other revolving loan and assistance programs for which VRA is designated financial administrator. These funds are currently unfunded and therefore are inactive. They include the Virginia Solid Waste or Recycling Revolving Fund, the Combined Sewer Overflow Matching Fund, and the Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund.

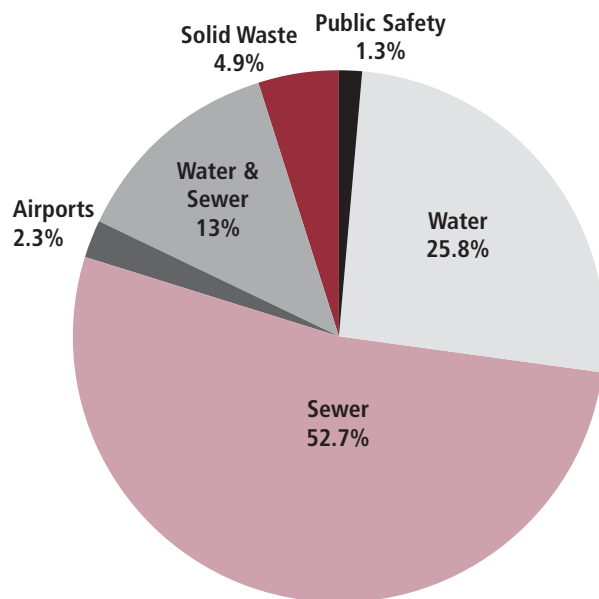


In December 2003, the Southeastern Public Service Authority borrowed \$17,040,000 through the Virginia Pooled Financing Program to finance improvements to its landfill and waste management facilities. The Authority realized savings in excess of \$532,900 for the eight-year loan.

In today's financial environment, local government officials face challenges, including striving to balance service delivery with cost control. VRA's bond program and revolving loan funds are effective tools that assist local governments as they work to provide the highest level of services to their constituents at the lowest possible cost.

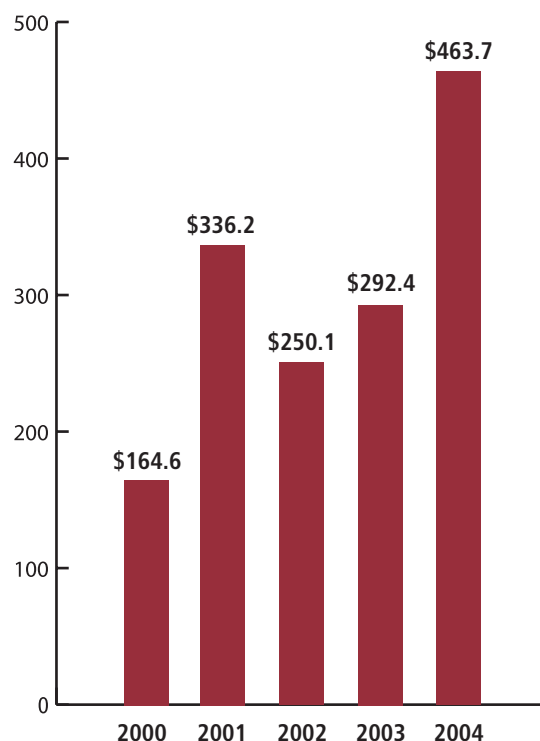
All VRA Projects Financed

as of June 30, 2004



Total Dollars Financed: FY 2000-FY 2004

as of June 30, 2004 (Dollars in millions)



The VRA Bond Program

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Localities may borrow through the VRA Bond Program for any project VRA is authorized to finance, including drinking water, wastewater treatment, stormwater drainage, solid waste management, aviation, brownfields remediation and redevelopment, and public safety.

In Fiscal Year 2004, VRA created a new pooled bond program for Virginia's localities, utilizing the change that was made to the Authority's enabling legislation in the previous year. The new program, the Virginia Pooled Financing Program (VPFP) simultaneously creates significant savings for borrowers and reduces the Authority's use of the moral obligation of the Commonwealth of Virginia.

The VPFP is the first lending vehicle in the nation to utilize a senior/subordinate issuance

Bonds Issued in Fiscal Year 2004

PLBP Refunding (Summer 2003)

Buchanan County PSA	\$	7,755,000
Caroline County		2,495,000
Suffolk, City of		2,660,000
Stoney Creek Sanitary District		3,295,000
	\$	16,205,000

VPFP Series 2003 (Fall Pool)

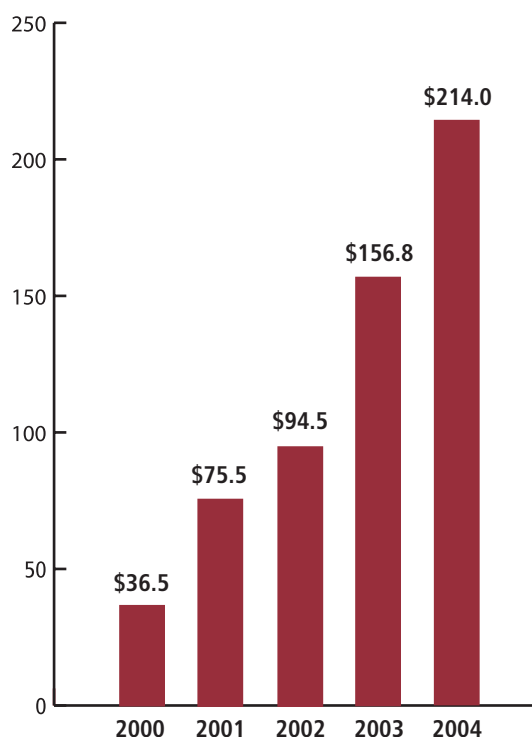
Luray, Town of		1,530,000
Norton, City of		1,635,000
Prince William County		6,345,000
Richmond, City of		3,730,000
Western Virginia Water Authority		49,515,000
Round Hill, Town of		2,555,000
Southeastern Public Service Authority		17,040,000
Suffolk, City of		11,725,000
Tazewell County		865,000
Capital Reserve		8,305,000
	\$	103,245,000

VPFP Series 2004 (Spring Pool)

Clarksville, Town of	\$	2,760,000
Greene County		13,500,000
Pulaski County Public Service Authority		4,300,000
Roanoke County		22,170,000
Rockingham County		1,580,000
Smithfield, Town of		1,745,000
Southeastern Public Service Authority		40,750,000
Wise County Public Service Authority		1,160,000
Capital Reserve		6,540,000
	\$	94,505,000

Bond Program Total **\$ 213,955,000**

Pool History - Volume of Loans Closed (Dollars in millions)



structure to finance a pool of governmental infrastructure projects. Through the VPFP, localities can access the national municipal capital markets utilizing VRA's blended "Aaa/Aa" rating by Moody's and Standard & Poor's. Under the new structure, seventy percent (70%) of the bonds are issued at natural "Aaa" rates without the need for municipal bond insurance or a fully funded debt service reserve fund.

In addition, when using the VPFP, localities share the costs of issuance for one combined bond offering in order to achieve the economies of scale that result in significant savings. Bonds are issued twice each year through the VPFP to provide flexibility for each individual borrower's timing requirements. Further timing flexibility is provided by the VRA Interim Financing Program, which offers short-term funding within 48 hours of approval for any VRA loan.

Bonds were issued under the VPFP two times in Fiscal Year 2004. The Fall Pool consisted of \$103,245,000 in bonds for nine localities in December 2003 and, in June 2004, eight localities borrowed \$94,505,000 through the Spring Pool. In an additional bond issue, four localities refunded \$16,205,000 through the predecessor pool program, the Pooled Loan Bond Program, in early August, 2003; the refunding provided the participating borrowers with total gross savings in excess of \$3.3 million.

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Moral Obligation Bonds Outstanding

as of June 30, 2004

MO Bonds, Outstanding, July 1, 2003	\$ 704,692,949
Less Total MO Bond Repayments	-67,567,279
New MO Bonds Issued	87,670,000
MO Bonds, Outstanding, June 30, 2004	\$ 724,795,670

Borrowers in the Fall 2003 and Spring 2004 pooled issues financed a combination of drinking water, wastewater treatment, solid waste projects, and public safety projects. Borrowers used general obligation, revenue, and double-barrel (combined) pledges as security for their bonds with final maturities ranging from 7 to 30 years.

Since the pooling concept was implemented in June 2000, VRA's Pooled Programs have financed 85 projects totaling \$577,250,000 for 60 different localities.

Over the last 20 years, VRA has financed \$1,308,524,227 through its bond program. Local



The County of Prince William financed a 20-year, \$6,345,000 loan to build a new 29,000 square foot volunteer fire department facility in Nokesville. The County borrowed at a true interest cost of 4.13 percent.

governments have borrowed for 181 drinking water, sewer, solid waste, transportation, and public safety projects in Virginia. VRA will continue to strive to improve the effectiveness of its service to the local governments of the Commonwealth in the years ahead.

Virginia Water Facilities Revolving Fund (Wastewater and Combined Sewer Overflow)



In December 2003, VRA financed its first open-space preservation loan. The Waterford Foundation, located in Loudoun County, borrowed \$1,800,000 at a 1% interest rate to finance a portion of the purchase price of a 144-acre farm. The monies will be used to build a riparian buffer in order to reduce pollutants into the Chesapeake Bay.

The Wastewater RLF was established by the General Assembly in 1987 in response to the widening gap between local environmental infrastructure needs and the financial resources to pay for them. Since its creation, the Fund continues to realize its purpose with repayments from loans being used for new loans to communities.

The Wastewater RLF funded 16 loans totaling \$227,086,299 in Fiscal Year 2004, more than any year in the Fund's history. Proceeds of the loans were used to fund upgrades, expansions and new construction for wastewater treatment plants, pumping stations, water pollution control plants, force mains, and inflow/infiltration and correction systems.

In addition, for the first time, the Wastewater RLF funded a loan for open-space preservation. In Fiscal Year 2003, VRA's legislation was expanded so that loans could be made from the Wastewater RLF to fund the purchase of open space property. These loans provide localities and certain, defined charitable organizations with a less expensive financing option for the purchase of farmlands, forests, and other open areas. The first open-space loan that VRA has financed, was made to the Waterford Foundation, Inc., a not-for-profit organization, based in Loudoun County, Virginia. Open space purchases preserve ecological and environmental

Outstanding Loans - Wastewater RLF

As of June 30, 2004

Outstanding loans 7/1/03	\$ 685,562,389
Loan repayments FY04	-46,598,918
Loan disbursements FY04	70,387,200
Outstanding loans 6/30/04	\$ 709,350,671

integrity of Virginia's waterways and maximize utilization of existing infrastructure. Upon approval from the State Water Control Board, a local government or charitable organization may acquire real property to protect or improve water quality, prevent the pollution of state waters, and protect the natural or open-space of the property. This broadening of the Wastewater RLF's scope will improve the way Virginia protects the environment for its citizens.

Through the Wastewater RLF, the Commonwealth is able to offer below-market loans to large and small, rural and urban local governments alike, for wastewater treatment infrastructure projects, brownfields remediation, and open space preservation. From its inception in 1987 through June 30, 2004, the Wastewater RLF has provided funding totaling \$1,220,935,873 for 255 wastewater treatment combined sewer overflow, and open space preservation projects.

New Loans & Grants: Wastewater RLF
EPA and State Funds

Vinton, Town of	\$ 1,468,346
Luray, Town of	373,731
Lynchburg, City of	2,500,000
Roanoke County	9,000,000
Roanoke, City of	17,511,501
Waterford Foundation	1,800,000
Salem, City of	5,600,000
Hampton Roads Sanitation District	40,330,298
Lynchburg, City of	6,000,000
Pearisburg, Town of	1,100,000
The Nature Conservancy	2,890,173
Keysville, Town of	859,657
Alexandria Sanitation Authority	22,000,000
Prince William County Service Authority	12,472,593
Arlington County	100,000,000
Newport News, City of	3,180,000
	<u>\$ 227,086,299</u>



Virginia Water Supply Revolving Fund (Drinking Water)

The Drinking Water RLF was created to provide grants and subsidized loans for drinking water projects to Virginia's local governments and other providers of water for public consumption. In Fiscal Year 2004, the Drinking Water RLF financed 26 projects totaling \$11,716,974 for 16 localities. Included in the total are grants in the amount of \$2,545,293, which were awarded to 10 localities. Loans were made at interest rates ranging from zero to three percent.

One of the borrowers and grant recipients of the Drinking Water RLF, the Town of Boydton, borrowed in March, 2004. The Town received an interest-free loan for \$186,964 as well as \$46,741 in grant monies. The loan and grant proceeds were used to finance the replacement of 2,800 linear feet of water line in the downtown area, which was necessary due to the age of the lines and the need to supply adequate water for new development and downtown renovation and revitalization efforts. The Town also plans to loop the system to provide

adequate water to all connections in the area. Since 1998 when the program began receiving federal monies, the Drinking Water RLF has made loans and grants totaling \$119,043,536 for 112 projects throughout Virginia.

The Drinking Water SRF includes a state-only funded loan and grant program. The Tazewell County Public Service Authority received a grant in the amount of \$121,562 through the program in Fiscal Year 2004.



On December 31, 2003, the Virginia Resources Authority closed two loans totaling \$1,282,200 to the Carroll County Public Service Authority from the Drinking Water RLF. One loan, for \$1,129,000 was interest free; the second loan for \$153,200 was made at an interest rate of 3 percent. The County used the funds to construct water distribution lines and a pump station, and for the drilling of a well.

Outstanding Loans - Drinking Water RLF

As of June 30, 2004

Outstanding loans 7/1/03	\$ 60,642,464
Loan repayments FY04	-1,988,436
Loan disbursements FY04	15,428,876
Outstanding loans 6/30/04	<u>\$ 74,082,904</u>

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New Loans and Grants: Drinking Water RLF EPA and State Funds

Scott County PSA-Daniel Boone	\$ 1,083,923
Scott County PSA-Daniel Boone	747,059*
Pennington Gap, Town of	1,385,748
Pennington Gap, Town of	346,437*
Washington Co SA-Goldenview	382,195
Washington Co SA-Goldenview	47,238*
High Knob Utilities Inc.	895,096
Clintwood, Town of	420,976
Carroll County PSA-Whitetown	1,129,000
Carroll County PSA-Route 100	153,200
Wise County PSA-Bull Run	551,025
Wise County PSA-Bull Run	97,240*
Lee County PSA-Lake Keokee	87,500
Lee County PSA-Lake Keokee	262,500*
Claremont, Town of	100,000
Amelia County	396,385

Amelia County	222,967*
Wise County PSA-South Fork	1054,490
Smyth County-Groseclose	503,049
Smyth County-Groseclose	158,857*
Boydton, Town of	186,964
Boydton, Town of	46,741*
Nelson County SA	378,777
Marion, Town of	49,933*
Tazewell Co. PSA-Rt. 609	463,353
Tazewell Co. PSA-Rt. 609	566,321*
	\$ 11,716,974

Drinking Water RLF - State Funds Only

Tazewell Co PSA-Baptist Valley	\$ 121,562*
Total	\$ 11,838,536

* Grant

The Virginia Airports Revolving Fund

The Airports RLF provides a below-market alternative for financing airport improvements. As with other state revolving funds, VRA acts as the financial administrator for the Fund, and the Virginia Aviation Board serves as the entity that prioritizes individual airport loan requests. As loans are repaid, the Airports RLF funds new loans to the Commonwealth's general aviation airports. VRA can also issue bonds in conjunction with Airports RLF loans to leverage the monies in the revolving fund. The leveraged loan structure maximizes the effectiveness of the Airports RLF and provides additional funding and assistance for airports needing capital project financing.

In Fiscal Year 2004, the Airports RLF financed five loans totaling \$10,818,721 to the Blue Ridge Airport Authority, Charlottesville-Albemarle Airport Authority, Stafford Regional Airport Authority, the City of Manassas and the Winchester Regional Airport Authority.

One of the airports, the Stafford Regional Airport Authority, borrowed \$743,719 for construction of a fuel farm, nine T-hangars, and one corporate hangar facility at an interest rate of 5.15% for 25 years. The Stafford Regional Airport Authority saved a total of \$182,641 or \$7,306 annually in interest costs by utilizing the VARF program.

In its four-year history, the Airports RLF has financed 13 loans totaling \$62,570,936. This program is expected to grow and diversify its portfolio into the Commonwealth's premiere source for the financing of airport infrastructure.

New Loans - Airports RLF

Charlottesville-Albemarle Airport Authority	\$ 6,703,274
Stafford Regional Airport Authority	743,719
Manassas, City of	1,401,714
Winchester Regional Airport Authority	1,770,014
Blue Ridge Airport Authority	200,000
	\$ 10,818,721

Outstanding Loans - Airports RLF

As of June 30, 2004

Outstanding loans 7/1/03	\$ 51,759,731
Loan repayments FY04	3,309,160
Loan disbursements FY04	20,143,844
Outstanding loans 6/30/04	\$ 68,594,415



The Airports RLF loaned the City of Manassas \$1,401,714 for the construction of pad sites, an access road, and utilities to support four new corporate hangar facilities. The City will save \$100,143 in interest costs over the life of the loan.

VRA Accelerated VPSTF Payment Program

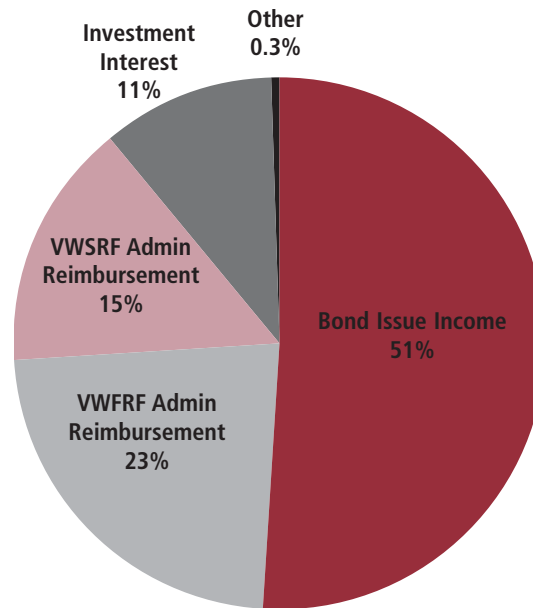
20th
Anniversary
1984-2004

The Virginia Petroleum Storage Tank Fund (VPSTF), administered by the Virginia Department of Environmental Quality, was created to reimburse owners for the cost of cleaning up their leaking underground petroleum storage tanks. Due to significant increases in demand, the program experienced a backlog of claims, historically as high as \$17.7 million, which resulted in reimbursement delays of eight to nine months. VRA created the Accelerated VPSTF Payment Program to address the need for more timely delivery of reimbursements to claimants.

VRA pays claims enrolled in the VRA Accelerated VPSTF Payment Program as soon as DEQ reviews and approves them, thereby expediting the reimbursement. VRA's payment to the claimant is usually made in two installments, the first of which is made in the amount of 92% of the total claim immediately after DEQ has reviewed and approved the claim. The second payment to the claimant occurs after DEQ has paid VRA for the assigned claim.

VRA and DEQ continue to successfully work together to speed reimbursement to the citizens of the Commonwealth. Significantly reducing claim payment delays provides incen-

2004 Authority Revenue



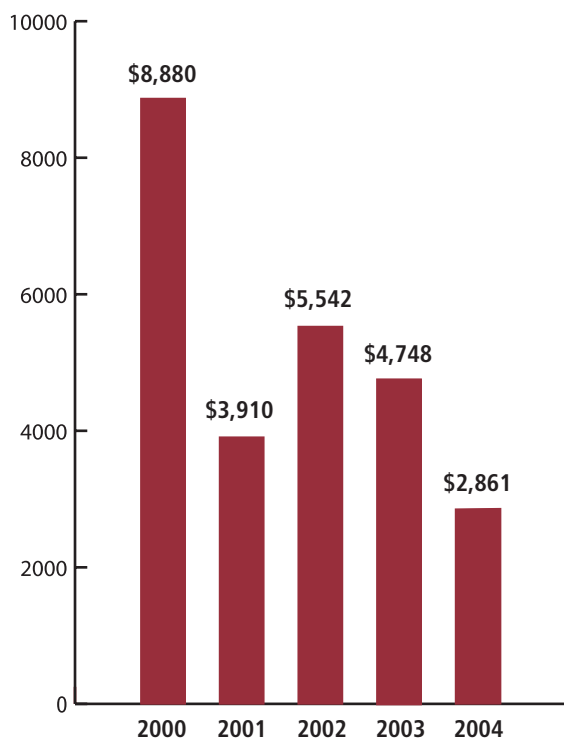
tives for Virginians to address their leaking underground tank problems more quickly, thus mitigating damage to Virginia's environment.

The Authority continues to reduce the time required to receive reimbursement through the Department of Environmental Quality's VPSTF. Since implementing the line-of-credit financing structure during Fiscal Year 2003, the Authority has succeeded at reducing the expenses associated with the Accelerated Claims Program and has retired the bond financing originally implemented to provide program liquidity. Accordingly, all monies received are being used to pay down the line-of-credit.

Since the program's introduction in May 2002, VRA has purchased over 2,409 VPSTF claims totaling almost \$25 million, providing liquidity to Virginia's homeowners, environmental consulting firms, and businesses.

In today's financial environment, local government officials face challenges, including striving to balance service delivery with cost control. VRA's financing programs are effective tools that assist local governments as they work to provide the best service to their constituents at

2004 Operating Costs per Million/Loan



2004
2003
2002
2001
2000
1999
1998
1997
1996
1995
1994
1993
1992
1991
1990
1989
1988
1987
1986
1985
1984

20th
Anniversary
1984-2004

Local Government Advisory Council

In an effort to open an avenue for comprehensive interaction with VRA borrowers, VRA formed the Local Government Advisory Council (LGAC), a group of representatives of cities, counties, towns, and service authorities. Members who serve on the LGAC provide direct feedback on VRA programs, service, and other issues pertinent to VRA's customers, the local governments of Virginia. The information ascertained from interaction with the LGAC has helped VRA staff plan improvements to VRA programs and educational efforts.

In January 2004, the LGAC hosted a reception for General Assembly members in order to introduce them to the new Virginia Pooled Financing Program. Held near the state Capitol just prior to the opening of the 2004 Session, legislators met with VRA staff and LGAC members to discuss Authority progress and developments, including the inaugural issue of the Virginia Pooled Financing

Program. Prior to the reception, VRA staff presented an overview of the program, including the financing structure, rating process, and advantages for borrowers.

LGAC Leadership

Larry N. Malcom, *Chairman*
Executive Director, Sussex Service Authority

Charles W. Burgess Jr., *Vice Chairman*
City Manager, City of Poquoson

Conclusion

As the Authority enters its third decade, the Board and Staff are well positioned to continue the growth of the funding programs. The Virginia Resources Authority is continuing the very deliberate activities that have resulted in saving the Commonwealth's local governments and service authorities tens of millions of dollars over the last 20 years. The Authority's creative and innovative approach to governmental finance has enabled the many successes of our first two decades and has prepared the Authority for a vibrant future.

Virginia Resources Authority

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Virginia Resources Authority

Management's Discussion and Analysis

June 30, 2004 and 2003

The *Virginia Resources Authority's* (Authority) lending programs significantly reduce the cost of financing local infrastructure projects. The Authority provides low cost, below market financing through its bond issuing program and the revolving loan programs.

The Authority's bond program includes stand-alone bond issuances and pooled bond issuances. The newly structured pooled loan program, the Virginia Pooled Financing Program, dramatically improves the savings attained for pooled borrowers by utilizing a senior and subordinate debt structure, while avoiding any increased exposure to the Authority or the moral obligation of the Commonwealth of Virginia. The Program continues to enable localities to share among each other the costs of issuing municipal bonds in order to achieve substantial savings. Bonds are issued twice each year to provide flexibility for individual borrowers' long-term timing requirements.

The Authority also currently serves as co-administrator for three revolving funds: the Virginia Water Facilities Revolving Fund (VWFRF), the Virginia Water Supply Revolving Fund (VWSRF), and the Virginia Airports Revolving Fund (VARF). In each case, the Authority serves as financial manager while its state-agency partners, the Virginia Department of Environmental Quality, the Virginia Department of Health, and the Department of Aviation, respectively, perform the regulatory functions for the Funds.

Two funds, the VWFRF and the VWSRF, receive capitalization grants each year from the U.S. Environmental Protection Agency and a state match from the Commonwealth of Virginia. The VARF is solely funded by the Commonwealth. In all three revolving funds, the initial grant monies are invested and then loaned out, along with the investment earnings and loan repayments, to local governments in Virginia. The loan repayments and investment earnings create a self-perpetuating financing vehicle. Both interest rates and costs of issuance are subsidized, resulting in significant savings to the revolving fund borrowers. As program demand justifies, these funds can be, and have been, leveraged. Fund assets are placed in a reserve and bonds are issued to meet program financing demand levels. The bonds are secured by the fund reserves.

The Authority also provides various types of financing vehicles necessary for the Virginia Petroleum Storage Tank Fund (VPSTF). The VPSTF program is administered by the Virginia Department of Environmental Quality and has proven to be successful in assisting claimants in obtaining reimbursement for cleaning up underground storage tank leaks.

Financial Highlights

Fiscal Year 2004

The financial position of the Authority continues to be strong. Total net assets as of June 30, 2004 have grown 7% over the prior year. The Authority anticipates this increasing trend to continue.

Operating revenues for the fiscal year ended June 30, 2004 increased by approximately \$2.1 million while operating expenses increased by approximately \$4.1 million, leading to an operating income decrease of approximately \$2.0 million under prior year's operating income. This decrease is primarily due to delays by participating localities in drawing funds from amounts made available for their projects in the VARF. By June 30, 2004, all VARF proceeds had been drawn; therefore, the Authority does not anticipate delays to negatively affect future revenues.

The Authority's change in net assets increased by approximately \$9.1 million in this fiscal year primarily as a result of contributions from federal and state governments. The increase in contributions reflects the disbursement of loans during fiscal year 2004 with a large share of federal funds apportioned to them.

Fiscal Year 2003

Total assets increased 6% at June 30, 2003 compared to the June 30, 2002 balances.

Operating revenues for the fiscal year ended 2003 increased by approximately \$8.4 million, while operating expenses decreased by \$1.9 million leading to an operating income increase of \$10.3 million over prior year's operating income.

The Authority's total change in net assets decreased in the fiscal year ended 2003 primarily as a result of the increase in operating income being offset by \$31.7 million less in net contributions from federal and state governments. This decrease in contributions is due to timing difference between when loans close and start drawing down federal funds.

Overview of the Financial Statements

The Authority's basic financial statements are comprised of two components: (1) financial statements and (2) notes to the financial statements. Additionally, supplementary combining information by fund accounts is included. The Authority is one of the organizations that is reported in the Commonwealth of Virginia's Comprehensive Annual Financial Report as a discrete component unit.

The financial statements of the Authority offer short and long-term financial information about its activities. The Statement of Net Assets provides information about the nature and amounts of the Authority's cash, investments and receivables (assets), and its obligations to creditors (liabilities). All of the Authority's current fiscal year revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures whether the Authority successfully recovered all of its costs through investment earnings, bond proceeds, appropriations from the Commonwealth of Virginia and the collection of receivables. The Statement of Cash Flows provides information on the Authority's cash receipts, cash payments, and net changes in cash resulting from operating, investing, capital, and non-capital financing activities. It also provides insight on the source of cash, the use of cash, and cash changes during the reporting period.

Capital Asset and Debt Administration

As a financing entity, the Authority's purpose and objective is to issue and administer debt on behalf of other entities. The Authority issues bonds to finance infrastructure projects approved by the local governing bodies of counties, cities, towns, and service authorities of the Commonwealth of Virginia. Depending on the program, all of the Authority's bonds are secured by either: (a) a pledge of the full faith and credit of the locality; (b) a pledge of certain revenues of the locality and funds and accounts established under the applicable bond resolution or indenture; or, (c) both (a) and (b).

The Authority obtains bond ratings from one or more of the following: Moody's Investors Service (Moody's), Standard & Poor's (S&P), and Fitch Ratings (Fitch). The Authority to date has achieved an investment grade of "AA" or better on all bond issues, except as noted below. Under the new senior/subordinate structure, the senior portion of the structure (70% of the entire structure) has been rated "AAA" and the subordinate portion of the structure (30% of the entire structure) has been rated "AA." These ratings were affirmed on subsequent issues.

Two of the above mentioned rating services, Moody's and Fitch, rate the Authority's Airports Revolving Fund Revenue Bonds, which leverage sums from the VARF. During fiscal year 2003, Fitch reduced the Authority's VARF rating from "AA" to "A+." The decrease in rating was mainly due to a concentration of credit risk. In fiscal years 2004 and 2003, the Capital Region Airport Commission accounted for 67% and 81%, respectively, of loans in the VARF. Moody's maintained its "Aa2" rating on the Authority's VARF.

During the fiscal year ended June 30, 2004, the Authority issued two Infrastructure Revenue Bond Series in the final financing under the Pooled Loan Bond Program totaling \$15.5 million in tax-exempt bonds and \$650,000 in taxable bonds (all comprising refunded debt); two Infrastructure Revenue Bond Series under the new Virginia Pooled Financing Program totaling \$179.4 million in tax-exempt bonds, \$13.7 million in AMT bonds, and \$4.7 million in taxable bonds; \$10.8 million in bonds leveraging certain assets of the VARF; and \$160.8 million in bonds leveraging certain assets of the VWFRF.

During the fiscal year ended June 30, 2003, the Authority issued six Infrastructure Revenue Bond Series for the existing Pooled Loan Bond Program totaling \$156.8 million (\$35.3 million refunded debt), one stand-alone bond issue totaling \$62.7 million, and \$11.6 million in bonds leveraged with certain assets of the VARF. Additionally, the VPSTF variable rate bonds were retired on June 1, 2003. A line of credit was opened on September 30, 2002 to continue the VPSTF program. The line of credit is identified in the liability section of the Statement of Net Assets.

Economic Conditions

While the Authority is in the preliminary stages of the next Virginia Pooled Financing Program issuance due in the fall of 2004, it currently has no pending bond issuance matters.

Report of Independent Auditors

Board of Directors
Virginia Resources Authority

We have audited the accompanying statement of net assets of the *Virginia Resources Authority* (Authority) as of and for the year ended June 30, 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The statement of net assets of the Virginia Resources Authority as of and for the year ended June 30, 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended were audited by other auditors whose report dated September 13, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2004, and the changes in its financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2004 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 1 and 2 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying 2004 financial information listed as Supplementary Information in the Table of Contents is presented for purposes of additional analysis and are not a required part of the basic financial statements of the Authority. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements of the Authority and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements of the Authority taken as a whole.

Goodman & Company, LLP

Colonial Heights, Virginia
August 27, 2004

Virginia Resources Authority

Statements of Net Assets

June 30,	2004	2003
Assets		
Current assets		
Cash	\$ 6,317,970	\$ 12,947,107
Cash equivalents	141,219,884	151,787,476
Investments	367,490,293	176,691,425
Loans receivable - current portion	72,610,260	65,717,573
Receivables:		
Investment interest	1,648,167	865,142
Loan interest	11,951,611	11,645,252
Federal funds	11,250,901	780,967
Other	65,557	244,291
Other	12,418	14,917
Total current assets	612,567,061	420,694,150
Noncurrent assets		
Loans receivable - less current portion	1,565,009,961	1,377,242,492
Federal funds receivable	1,018,377	-
Furniture and fixtures - at cost - less accumulated depreciation of \$154,267 and \$194,139, respectively	80,470	71,117
Total noncurrent assets	1,566,108,808	1,377,313,609
Total assets	2,178,675,869	1,798,007,759
Liabilities		
Current liabilities		
VPSTF line of credit	2,559,178	4,831,166
Bonds payable - current portion	38,905,000	30,904,479
Accrued interest on bonds payable	10,216,053	9,380,799
Arbitrage rebate liability	1,659,862	-
Deferred revenue	53,356	71,757
Accounts payable and other liabilities	244,338	282,246
Total current liabilities	53,637,787	45,470,447
Noncurrent liabilities		
Bonds payable - less current portion - net	1,202,313,999	889,219,039
Deferred revenue	687,758	599,644
Arbitrage rebate liability	1,595,081	2,544,692
Total noncurrent liabilities	1,204,596,838	892,363,375
Total liabilities	1,258,234,625	937,833,822
Net assets		
Invested in capital assets - net of related debt	80,470	71,117
Restricted	917,598,522	852,807,085
Unrestricted	2,762,252	7,295,735
Total net assets	\$ 920,441,244	\$ 860,173,937

See accompanying notes to financial statements.

Virginia Resources Authority

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30,	2004	2003
Operating revenues		
Interest on loans	\$ 58,317,155	\$ 55,556,234
Interest on investments	11,411,893	11,916,396
Administrative reimbursement	669,663	795,286
Other income	14,346	32,818
Total operating revenues	70,413,057	68,300,734
Operating expenses		
Interest on bonds	49,181,968	44,183,203
Personnel services	905,661	867,079
Contractual services	109,892	169,995
General operating	372,619	362,740
Grants to local governments	8,448,600	9,286,110
Total operating expenses	59,018,740	54,869,127
Operating income	11,394,317	13,431,607
Non-operating revenues		
Contributions from other governments	48,854,368	37,736,058
Gain/loss on sale of fixed assets	18,622	-
Total non-operating revenues	48,872,990	37,736,058
Change in net assets	60,267,307	51,167,665
Net assets - beginning of year	860,173,937	809,006,272
Net assets - end of year	\$ 920,441,244	\$ 860,173,937

See accompanying notes to financial statements.

Virginia Resources Authority

Statements of Cash Flows

Years Ended June 30,	2004	2003
Cash flows from operating activities		
Cash payments to localities for loans	\$ (307,900,221)	\$ (295,145,763)
Principal repayments from localities on loans	121,647,184	108,433,305
Interest received on loans	52,610,695	51,853,786
Federal administrative reimbursement funds received	741,943	800,767
Cash received from other income	14,346	32,818
Net reimbursable expenses received (paid)	226,475	(232,059)
Cash received from loan origination fees	201,000	107,009
Cash payments for salaries and related benefits	(892,257)	(887,817)
Cash payments for contractual services	(109,892)	(169,995)
Cash payments for general operating expenses	(387,006)	(341,824)
Cash payments for operating grants	(8,448,600)	(9,286,110)
Net cash from operating activities	(142,296,333)	(144,835,883)
Cash flows from non-capital financing activities		
Proceeds from sale of bonds	385,575,000	231,147,167
Principal paid on bonds	(80,370,000)	(69,015,760)
Contributions from other governments	37,291,243	37,367,705
Cash received from other accounts	94,505	102,704
Interest paid on bonds	(42,966,786)	(42,425,006)
Net cash from non-capital activities	299,623,962	157,176,810
Cash flows from capital and related financing activities		
Purchase of furniture and fixtures	(40,998)	(18,368)
Cash flows from investing activities		
Purchase of investments	(203,290,915)	(21,172,924)
Proceeds from sales or maturities of investments	17,289,391	35,290,343
Interest received on investments - net	11,518,164	12,656,230
Net cash from financing activities	(174,483,360)	26,773,649
Net change in cash and cash equivalents	(17,196,729)	39,096,208
Cash and cash equivalents - beginning of year	164,734,583	125,638,375
Cash and cash equivalents - end of year	\$ 147,537,854	\$ 164,734,583
Reconciliation of cash and cash equivalents		
Cash per statements of net assets	\$ 6,317,970	\$ 12,947,107
Add cash equivalents per statements of net assets	141,219,884	151,787,476
Cash and cash equivalents per the statements of cash flows	\$ 147,537,854	\$ 164,734,583

Virginia Resources Authority

Statements of Cash Flows

Years Ended June 30,	2004	2003
Reconciliation of operating income to net cash used in operating activities		
Operating income	\$ 11,394,317	\$ 13,431,607
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation, amortization and (accretion) - net	5,591,425	(2,172,853)
Interest on investments	(11,411,893)	(11,916,396)
Interest on bonds	49,181,968	44,183,203
Gain on sale of fixed assets	(18,622)	-
Change in:		
Loans receivable	(194,671,882)	(192,891,937)
Loan interest receivable	(306,356)	(103,912)
Federal funds receivable	72,279	(125,743)
Other receivables	110,113	(85,909)
Other assets	2,499	569
Funds received in advance	-	(63,430)
Deferred revenue	69,715	49,887
Accounts payable and other liabilities	(2,309,896)	4,859,031
Net cash from operating activities	\$ (142,296,333)	\$ (144,835,883)

See accompanying notes to financial statements.

Virginia Resources Authority

Notes to Financial Statements

June 30, 2004 and 2003

1. Summary of Significant Accounting Policies

Organization

The *Virginia Resources Authority* (Authority) was created in 1984. The Authority encourages the investment of both public and private funds and is authorized to make loans and grants available to local governments to finance such projects as: water, sewer, storm drainage, solid waste disposal, recycling, public safety, professional sports facilities, aviation, brownfields remediation and certain heavy rail transportation facilities. The Authority's enabling legislation states that the bonds issued by the Authority do not constitute a debt or pledge of the full faith and credit of the Commonwealth of Virginia (Commonwealth) or any political subdivision thereof, other than the Authority. The bonds are payable solely from the revenue, money, or property of the Authority pledged therefore. The Authority is, however, empowered to issue bonds secured by the moral obligation of the Commonwealth, of which a maximum of \$900 million may be outstanding at any time.

For financial reporting purposes, the Authority is a component unit of the Commonwealth. The accounts of the Authority, along with other similar types of funds, are included as a discretely presented component unit of the Commonwealth. The financial statements of the Authority include the activities of the Virginia Water Facilities Revolving Fund (VWFRF), the Virginia Water Supply Revolving Fund (VWSRF), and the Virginia Airports Revolving Fund (VARF), which are described in more detail below.

The VWFRF was created in 1986 and received its first state appropriation on July 1, 1987. The VWFRF's purpose is to make below market interest rate loans to localities under the Environmental Protection Agency's (EPA) Capitalization Grants for State Revolving Funds. The VWFRF's enabling legislation provides that the program is jointly administered by the Authority and the Commonwealth's Department of Environmental Quality (DEQ). The accounts of the VWFRF are in these financial statements, except for certain administrative expenses incurred by the DEQ for the VWFRF and the associated reimbursement of the federal share of these expenses are included in the financial statements of the DEQ.

Until 1999, the sole source of financial assistance to localities for wastewater projects under the VWFRF was the Direct Loan program. The available resources for the Direct Loan program, however, were determined to be insufficient to meet the demand for financial assistance from localities. In response, the Authority and DEQ, with the concurrence of the EPA, decided to leverage the VWFRF through the issuance of bonds.

The Authority is authorized to transfer assets of the VWFRF to funds and accounts pledged to secure bonds issued by the Authority. Such assets consist of federal capitalization grants, Commonwealth Matching Share funds, and any other monies appropriated or otherwise deposited by the Commonwealth to the VWFRF, including amounts repaid by localities to the VWFRF from loans represented by the local bonds, and earnings on the investment of any of the foregoing. The Authority and DEQ still make Direct Loans from the VWFRF, but by leveraging the VWFRF, the Authority can provide financing for more localities than before.

During 1999, the General Assembly expanded the scope of the VWFRF allowing the State Water Control Board to loan money for the construction of facilities or structures supporting environmental goals of agricultural best management practices. The program attempts to reduce agricultural nonpoint source pollution of Virginia waters. To date, \$10 million has been set aside from the VWFRF to fund the program. The accounts of this program are combined with those of the VWFRF in the Authority's financial statements and are commonly referred to as "AgBMP" loans.

The VWSRF was created in 1987 and received its first state appropriation on July 1, 1988. In 1997, the VWSRF was brought into compliance with the Safe Drinking Water Act Amendments of 1996, which allowed the establishment of a drinking water state revolving loan fund. The VWSRF's purpose is to make below market interest rate loans to local

governments to finance water supply facilities and certain nonconstruction activities under the EPA's Capitalization Grants for State Revolving Funds. The VWSRF's enabling legislation provides that the program will be jointly administered by the Authority and the Commonwealth of Virginia Department of Health (VDH). The accounts of the VWSRF are in these financial statements, except for certain administrative expenses incurred by the VDH for the VWSRF and the associated reimbursement of these expenses, which are included in the financial statements of the VDH.

In 2000, the VARF was funded with \$25 million. The VARF finances local government-owned aviation projects at below market rates at general aviation, reliever, and commercial airports across Virginia. In February 2001, the first bonds were issued by the Authority, which leveraged the VARF to provide funds for loans to three of Virginia's airports. In June 2002, \$2 million was returned to the Commonwealth to be used for other purposes. The VARF can also make direct loans out of current balances, released bond proceeds, and newly appropriated funds.

During fiscal year 2002, the Authority and the DEQ joined forces to facilitate payment of approved claims filed under the Virginia Petroleum Storage Tank Fund (VPSTF). Due to the level of demand in the fund, there was a minimum waiting period of eight months to receive reimbursement. There were more than 1,700 claims totaling more than \$20 million awaiting reimbursement. This demand was met through a bond issuance in May 2002 of \$6 million.

Each claimant participating in the program is financed in two installments – an “up-front” advance payment and a “final” payment. Once the claim is assigned to the Authority and is accepted into the program by DEQ, the claimant receives the upfront advance of at least \$0.90 for every \$1.00 of expenses approved by DEQ for payment. This initial payment is made within 30 days of confirmation of approval of the claim by the DEQ. Claimants then receive a subsequent final payment (less fees and expenses) at the time DEQ pays the Authority for the assigned claims.

By September 2002, the \$6 million issued in bonds was expended to claimants and a line of credit was opened to meet the demand. This line of credit has a variable rate of interest based on 30-day London Interbank Offered Rate (LIBOR) + 0.75%. The \$6 million bonds were repaid on June 1, 2003. The VPSTF line of credit is included in current liabilities on the Authority's statement of net assets.

Basis of Accounting

The Authority utilizes the economic resources measurement focus and the accrual basis of accounting in preparing its financial statements where revenues are recognized when earned and expenses when incurred. The Authority has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The Authority has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989, as allowed by GASB Statement No. 20.

Accounting Changes

Effective July 1, 2001, the Authority implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*. The primary impact of the implementation of these statements on the Authority was a change in the presentation of the statement of net assets from the “balance sheet” format to the net assets format (assets minus liabilities equal net assets); the addition of a Management's Discussion and Analysis as required supplementary information; a change in the classifications of fund equity from retained earnings to net assets, which are also required to be further categorized between (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets; use of the direct method to present the statement of cash flows; and certain additional note disclosures.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management of the Authority to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Risk Management

The Authority carries commercial insurance for various risks of loss including property, workers' compensation, theft, general liability, errors and omissions, employee health and accident, and public officials liability. There have been no claims which have exceeded the amount insured resulting from these risks during the current year and there was no reduction in insurance coverage during fiscal years 2004 and 2003.

Investments

Investments, principally U.S. government obligations, corporate obligations and municipal bonds, are carried at fair value with the change in fair value recognized as a component of interest on investments. Fair values of investments are based on quoted market prices at year-end.

The Authority also participates in the Commonwealth of Virginia Local Government Investment Pool (LGIP); a non-SEC registered external pool. The LGIP is managed consistent with Securities and Exchange Commission Rule 2a-7 money market fund requirements. Pursuant to Sec. 2.1-234.7 Code of Virginia, the Treasury Board of the Commonwealth of Virginia sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled meetings and the fair value of the position in the LGIP is the same as the value of the pool shares.

Loans Receivable

Loans receivable are reported at their unpaid principal balance. The Authority receives fees relating to the origination of loans. Certain of these fees are received at the origination of a loan and other fees are received over the life of the related loans. The fees received at the origination of a loan are recorded as deferred revenue and amortized as a yield adjustment using the effective interest method over the lives of the related loans. Loan origination costs incurred by the Authority are not deferred as they are deemed immaterial and certain costs are reimbursed.

Allowance for Loan Losses

Management periodically reviews loans receivable for possible uncollectible amounts. Before a loan can be approved, management reviews operating budgets and projections of revenue-based projects that will be financed with proceeds from the Authority. In assessing collectibility of a loan once it has been closed, management evaluates the ability of local governments to repay Authority loans for those projects secured by the general obligation of the local government. Once projects are fully operational, management reviews operational results in comparison to budgeted amounts to ensure the projects will continue to meet debt service requirements. In the event management determines a specific need for an allowance, a provision for loss will then be provided.

Furniture and Fixtures

Furniture and fixtures are stated at cost less accumulated depreciation, which is computed on the straight-line basis over estimated lives of three to five years. Depreciation expense included in general operating expenses on the statements of revenues, expenses and changes in net assets for fiscal years 2004 and 2003 is \$31,642 and \$17,073, respectively.

Bond Discounts, Premiums and Bond Issuance Expenses

Bond discounts, premiums and bond issuance expenses are amortized over the lives of the related issues using the effective interest method. The unamortized discounts and issuance expenses are shown on the accompanying statement of net assets as a reduction of the bonds payable, and the amortization is included in the statement of revenues, expenses, and changes in net assets as interest expense.

The unamortized premiums are shown on the accompanying statement of net assets as an addition to the bonds payable and the amortization is included in the statement of revenues, expenses and changes in net assets as revenue.

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are restricted to investments with original remaining maturities when purchased of three months or less.

Pass-Through Grants

The Authority accounts for grants or other financial assistance that is transferred to a secondary recipient as revenues and expenses.

Operating Revenues and Expenses

The Authority's policy is to report all revenues and expenses, including interest revenues from loans and investments as well as interest expense on bonds payable, as operating revenues and expenses. This conclusion was reached because such revenues and expenses are integral to the operations of the Authority.

All cash flows related to bond issuance and administration are included in cash flows from non-capital financing activities on the statement of cash flows. All cash flows related to investment activity are included in cash flows from investing activities on the statement of cash flows.

2. Cash, Cash Equivalents and Investments

Cash includes cash on hand and amounts in checking accounts, which are insured by the Federal Deposit Insurance Corporation or are collateralized under provisions of the Commonwealth of Virginia Security for Public Deposits Act. At June 30, 2004 and 2003, the carrying amount of the Authority's deposits was \$6,317,970 and \$12,947,107, respectively. The associated bank balance of the Authority's deposits at June 30, 2004 and 2003 was \$7,552,935 and \$13,791,044, respectively. The difference between the carrying amount and the bank balance is due to outstanding checks, deposits in transit and other reconciling items.

Cash equivalents include investments with original remaining maturities when purchased of three months or less. Such investments may consist of U.S. Government and agency securities, banker's acceptances, certificates of deposit, commercial paper and various other investments for which there are no securities as evidence of the investment.

Deposits and investments that relate to the various bond indentures, the VWFRF and the VWSRF are not available to pay the general operating expenses of the Authority. The various bond indentures authorize the Authority or its trustee to invest generally in obligations of the United States of America or any Federal agency (except the Farm Credit System for all bond series issued in 1985 and 1986) and in obligations of the Commonwealth of Virginia or its political subdivisions that are rated AA or higher by at least one nationally recognized rating agency. The Authority invests the funds of the VWFRF and the VWSRF in securities as allowed under the Commonwealth of Virginia Investment of Public Funds Act.

Cash equivalents and investments related to the VWFRF-CWSRF (Clean Water State Revolving Fund) leveraged Series 1999, Series 2000, and Series 2004 bond issues and all bond accounts are held in trust by a trust agent. Cash equivalents and investments of the Series 1999, Series 2000, and Series 2004 leveraged bond accounts totaled \$80,335,488, \$58,773,131, and \$188,839,461 respectively, at June 30, 2004. Cash equivalents and investments of the Series 1999 and Series 2000 leveraged bond accounts totaled \$77,916,619 and \$65,632,293 respectively, at June 30, 2003.

The Authority's cash equivalents and investments are categorized below to give an indication of the level of custodial risk assumed by the Authority at June 30, 2004. Category 1 includes cash equivalents and investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured or unregistered cash equivalents and investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a bank trust department or safekeeping agent, but not in the Authority's name. Certain cash equivalents and investments have not been categorized because securities are not used as evidence of the investment.

The categorization of the Authority's investments and cash equivalents at June 30, 2004, was as follows:

	Category			Fair Value
	1	2	3	
U.S. Government and agency securities	\$ 8,473,685	\$ 1,515,000	\$ -	\$ 9,988,685
Asset backed securities	2,297	-	-	2,297
Municipal bonds	442,555	-	-	442,555
Other	40,769	-	-	40,769
Subtotal investments and cash equivalents	\$ 8,959,306	\$ 1,515,000	\$ -	10,474,306
Amounts not categorized because securities are not used as evidence of the investments:				
Guaranteed Investment Contracts				360,358,718
LGIP				129,109,477
Money market accounts				8,767,676
Total uncategorized				498,235,871
Total investments and cash equivalents				\$ 508,710,177

The categorization of the Authority's investments and cash equivalents at June 30, 2003, was as follows:

	Category			Fair Value
	1	2	3	
U.S. Government and agency securities	\$ 2,608,131	\$ 3,820,416	\$ -	\$ 6,428,547
Asset backed securities	-	949,882	-	949,882
Municipal bonds	-	480,471	-	480,471
Other	-	168,832,525	-	168,832,525
Subtotal investments and cash equivalents	\$ 2,608,131	\$ 174,083,294	\$ -	176,691,425
Amounts not categorized because securities are not used as evidence of the investments:				
LGIP				140,027,917
Money market accounts				11,759,559
Total uncategorized				151,787,476
Total investments and cash equivalents				\$ 328,478,901

Investment securities held in the bond accounts are held in safekeeping in accordance with requirements of the related bond indentures of trust. These indentures of trust are established to protect the interests of holders of the Authority's bonds. As of June 30, 2004, management believes the Authority is in compliance with all significant requirements of the various indentures of trust.

The bond indentures authorize the Authority to enter into repurchase agreements with any bank, as principal and not as agent, having a combined capital, surplus and undivided profits of not less than \$50 million. Additionally, collateralizing securities must be U.S. Government obligations, obligations of the Commonwealth of Virginia or its political subdivisions rated AA or higher or certain federal agencies. The collateralizing securities must have a fair market value equal to at least 100% of the amount of the repurchase obligation plus accrued interest.

3. Loans Receivable

The Authority has outstanding loans related to its bond issues, the VWFRF, VWSRF and the VARF. These loans are to various localities and other governmental entities in the Commonwealth of Virginia. Certain of these loans are secured by a pledge of the revenues from the lease, ownership or operation of the water supply, wastewater treatment, solid waste disposal and airports and certain other funds and assets of the entities. Other loans are secured by the full faith and credit of the borrowing entity.

A summary of loans receivable as of June 30, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Loans receivable related to bond issues:		
Water and Sewer System Revenue Bonds	\$ 248,552,956	\$ 297,500,344
Solid Waste Disposal System Revenue Bonds	131,167,713	104,227,605
Water, Sewer, and Solid Waste Disposal System Revenue Bonds	80,535,000	119,290,000
Water, Sewer, and Public Safety Revenue Bonds	322,560,000	127,830,000
Airport Revolving Fund Revenue Bonds	68,594,416	51,759,731
Less unamortized discount/premium and issuance expenses	217,383	(8,306,670)
Subtotal – loan receivable related to bond issues	<u>851,627,468</u>	<u>692,301,010</u>
Loans receivable related to revolving loan funds:		
VWFRF	489,191,442	491,329,720
VWFRF – Leveraged	216,050,825	190,343,281
VWFRF – AgBMP	4,108,404	3,889,388
VWSRF	74,082,904	60,642,465
Subtotal – loan receivable related to revolving loan funds	<u>783,433,575</u>	<u>746,204,854</u>
Virginia Petroleum Storage Tank Fund	<u>2,559,178</u>	<u>4,454,201</u>
Total loan receivable	<u>\$ 1,637,620,221</u>	<u>\$ 1,442,960,065</u>
Loans receivable – current	\$ 72,610,260	\$ 65,717,573
Loans receivable – noncurrent	<u>1,565,009,961</u>	<u>1,377,242,492</u>
	<u>\$ 1,637,620,221</u>	<u>\$ 1,442,960,065</u>

All but the Series 1995B Solid Waste Disposal System Revenue bonds have bond indentures that require either the Authority or the borrower to deposit with the trustee an amount of funds relating to the annual principal and interest payments required on the bonds. These capital reserve funds are available for use by the Authority to pay debt service on the bonds if the borrower defaults on any interest or principal payment on the loans. Capital reserve funds are included as investments in the accompanying statement of net assets with the offsetting liability reflected as a reduction of loans receivable.

If the Authority is required to use any of these capital reserve funds, the Governor of the Commonwealth of Virginia is required to include in the budget presented to the General Assembly, as an agency request for informational purposes only, the amount necessary to replenish the capital reserve fund to the required level. The General Assembly is under no obligation to pass the budget as presented by the Governor. Any amounts so replenished must be repaid by the Authority to the Commonwealth of Virginia, without interest, from excess operating revenues, as defined, of the Authority, to the extent available.

The Authority also has outstanding loans to various localities and other governmental entities in the Commonwealth of Virginia from the VWFRF and the VWSRF. These loans range in final maturity from years 2006 to 2036 and accrue interest at various rates of interest ranging from 0% to 6%. Certain of these loans are secured by a pledge of revenues from the operation of the wastewater and/or water system projects financed, and others are secured by the full faith and credit of the borrowing entity. The Authority is also obligated under outstanding commitment letters and undisbursed loans to lend approximately \$98,347,091 from the VWFRF, \$131,249,358 from the VWFRF -

CWSRF and, \$22,366,176 from the VWSRF as of June 30, 2004. At June 30, 2004 and 2003, no loans receivable were considered delinquent nor in default and no allowance for loan losses had been provided. There were no losses incurred in 2004 or 2003.

4. Bonds Payable

Description	Original Amount	Amount Outstanding June 30,	
		2004	2003
<i>Water and Sewer System Revenue Bonds:</i>			
1985 Series B, dated December 1, 1985, interest rates ranging from 5.00% to 8.70%, final due date November 1, 2011; \$4,705,000 of the bonds defeased in 1993	\$ 13,355,000	\$ 1,515,000	\$ 1,515,000
1986 Series A, dated July 1, 1986, interest rates ranging from 3.90% to 8.125%, final due date November 1, 2017; \$3,320,000 defeased in 2001	100,000,000	365,000	425,000
1992 Series A (Water System), dated April 1, 1992, interest rates ranging from 3.20% to 6.60%, final due date April 1, 2019; \$16,900,000 of the bonds defeased in 2002	26,116,069	3,982,163	4,828,226
1992 Series A (Sewer System), dated December 15, 1992, interest rates ranging from 3.00% to 6.125%, final due date May 1, 2007; \$15,250,000 of the bonds defeased in 1998	20,555,000	535,000	1,040,000
1993 Series A (Water System), dated June 15, 1993, interest rates ranging from 2.70% to 5.25%, final due date October 1, 2013	13,245,000	-	9,485,000
Lot 15, dated July 1, 1993, interest rates ranging from 2.85% to 5.05%, final due date October 1, 2004	1,090,000	-	265,000
Lot 16, dated July 1, 1993, interest rates ranging from 2.85% to 5.50%, final due date October 1, 2017; \$275,000 of the bonds defeased in 2003	3,695,000	-	2,790,000
Lot 17, dated July 1, 1993, interest rates ranging from 2.60% to 5.40%, final due date October 1, 2008	1,855,000	615,000	725,000
Lot 18, dated July 1, 1993, interest rates ranging from 2.60% to 5.25%, final due date October 1, 2006	2,435,000	695,000	900,000
Lot 19, dated July 1, 1993, interest rates ranging from 2.85% to 5.50%, final due date October 1, 2017; \$370,000 of the bonds defeased in 2003	4,900,000	-	3,700,000
1993 Series A, dated September 1, 1993, interest rates ranging from 2.50% to 5.125%, final due date May 1, 2020	11,860,000	-	8,720,000
1993 Series B, dated October 1, 1993, interest rates ranging from 3.25% to 5.125%, final due date October 1, 2019	13,965,000	950,000	11,295,000
Lot 20, dated November 1, 1993, interest rates ranging from 2.85% to 5.375%, final due date October 1, 2017	4,050,000	-	3,020,000
Lot 21, dated November 1, 1993, interest rates ranging from 2.85% to 5.25%, final due date October 1, 2014	12,865,000	-	8,835,000

Description	Original Amount	Amount Outstanding June 30,	
		2004	2003
<i>Water and Sewer System Revenue Bonds (continued):</i>			
Series 1994 A, dated February 15, 1994, interest rates ranging from 3.20% to 5.50%, final due date November 1, 2018	4,735,000	3,485,000	3,650,000
Series 1994 B, dated February 15, 1994, interest rates ranging from 2.75% to 5.375%, final due date November 1, 2010	4,690,000	2,450,000	2,735,000
1995 Series A (Sewer System), dated June 1, 1995, interest rates ranging from 4.20% to 6.00%, final due date October 1, 2025	10,660,000	9,310,000	9,510,000
1996 Series A, dated December 1, 1996, interest rates ranging from 3.75% to 5.625%, final due date April 1, 2027	13,830,000	12,265,000	12,535,000
Series 1997, dated March 1, 1997, interest rates ranging from 3.85% to 5.30%, final due date April 1, 2018	3,370,000	2,665,000	2,795,000
Series 1997, dated March 15, 1997, interest rates ranging from 3.85% to 5.50%, final due date October 1, 2027	3,100,000	2,780,000	2,840,000
Series 1997, dated June 1, 1997, interest rates ranging from 3.80% to 5.30%, final due date November 1, 2022	5,560,000	4,755,000	4,905,000
Series 1997, dated August 7, 1997, variable rate 7-day demand securities, final due date October 1, 2028	34,380,000	31,340,000	31,920,000
Series 1997, dated September 1, 1997, interest rates ranging from 3.80% to 5.20%, final due date November 1, 2017	3,650,000	2,880,000	3,025,000
Series 1997, dated November 15, 1997, interest rates ranging from 3.85% to 5.30%, final due date October 1, 2018	6,365,000	5,145,000	5,385,000
Series 1998, dated March 1, 1998, interest rates ranging from 3.75% to 5.00%, final due date October 1, 2028	2,380,000	2,175,000	2,220,000
Series 1998 (Sewer System), dated March 1, 1998, interest rates ranging from 3.60% to 5.00%, final due date May 1, 2022	16,520,000	16,060,000	16,145,000
Series 1998, dated August 1, 1998, interest rates ranging from 4.00% to 5.20%, final due date October 1, 2028	8,365,000	7,765,000	7,925,000
Series 1998, dated October 1, 1998, interest rates ranging from 3.20% to 4.75%, final due date October 1, 2028	16,185,000	14,830,000	15,125,000
Series 1999, dated October 15, 1999, interest rates ranging from 4.00% to 5.80%, final due date October 1, 2024	4,500,000	4,100,000	4,205,000
Series 1999, dated October 15, 1999, interest rates ranging from 4.125% to 6.00%, final due date October 1, 2022	111,645,000	100,315,000	106,255,000
Series 2000, dated October 1, 2000, interest rates ranging from 4.70% to 5.00%, final due date October 1, 2021	4,640,000	4,355,000	4,500,000

Description	Original Amount	Amount Outstanding June 30,	
		2004	2003
<i>Water and Sewer System Revenue Bonds (continued):</i>			
Series 2000, dated November 1, 2000, interest rates ranging from 4.40% to 5.375%, final due date October 1, 2022	106,685,000	102,425,000	105,310,000
Series 2001, dated October 1, 2001, interest rates ranging from 2.50% to 5.25%, final due date May 1, 2032	13,155,000	12,930,000	13,080,000
Series 2002 (Refunding), dated January 1, 2002, interest rates ranging from 3.00% to 5.00%, final due date April 1, 2019	16,675,000	16,455,000	16,505,000
Series 2002, dated July 31, 2002, interest rates ranging from 4.875% to 5.465%, final due date November 1, 2035	62,747,167	65,550,794	64,057,118
Series 2002C (Non-AMT), dated December 5, 2002, interest rates ranging from 2.00% to 5.00%, final due date April 1, 2033	23,510,000	22,960,000	23,375,000
Series 2004, dated June 3, 2004, interest rates ranging from 3.00% to 5.25%, final due date October 1, 2026	160,800,000	160,800,000	-
<i>Solid Waste Disposal System Revenue Bonds:</i>			
1993 Series E, dated July 15, 1993, interest rates ranging from 2.75% to 5.10%, final due date May 1, 2006	5,475,000	-	640,000
1995 Series A, dated May 15, 1995, interest rates ranging from 4.25% to 5.50%, final due date April 1, 2015	18,095,394	15,432,714	16,462,605
1995 Series B, dated December 1, 1995, interest rates ranging from 3.80% to 5.70%, final due date October 1, 2015	6,000,000	4,320,000	4,575,000
Series 1997, dated March 1, 1997, interest rates ranging from 3.65% to 4.90%, final due date April 1, 2008	1,230,000	515,000	630,000
Series 1997, dated September 1, 1997, interest rates ranging from 3.80% to 5.20%, final due date November 1, 2017	1,180,000	930,000	975,000
Series 2001B (AMT), dated June 28, 2001, interest rates ranging from 4.25% to 4.50%, final due date May 1, 2011	11,030,000	11,030,000	11,030,000
Series 2001C (Taxable), dated June 28, 2001, interest rates ranging from 4.15% to 6.00%, final due date May 1, 2008	9,480,000	6,120,000	8,315,000
Series 2001E (Taxable), dated December 14, 2001, interest rates ranging from 3.40% to 6.40%, final due date May 1, 2017	3,400,000	3,085,000	3,245,000
Series 2002B (Refunding), dated November 5, 2002, interest rates ranging from 2.00% to 4.50%, final due date November 1, 2019	35,295,000	32,465,000	34,865,000
Series 2002D (AMT), dated December 5, 2002, interest rates ranging from 3.00% to 4.375%, final due date May 1, 2014	16,005,000	14,480,000	15,635,000
Series 2002E (Taxable), dated December 5, 2002, interest rates ranging from 3.00% to 4.80%, final due date May 1, 2014	3,150,000	2,840,000	3,075,000

Description	Original Amount	Amount Outstanding June 30,	
		2004	2003
<i>Solid Waste Disposal System Revenue Bonds</i>			
<i>(continued):</i>			
Series 2003B (AMT), dated May 21, 2003, interest rates ranging from 2.00% to 5.00%, final due date May 1, 2017	39,950,000	39,950,000	39,950,000
<i>Water, Sewer, and Solid Waste Disposal System Revenue Bonds:</i>			
Series 2000A, dated March 1, 2000, interest rates ranging from 4.10% to 5.80%, final due date May 1, 2030	36,535,000	31,255,000	32,790,000
Series 2000B, dated November 1, 2000, interest rates ranging from 4.40% to 5.60%, final due date May 1, 2030	25,805,000	22,295,000	23,525,000
Series 2001A, dated June 28, 2001, interest rates ranging from 4.00% to 5.20%, final due date May 1, 2031	29,140,000	26,985,000	28,110,000
<i>Water, Sewer, and Public Safety Revenue Bonds:</i>			
Series 2001D, dated December 14, 2001, interest rates ranging from 3.75% to 5.00%, final due date May 1, 2031	48,235,000	46,150,000	47,215,000
Series 2002A, dated June 6, 2002, interest rates ranging from 3.00% to 5.13%, final due date May 1, 2027	42,845,000	39,965,000	41,700,000
Series 2003A (Non-AMT), dated May 21, 2003, interest rates ranging from 3.00% to 4.60%, final due date May 1, 2028	38,915,000	37,955,000	38,915,000
Series 2003C (Non-Amt), dated August 7, 2003, interest rates ranging from 2.00% to 5.00%, final due date November 1, 2018	15,555,000	15,360,000	-
Series 2003D (Taxable), dated August 7, 2003, interest rate of 2.00%, final due date November 1, 2004	650,000	225,000	-
Series 2003 Senior (Non-AMT), dated December 4, 2003, interest rate ranging from 2.00% to 5.00%, final due date November 1, 2033	53,790,000	53,790,000	-
Series 2003 Subordinate (Non-AMT), dated December 4, 2003, interest rate ranging from 2.00% to 5.00%, final due date November 1, 2034	32,415,000	32,415,000	-
Series 2003 Senior (AMT), dated December 4, 2003, interest rate ranging from 2.25% to 5.00%, final due date November 1, 2011	9,490,000	9,490,000	-
Series 2003 Subordinate (AMT), dated December 4, 2003, interest rate ranging from 2.25% to 3.375%, final due date November 1, 2011	4,160,000	4,160,000	-
Series 2003 Senior (Taxable), dated December 4, 2003, interest rate ranging from 1.41% to 4.57%, final due date November 1, 2011	2,375,000	2,375,000	-

Description	Original Amount	Amount Outstanding June 30,	
		2004	2003
<i>Water, Sewer, and Public Safety Revenue Bonds</i>			
<i>(continued):</i>			
Series 2003 Subordinate (Taxable), dated December 4, 2003, interest rate ranging from 1.56% to 4.70%, final due date November 1, 2011	1,015,000	1,015,000	-
Series 2004 Senior (Non-AMT), dated June 30, 2004, interest rate ranging from 4.00% to 5.125%, final due date November 1, 2033	60,630,000	60,630,000	-
Series 2004 Subordinate (Non-AMT), dated June 30, 2004, interest rate ranging from 4.00% to 5.125%, final due date November 1, 2034	32,515,000	32,515,000	-
Series 2004 Subordinate (Taxable), dated June 30, 2004, interest rate of 5.50%, final due date May 1, 2013	1,360,000	1,360,000	-
<i>Airport Revolving Fund Revenue Bonds:</i>			
Series 2001A (Non-AMT), dated January 1, 2001, interest rates ranging from 4.00% to 5.25%, final due date August 1, 2027	27,650,000	26,905,000	27,650,000
Series 2001B (AMT), dated January 1, 2001, interest rates ranging from 4.00% to 5.00%, final due date August 1, 2027	25,175,000	24,435,000	25,175,000
Series 2002A (Non-AMT), dated July 3, 2002, interest rates ranging from 3.00% to 4.50%, final due date August 1, 2017	6,700,000	6,390,000	6,700,000
Series 2002B (AMT), dated July 3, 2002, interest rates ranging from 3.00% to 5.125%, final due date August 1, 2027	2,590,000	2,525,000	2,590,000
Series 2002C (Taxable), dated July 3, 2002, interest rates ranging from 3.375% to 6.25%, final due date August 1, 2022	2,285,000	2,285,000	2,285,000
Series 2004A (Non-AMT), dated April 14, 2004, interest rates ranging from 1.36% to 5.81%, final due date August 1, 2029	10,820,000	10,820,000	-
Total bonds at June 30:		<u>1,238,920,671</u>	<u>931,597,949</u>
Unamortized discounts/premiums and issuance expenses		<u>2,298,328</u>	<u>(11,474,431)</u>
Total bonds – net		<u>\$ 1,241,218,999</u>	<u>\$ 920,123,518</u>
Total bonds outstanding as of June 30:		\$ 1,238,920,671	\$ 931,597,949
Unaccreted Capital Appreciation Bonds as of June 30:		<u>54,644,329</u>	<u>56,487,052</u>
Total outstanding maturities		<u>\$ 1,293,565,000</u>	<u>\$ 988,085,001</u>
Bonds payable – current		\$ 38,905,000	\$ 30,904,479
Bonds payable – noncurrent		<u>1,202,313,999</u>	<u>889,219,039</u>
		<u>\$ 1,241,218,999</u>	<u>\$ 920,123,518</u>

Activity in the bonds payable and related accounts for fiscal year 2004, was as follows:

Description	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
Total bonds outstanding	\$ 931,597,949	\$ 385,575,000	\$ (78,252,278)	\$ 1,238,920,671
Unamortized discounts/premiums and issuance expense	(11,474,431)	12,704,575	1,068,184	2,298,328
Total bonds – net	\$ 920,123,518			\$ 1,241,218,999

Activity in the bonds payable and related accounts for fiscal year 2003, was as follows:

Description	Balance at June 30, 2002	Issued	Retired	Balance at June 30, 2003
Total bonds outstanding	\$ 769,466,542	\$ 231,147,167	\$ (69,015,760)	\$ 931,597,949
Unamortized discounts/premiums and issuance expense	(10,893,520)	(2,013,728)	1,432,817	(11,474,431)
Total bonds – net	\$ 758,573,022			\$ 920,123,518

All bonds are limited obligations of the Authority payable solely from and secured by a pledge of the principal and interest payments required to be made by certain local and other governmental entities on loans made by the Authority, and a pledge of all funds and accounts established by the various bond indentures. The Authority has the option to redeem the various bonds at premiums ranging up to 3%. The redemptions generally cannot be exercised until the bonds have been outstanding for seven years or more, or as fully described in the various bond indentures.

The 1992 Series A Water and Sewer System Revenue Bonds, the 1995 Series A Solid Waste Disposal System Revenue Bonds, and the Series 2002 Water and Sewer System Revenue Bonds have Capital Appreciation Bonds with un-accreted values of \$607,837, \$22,286, and \$54,014,206, respectively, as of June 30, 2004.

During the current year, the Authority refunded these current interest term bonds:

Water and Sewer Revenue Bond	Difference Between Previous and New Debt Service	Economic Gain as a Result of the Refunding
Lot 16	\$ 485,851	\$ 239,637
Lot 19	656,381	325,630
Lot 20	508,668	282,488
1993 Series A (Water and Sewer)	1,660,915	807,776
Total bonds – net	\$ 3,311,814	\$ 1,655,530

The amount of outstanding bonds payable related to bonds, which have been in-substance defeased or refunded was \$18,860,000 and \$21,455,000 at June 30, 2004 and 2003, respectively. During prior years, the Authority in-substance defeased the 1995 Series A, 1993 Series B, 1993 Series C and 1994 Series C Water and Sewer System Revenue Bonds, Lot 14, and a portion of the 1992 Series A and B Sewer System Revenue Bonds.

Future principal and interest obligations related to bond indebtedness including unaccreted capital appreciation bonds are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 38,905,000	\$ 53,661,178	\$ 92,566,178
2006	41,715,000	54,385,534	96,100,534
2007	45,480,000	52,779,392	98,259,392
2008	49,305,000	50,977,546	100,282,546
2009	52,345,000	48,977,131	101,322,131
2010-2014	311,455,000	205,342,743	516,797,743
2015-2019	282,760,000	133,678,891	416,438,890
2020-2024	240,115,000	69,489,095	309,604,095
2025-2029	138,575,000	28,315,401	166,890,401
2030-2034	61,085,000	13,432,509	74,517,509
2035-2036	31,825,000	1,219,141	33,044,141
	<u>\$ 1,293,565,000</u>	<u>\$ 712,258,561</u>	<u>\$ 2,005,823,560</u>

5. Restricted Net Assets

Restricted net assets represent the portion of total net assets restricted for the purpose of making loans to local governments or by the requirements of the various bond indentures or federal and state regulations for the various revolving funds. All assets and liabilities included in the Authority's General Accounts are non-restricted in nature; however, the General Account pledged assets to establish an Operating Reserve Fund for the newly structured Virginia Pooled Financing Program. The pledge will no longer be required when a minimum number of borrowers have been met. At June 30, 2004, the cash, cash equivalent, and investments restricted for use related to the Operating Reserve Fund amounted to \$4,976,363.

6. Other Noncurrent Liabilities

The amount of interest on investments the Authority may earn in the Guaranteed Investment Contracts is limited by certain Federal legislation. Earnings in excess of the allowable amount must be rebated to the U.S. Department of the Treasury. These excess earnings, or arbitrage, are recorded in the bond rebate calculation liability and amounted to \$3,254,943 and \$2,544,692 at June 30, 2004 and 2003, respectively (\$1,659,862 and \$0, respectively, was considered to be current).

Deferred revenue consists of upfront fees collected from bond financings or investment earnings of the capital reserve funds upon issuance of a bond series. These fees are deferred and recognized over the life of the bonds and amounted to \$741,114 and \$671,401 at June 30, 2004 and 2003, respectively (\$687,758 and \$599,644, respectively, was considered to be noncurrent).

The following summarizes the activity related to these other noncurrent liabilities for fiscal year 2004:

	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Current</u> <u>Portion</u>
Arbitrage rebate liability	\$ 2,544,692	\$ 710,251	\$ 1,659,862	\$ 1,595,081	\$ 1,659,862
Deferred revenue	599,644	186,249	98,134	687,759	53,356

The following summarizes the activity related to these other noncurrent liabilities for fiscal year 2003:

	<u>Balance</u> <u>June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2003</u>	<u>Current</u> <u>Portion</u>
Arbitrage rebate liability	\$ 1,723,334	\$ 821,358	\$ -	\$ 2,544,692	\$ -
Deferred revenue	553,540	65,252	19,148	599,644	71,757

7. Contributions from Other Governments

During the years ended June 30, 2004 and 2003, the Authority received \$40,241,889 and \$29,354,580, respectively, in contributions from the EPA under the Capitalization Grants for State Revolving Funds. Contributions from the EPA are disbursed as loans and grants to localities. Other amounts received from the EPA as reimbursement for the federal share of the Authority's operating expenses for the VWFRF and the VWSRF are recorded as administrative reimbursement when expended in the accompanying statement of revenues, expenses and changes in fund equity. In addition, the Authority received \$8,612,479 and \$8,381,478, respectively, from the Commonwealth as the required state match of federal funds.

8. Employee Benefit Plans

The Authority has a deferred compensation plan and in accordance with Internal Revenue Code Section 457, the assets of the deferred compensation plan have been placed in trust for the exclusive benefit of the participants and their beneficiaries. Therefore, the Authority's financial statements do not reflect the plan assets or the associated liability under the plan.

The Authority sponsors a retirement savings plan to which 12% of eligible employees' salary is contributed on an annual basis. Total retirement savings expense was \$84,739 and \$29,321 for the years ended June 30, 2004 and 2003, respectively, a portion of which is reimbursed.

As of June 30, 2004 and 2003, an accrual for employee compensated absences in the amount of \$60,333 and \$46,928, respectively, was included in accounts payable and other liabilities in the accompanying statement of net assets.

9. Contingencies

The Authority participates in the Capitalization Grants for State Revolving Funds. Although the Authority's administration of the program has been audited in accordance with the U.S. Office of Management and Budget Circular A-133 through June 30, 2004, this program is still subject to Federal financial and compliance audits. The amount of expenditures which may be disallowed by the granting agency cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

The Authority leases its corporate office space under an operating agreement. The office lease expires in November 2006. A summary of future minimum rental payments under the operating lease at June 30, 2004 is as follows:

<u>Year ending June 30,</u>	<u>Operating Leases</u>
2005	\$ 93,558
2006	96,843
2007	41,594
	<u>\$ 231,995</u>

Total rental expense under the operating lease was \$90,405 and \$87,343 for the years ended June 30, 2004 and 2003, respectively.

10. Subsequent Events

Subsequent to June 30, 2004 and through August 27, 2004, the VWFRF closed one loan totaling \$2,995,000, with an interest rate of 3.10% and the VWSRF closed three loans/grants totaling \$886,649, with 0% interest rates.

Virginia Resources Authority

Combining Schedule of Net Assets

June 30, 2004	General Accounts	Revolving Loan Fund Accounts	Airport Revolving Fund Accounts	Bond Accounts	Total
Assets					
Current assets					
Cash	\$ 605,848	\$ 5,712,122	\$ -	\$ -	\$ 6,317,970
Cash equivalents	1,926,438	132,383,291	4,065,155	2,845,000	141,219,884
Investments	5,616,575	320,091,602	25,841,266	15,940,850	367,490,293
Loans receivable - current	2,559,178	39,524,180	2,361,902	28,165,000	72,610,260
Receivables:					
Investment interest	32,138	1,399,911	113,790	102,328	1,648,167
Loan interest	-	6,202,786	265,769	5,483,056	11,951,611
Federal funds	-	11,250,901	-	-	11,250,901
Other	17,816	-	47,741	-	65,557
Other	12,418	-	-	-	12,418
Total current assets	10,770,411	516,564,793	32,695,623	52,536,234	612,567,061
Noncurrent assets					
Loans receivable - less current	-	743,909,395	66,232,514	754,868,052	1,565,009,961
Federal funds receivable	-	1,018,377	-	-	1,018,377
Furniture and fixtures, at cost, less accumulated depreciation of \$154,267	34,766	45,704	-	-	80,470
Total noncurrent assets	34,766	744,973,476	66,232,514	754,868,052	1,566,108,808
Total assets	10,805,177	1,261,538,269	98,928,137	807,404,286	2,178,675,869
Liabilities					
Current liabilities					
VPSTF line of credit	2,559,178	-	-	-	2,559,178
Bonds payable - current	-	8,590,000	2,150,000	28,165,000	38,905,000
Accrued interest on bonds payable	-	3,297,897	1,473,212	5,444,944	10,216,053
Arbitrage rebate liability	-	1,659,862	-	-	1,659,862
Due to (due from) other accounts	(405,301)	405,301	-	-	-
Deferred revenue	53,356	-	-	-	53,356
Accounts payable and other liabilities	136,805	-	97,857	9,676	244,338
Total current liabilities	2,344,038	13,953,060	3,721,069	33,619,620	53,637,787
Noncurrent liabilities					
Bonds payable - less current - net	-	358,759,134	69,956,860	773,598,005	1,202,313,999
Deferred revenue	687,758	-	-	-	687,758
Arbitrage rebate liability	-	1,595,081	-	-	1,595,081
Total noncurrent liabilities	687,758	360,354,215	69,956,860	773,598,005	1,204,596,838
Total liabilities	3,031,796	374,307,275	73,677,929	807,217,625	1,258,234,625
Net assets					
Invested in capital assets, net of related debt	34,766	45,704	-	-	80,470
Restricted	4,976,363	887,185,290	25,250,208	186,661	917,598,522
Unrestricted	2,762,252	-	-	-	2,762,252
Total net assets	\$ 7,773,381	\$ 887,230,994	\$ 25,250,208	\$ 186,661	\$ 920,441,244

See report of independent auditor.

Virginia Resources Authority

Combining Schedule of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2004	General Accounts	Revolving Loan Fund Accounts	Airport Revolving Fund Accounts	Bond Accounts	Total
Operating revenues					
Interest on loans	\$ 26,800	\$ 22,048,771	\$ 1,449,907	\$ 34,791,677	\$ 58,317,155
Interest on investments	59,146	9,740,459	1,242,542	369,746	11,411,893
Administrative reimbursement	-	669,663	-	-	669,663
Other income	13,233	1,113	-	-	14,346
Total operating revenues	99,179	32,460,006	2,692,449	35,161,423	70,413,057
Operating expenses					
Interest on bonds	-	11,576,118	3,152,527	34,453,323	49,181,968
Personnel services	456,155	449,506	-	-	905,661
Contractual services	35,647	72,195	2,050	-	109,892
General operating	131,160	224,494	16,965	-	372,619
Grants to local governments	-	8,448,600	-	-	8,448,600
Total operating expenses	622,962	20,770,913	3,171,542	34,453,323	59,018,740
Operating income (loss)	(523,783)	11,689,093	(479,093)	708,100	11,394,317
Non-operating revenues (expenses)					
Contributions from other governments	-	48,854,368	-	-	48,854,368
Operating transfers	954,692	(18,021)	(116,362)	(820,309)	-
Gain/loss on sale of fixed assets	18,622	-	-	-	18,622
Total non-operating revenues (expenses)	973,314	48,836,347	(116,362)	(820,309)	48,872,990
Change in net assets	449,531	60,525,440	(595,455)	(112,209)	60,267,307
Net assets - beginning of year	7,323,850	826,705,554	25,845,663	298,870	860,173,937
Net assets - end of year	\$ 7,773,381	\$ 887,230,994	\$ 25,250,208	\$ 186,661	\$ 920,441,244

See report of independent auditor.

Virginia Resources Authority

Combining Schedule of Cash Flows

For the Year Ended June 30, 2004	General Accounts	Revolving Loan Fund Accounts	Airport Revolving Fund Accounts	Bond Accounts	Total
Cash flows from operating activities					
Cash payments to localities for loans	\$ (2,222,934)	\$ (86,423,443)	\$ (20,143,844)	\$ (199,110,000)	\$ (307,900,221)
Principal repayments from localities on loans	1,895,024	49,183,001	3,309,159	67,260,000	121,647,184
Interest received on loans	-	21,978,081	1,285,865	29,346,749	52,610,695
Federal administrative reimbursement funds received	-	741,943	-	-	741,943
Cash received from other income	13,233	1,113	-	-	14,346
Net reimbursable expenses received	226,475	-	-	-	226,475
Cash received from loan origination fees	201,000	-	-	-	201,000
Cash payments for salaries and related benefits	(442,750)	(449,507)	-	-	(892,257)
Cash payments for contractual services	(35,647)	(72,195)	(2,050)	-	(109,892)
Cash payments for general operating expenses	(163,430)	(206,611)	(16,965)	-	(387,006)
Cash payments for operating grants	-	(8,448,600)	-	-	(8,448,600)
Net cash from operating activities	(529,029)	(23,696,218)	(15,567,835)	(102,503,251)	(142,296,333)
Cash flows from non-capital financing activities					
Proceeds from sale of bonds	-	160,800,000	10,820,000	213,955,000	385,575,000
Principal paid on bonds	-	(8,825,000)	(1,860,000)	(69,685,000)	(80,370,000)
Contributions from other governments	-	37,291,243	-	-	37,291,243
Cash received from other accounts	849,558	(26,466)	-	(728,587)	94,505
Interest paid on bonds	-	(10,872,265)	(2,976,646)	(29,117,875)	(42,966,786)
Net cash from non-capital activities	849,558	178,367,512	5,983,354	114,423,538	299,623,962
Cash flows from capital and related financing activities					
Purchase of furniture and fixtures	(20,403)	(20,595)	-	-	(40,998)
Cash flows from investing activities					
Purchase of investments	(546,052)	(182,731,449)	(5,332,146)	(14,681,268)	(203,290,915)
Proceeds from sales or maturities of investments	35,000	7,817,840	8,421,551	1,015,000	17,289,391
Interest received on investments - net	260,447	9,734,398	1,202,710	320,609	11,518,164
Net cash from financing activities	(250,605)	(165,179,211)	4,292,115	(13,345,659)	(174,483,360)
Net change in cash and cash equivalents	49,521	(10,528,512)	(5,292,366)	(1,425,372)	(17,196,729)
Cash and cash equivalents - beginning of year	2,482,765	148,623,925	9,357,521	4,270,372	164,734,583
Cash and cash equivalents - end of year	\$ 2,532,286	\$ 138,095,413	\$ 4,065,155	\$ 2,845,000	\$ 147,537,854
Reconciliation of cash and cash equivalents					
Cash per statements of net assets	\$ 605,848	\$ 5,712,122	\$ -	\$ -	6,317,970
Add cash equivalents per statements of net assets	1,926,438	132,383,291	4,065,155	2,845,000	141,219,884
Cash and cash equivalents per the statements of cash flows	\$ 2,532,286	\$ 138,095,413	\$ 4,065,155	\$ 2,845,000	\$ 147,537,854

Virginia Resources Authority

Combining Schedule of Cash Flows

For the Year Ended June 30, 2004	General Accounts	Revolving Loan Fund Accounts	Airport Revolving Fund Accounts	Bond Accounts	Total
Reconciliation of net income (loss) to net cash from operating activities					
Net income (loss)	\$ (523,783)	\$ 11,689,093	\$ (479,093)	\$ 708,100	\$ 11,394,317
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation, amortization and (accretion) - net	145,034	17,893	-	5,428,498	5,591,425
Interest on investments	(59,146)	(9,740,459)	(1,242,542)	(369,746)	(11,411,893)
Interest on bonds	-	11,576,118	3,152,527	34,453,323	49,181,968
Gain on sale of fixed assets	(18,622)	-	-	-	(18,622)
Change in assets and liabilities:					
Loans receivable	1,895,023	(37,240,442)	(16,834,685)	(142,491,778)	(194,671,882)
Loan interest receivable	-	(53,602)	(47,680)	(205,074)	(306,356)
Federal funds receivable	-	72,279	-	-	72,279
Other receivables	226,475	-	(116,362)	-	110,113
Other assets	2,499	-	-	-	2,499
Deferred revenue	69,715	-	-	-	69,715
Accounts payable and other liabilities	(2,266,224)	(17,098)	-	(26,574)	(2,309,896)
Net cash from operating activities	\$ (529,029)	\$ (23,696,218)	\$ (15,567,835)	\$ (102,503,251)	\$ (142,296,333)

See report of independent auditor.

Virginia Resources Authority

Schedule of Net Assets - Revolving Loan Fund Accounts

	Virginia Water Facilities Revolving Fund Accounts	Virginia Water Supply Revolving Fund Construction Account	Virginia Water Supply Revolving Fund Administrative Account	Virginia Water Facilities Investment Fund Accounts	Virginia Water Supply Fund Account	Combined Sewer Overflow Fund Account	Total
Assets							
Current assets							
Cash	\$ 4,704,585	\$ 163,110	\$ -	\$ 628,224	\$ 216,203	\$ -	\$ 5,712,122
Cash equivalents	125,169,495	5,285,102	-	19,450	-	1,909,244	132,383,291
Investments	320,091,602	-	-	-	-	-	320,091,602
Loans receivable current	37,507,568	1,924,839	-	63,011	28,762	-	39,524,180
Receivables:							
Investment interest	1,399,911	-	-	-	-	-	1,399,911
Loan interest	6,078,215	123,172	-	-	1,399	-	6,202,786
Federal funds	11,076,587	-	174,314	-	-	-	11,250,901
Total current assets	506,027,963	7,496,223	174,314	710,685	246,364	1,909,244	516,564,793
Noncurrent assets							
Loans receivable - less current	671,413,108	71,803,888	-	366,984	325,415	-	743,909,395
Federal funds receivable	1,018,377	-	-	-	-	-	1,018,377
Furniture and fixtures - at cost - less accumulated depreciation	26,477	-	19,227	-	-	-	45,704
Total noncurrent assets	672,457,962	71,803,888	19,227	366,984	325,415	-	744,973,476
Total assets	1,178,485,925	79,300,111	193,541	1,077,669	571,779	1,909,244	1,261,538,269
Liabilities							
Current liabilities							
Bonds payable - current	8,590,000	-	-	-	-	-	8,590,000
Accrued interest on bonds payable	3,297,897	-	-	-	-	-	3,297,897
Bond rebate calculation	1,659,862	-	-	-	-	-	1,659,862
Due to other accounts	232,292	-	173,009	-	-	-	405,301
Total current liabilities	13,780,051	-	173,009	-	-	-	13,953,060
Noncurrent liabilities							
Bonds payable - less current	358,759,134	-	-	-	-	-	358,759,134
Bond rebate calculation	1,595,081	-	-	-	-	-	1,595,081
Total noncurrent liabilities	360,354,215	-	-	-	-	-	360,354,215
Total liabilities	374,134,266	-	173,009	-	-	-	374,307,275
Net Assets							
Invested in capital assets - net of related debt	26,477	-	19,227	-	-	-	45,704
Restricted	804,325,182	79,300,111	1,305	1,077,669	571,779	1,909,244	887,185,290
Total net assets	\$ 804,351,659	\$ 79,300,111	\$ 20,532	\$ 1,077,669	\$ 571,779	\$ 1,909,244	\$ 887,230,994

See report of independent auditor.

Virginia Resources Authority

Schedule of Revenues, Expenses and Changes in Net Assets - Revolving Loan Fund Accounts

Year Ended June 30, 2004	Virginia Water Facilities Revolving Fund Accounts	Virginia Water Supply Revolving Fund Construction Account	Virginia Water Supply Revolving Fund Administrative Account	Virginia Water Facilities Investment Fund Accounts	Virginia Water Supply Fund Account	Combined Sewer Overflow Fund Account	Total
Operating revenues							
Interest on loans	\$ 21,569,709	\$ 471,270	\$ -	\$ -	\$ 7,792	\$ -	\$ 22,048,771
Interest on investments	9,638,972	44,587	-	25,081	237	31,582	9,740,459
Administrative reimbursement	375,675	-	293,988	-	-	-	669,663
Other income	1,113	-	-	-	-	-	1,113
Total operating revenues	31,585,469	515,857	293,988	25,081	8,029	31,582	32,460,006
Operating expenses							
Interest on bonds	11,576,118	-	-	-	-	-	11,576,118
Personnel services	246,032	-	203,474	-	-	-	449,506
Contractual services	40,492	-	31,703	-	-	-	72,195
General operating	163,787	3,178	54,447	1,258	150	1,674	224,494
Grants to local governments	-	6,434,421	-	2,485	171,495	1,840,199	8,448,600
Total operating expenses	12,026,429	6,437,599	289,624	3,743	171,645	1,841,873	20,770,913
Operating income (loss)	19,559,040	(5,921,742)	4,364	21,338	(163,616)	(1,810,291)	11,689,093
Non-operating revenues (expenses)							
Contributions from other governments	22,574,292	21,168,944	-	5,111,132	-	-	48,854,368
Operating transfers	5,130,933	(11,721)	(3,765)	(5,133,468)	-	-	(18,021)
Total non-operating revenues (expenses)	27,705,225	21,157,223	(3,765)	(22,336)	-	-	48,836,347
Change in net assets	47,264,265	15,235,481	599	(998)	(163,616)	(1,810,291)	60,525,440
Net assets - beginning of year	757,087,394	64,064,630	19,933	1,078,667	735,395	3,719,535	826,705,554
Net assets - end of year	\$ 804,351,659	\$ 79,300,111	\$ 20,532	\$ 1,077,669	\$ 571,779	\$ 1,909,244	\$ 887,230,994

See report of independent auditor.

Virginia Resources Authority

Schedule of Cash Flows - Revolving Loan Fund Accounts

Year Ended June 30, 2004	Virginia Water Facilities Revolving Fund Accounts	Virginia Water Supply Revolving Fund Construction Account	Virginia Water Supply Revolving Fund Administrative Account	Virginia Water Facilities Investment Fund Accounts	Virginia Water Supply Fund Account	Combined Sewer Overflow Fund Account	Total
Cash flows from operating activities							
Cash payments to localities for loans	\$ (71,030,059)	\$ (15,393,384)	\$ -	\$ -	\$ -	\$ -	\$ (86,423,443)
Principal repayments from localities on loans	47,178,767	1,913,118	-	63,010	28,106	-	49,183,001
Interest received on loans	21,499,128	471,035	-	-	7,918	-	21,978,081
Federal administrative reimbursement funds received	403,562	-	338,381	-	-	-	741,943
Cash received from other income	1,113	-	-	-	-	-	1,113
Cash payments for salaries and related benefits	(246,032)	-	(203,475)	-	-	-	(449,507)
Cash payments for contractual services	(40,492)	-	(31,703)	-	-	-	(72,195)
Cash payments for general operating expenses	(152,892)	(3,188)	(47,449)	(1,258)	(150)	(1,674)	(206,611)
Cash payments for operating grants	-	(6,434,421)	-	(2,485)	(171,495)	(1,840,199)	(8,448,600)
Net cash from operating activities	(2,386,905)	(19,446,840)	55,754	59,267	(135,621)	(1,841,873)	(23,696,218)
Cash flows from non-capital financing activities							
Proceeds from sale of bonds	160,800,000	-	-	-	-	-	160,800,000
Principal paid on bonds	(8,825,000)	-	-	-	-	-	(8,825,000)
Contributions from other governments	16,144,635	21,168,944	-	(22,336)	-	-	37,291,243
Cash received from other accounts	20,855	-	(47,321)	-	-	-	(26,466)
Interest paid on bonds	(10,872,265)	-	-	-	-	-	(10,872,265)
Net cash from non-capital activities	157,268,225	21,168,944	(47,321)	(22,336)	-	-	178,367,512
Cash flows from capital and related financing activities							
Purchase of furniture and fixtures	(12,162)	-	(8,433)	-	-	-	(20,595)
Cash flows from investing activities							
Purchase of investments	(182,731,449)	-	-	-	-	-	(182,731,449)
Proceeds from sales or maturities of investments	7,817,840	-	-	-	-	-	7,817,840
Interest received on investments - net	9,632,911	44,587	-	25,081	237	31,582	9,734,398
Net cash from financing activities	(165,280,698)	44,587	-	25,081	237	31,582	(165,179,211)
Net change in cash and cash equivalents	(10,411,540)	1,766,691	-	62,012	(135,384)	(1,810,291)	(10,528,512)
Cash and cash equivalents - beginning of year	140,285,620	3,681,521	-	585,662	351,587	3,719,535	148,623,925
Cash and cash equivalents - end of year	\$ 129,874,080	\$ 5,448,212	\$ -	\$ 647,674	\$ 216,203	\$ 1,909,244	\$ 138,095,413
Reconciliation of cash and cash equivalents							
Cash per statements of net assets	\$ 4,704,585	\$ 163,110	\$ -	\$ 628,224	\$ 216,203	\$ -	\$ 5,712,122
Add cash equivalents per statements of net assets	125,169,495	5,285,102	-	19,450	-	1,909,244	132,383,291
Cash and cash equivalents per the schedule of cash flows	\$ 129,874,080	\$ 5,448,212	\$ -	\$ 647,674	\$ 216,203	\$ 1,909,244	\$ 138,095,413

Virginia Resources Authority

Schedule of Cash Flows - Revolving Loan Fund Accounts

Year Ended June 30, 2004	Virginia Water Facilities Revolving Fund Accounts	Virginia Water Supply Revolving Fund Construction Account	Virginia Water Supply Revolving Fund Administrative Account	Virginia Water Facilities Investment Fund Accounts	Virginia Water Supply Fund Account	Combined Sewer Overflow Fund Account	Total
Reconciliation of net income (loss) to net cash from operating activities							
Net income (loss)	\$ 19,559,040	\$ (5,921,742)	\$ 4,364	\$ 21,338	\$ (163,616)	\$ (1,810,291)	\$ 11,689,093
Adjustments to reconcile operating income to net cash from operating activities:							
Depreciation, amortization and (accrion) - net	10,895	-	6,998	-	-	-	17,893
Interest on investments	(9,638,972)	(44,587)	-	(25,081)	(237)	(31,582)	(9,740,459)
Interest on bonds	11,576,118	-	-	-	-	-	11,576,118
Change in:							
Loans receivable	(23,851,292)	(13,480,266)	-	63,010	28,106	-	(37,240,442)
Loan interest receivable	(53,493)	(235)	-	-	126	-	(53,602)
Federal funds receivable	27,887	-	44,392	-	-	-	72,279
Accounts payable and other liabilities	(17,088)	(10)	-	-	-	-	(17,098)
Net cash from operating activities	\$ (2,386,905)	\$ (19,446,840)	\$ 55,754	\$ 59,267	\$ (135,621)	\$ (1,841,873)	\$ (23,696,218)

See report of independent auditor.

***Report on Compliance and on Internal Control over Financial
Reporting Based on an Audit of Financial Statements Performed
In Accordance with Government Auditing Standards***

Board of Directors
Virginia Resources Authority

We have audited the financial statements of the *Virginia Resources Authority*, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the *Virginia Resources Authority's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the *Virginia Resources Authority's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies, state funding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Goodman & Company, LLP

Colonial Heights, Virginia
August 27, 2004