



VIRGINIA RESOURCES AUTHORITY

Drinking Water Supply

Wastewater Treatment

Stormwater Drainage

Solid Waste Management

Airports

Public Safety Facilities

Brownfields Remediation



2005
ANNUAL
REPORT

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.

A letter to the Governor and the General Assembly

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

For over 20 years, the Virginia Resources Authority ("VRA" or the "Authority") has provided the Commonwealth's local governments with an essential resource to address the financing of their most critical infrastructure projects.

Maintaining and improving the quality of life for the citizens of the Commonwealth and continuing to move forward with economic development efforts bring to the forefront the need for affordable infrastructure financing. The Board of Directors and staff of the Authority are focused on providing our customers with the most cost-effective financing available from the municipal markets.

VRA's legislative authority has expanded during recent years to include the financing of public safety, airports, and brownfields remediation projects. During the 2005 Session, the General Assembly further expanded VRA's project areas to include financing of localities' transportation projects and infrastructure at federal and former federal facilities.

As Virginia's premier infrastructure financing resource, the Authority's professional staff rose to each task with the dedication and commitment that is indicative of the Commonwealth's high standards that resulted in Virginia being named one of the nation's Best Managed States.

Fiscal Year 2005 extended the Authority's recent number of record-setting years, closing the single largest bond transaction in VRA's history. In June 2005, the Authority issued \$188.475 million Clean Water State Revolving Fund Refunding Revenue Bonds generating savings in excess of \$6 million for the benefit of certain borrowers through the Virginia Water Facilities Revolving Fund, as well as providing additional funding capacity for the program in general. In addition, the Virginia Pooled Financing Program (VPPF), developed in Fiscal Year 2004, continued to provide Virginia's local governments with the lowest cost of funds. The VPPF both improves the credit on the bonds, achieving a natural "Aaa" on the senior structure, or 70% of the bonds issued, and significantly reduces the Authority's use of the Commonwealth's moral obligation, as only 30% of the bonds issued through the program are backed by the Commonwealth. The VPPF provided combined funding in excess of \$115 million through three separate bond transactions to 21 localities saving Virginia's localities over \$7.7 million in interest costs.

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 our accomplishments for our 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



Board of Directors

Appointed Members



William G. O'Brien
Chairman
Port Republic



Philip J. Duke
Middleburg



Barbara M. Donnellan
Vice Chairman
Clifton



H. Hiter Harris, III
Richmond



J. Barry Purcell, III
Richmond



James H. Spencer, III
Tazewell



Hari K. Thakkar
Virginia Beach

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 government 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.

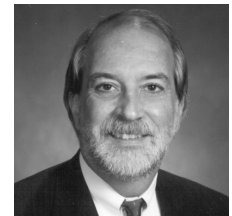
The VRA Board of Directors comprises seven citizen members appointed by the Governor and confirmed by the General Assembly, and four *ex officio* members: the Treasurer of Virginia, the State Health Commissioner, and the Directors of the Virginia Department of Environmental Quality and the Virginia Department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

In Fiscal Year 2005, Katrina C. Randolph, Esquire, Director and Vice Chairman, vacated her position on the VRA Board of Directors. The VRA Board and staff recognize and appreciate the leadership and dedication she afforded the Authority during her tenure on the Board.

Ex Officio Members



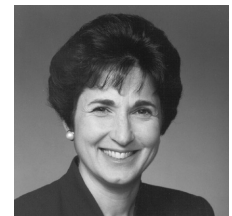
Randall P. Burdette
Executive Director
Virginia Department of
Aviation



Robert G. Burnley
Director
Virginia Department of
Environmental Quality



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



Jody M. Wagner, Esquire
Treasurer
Commonwealth of
Virginia

Staff

Darrell V. Hill
Executive Director

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

Terri H. Dixon, CPA
Controller

Corrine A. Louden
Assistant Controller

Diane P. Jones
Fiscal Manager

Shawn B. Crumlish
Development Officer

Mary B. Barnes
Director of Loan Origination

Peter G. D'Alema
Program & Financial Analyst

Bradley L. Jones
Financial & Compliance Analyst

Trisha L. Henshaw
Office Manager

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.



l-r, front row: Mary Barnes, Terri Dixon, Trisha Henshaw, Corrine Louden, and Diane Jones; l-r, second row: Darrell Hill, Shawn Crumlish, Howard Estes, and Peter D'Alema. Not pictured: Bradley L. Jones.

Advisors

McGuireWoods LLP
Bond Counsel

Public Financial Management, Inc.
Financial Advisor

Goodman & Company, LLP
Certified Public Accountants

LeClair Ryan, A Professional Corporation
Counsel for the Revolving Loan Funds

All VRA Borrowers as of June 30, 2005

Abingdon, Town of
Albemarle County
Albemarle County Service Authority
Alberta, Town of
Alexandria Sanitation Authority
Alleghany County
Alleghany Highlands School Board
Altavista, Town of
Amelia County
Amelia Courthouse Sanitary District
Appomattox River Water Authority
Appomattox, Town of
Arlington County
Aubon Water Company
Augusta County
Augusta County Service Authority
Bath County Service Authority
Bedford County Public Service Authority
Bedford, City of
Berryville, Town of
Big Stone Gap, Town of
Blacksburg Christiansburg VPI Water Authority
Blackstone, Town of
Bland County Service Authority
Blue Ridge Airport Authority
Bluefield, City of
Boones Mill, Town of
Botetourt County
Bowling Green, Town of
Boydton, Town of
Bridgewater, Town of
Buchanan County Public Service Authority
Buchanan, Town of
Buckingham, County of
Calvary Pentecostal Tabernacle
Campbell County Utilities & Service Authority
Cape Charles, Town of
Capital Region Airport Commission
Caroline County
Carroll County Public Service Authority
Cedar Bluff, Town of
Charlottesville-Albemarle Airport Authority
Chesapeake, City of
Chesterfield County
Christiansburg, Town of
Claremont, Town of
Clarke County
Clarke County Sanitary Authority
Clarksville, Town of
Cleveland, Town of
Clifton Forge, Town of
Clintwood, Town of
Clover, Town of
Coalfield Water Development Fund
Coeburn-Norton-Wise Regional Wastewater Treatment Authority
Colonial Beach, Town of
Craig-New Castle Public Service Authority
Culpeper, Town of

Danville, City of
Dickenson County Public Service Authority
Dickenson County Public Service Authority
Dillwyn, Town of
Dinwiddie Airport and Industrial Authority
Dinwiddie County Water Authority
Drakes Branch, Town of
Dumfries, Town of
Emporia, City of
Exmore, Town of
Fairfax County
Fairfax County Water Authority
Falls Church, City of
Farmville, Town of
Fauquier County
Fauquier County Water & Sanitation Authority
Ferrum Water and Sewerage Authority
Fincastle, Town of
Franklin, City of
Frederick County Sanitation Authority
Fredericksburg, City of
Frederick-Winchester Service Authority
Front Royal, Town of
Galax, City of
Gate City, Town of
Glasgow, Town of
Gloucester County
Goochland County
Gordonsville, Town of
Greene County
Greensville County Water & Sewer Authority
Halifax County Service Authority
Halifax, County
Hamilton, Town of
Hampton Roads Sanitation District
Hanover, County of
Harrisonburg, City of
Harrisonburg/Rockingham Regional Sewer Authority
Henrico County
Henry County Public Service Authority
High Knob Utilities, Inc.
Hillsville, Town of
Honaker, Town of
Hopewell, City of
Iron Gate, Town of
John Flannagan Water Authority
Jonesville, Town of
Keysville, Town of
Kilmarnock, Town of
King George County
King George County Service Authority
King William County
LaCrosse, Town of
Lawrenceville, Town of
Lee County
Lee County Public Service Authority
Leesburg, Town of
Loudoun County
Loudoun County Sanitation Authority
Louisa, Town of
Lovettsville, Town of
Luray, Town of
Lynchburg, City of

Manassas Park, City of
Manassas Regional Airport
Manassas, City of
Marion, Town of
Martinsville, City of
Mathews, County of
Maury Service Authority
McKenney, Town of
Middle Peninsula Airport Authority
Middle Peninsula Planning District Commission
Middleburg, Town of
Monterey, Town of
Montgomery County
Montgomery County Public Service Authority
Mount Jackson, Town of
Mt. Zion Church Preservation Association
Narrows, Town of
Nature Conservancy
Nelson County Service Authority
New Kent County
New Market, Town of
New River Resource Authority
Newport News, City of
Nickelsville, Town of
Norfolk Airport Authority
Norfolk, City of
Northern Neck Planning District Commission
Norton, City of
Onancock, Town of
Orange, Town of
Pearisburg, Town of
Peninsula Airport Commission
Pennington Gap, Town of
Pepper's Ferry Regional Wastewater Treatment Authority
Pittsylvania County Service Authority
Pocahontas, Town of
Poquoson, City of
Pound, Town of
Powhatan County
Prince George County
Prince William County
Prince William County Service Authority
Pulaski County Public Service Authority
Purcellville, Town of
Radford, City of
Rapidan Service Authority
Rappahannock County
Rappahannock County Water and Sewer Authority
Richcreek, Town of
Richlands, Town of
Richmond, City of
Rivanna Water & Sewer Authority
Roanoke County
Roanoke Regional Airport Commission
Roanoke River Service Authority
Rockbridge County Public Service Authority
Rockingham County
Rocky Mount, Town of
Round Hill, Town of
Rural Retreat, Town of
Russell County
Russell County Water and Sewer Authority
Rye Valley Water Authority
Salem, City of

Saltville, Town of
Scott County Public Service Authority
Semilan Enterprises LLC
Shenandoah Valley Regional Airport Commission
Shenandoah, Town of
Smith Creek Water & Waste Authority
Smithfield, Town of
Smyth County
South Boston, Town of
South Central Wastewater Authority
South Hill, Town of
Southampton County
Southeastern Public Service Authority
Spotsylvania County
St. Charles Water and Sewer Authority
St. Charles, Town of
St. Paul, Town of
Stafford County
Stafford Regional Airport Authority
Stanley, Town of
Stanton, City of
Stephens City, Town of
Stoney Creek Sanitary District
Strasburg, Town of
Suffolk, City of
Surry County
Sussex County
Sussex Service Authority
Tangier, Town of
Tappahannock, Town of
Tazewell County
Tazewell County Airport Authority
Tazewell County Public Service Authority
Tazewell, Town of
Triangle Enterprises
TWW, Inc.
Upper Occoquan Sewage Authority
Urbanna, Town of
Victoria, Town of
Vinton, Town of
Virginia Aviation Board
Virginia Beach, City of
Virginia Peninsulas Public Service Authority
Virginia Recreation Facilities Authority
Wakefield, Town of
Warm Springs Sanitation Commission
Warsaw, Town of
Washington County Service Authority
Waterford Foundation
Waverly, Town of
West Point, Town of
Western Virginia Water Authority
Winchester Regional Airport Authority
Wise County
Wise County Public Service Authority
Woodstock, Town of
Wythe County

Bold indicates a first-time VRA borrower

VRA Loan Programs

Virginia Resources Authority (VRA) was created 21 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 a variety of infrastructure projects: drinking water, wastewater treatment, stormwater drainage, solid waste management, aviation, brownfields remediation and redevelopment, public safety, and transportation projects. Fiscal Year 2006 will see additions to those projects in the form of expanded financing areas for transportation as well as the financing for infrastructure at federal and former federal facilities.

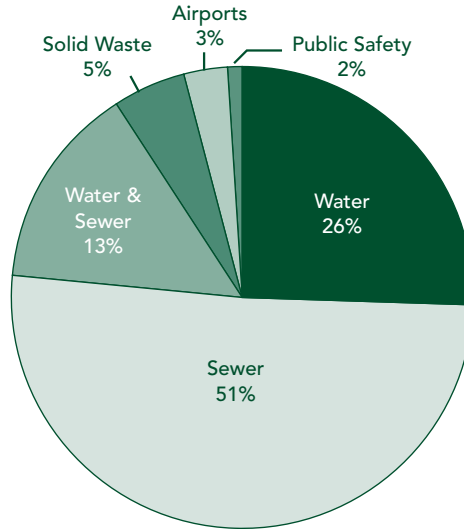
Focused on customer service and flexible financing while offering the lowest cost of financing, VRA has provided over 2.9 billion infrastructure dollars through 11 borrowing programs to Virginia localities over the last 21 years.

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 100 percent by the moral obligation of the

VRA Loan Programs

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

All VRA Projects Financed



Commonwealth of Virginia. Because of Virginia's strong legal structure, Moody's and Standard & Poor's rated VRA's bonds "AA" and the bond program was able to offer low interest rates that most local governments could not realize on their own.

In Fiscal Year 2004, VRA implemented the new Virginia Pooled Financing Program (VPFP), which reduces both interest rates for the borrowing localities and VRA's use of the Commonwealth's moral obligation. VPFP bonds utilize a senior/subordinate structure, and 70% of VPFP bonds are rated natural "AAA" and, along with the subordinate, moral obligation bonds, achieve extremely favorable interest rates in the national capital markets.

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

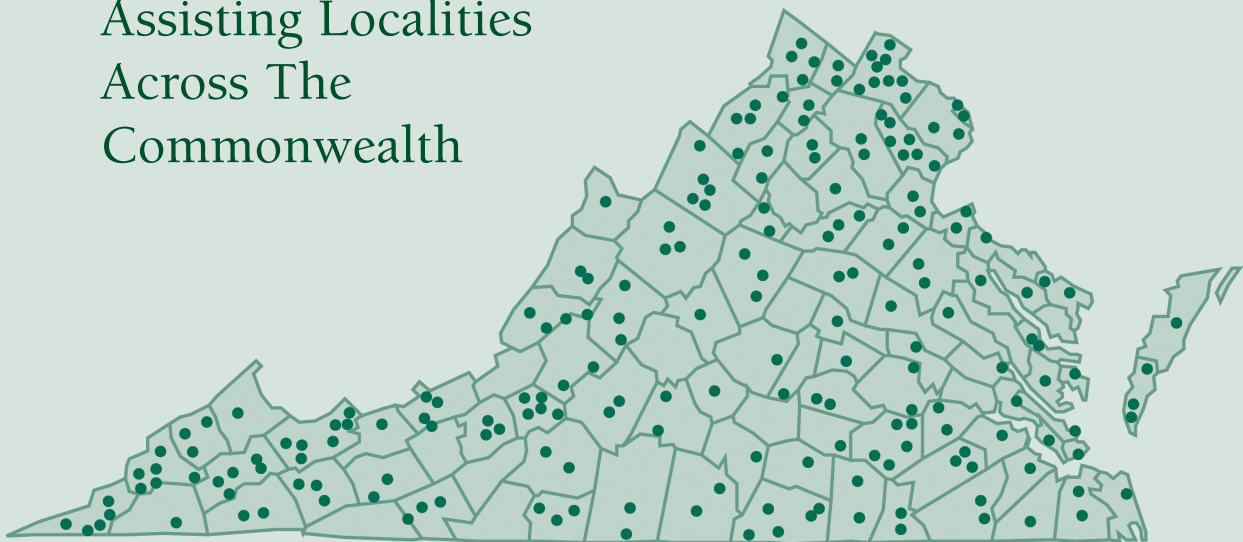
Two funds, the Wastewater RLF and the Drinking Water RLF, receive federal monies, or "capitalization grants," each year through the United States Environmental Protection Agency and a state match from the Commonwealth of Virginia. The Airports RLF is funded solely by the Commonwealth. In all three revolving funds, some combination of grant monies, state 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 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.

Assisting Localities Across The Commonwealth



The VRA Bond Program

Bonds Issued 2005

VPFP Series 2004B (Fall Pool)

Dinwiddie County Water Authority	\$	1,585,000
Greenville County Water and Sewer Authority		515,000
Harrisonburg, City of		4,260,000
Henry County Public Service Authority		1,275,000
New Kent County		17,675,000
Southeastern Public Service Authority – AMT		13,060,000
Southeastern Public Service Authority – Taxable		2,300,000
Strasburg, Town of		2,960,000
Suffolk, City of		11,695,000
Vinton, Town of		1,015,000
Capital Reserve		1,630,000
	\$	57,970,000

VPFP Refunding Series 2005A (Spring 2005)

Hanover County	\$	14,065,000
Prince William County		12,240,000
	\$	26,305,000

VPFP Series 2005B (Spring Pool)

Bedford County Public Service Authority	\$	13,000,000
Blacksburg Christiansburg VPI Water Authority		2,805,000
Botetourt County		4,250,000
Boydton, Town of		2,310,000
Craig-New Castle Public Service Authority		910,000
Dickenson County		1,475,000
Fincastle, Town of		845,000
Marion, Town of		1,005,000
Pocahontas, Town of		1,640,000
Prince William County		3,300,000
	\$	31,540,000

BOND PROGRAM TOTAL

\$ 115,815,000



New Kent County borrowed 17,675,000 through the VPFP to finance improvements to the County's water and sewer systems, including the construction of water and sewer facilities to serve the Bottoms Bridge Service District area. New Kent County was able to save \$87,281 per year by financing through the VPFP.

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, public safety, and transportation.

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. This 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 municipal lending vehicle in the nation to utilize a senior/subordinate issuance structure to finance a pool of governmental infrastructure projects. Through the VPFP, localities can utilize VRA's blended "Aaa/Aa2" rating by Moody's and "AAA/AA" by Standard & Poor's. Under the new structure, seventy percent (70%) of the bonds are issued at natural "Aaa" rates without municipal bond insurance or a debt service reserve fund.

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

Bonds were issued under the VPFP three times in Fiscal Year 2005. The Fall Pool consisted of \$54,340,000 in bonds for nine localities in December 2004 and in June 2005, ten localities borrowed \$31,540,000 through the Spring Pool. In an additional bond issue, two localities refunded \$26,305,000 of outstanding debt. This refunding provided the participating borrowers with total savings in excess of \$3.8 million.

Borrowers in the Fall 2004 and Spring 2005 pooled issues financed a combination of drinking water, wastewater treatment, solid waste projects, and public safety projects. Borrowers used general obligation, revenue, leases, and double-barrel (combined) pledges as security for their bonds with final maturities ranging from 9 to 30 years.

A repeat borrower in the VPFP is Bedford County Public Service Authority. In Fiscal Year 2005, they obtained their third loan through the Bond Program. The proceeds from this loan will be used to finance the Route 460 East Waterline, Phase 1 of the Route 122 South Waterline, Phase 1 of the Moneta Wastewater System and Phase 2 of the Water and Sewer Project for the New London Business and Technology Center.



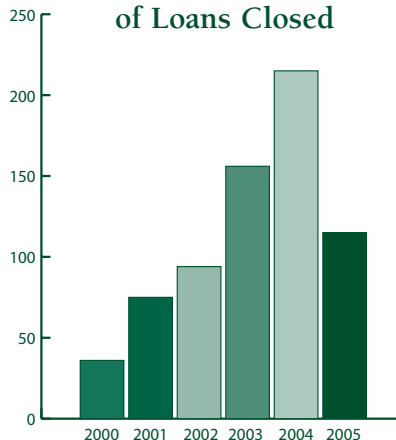
The Bedford County Public Service Authority borrowed \$13,000,000 through the VPFP to finance improvements to the Authority's water and sewer systems, including the Moneta Wastewater System – Phase 1. The BCPSA was able to save \$34,244 per year by financing through the VPFP.

Since June 2000, VRA's Pooled Programs have financed 105 projects totaling \$693,065,000 for 76 different localities.

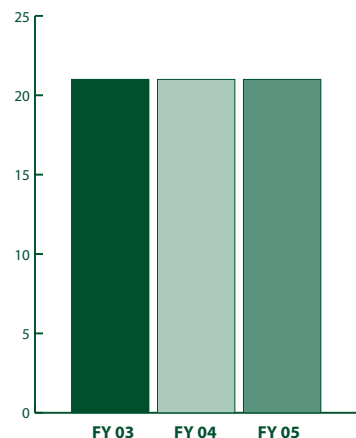
Since its inception, VRA has financed \$1,424,339,227 through its bond program. Local governments have borrowed for drinking water,

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.

Pool History Volume of Loans Closed



Projects Financed Through Bond Program



Moral Obligation Bonds Outstanding as of June 30, 2005

MO Bond, Outstanding, July 1, 2004	\$ 724,795,670
Less Total MO Bond Repayments	66,076,251
New MO Bonds Issued	36,380,000
MO Bonds, Outstanding, June 30, 2005	\$ 695,099,419

Virginia Water Facilities Revolving Fund

(Wastewater and Combined Sewer Overflow)

New Loans and Grants: Virginia Water Facilities Revolving Fund

New Loans & Grants: Wastewater RLF EPA and State Funds

Botetourt County	\$	2,995,000
Norfolk, City of		11,100,000
Vinton, Town of		2,479,000
Wythe County		110,100
Big Stone Gap, Town of		860,000
Augusta County Service Authority		264,650
Abingdon, Town of		9,798,168
Lynchburg, City of		6,700,000
Craig-New Castle PSA		360,000
Mt. Zion Church Preservation Association		1,368,778
Sembilan Enterprises LLC		120,000
Falls Church, City of		3,275,000
Rockbridge County PSA		14,700,000
		<hr/>
	\$	54,130,696

Virginia Water Facilities Revolving Fund

Outstanding Loans

Outstanding Loans – Wastewater RLF as of June 30, 2005

Outstanding loans 7/1/04	\$	709,350,671
Loan repayments FY05		40,152,476
Loan disbursements FY05		83,490,358
		<hr/>
Outstanding loans 6/30/05	\$	752,688,553



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 13 loans totaling \$54,130,696 in Fiscal Year 2005. 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.

The Wastewater RLF funded its first brownfield remediation loan in Fiscal Year 2005. The loan of \$120,000 at 1.5% interest for 10 years was made to Sembilan Enterprises LLC. Proceeds from the loan will be used to finance environmental testing and remediation of a former industrial site in York County. Once remediated, a new building will be constructed on the site for use as a manufacturing facility. Through the brownfield remediation program, low-interest loans are available for the clean-up and reuse of contaminated properties. 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, 2005, the Wastewater RLF has provided funding totaling \$1,273,329,863 for 265 wastewater treatment, open space, brownfield remediation, and combined sewer overflow projects.



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 providers. In Fiscal Year 2005, the Drinking Water RLF financed 17 projects totaling \$10,654,508 for 11 localities. Included in the total are grants in the amount of \$2,545,293, which were awarded to seven localities. Loans were made at interest rates from zero to three percent.

Scott County Public Service Authority, which has borrowed under the Drinking Water RLF five times in the past, financed three new projects in Fiscal Year 2005. When the projects are completed, over 325 households in the area will benefit from improved water quality and quantity.

Since 1998 when the program began receiving federal monies, the Drinking Water RLF has made loans and grants totaling \$129,698,044 for 129 projects throughout Virginia.

New Loans and Grants:

Virginia Water Supply Revolving Fund

New Loans & Grants: Drinking Water RLF

EPA and State Funds

Radford, City of	\$	337,660
Scott County PSA – Mabe & Stanleytown		323,904
Scott County PSA – Mabe & Stanleytown	*	225,085
Tazewell County PSA – Gun Club		555,640
Tazewell County PSA – Martin Farm Road		111,043
Russell County Water and Sewage Authority		661,019
Russell County Water and Sewage Authority	*	563,091
St. Charles Water and Sewer Authority		130,000
Scott County PSA – Dry Creek Extension		96,391
Scott County PSA – Dry Creek Extension	*	144,588
Gate City, Town of		266,562
Gate City, Town of	*	266,562
Washington Co. SA – Black Hollow		545,503
Scott County PSA – Boozy Creek		542,227
Alleghany County – Valley Ridge		250,000
Russell County – Drill Mountain		556,538
Russell County – Drill Mountain	*	41,890
Lee County PSA – Big Hill		413,889
Lee County PSA – Robbins Chapel		426,517
Lee County PSA – Robbins Chapel	*	906,350
Big Stone Gap, Town of		1,148,460
Big Stone Gap, Town of	*	86,762
Tazewell County PSA – Claypool Hill		1,259,399
Tazewell County PSA – Clifffield		349,988
Tazewell County PSA – Clifffield	*	445,550

\$ 10,654,508

*Grant

Virginia Water Supply Revolving Fund – Outstanding Loans

Outstanding Loans – Drinking Water RLF as of June 30, 2005

Outstanding loans 7/1/04	\$	74,082,904
Loan repayments FY05		2,494,280
Loan disbursements FY05		9,405,844
Outstanding loans 6/30/05	\$	<u>80,994,468</u>



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 and several of its commercial 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 2005, the Airports RLF financed five loans totaling \$4,068,874. Borrowers in Fiscal Year 2005 were the Twin County Airport Commission, Middle Peninsula Airport Authority, Roanoke Regional Airport Commission, Stafford Regional Airport Authority and Shenandoah Valley Regional Airport Commission.

The Middle Peninsula Airport Authority borrowed \$739,874 through the Airports RLF in order to finance the construction of a general aviation terminal building, parking lot, security fencing, and a fuel farm. By financing through the Airports RLF, the Middle Peninsula Airport Authority was able to realize annual savings of \$8,466 and gross savings of \$211,655 over the life of the loan.

In its five-year history, the Airports RLF has financed 18 loans totaling \$77,458,532. This program is expected to grow and diversify its portfolio into the Commonwealth's premiere source for the financing of airport infrastructure.



The Middle Peninsula Airport Authority borrowed through the Airports RLF to fund the construction of an aviation terminal building.

Photo courtesy of Studio Ammons, who was also the architect for the project.

Closed Loans and Grants – Virginia Airports Revolving Loan Fund

New Loans & Grants: Airports RLF	
Twin County Airport Commission	\$ 100,000
Middle Peninsula Airport Authority	739,874
Roanoke Regional Airport Commission	1,400,000
Stafford Regional Airport Authority	1,075,000
Shenandoah Valley Regional Airport Commission	754,000
	<u><u>\$ 4,068,874</u></u>

Outstanding Loans – Virginia Airports Revolving Loan Fund

Outstanding Loans – Airports RLF as of June 30, 2005	
Outstanding loans 7/1/04	\$ 68,594,415
Loan repayments FY05	2,400,540
Loan disbursements FY05	4,068,874
Outstanding loans 6/30/05	<u><u>\$ 70,262,749</u></u>



VRA Accelerated VPSTF Payment Program

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

Fiscal Year 2005 saw the Payment Program coming to an end as VRA closed out the final assigned claims. Over the years, VRA provided significant reductions in the amount of time required to receive reimbursement through the VPSTF. It is expected that the final assigned claim will be processed by the end of July 2005. VRA was able to reduce the VPSTF reimbursement time, increase the pennies on the dollar being returned to claimants, and improve the flexibility of the VPSTF.

Local Government Advisory Council

Fiscal Year 2005 LGAC Leadership:

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

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

The Local Government Advisory Council (LGAC), a statewide group of 65 representatives of local governments, provides feedback on VRA programs, service, and other issues pertinent to VRA's customers, the local governments of Virginia. The LGAC's thoughtful input helps VRA plan improvements to VRA programs and educational efforts.

At the Local Government Financing Conference held in September 2004, the winner of the 2004 Award of Excellence was

announced. From 56 projects considered, the LGAC nominated finalists for the Award. After presentations from each of the finalists and voting by the LGAC members, Amelia County was announced as the 2004 Award of Excellence winner.

The Amelia Courthouse Water System project will improve water quality and increase quantity for current residents and provide for future County growth and development. The multi-phase project was financed by loans and grants from the Virginia Water Supply Revolving Fund and Rural Development.



l-r Diane D. Hyatt, Roanoke County Chief Financial Officer; Darrell V. Hill, Virginia Resources Authority Executive Director; Phillip T. Vannoorbeeck, Amelia County Administrator; and Henry B. "Mac" Bugg, B&B Consulting, Engineers for Amelia County. The Town of Clarksville (not shown) was a third finalist for the Award of Excellence.

Conclusion

Local government officials face daily challenges, including striving to balance service delivery with cost control. VRA's financing programs are effective tools to ensure that localities provide the best service at the lowest possible cost. As the Virginia Resources Authority approaches its third decade, the Board and staff are well-positioned to continue the very focused activities that have resulted in the Commonwealth's local governments saving tens of millions of dollars over the last 21 years. The Authority's creative and innovative approach to governmental finance has enabled the many successes of our first two decades and prepared the Authority for a vibrant future.



Virginia Resources AUTHORITY

This annual report is submitted in fulfillment of § 62.1-222 (Virginia Resources Authority)
and § 5.1-30.9 (Virginia Airports Revolving Fund) of the *Code of Virginia*.



Virginia Resources AUTHORITY

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Financial Statements
Years Ended
June 30, 2005 and 2004

Virginia Resources Authority

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Virginia Resources Authority

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Report of Independent Auditors

Board of Directors
Virginia Resources Authority

We have audited the accompanying statements of net assets of the *Virginia Resources Authority* as of and for the years ended June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These basic financial statements are the responsibility of the management of the *Virginia Resources Authority*. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 *Virginia Resources Authority* as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows, for the years 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 24, 2005 on our consideration of the *Virginia Resources Authority's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 2 and 3 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying 2005 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 *Virginia Resources 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

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August 24, 2005

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Virginia Resources Authority

Management's Discussion and Analysis

June 30, 2005 and 2004

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 financing issuances. The newly structured pooled program, the Virginia Pooled Financing Program (Program), dramatically improves the savings attained for 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 funded 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 provided various types of financing vehicles necessary for the Virginia Petroleum Storage Tank Fund (VPSTF). The VPSTF program, administered by the Virginia Department of Environmental Quality, assists claimants in obtaining reimbursement for cleaning up underground storage tank leaks. Having completed its charge of eliminating delay in claimant reimbursements, the Authority's role was terminated at the end of fiscal year 2005, with the exception of completion of payments on a minimal number of residual claims.

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 discretely presented 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.

Financial Highlights

Fiscal Year 2005

The Authority's financial position continues on its increasing trend. Total assets increased approximately 4.4%, or \$95.9 million, at June 30, 2005 compared to the June 30, 2004 balances. While total liabilities also increased by approximately

3.3%, or \$41.4 million, total net assets increased by approximately 5.9%, or \$54.5 million. The trend in increasing net assets is expected to continue.

Operating revenues for the fiscal year ended 2005 increased by approximately \$19.3 million, while operating expenses increased by approximately \$9.8 million, leading to an operating income increase of approximately \$9.6 million over the prior year's operating income.

Fiscal Year 2004

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 the operating income reported for fiscal year 2003. This decrease was 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 fiscal year 2004 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.

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, and/or (b) a pledge of certain revenues of the locality and funds and accounts established under the applicable bond resolution or indenture.

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 year 2005 and 2004, the Capital Region Airport Commission accounted for 63% and 67%, respectively, of loans from the VARF. During fiscal year 2005, Moody's maintained its "Aa2" rating on the Authority's outstanding VARF bonds and Fitch maintained its "A+" rating on the Authority's outstanding VARF bonds.

During the fiscal year ended June 30, 2005, the Authority issued three Infrastructure Revenue Bond Series for the Virginia Pooled Financing Program totaling \$100.5 million in tax-exempt bonds, \$13.06 million in AMT bonds, and \$2.3 million in taxable bonds (of which \$43.5 million was refunded debt); \$4.09 million in bonds leveraged with certain assets of the VARF; and \$188.5 million in refunding bonds which had previously leveraged certain assets of the VWFRF (for the purpose of refunding two prior leveraged bond transactions). Additionally, the VPSTF line of credit was fully paid and closed during fiscal year 2005. The line of credit is identified in the liability section of the statement of net assets and shows a zero balance for 2005.

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.

Economic Conditions

The Authority is in the preliminary stages of the next Virginia Pooled Financing Program issuance due in the Fall of 2005; however, the Authority currently has no pending bond issuance matters.

Virginia Resources Authority

Statements of Net Assets

June 30,	2005	2004
Assets		
Current assets		
Cash	\$ 6,010,822	\$ 6,317,970
Cash equivalents	212,224,925	141,219,884
Investments	4,786,916	440,958
Loans receivable - current portion	75,529,142	72,610,260
Receivables:		
Investment interest	2,801,417	1,648,167
Loan interest	13,747,997	11,951,611
Federal funds	6,090,793	11,250,901
Other	260,465	65,557
Other	19,044	12,418
Total current assets	321,471,521	245,517,726
Noncurrent assets		
Investments	294,602,603	367,049,335
Loans receivable - less current portion	1,658,442,190	1,565,009,961
Federal funds receivable	-	1,018,377
Furniture and fixtures - at cost - less accumulated depreciation of \$167,219 and \$154,267, respectively	68,003	80,470
Total noncurrent assets	1,953,112,796	1,933,158,143
Total assets	2,274,584,317	2,178,675,869
Liabilities		
Current liabilities		
VPSTF line of credit	-	2,559,178
Bonds payable - current portion	45,775,000	38,905,000
Accrued interest on bonds payable	10,013,634	10,216,053
Arbitrage rebate liability	2,048,537	1,659,862
Deferred revenue	68,094	53,356
Accounts payable and other liabilities	256,925	244,338
Total current liabilities	58,162,190	53,637,787
Noncurrent liabilities		
Bonds payable - less current portion - net	1,240,520,249	1,202,313,999
Deferred revenue	628,047	687,758
Arbitrage rebate liability	325,966	1,595,081
Total noncurrent liabilities	1,241,474,262	1,204,596,838
Total liabilities	1,299,636,452	1,258,234,625
Net assets		
Invested in capital assets - net of related debt	68,003	80,470
Restricted	971,377,454	917,598,522
Unrestricted	3,502,408	2,762,252
Total net assets	\$ 974,947,865	\$ 920,441,244

The accompanying notes are an integral part of these financial statements.

Virginia Resources Authority

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30,	2005	2004
Operating revenues		
Interest on loans	\$ 67,874,859	\$ 58,317,155
Interest on investments	21,130,519	11,411,893
Administrative reimbursement	705,449	669,663
Other income	52,438	14,346
Total operating revenues	89,763,265	70,413,057
Operating expenses		
Interest on bonds	63,155,132	49,181,968
Personnel services	871,477	905,661
Contractual services	165,417	109,892
General operating	412,270	372,619
Grants to local governments	4,184,019	8,448,600
Total operating expenses	68,788,315	59,018,740
Operating income	20,974,950	11,394,317
Non-operating revenues		
Contributions from other governments	33,531,712	48,854,368
Gain (loss) on sale of fixed assets	(41)	18,622
Total non-operating revenues	33,531,671	48,872,990
Change in net assets	54,506,621	60,267,307
Net assets - beginning of year	920,441,244	860,173,937
Net assets - end of year	\$ 974,947,865	\$ 920,441,244

The accompanying notes are an integral part of these financial statements.

Virginia Resources Authority

Statements of Cash Flows

Years Ended June 30,	2005	2004
Cash flows from operating activities		
Cash payments to localities for loans	\$ (227,309,669)	\$ (307,900,221)
Principal repayments from localities on loans	130,827,902	121,647,184
Interest received on loans	60,094,370	52,610,695
Federal administrative reimbursement funds received	766,323	741,943
Cash received from other income	50,766	14,346
Net reimbursable expenses received (paid)	(242,148)	226,475
Cash received from loan origination fees	-	201,000
Cash payments for salaries and related benefits	(877,602)	(892,257)
Cash payments for contractual services	(165,417)	(109,892)
Cash payments for general operating expenses	(362,609)	(387,006)
Cash payments for operating grants	(4,184,019)	(8,448,600)
Net cash from operating activities	(41,402,103)	(142,296,333)
Cash flows from non-capital financing activities		
Proceeds from sale of bonds	331,632,120	385,575,000
Principal paid on bonds	(275,745,000)	(80,370,000)
Contributions from other governments	39,649,323	37,291,243
Cash received from other accounts	3,929	94,505
Interest paid on bonds	(56,688,720)	(42,966,786)
Net cash from non-capital financing activities	38,851,652	299,623,962
Cash flows from capital and related financing activities		
Purchase of furniture and fixtures	(20,855)	-
Proceeds from sale of furniture and fixtures	800	(40,998)
Net cash from capital and related financing activities	(20,055)	(40,998)
Cash flows from investing activities		
Purchase of investments	(171,412,454)	(203,290,915)
Proceeds from sales or maturities of investments	225,514,103	17,289,391
Interest received on investments - net	19,166,750	11,518,164
Net cash from investing activities	73,268,399	(174,483,360)
Net change in cash and cash equivalents	70,697,893	(17,196,729)
Cash and cash equivalents - beginning of year	147,537,854	164,734,583
Cash and cash equivalents - end of year	\$ 218,235,747	\$ 147,537,854
Reconciliation of cash and cash equivalents		
Cash per statements of net assets	\$ 6,010,822	\$ 6,317,970
Cash equivalents per statements of net assets	212,224,925	141,219,884
Cash and cash equivalents per the statements of cash flows	\$ 218,235,747	\$ 147,537,854

The accompanying notes are an integral part of these financial statements.

Virginia Resources Authority

Statements of Cash Flows

Years Ended June 30,	2005	2004
Reconciliation of operating income to net cash used in operating activities		
Operating income	\$ 20,974,950	\$ 11,394,317
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation, amortization and (accretion) - net	(3,518,539)	5,591,425
Interest on investments	(21,130,519)	(11,411,893)
Interest on bonds	63,115,832	49,181,968
(Gain) loss on sale of fixed assets	41	(18,622)
Change in:		
Loans receivable	(96,331,530)	(194,671,882)
Loan interest receivable	(1,796,386)	(306,356)
Federal funds receivable	60,874	72,279
Other receivables	(194,908)	110,113
Other current assets	(6,626)	2,499
Accounts payable and other liabilities	(2,530,319)	(2,309,896)
Deferred revenue	(44,973)	69,715
Net cash from operating activities	\$ (41,402,103)	\$ (142,296,333)

The accompanying notes are an integral part of these financial statements.

June 30, 2005 and 2004

1. Organization and Nature of Activities

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 thereon. 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 collateralize 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, \$15 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 for 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). Demand was met through a bond issuance in May 2002 of \$6 million and through a line of credit for up to \$8 million. By the end of fiscal year 2005, both the bond issuance and the line of credit had been paid down to zero. With all claimant's reimbursements being paid without significant delay, the Authority's role in the program has been terminated.

2. Summary of Significant Accounting Policies

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.

Effective July 1, 2004, the Authority implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The primary impact of the implementation of this statement was a change in the presentation of the Authority's note disclosure involving cash, cash equivalents, and investments. The Authority has chosen to show fiscal year 2004 note disclosure for cash, cash equivalents, and investments in the format prior to the implementation of GASB No. 40.

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 2005 and 2004.

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 with certain costs being 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 2005 and 2004 is \$32,481 and \$31,642, 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 interest 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.

Reclassifications

Certain prior year comparative figures related to investments have been reclassified to conform with current year financial statement presentation.

3. Deposits and Investments

Investment Policy

In accordance with the *Code of Virginia* (1950), as amended, and other applicable laws and regulations, the Authority's investment policy (Policy) permits investments in U.S. Government obligations, obligations of the Commonwealth of Virginia or political subdivisions thereof, negotiable certificates of deposit, negotiable bank deposit notes, repurchase agreements, bankers' acceptances, prime quality commercial paper, corporate notes, mortgage or asset-backed securities, money market funds, guaranteed investment contracts (GICs), and the State Treasurer's Local Government Investment Pool.

The Policy establishes limitations on portfolio composition in order to control concentration of credit risk. The maximum percentage of the portfolio permitted in each security (by fund type) is as follows:

	<u>Maximum</u>
Disbursement Funds	
U.S. Treasury Securities and Agencies Securities	100%
Certificates of Deposit	5%
Repurchase Agreements	25%
Bankers' Acceptances	35%
Prime Quality Commercial Paper	35%
Corporate Bonds/Notes	35%
Mortgage Pass-Through Securities issued by the U.S. Government or Federal Agencies or guaranteed by the U.S. Government	15%
Asset-Backed Securities of authorized corporations or Federal Agencies	15%
Money Market Funds (excluding transitional cash)	10%
Appropriated Funds	
U.S. Treasury Securities and Agencies Securities	100%
Certificates of Deposit	10%
Repurchase Agreements	25%
Bankers' Acceptances	35%
Prime Quality Commercial Paper	35%
Corporate Bonds/Notes	35%
Mortgage Pass-Through Securities issued by the U.S. Government or Federal Agencies or guaranteed by the U.S. Government	15%
Asset-Backed Securities of authorized corporations or Federal Agencies	15%
Money Market Funds (excluding transitional cash)	10%

General Fund	<u>Maximum</u>
U.S. Treasury Securities and Agencies Securities	100%
Certificates of Deposit	5%
Repurchase Agreements	25%
Bankers' Acceptances	25%
Prime Quality Commercial Paper	25%
Corporate Bonds/Notes	40%
Mortgage Pass-Through Securities issued by the U.S. Government or Federal Agencies or guaranteed by the U.S. Government	50%
Asset-Backed Securities of authorized corporations or Federal Agencies	25%
Money Market Funds (excluding transitional cash)	10%

Further, the combined amount of mortgage pass-through securities and asset-backed securities in the general fund may not exceed 50% of the total book value of the portfolio.

Bond fund investments are governed by individual indentures authorizing the Authority or its trustee to invest generally in obligations of the U.S. Government, the Commonwealth of Virginia, or its political subdivisions (except the Farm Credit System for all bond series issued in 1985 and 1986). 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. In addition, the collateralizing securities must have a fair market value equal to at least 100% of the amount of the repurchase obligation plus accrued interest.

Credit Risk

The Policy requires that bankers' acceptances, negotiable certificates of deposit, and negotiable bank notes, all maturing within one year, have a rating of no less than "P-1" by Moody's Investors Service (Moody's) and "A-1" by Standard & Poor's Ratings Group (S&P). Commercial paper must have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two nationally recognized rating agencies, one of which must be Moody's or S&P. Corporate notes and bonds, negotiable certificates of deposit, and negotiable bank notes maturing in less than five years must have no less than a double-A rating by Moody's or S&P. Asset-backed securities maturing in less than five years must have no less than a triple-A rating by at least two nationally recognized rating agencies, one of which must be Moody's or S&P. GICs must be held with financial institutions with long-term credit ratings of at least double-A by Moody's or S&P. The various bond indentures require that bond fund investments, or any collateralizing securities, have no less than a double-A rating by at least one nationally recognized rating agency.

Although state statute does not impose credit standards on repurchase agreements or money market mutual funds, the Authority has established stringent credit standards for these investments to minimize portfolio risk.

As of June 30, 2005, 16% of the portfolio was invested in "AAA" rated obligations, 10% was invested in a "AAA_m" S&P rated money market fund, 14% was invested in "A-1+" S&P rated securities, and 57% was invested in S&P unrated securities. The remaining 3% of the portfolio was invested in obligations guaranteed by the U.S. Government. Although a majority of the portfolio was invested in S&P unrated securities, 56% of the portfolio was invested in GICs, each of which were entered into based upon the credit rating of the GIC provider. S&P ratings of the GIC providers are as follows:

<u>Provider</u>	<u>% of Portfolio</u>	<u>S&P Rating</u>
Citigroup Capital Markets	1%	AA-
Fannie Mae	1%	AAA
FSA Capital Management Services	35%	AAA
MBIA Investment Management Corporation	1%	AAA
Trinity Funding Company, LLC	18%	AAA
	<hr style="width: 100%;"/>	
	56%	

Concentration of Credit Risk

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the Authority's portfolio will be invested in the securities of any one issuer with the exception of: (1) the U.S. Government or Agencies thereof, (2) fully insured/collateralized certificates of deposit or repurchase agreements that are collateralized by the U.S. Government or Agencies thereof, and (3) mutual funds whereby the portfolio is limited to U.S. Government or Agency securities.

As of June 30, 2005, the portion of the Authority's portfolio, excluding the Virginia LGIP, money market funds, and U.S. Government guaranteed obligations, to exceed 5% of the total portfolio was as follows:

Issuer	% of Portfolio
Fannie Mae	5.26%

Interest Rate Risk

As a means of limiting exposure to fair value losses arising from rising interest rates, the Authority's Policy limits disbursement and appropriated fund investments to a stated maturity of no more than one year from the date of purchase. The average maturity of the investment portfolio for each of these funds may not exceed 120 days. General fund investments are limited to an average of no more than five years from the date of purchase. The average maturity of the general fund investment portfolio may not exceed three years.

Proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities.

As of June 30, 2005, the Authority had the following investments and maturities:

Disbursement Funds

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Bankers' Acceptances	\$ 2,395,932	\$ 2,395,932	\$ -	\$ -	\$ -
Commercial Paper	24,010,123	24,010,123	-	-	-
Corporate Bonds/Notes	3,575,685	1,677,181	-	-	1,898,504
GICs	-	-	-	-	-
Money Market Funds	101,444,978	101,444,978	-	-	-
Municipal Obligations	-	-	-	-	-
U.S. Agencies	44,871,609	44,871,609	-	-	-
U.S. Treasuries	-	-	-	-	-
	\$ 176,298,327	\$ 174,399,823	\$ -	\$ -	\$ 1,898,504

Appropriated Funds

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Bankers' Acceptances	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Paper	-	-	-	-	-
Corporate Bonds/Notes	-	-	-	-	-
GICs	-	-	-	-	-
Money Market Funds	666,146	666,146	-	-	-
Municipal Obligations	-	-	-	-	-
U.S. Agencies	859,098	859,098	-	-	-
U.S. Treasuries	-	-	-	-	-
	\$ 1,525,244	\$ 1,525,244	\$ -	\$ -	\$ -

General Funds

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Bankers' Acceptances	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Paper	-	-	-	-	-
Corporate Bonds/Notes	-	-	-	-	-
GICs	-	-	-	-	-
Money Market Funds	1,795,833	1,795,833	-	-	-
Municipal Obligations	386,250	-	112,500	-	273,750
U.S. Agencies	4,190,877	618,540	3,491,773	22,842	57,722
U.S. Treasuries	1,867,686	49,623	1,818,063	-	-
	<u>\$ 8,240,646</u>	<u>\$ 2,463,996</u>	<u>\$ 5,422,336</u>	<u>\$ 22,842</u>	<u>\$ 331,472</u>

Bond Funds

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Bankers' Acceptances	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Paper	-	-	-	-	-
Corporate Bonds/Notes	-	-	-	-	-
GICs	285,277,449	-	-	1,515,000	283,762,449
Money Market Funds	35,778,847	35,778,847	-	-	-
Municipal Obligations	-	-	-	-	-
U.S. Agencies	2,843,931	2,843,931	-	-	-
U.S. Treasuries	1,650,000	-	-	-	1,650,000
	<u>\$ 325,550,227</u>	<u>\$ 38,622,778</u>	<u>\$ -</u>	<u>\$ 1,515,000</u>	<u>\$ 285,412,449</u>

Included above is a \$1,898,504 disbursement funds corporate obligation issued by Park Place Securities. The note was purchased on May 25, 2005 and matures on January 1, 2035; however, the note has a mandatory tender date of November 25, 2005. The amount of the monthly coupon is calculated at the one-month London Interbank Offered Rate (LIBOR) plus 5 basis points (3.39% at June 30, 2005). The variable coupon varies directly with movements in interest rates. At June 30, 2005, the obligation had a fair value of \$1,898,504.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority may not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party. The Policy and related bond indentures of trust require that all deposits and investment securities purchased by the Authority or held as collateral on deposits or investments shall be insured by the Federal Deposit Insurance Corporation. In addition, all deposits and investment securities are to be held in the name of the Authority in third-party safekeeping at a qualified public depository, which may not otherwise be a counterparty to the investment transaction, under provisions of the Commonwealth of Virginia Security for Public Deposits Act. As of June 30, 2005, all of the Authority's deposits and investments are held and insured by a qualified public depository in the Authority's name.

Cash, Cash Equivalents and Investments

As of June 30, 2004, 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, the carrying amount of the Authority's deposits was \$6,317,970. The associated bank balance of the Authority's deposits at June 30, 2004 was \$7,552,935. 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 (refunded at June 30, 2005), Series 2000 (refunded at June 30, 2005), 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 (refunded at June 30, 2005), Series 2000 (refunded at June 30, 2005), and Series 2004 leveraged bond accounts totaled \$80,335,488, \$58,773,131, and \$188,839,461, respectively, at June 30, 2004.

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				<u>498,235,871</u>
Total investments and cash equivalents				<u>\$ 508,710,177</u>

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.

4. 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, 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, 2005 and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
Loans receivable related to bond issues:		
Water and Sewer System Revenue Bonds	\$ 219,994,418	\$ 248,552,956
Solid Waste Disposal System Revenue Bonds	104,230,000	131,167,713
Water, Sewer, and Solid Waste Disposal System Revenue Bonds	102,785,000	80,535,000
Water, Sewer, and Public Safety Revenue Bonds	401,285,000	322,560,000
Airport Revolving Fund Revenue Bonds	70,262,749	68,594,416
Unamortized discount/premium and issuance expenses – net	1,731,144	217,383
Subtotal – loans receivable related to bond issues	<u>900,288,311</u>	<u>851,627,468</u>
Loans receivable related to revolving loan funds:		
VWFRF	514,931,583	489,191,442
VWFRF – Leveraged	232,800,822	216,050,825
VWFRF – AgBMP	4,956,148	4,108,404
VWSRF	80,994,468	74,082,904
Subtotal – loans receivable related to revolving loan funds	<u>833,683,021</u>	<u>783,433,575</u>
Virginia Petroleum Storage Tank Fund	-	2,559,178
Total loans receivable	<u>\$ 1,733,971,332</u>	<u>\$ 1,637,620,221</u>
Loans receivable – current	\$ 75,529,142	\$ 72,610,260
Loans receivable – noncurrent	1,658,442,190	1,565,009,961
	<u>\$ 1,733,971,332</u>	<u>\$ 1,637,620,221</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 \$24,934,485 from the VWFRF and \$13,746,696 from the VWSRF as of June 30, 2005. At June 30, 2005 and 2004, no loans receivable were considered delinquent nor in default and no allowance for loan losses had been provided. There were no losses incurred in 2005 or 2004.

5. Bonds Payable

Description	Original Amount	Amount Outstanding June 30,	
		2005	2004
<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	300,000	365,000
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	3,077,115	3,982,163
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	5,000	535,000
Lot 17, dated July 1, 1993, interest rates ranging from 2.60% to 5.40%, final due date October 1, 2008	1,855,000	510,000	615,000
Lot 18, dated July 1, 1993, interest rates ranging from 2.60% to 5.25%, final due date October 1, 2006	2,435,000	480,000	695,000
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	495,000	950,000
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
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
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	9,100,000	9,310,000
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	605,000	12,265,000
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
Series 1997, dated March 15, 1997, interest rates ranging from 3.85% to 5.50%, final due date October 1, 2027	3,100,000	2,720,000	2,780,000
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
Series 1997, dated August 7, 1997, variable rate 7-day demand securities, final due date October 1, 2028	34,380,000	30,730,000	31,340,000

Description	Original Amount	Amount Outstanding June 30,	
		2005	2004
<i>Water and Sewer System Revenue Bonds (continued):</i>			
Series 1997, dated September 1, 1997, interest rates ranging from 3.80% to 5.20%, final due date November 1, 2017	3,650,000	2,730,000	2,880,000
Series 1997, dated November 15, 1997, interest rates ranging from 3.85% to 5.30%, final due date October 1, 2018	6,365,000	4,895,000	5,145,000
Series 1998, dated March 1, 1998, interest rates ranging from 3.75% to 5.00%, final due date October 1, 2028	2,380,000	2,130,000	2,175,000
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	15,970,000	16,060,000
Series 1998, dated August 1, 1998, interest rates ranging from 4.00% to 5.20%, final due date October 1, 2028	8,365,000	7,600,000	7,765,000
Series 1998, dated October 1, 1998, interest rates ranging from 3.20% to 4.75%, final due date October 1, 2028	16,185,000	14,525,000	14,830,000
Series 1999, dated October 15, 1999, interest rates ranging from 4.00% to 5.80%, final due date October 1, 2024	4,500,000	3,990,000	4,100,000
Series 1999, dated October 15, 1999, interest rates ranging from 4.125% to 6.00%, final due date October 1, 2022	111,645,000	-	102,425,000
Series 2000, dated October 1, 2000, interest rates ranging from 4.70% to 5.00%, final due date October 1, 2021	4,640,000	4,205,000	4,355,000
Series 2000, dated November 1, 2000, interest rates ranging from 4.40% to 5.375%, final due date October 1, 2022	106,685,000	-	100,315,000
Series 2001, dated October 1, 2001, interest rates ranging from 2.50% to 5.25%, final due date May 1, 2032	13,155,000	12,770,000	12,930,000
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	16,405,000	16,455,000
Series 2002, dated July 31, 2002, interest rates ranging from 4.875% to 5.465%, final due date November 1, 2035	62,747,167	67,122,304	65,550,794
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	22,475,000	22,960,000
Series 2004, dated June 3, 2004, interest rates ranging from 3.00% to 5.25%, final due date October 1, 2026	160,800,000	160,490,000	160,800,000
Series 2005 (Refunding), dated June 30, 2005, interest rates ranging from 3.00% to 5.50%, final due date October 1, 2022	188,475,000	188,475,000	-
<i>Solid Waste Disposal System Revenue Bonds:</i>			
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

Description	Original Amount	Amount Outstanding June 30,	
		2005	2004
<i>Solid Waste Disposal System Revenue Bonds:</i>			
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
Series 1997, dated March 1, 1997, interest rates ranging from 3.65% to 4.90%, final due date April 1, 2008	1,230,000	395,000	515,000
Series 1997, dated September 1, 1997, interest rates ranging from 3.80% to 5.20%, final due date November 1, 2017	1,180,000	880,000	930,000
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	5,245,000	6,120,000
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	2,915,000	3,085,000
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	29,725,000	32,465,000
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	13,280,000	14,480,000
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	2,600,000	2,840,000
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	38,160,000	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	29,655,000	31,255,000
Series 2000B, dated November 1, 2000, interest rates ranging from 4.40% to 5.60%, final due date May 1, 2030	25,805,000	21,010,000	22,295,000
Series 2001A, dated June 28, 2001, interest rates ranging from 4.00% to 5.20%, final due date May 1, 2031	29,140,000	25,815,000	26,985,000
Series 2005A Senior (Non-AMT), dated March 2, 2005, interest rates ranging from 3.00% to 5.00%, final due date November 1, 2025	18,115,000	18,115,000	-
Series 2005A Subordinate (Non-AMT), dated March 2, 2005, interest rates ranging from 3.00% to 4.125%, final due date November 1, 2025	8,190,000	8,190,000	-
<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	45,045,000	46,150,000

Description	Original Amount	Amount Outstanding June 30,	
		2005	2004
<i>Water, Sewer, and Public Safety Revenue Bonds:</i>			
Series 2002A, dated June 6, 2002, interest rates ranging from 3.00% to 5.13%, final due date May 1, 2027	42,845,000	38,175,000	39,965,000
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	36,460,000	37,955,000
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	14,625,000	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	52,795,000	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	31,940,000	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	8,505,000	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	3,725,000	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	2,125,000	2,375,000
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	910,000	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	60,230,000	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	32,355,000	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	1,360,000
Series 2004B Senior (Non-AMT), dated October 28, 2004, interest rate ranging from 2.25% to 4.50%, final due date November 1, 2034	28,690,000	28,690,000	-
Series 2004B Subordinate (Non-AMT), dated October 28, 2004, interest rate ranging from 2.25% to 5.00%, final due date November 1, 2035	13,920,000	13,920,000	-
Series 2004B Senior (AMT), dated October 28, 2004, interest rate ranging from 3.00% to 5.00%, final due date November 1, 2013	8,965,000	8,965,000	-

Description	Original Amount	Amount Outstanding June 30,	
		2005	2004
<i>Water, Sewer, and Public Safety Revenue Bonds</i>			
<i>(continued):</i>			
Series 2004B Subordinate (AMT), dated October 28, 2004, interest rate ranging from 3.00% to 3.85%, final due date November 1, 2013	4,095,000	4,095,000	-
Series 2004B Senior (Taxable), dated October 28, 2004, interest rate ranging from 4.00% to 4.50%, final due date November 1, 2013	1,610,000	1,610,000	-
Series 2004B Subordinate (Taxable), dated October 28, 2004, interest rate ranging from 4.00% to 4.75%, final due date November 1, 2013	690,000	690,000	-
Series 2005B Senior (Non-AMT), dated June 8, 2005, interest rate ranging from 3.00% to 5.00%, final due date November 1, 2035	22,055,000	22,055,000	-
Series 2005B Subordinate (Non-AMT), dated June 8, 2005, interest rate ranging from 3.00% to 5.00%, final due date November 1, 2035	9,485,000	9,485,000	-
<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	26,135,000	26,905,000
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	23,685,000	24,435,000
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	6,000,000	6,390,000
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	2,450,000	2,525,000
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	2,205,000	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	10,735,000	10,820,000
Series 2005 (Taxable), dated March 9, 2005, interest rates ranging from 4.55% to 5.30%, final due date August 1, 2030	4,090,000	4,090,000	-
Total bonds at June 30		<u>1,273,394,419</u>	<u>1,238,920,671</u>
Unamortized discounts/premiums and issuance expenses		<u>12,900,830</u>	<u>2,298,328</u>
Total bonds – net		<u>\$ 1,286,295,249</u>	<u>\$ 1,241,218,999</u>
Total bonds outstanding as of June 30:		\$ 1,273,394,419	\$ 1,238,920,671
Unaccreted Capital Appreciation Bonds as of June 30:		<u>52,805,581</u>	<u>54,644,329</u>
Total outstanding maturities		<u>\$ 1,326,200,000</u>	<u>\$ 1,293,565,000</u>
Bonds payable – current		\$ 45,775,000	\$ 38,905,000
Bonds payable – noncurrent		<u>1,240,520,249</u>	<u>1,202,313,999</u>
		<u>\$ 1,286,295,249</u>	<u>\$ 1,241,218,999</u>

Activity in the bonds payable and related accounts for fiscal year 2005, was as follows:

Description	Balance at June 30, 2004	Issued	Retired	Balance at June 30, 2005
Total bonds outstanding	\$ 1,238,920,671	\$ 308,380,000	\$ (273,906,252)	\$ 1,273,394,419
Unamortized discounts/premiums and issuance expenses	<u>2,298,328</u>	8,534,599	2,067,903	<u>12,900,830</u>
Total bonds – net	<u>\$ 1,241,218,999</u>			<u>\$ 1,286,295,249</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 expenses	<u>(11,474,431)</u>	12,704,575	1,068,184	<u>2,298,328</u>
Total bonds – net	<u>\$ 920,123,518</u>			<u>\$ 1,241,218,999</u>

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, as fully described in the various bond indentures.

The 1992 Series A Water and Sewer System Revenue Bonds and the Series 2002 Water and Sewer System Revenue Bonds have Capital Appreciation Bonds with un-accreted values of \$362,885 and \$52,442,696, respectively, as of June 30, 2005.

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

<u>Water and Sewer Revenue Bond</u>	Difference Between Previous and New Debt Service	Economic Gain as a Result of the Refunding
1994 Series A	\$ 999,495	\$ 340,366
1994 Series B	838,269	115,950
1995 Series A	2,252,553	1,468,603
1995 Series B	394,797	335,673
1996 Series A	2,486,384	722,191
1997 Series B	571,801	107,249
1997 Series D	1,068,137	222,508
1999 and 2000 CWSRF	<u>14,518,059</u>	<u>6,337,068</u>
Total bonds – net	<u>\$ 23,129,495</u>	<u>\$ 9,649,608</u>

The amount of outstanding bonds payable related to bonds, which have been in-substance defeased or refunded was \$227,550,100 and \$18,860,000 at June 30, 2005 and 2004, respectively. During prior years, the Authority in-substance defeased the 1993 Series B, 1993 Series C, 1994 Series C, and 1995 Series A Water and Sewer System Revenue Bonds; Lots 14, 16, and 19; 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:

June 30,	Principal	Interest	Total
2006	\$ 45,775,000	\$ 53,843,125	\$ 99,618,125
2007	48,465,000	54,595,408	103,060,408
2008	52,660,000	52,758,026	105,418,026
2009	55,790,000	50,675,112	106,465,112
2010	56,940,000	48,405,070	105,345,070
2011-2015	327,845,000	197,865,199	525,710,199
2016-2020	293,395,000	126,268,530	419,663,530
2021-2025	235,705,000	63,196,700	298,901,700
2026-2030	124,905,000	26,049,288	150,954,288
2031-2035	74,200,000	12,039,774	86,239,774
2036	10,520,000	258,366	10,778,366
	<u>\$ 1,326,200,000</u>	<u>\$ 685,954,598</u>	<u>\$ 2,012,154,598</u>

6. 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. Restricted net assets include Revolving Loan Fund Accounts (net of furniture and fixtures), Airport Revolving Fund Accounts, Bond Accounts, and the Operating Reserve Fund. 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 once the program reaches 20 or more borrowers with no single borrower accounting for more than 20% of the total bonds outstanding. At June 30, 2005 and June 30, 2004, the cash, cash equivalent, and investments restricted for use related to the Operating Reserve Fund amounted to \$5,148,612 and \$4,976,363, respectively.

7. 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 \$2,374,503 and \$3,254,943 at June 30, 2005 and 2004, respectively (\$2,048,537 and \$1,659,862, 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 \$696,141 and \$741,114 at June 30, 2005 and 2004, respectively (\$68,094 and \$53,356, respectively, was considered to be current).

The following summarizes the activity related to these other noncurrent liabilities for fiscal year 2005:

	Noncurrent Balance June 30, 2004	Additions	Deletions	Noncurrent Balance June 30, 2005
Arbitrage rebate liability	\$ 1,595,081	\$ 325,966	\$ 1,595,081	\$ 325,966
Deferred revenue	687,758	211,951	271,662	628,047

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

	Noncurrent			Noncurrent
	Balance	Additions	Deletions	Balance
	June 30, 2003			June 30, 2004
Arbitrage rebate liability	\$ 2,544,692	\$ 710,251	\$ 1,659,862	\$ 1,595,081
Deferred revenue	599,644	186,249	98,135	687,758

8. Contributions from Other Governments

During the years ended June 30, 2005 and 2004, the Authority received \$25,392,019 and \$40,241,889, 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 \$8,139,692 and \$8,612,479, respectively, from the Commonwealth as the required state match of federal funds.

9. Employee Benefit Plans

A. Plan Descriptions

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.

At January 1, 2005, the Authority began mandatory participation for all new employees and optional participation for then-current employees who chose to enroll in the Virginia Retirement System (VRS), an agent multiple-employer defined benefit pension plan that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service and at age 50 with 30 years of service for participating employees. Employees who retire with a reduced benefit at age 55 with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/pdf/2004AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution has been assumed by the Authority. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended June 30, 2005 was 5.00% of the annual covered payroll.

The Authority continues to sponsor a retirement savings plan for the employees noted above who elected to defer participation in the VRS, whereby 12% of eligible employee's salary is contributed on an annual basis.

C. Annual Pension Cost

For the year ended June 30, 2005, VRS retirement expense was \$27,876. Total retirement savings expense was \$54,358 and \$84,739 for the years ended June 30, 2005 and 2004, respectively, a portion of which is reimbursed.

10. Compensated Absences

The Authority provides for accumulation of annual leave, depending on years of service, with a maximum accumulation of up to two year's allowance of unused annual leave. Annual leave is accrued at the end of each pay period, except for the Executive Director, who receives 160 hours, regardless of length of service, at the beginning of each fiscal year. The Authority provides two days of personal leave per fiscal year, with an unlimited accumulation allowance of unused personal leave. Personal leave is accrued at the beginning of the fiscal year and pro-rated in the year of hire. The Authority provides sick leave of 56 hours per fiscal year, with a maximum accumulation of 220 hours of unused sick leave. Sick leave is accrued at the beginning of the fiscal year and pro-rated in the year of hire. No portion of sick leave is paid out upon termination of employment; accordingly, compensated absences noted below do not include such.

As of June 30, 2005 and 2004, an accrual for employee compensated absences in the amount of \$54,209 and \$60,333, respectively, was included in accounts payable and other liabilities in the accompanying statement of net assets.

11. 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, 2005, 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 lease. The office lease expires in November 2006. A summary of future minimum rental payments under the operating lease at June 30, 2005 is as follows:

<u>Year ending June 30,</u>	<u>Operating Leases</u>
2006	\$ 96,843
2007	41,594
	<hr/>
	\$ 138,437

Total rental expense under the operating lease was \$93,558 and \$90,405 for the years ended June 30, 2005 and 2004, respectively.

12. Subsequent Events

Subsequent to June 30, 2005 and through August 24, 2005, the VWFRF closed two loans totaling \$4,635,000, with interest rates of 3.00%; the VWFRF increased an existing loan with an interest rate of 3.00% by \$14,153,633; and the VWSRF closed two loans totaling \$2,188,141, with 0% interest rates.

* * * * *

Virginia Resources Authority

Supplementary Information

Year Ended June 30, 2005

Virginia Resources Authority

Combining Schedule of Net Assets

June 30, 2005	General Accounts	Revolving Loan Fund Accounts	Airport Revolving Fund Accounts	Bond Accounts	Total
Assets					
Current assets					
Cash	\$ 345,531	\$ 5,665,291	\$ -	\$ -	\$ 6,010,822
Cash equivalents	1,795,833	204,920,209	2,663,883	2,845,000	212,224,925
Investments	668,163	4,118,753	-	-	4,786,916
Loans receivable - current	-	41,805,179	2,668,963	31,055,000	75,529,142
Receivables:					
Investment interest	33,735	2,397,631	188,665	181,386	2,801,417
Loan interest	17,766	6,838,356	289,086	6,602,789	13,747,997
Federal funds	-	6,090,793	-	-	6,090,793
Other	259,964	501	-	-	260,465
Other	17,039	2,005	-	-	19,044
Total current assets	3,138,031	271,838,718	5,810,597	40,684,175	321,471,521
Noncurrent assets					
Investments	5,776,650	243,007,632	28,280,071	17,538,250	294,602,603
Loans receivable - less current	-	791,877,842	67,593,786	798,970,562	1,658,442,190
Furniture and fixtures, at cost, less accumulated depreciation of \$167,219	25,418	42,585	-	-	68,003
Total noncurrent assets	5,802,068	1,034,928,059	95,873,857	816,508,812	1,953,112,796
Total assets	8,940,099	1,306,766,777	101,684,454	857,192,987	2,274,584,317
Liabilities					
Current liabilities					
Bonds payable - current	-	11,995,000	2,725,000	31,055,000	45,775,000
Accrued interest on bonds payable	-	1,926,427	1,458,177	6,629,030	10,013,634
Arbitrage rebate liability	-	2,048,537	-	-	2,048,537
Due to (due from) other accounts	(574,753)	574,753	-	-	-
Deferred revenue	68,094	-	-	-	68,094
Accounts payable and other liabilities	142,273	-	108,931	5,721	256,925
Total current liabilities	(364,386)	16,544,717	4,292,108	37,689,751	58,162,190
Noncurrent liabilities					
Bonds payable - less current - net	-	349,519,689	71,396,659	819,603,901	1,240,520,249
Deferred revenue	628,047	-	-	-	628,047
Arbitrage rebate liability	-	309,692	16,274	-	325,966
Total noncurrent liabilities	628,047	349,829,381	71,412,933	819,603,901	1,241,474,262
Total liabilities	263,661	366,374,098	75,705,041	857,293,652	1,299,636,452
Net assets					
Invested in capital assets, net of related debt	25,418	42,585	-	-	68,003
Restricted	5,148,612	940,350,094	25,979,413	(100,665)	971,377,454
Unrestricted	3,502,408	-	-	-	3,502,408
Total net assets	\$ 8,676,438	\$ 940,392,679	\$ 25,979,413	\$ (100,665)	\$ 974,947,865

See report of independent auditors.

Virginia Resources Authority

Combining Schedule of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2005	General Accounts	Revolving Loan Fund Accounts	Airport Revolving Fund Accounts	Bond Accounts	Total
Operating revenues					
Interest on loans	\$ 48,302	\$ 23,687,073	\$ 3,125,813	\$ 41,013,671	\$ 67,874,859
Interest on investments	212,068	18,706,883	1,181,160	1,030,408	21,130,519
Administrative reimbursement	-	705,449	-	-	705,449
Other income	47,106	5,332	-	-	52,438
Total operating revenues	307,476	43,104,737	4,306,973	42,044,079	89,763,265
Operating expenses					
Interest on bonds	-	18,293,734	3,476,968	41,384,430	63,155,132
Personnel services	414,262	457,215	-	-	871,477
Contractual services	51,432	101,704	12,281	-	165,417
General operating	163,867	232,593	15,810	-	412,270
Grants to local governments	-	4,184,019	-	-	4,184,019
Total operating expenses	629,561	23,269,265	3,505,059	41,384,430	68,788,315
Operating income (loss)	(322,085)	19,835,472	801,914	659,649	20,974,950
Non-operating revenues (expenses)					
Contributions from other governments	-	33,531,712	-	-	33,531,712
Operating transfers	1,225,183	(205,499)	(72,709)	(946,975)	-
Loss on sale of fixed assets	(41)	-	-	-	(41)
Total non-operating revenues (expenses)	1,225,142	33,326,213	(72,709)	(946,975)	33,531,671
Change in net assets	903,057	53,161,685	729,205	(287,326)	54,506,621
Net assets - beginning of year	7,773,381	887,230,994	25,250,208	186,661	920,441,244
Net assets - end of year	\$ 8,676,438	\$ 940,392,679	\$ 25,979,413	\$ (100,665)	\$ 974,947,865

See report of independent auditors.

Virginia Resources Authority

Combining Schedule of Cash Flows

For the Year Ended June 30, 2005	General Accounts	Revolving Loan Fund Accounts	Airport Revolving Fund Accounts	Bond Accounts	Total
Cash flows from operating activities					
Cash payments to localities for loans	\$ (14,969,785)	\$ (92,896,202)	\$ (4,068,874)	\$ (115,374,808)	\$ (227,309,669)
Principal repayments from localities on loans	15,214,351	42,668,010	2,400,541	70,545,000	130,827,902
Interest received on loans	21,564	23,050,402	3,127,213	33,895,191	60,094,370
Federal administrative reimbursement funds received	-	766,323	-	-	766,323
Cash received from other income	47,106	3,660	-	-	50,766
Net reimbursable expenses received	(242,148)	-	-	-	(242,148)
Cash payments for salaries and related benefits	(420,387)	(457,215)	-	-	(877,602)
Cash payments for contractual services	(51,432)	(101,704)	(12,281)	-	(165,417)
Cash payments for general operating expenses	(143,174)	(214,698)	(4,737)	-	(362,609)
Cash payments for operating grants	-	(4,184,019)	-	-	(4,184,019)
Net cash from operating activities	(543,905)	(31,365,443)	1,441,862	(10,934,617)	(41,402,103)
Cash flows from non-capital financing activities					
Proceeds from sale of bonds	-	210,691,035	3,968,874	116,972,211	331,632,120
Principal paid on bonds	-	(203,050,000)	(2,150,000)	(70,545,000)	(275,745,000)
Contributions from other governments	-	39,649,323	-	-	39,649,323
Cash received from other accounts	779,567	171,383	(68,503)	(878,518)	3,929
Interest paid on bonds	-	(19,430,701)	(3,289,993)	(33,968,026)	(56,688,720)
Net cash from non-capital financing activities	779,567	28,031,040	(1,539,622)	11,580,667	38,851,652
Cash flows from capital and related financing activities					
Purchase of furniture and fixtures	(4,673)	(16,182)	-	-	(20,855)
Proceeds from sale of furniture and fixtures	800	-	-	-	800
Net cash from capital and financing activities	(3,873)	(16,182)	-	-	(20,055)
Cash flows from investing activities					
Purchase of investments	(1,426,245)	(165,334,276)	(3,054,533)	(1,597,400)	(171,412,454)
Proceeds from sales or maturities of investments	506,868	224,362,499	644,736	-	225,514,103
Interest received on investments - net	296,666	16,812,449	1,106,285	951,350	19,166,750
Net cash from investing activities	(622,711)	75,840,672	(1,303,512)	(646,050)	73,268,399
Net change in cash and cash equivalents	(390,922)	72,490,087	(1,401,272)	-	70,697,893
Cash and cash equivalents - beginning of year	2,532,286	138,095,413	4,065,155	2,845,000	147,537,854
Cash and cash equivalents - end of year	\$ 2,141,364	\$ 210,585,500	\$ 2,663,883	\$ 2,845,000	\$ 218,235,747
Reconciliation of cash and cash equivalents					
Cash per statements of net assets	\$ 345,531	\$ 5,665,291	\$ -	\$ -	6,010,822
Cash equivalents per statements of net assets	1,795,833	204,920,209	2,663,883	2,845,000	212,224,925
Cash and cash equivalents per the statements of cash flows	\$ 2,141,364	\$ 210,585,500	\$ 2,663,883	\$ 2,845,000	\$ 218,235,747

Virginia Resources Authority
Combining Schedule of Cash Flows

For the Year Ended June 30, 2005	General Accounts	Revolving Loan Fund Accounts	Airport Revolving Fund Accounts	Bond Accounts	Total
Reconciliation of operating income (loss) to net cash from operating activities					
Operating income (loss)	\$ (322,085)	\$ 19,835,472	\$ 801,914	\$ 659,649	\$ 20,974,950
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation, amortization and (accretion) - net	294,248	19,301	-	(3,832,088)	(3,518,539)
Interest on investments	(212,068)	(18,706,883)	(1,181,160)	(1,030,408)	(21,130,519)
Interest on bonds	-	18,293,734	3,437,670	41,384,428	63,115,832
Loss on sale of fixed assets	41	-	-	-	41
Change in:					
Loans receivable	2,559,178	(50,229,865)	(1,668,333)	(46,992,510)	(96,331,530)
Loan interest receivable	(17,766)	(635,570)	(23,317)	(1,119,733)	(1,796,386)
Federal funds receivable	-	60,874	-	-	60,874
Other receivables	(242,148)	(501)	47,741	-	(194,908)
Other assets	(4,621)	(2,005)	-	-	(6,626)
Accounts payable and other liabilities	(2,553,711)	-	27,347	(3,955)	(2,530,319)
Deferred revenue	(44,973)	-	-	-	(44,973)
Net cash from operating activities	\$ (543,905)	\$ (31,365,443)	\$ 1,441,862	\$ (10,934,617)	\$ (41,402,103)

See report of independent auditors.

Virginia Resources Authority
 Schedule of Net Assets - Revolving Loan Fund Accounts

June 30, 2005	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	Combined Sewer Overflow Fund Account	Total
Assets							
Current assets							
Cash	\$ 3,993,664	\$ 770,942	\$ -	\$ 694,983	\$ 205,702	\$ -	\$ 5,665,291
Cash equivalents	191,642,924	7,474,246	-	5,308,587	-	494,452	204,920,209
Investments	3,894,753	224,000	-	-	-	-	4,118,753
Loans receivable	39,257,426	2,465,519	-	52,797	29,437	-	41,805,179
Receivables:							
Investment interest	2,385,658	11,973	-	-	-	-	2,397,631
Loan interest	6,698,344	138,742	-	-	1,270	-	6,838,356
Federal funds	5,971,998	-	118,795	-	-	-	6,090,793
Other	263	-	238	-	-	-	501
Other	1,100	-	905	-	-	-	2,005
Total current assets	253,846,130	11,085,422	119,938	6,056,367	236,409	494,452	271,838,718
Noncurrent assets							
Investments	243,007,632	-	-	-	-	-	243,007,632
Loans receivable - less current	713,064,143	78,203,534	-	314,187	295,978	-	791,877,842
Furniture and fixtures - at cost - less accumulated depreciation	24,340	-	18,245	-	-	-	42,585
Total noncurrent assets	956,096,115	78,203,534	18,245	314,187	295,978	-	1,034,928,059
Total assets	1,209,942,245	89,288,956	138,183	6,370,554	532,387	494,452	1,306,766,777
Liabilities							
Current liabilities							
Bonds payable	11,995,000	-	-	-	-	-	11,995,000
Accrued interest on bonds payable	1,926,427	-	-	-	-	-	1,926,427
Arbitrage rebate liability	2,048,537	-	-	-	-	-	2,048,537
Due to other accounts	457,877	-	116,876	-	-	-	574,753
Total current liabilities	16,427,841	-	116,876	-	-	-	16,544,717
Noncurrent liabilities							
Bonds payable - less current portion - net	349,519,689	-	-	-	-	-	349,519,689
Arbitrage rebate liability	309,692	-	-	-	-	-	309,692
Total noncurrent liabilities	349,829,381	-	-	-	-	-	349,829,381
Total liabilities	366,257,222	-	116,876	-	-	-	366,374,098
Net Assets							
Invested in capital assets - net of related debt	24,340	-	18,245	-	-	-	42,585
Restricted	843,660,683	89,288,956	3,062	6,370,554	532,387	494,452	940,350,094
Total net assets	\$ 843,685,023	\$ 89,288,956	\$ 21,307	\$ 6,370,554	\$ 532,387	\$ 494,452	\$ 940,392,679

See report of independent auditors.

Virginia Resources Authority

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

Year Ended June 30, 2005	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	\$ 23,158,817	\$ 521,123	\$ -	\$ -	\$ 7,133	\$ -	\$ 23,687,073
Interest on investments	18,429,076	150,542	-	101,250	1,273	24,742	18,706,883
Administrative reimbursement	377,684	-	327,765	-	-	-	705,449
Other income	3,660	1,672	-	-	-	-	5,332
Total operating revenues	41,969,237	673,337	327,765	101,250	8,406	24,742	43,104,737
Operating expenses							
Interest on bonds	18,293,734	-	-	-	-	-	18,293,734
Personnel services	238,793	-	218,422	-	-	-	457,215
Contractual services	50,864	-	50,840	-	-	-	101,704
General operating	165,195	4,345	59,659	2,452	171	771	232,593
Grants to local governments	-	2,697,629	-	-	47,627	1,438,763	4,184,019
Total operating expenses	18,748,586	2,701,974	328,921	2,452	47,798	1,439,534	23,269,265
Operating income (loss)	23,220,651	(2,028,637)	(1,156)	98,798	(39,392)	(1,414,792)	19,835,472
Non-operating revenues (expenses)							
Contributions from other governments	16,339,723	11,997,902	-	5,194,087	-	-	33,531,712
Operating transfers	(227,010)	19,580	1,931	-	-	-	(205,499)
Total non-operating revenues	16,112,713	12,017,482	1,931	5,194,087	-	-	33,326,213
Change in net assets	39,333,364	9,988,845	775	5,292,885	(39,392)	(1,414,792)	53,161,685
Net assets - beginning of year	804,351,659	79,300,111	20,532	1,077,669	571,779	1,909,244	887,230,994
Net assets - end of year	\$ 843,685,023	\$ 89,288,956	\$ 21,307	\$ 6,370,554	\$ 532,387	\$ 494,452	\$ 940,392,679

See report of independent auditors.

Virginia Resources Authority

Schedule of Cash Flows - Revolving Loan Fund Accounts

Year Ended June 30, 2005	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	\$ (83,490,358)	\$ (9,405,844)	\$ -	\$ -	\$ -	\$ -	\$ (92,896,202)
Principal repayments from localities on loans	40,089,466	2,486,771	-	63,011	28,762	-	42,668,010
Interest received on loans	22,537,587	505,553	-	-	7,262	-	23,050,402
Federal administrative reimbursement funds received	383,039	-	383,284	-	-	-	766,323
Cash received from other income	3,660	-	-	-	-	-	3,660
Cash payments for salaries and related benefits	(238,793)	-	(218,422)	-	-	-	(457,215)
Cash payments from contractual services	(50,864)	-	(50,840)	-	-	-	(101,704)
Cash payments for general operating expenses	(154,391)	(4,345)	(52,568)	(2,452)	(171)	(771)	(214,698)
Cash payments for operating grants	-	(2,697,629)	-	-	(47,627)	(1,438,763)	(4,184,019)
Net cash from operating activities	(20,920,654)	(9,115,494)	61,454	60,559	(11,774)	(1,439,534)	(31,365,443)
Cash flows from non-capital financing activities							
Proceeds from sale of bonds	210,691,035	-	-	-	-	-	210,691,035
Principal paid on bonds	(203,050,000)	-	-	-	-	-	(203,050,000)
Contributions from other governments	22,457,334	11,997,902	-	5,194,087	-	-	39,649,323
Cash received from (paid to) other accounts	225,585	-	(54,202)	-	-	-	171,383
Interest paid on bonds	(19,430,701)	-	-	-	-	-	(19,430,701)
Net cash from non-capital financing activities	10,893,253	11,997,902	(54,202)	5,194,087	-	-	28,031,040
Cash flows from capital and related financing activities							
Purchase of furniture and fixtures	(8,930)	(7,252)	-	-	-	-	(16,182)
Cash flows from investing activities							
Purchase of investments	(165,110,275)	(224,001)	-	-	-	-	(165,334,276)
Proceeds from sales or maturities of investments	224,362,499	-	-	-	-	-	224,362,499
Interest received on investments - net	16,546,615	138,569	-	101,250	1,273	24,742	16,812,449
Net cash from investing activities	75,798,839	(85,432)	-	101,250	1,273	24,742	75,840,672
Net change in cash and cash equivalents	65,762,508	2,789,724	7,252	5,355,896	(10,501)	(1,414,792)	72,490,087
Cash and cash equivalents - beginning of year	129,874,080	5,448,212	-	647,674	216,203	1,909,244	138,095,413
Cash and cash equivalents - end of year	\$ 195,636,588	\$ 8,237,936	\$ 7,252	\$ 6,003,570	\$ 205,702	\$ 494,452	\$ 210,585,500
Reconciliation of cash and cash equivalents							
Cash per statements of net assets	\$ 3,993,664	\$ 770,942	\$ -	\$ 694,983	\$ 205,702	\$ -	\$ 5,665,291
Cash equivalents per statements of net assets	191,642,924	7,474,246	-	5,308,587	-	494,452	204,920,209
Cash and cash equivalents per the schedule of cash flows	\$ 195,636,588	\$ 8,245,188	\$ -	\$ 6,003,570	\$ 205,702	\$ 494,452	\$ 210,585,500

Virginia Resources Authority

Schedule of Cash Flows - Revolving Loan Fund Accounts

Year Ended June 30, 2005	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 operating income (loss) to net cash from operating activities							
Operating income (loss)	\$ 23,220,651	\$ (2,028,637)	\$ (1,156)	\$ 98,798	\$ (39,392)	\$ (1,414,792)	\$ 19,835,472
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation, amortization and (accretion) - net	11,067	-	8,234	-	-	-	19,301
Interest on investments	(18,429,076)	(150,542)	-	(101,250)	(1,273)	(24,742)	(18,706,883)
Interest on bonds	18,293,734	-	-	-	-	-	18,293,734
Change in:							
Loans receivable	(43,400,893)	(6,920,745)	-	63,011	28,762	-	(50,229,865)
Loan interest receivable	(620,129)	(15,570)	-	-	129	-	(635,570)
Federal funds receivable	5,355	-	55,519	-	-	-	60,874
Other receivables	(263)	-	(238)	-	-	-	(501)
Other assets	(1,100)	-	(905)	-	-	-	(2,005)
Net cash from operating activities	\$ (20,920,654)	\$ (9,115,494)	\$ 61,454	\$ 60,559	\$ (11,774)	\$ (1,439,534)	\$ (31,365,443)

See report of independent auditors.

Virginia Resources Authority

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
Environmental Protection Agency		
Pass-through - Virginia Department of Environmental Quality - Capitalization Grants for Clean Water State Revolving Funds (VWFRF)	66.458	\$ 16,717,406
Pass-through - Virginia Department of Health - Capitalization Grants for Drinking Water State Revolving Funds (VWSRF)	66.468	<u>9,380,062</u>
Total expenditures of federal awards		<u>\$ 26,097,468</u>

See accompanying notes to schedule of expenditures of federal awards.

Virginia Resources Authority

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

1. General

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of the federal award programs of the *Virginia Resources Authority* (Authority). All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the Schedule.

2. Basis of Accounting

The accompanying Schedule is presented using the accrual basis of accounting, which is more fully described in Note 1 to the Authority's basic financial statements.

3. Loan Commitments

The Authority is obligated under outstanding commitment letters and undisbursed loans to lend approximately \$24,934,485 from the VWFRF and \$13,746,696 from the VWSRF as of June 30, 2005.

4. Relationship to Federal Financial Reports

Amounts reported in the accompanying Schedule agree with the amounts reported to the Commonwealth of Virginia Department of Environmental Quality (DEQ) and the Commonwealth of Virginia Department of Health (VDH), the grantees for the federal programs. The DEQ and VDH consolidate the amounts reported by the Authority with their own expenditures for federal financial reporting purposes.

5. Relationship to the Authority's Basic financial Statements

The federal awards in the accompanying Schedule are reported as grant revenue (administrative reimbursement) and contributions from other governments (from the EPA under the Capitalization Grants for State Revolving Funds) in the Authority's basic financial statements as follows:

	VWFRF	VWSFR	Total
Grant revenue	\$ 377,684	\$ 327,765	\$ 705,449
Contributions from other governments	16,339,722	9,052,297	25,392,019
	<u>\$ 16,717,406</u>	<u>\$ 9,380,062</u>	<u>\$ 26,097,468</u>

The Authority's basic financial statements include contributions from other governments and are included in the Schedule as the funds were disbursed to the locality in fiscal year 2005.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

1. Summary of Auditors' Results

- An unqualified opinion was issued on the basic financial statements.
- There were no reportable conditions in internal control to disclose.
- The audit did not disclose any material noncompliance.
- There were no reportable conditions noted in internal control over major programs to disclose.
- An unqualified opinion was issued on compliance for major programs.
- The audit disclosed no compliance findings required to be reported.
- The major program was Pass-through – Department of Environmental Quality - Capitalization Grants for Clean Water State Revolving Funds (VWFRF) (CFDA Number 66.458)
- The dollar threshold used to distinguish between Type A and Type B programs is \$782,924
- The auditee did qualify as a low-risk auditee.

2. Findings Relating to the General-Purpose Financial Statements which are Required to be Reported in Accordance with Generally Accepted Governmental Auditing Standards

None

3. Findings and Questioned Costs for Federal Awards

None

4. Findings and Questioned Costs for State Compliance

None

5. Disposition of Prior Year Findings

There were no prior year findings.

Virginia Resources Authority

Compliance Reports

June 30, 2005



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***Report on Internal Control over Financial Reporting and
On Compliance and
Other Matters 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, 2005 and have issued our report thereon dated August 24, 2005. 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.

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 an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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 24, 2005

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***Report on Compliance with Requirements
Applicable to Each Major Program and
On Internal Control over Compliance in
Accordance with OMB Circular A-133***

Board of Directors
Virginia Resources Authority

Compliance

We have audited the compliance of the *Virginia Resources Authority* with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. The *Virginia Resources Authority's* major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the management of *Virginia Resources Authority's*. Our responsibility is to express an opinion on *Virginia Resources Authority's* compliance based on our audit.

We conducted our audit of compliance 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about *Virginia Resources Authority's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on *Virginia Resources Authority's* compliance with those requirements.

In our opinion, the *Virginia Resources Authority* complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control over Compliance

Management of the *Virginia Resources Authority* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered *Virginia Resources Authority's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation

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to a major federal program 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 compliance 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 24, 2005