

VRA

06

ANNUAL REPORT
Fiscal Year 2006

VRA VIRGINIA
RESOURCES
AUTHORITY

06 DID YOU KNOW?



- VRA has supported over \$2.6 billion of investment in Virginia's communities since 1984
- VRA has funded more than 700 projects across the Commonwealth since 1984
- 55 local governments in all regions of Virginia benefited from VRA financings in fiscal year 2006 alone
- VRA finances local roads and transit
- VRA Senior Bonds are rated natural "AAA" and "Aaa" by Standard & Poor's and Moody's
- VRA collaborates with state partners to craft below-market rate loans

Clean Water Revolving Loan Fund
Department of Environmental Quality

Drinking Water State Revolving Fund
Department of Health

Airports Revolving Fund
Department of Aviation

- VRA finances public safety communications equipment and facilities

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

In fiscal year 2006, Virginia Resources Authority continued to build on its positive foundation of serving Virginia's communities by:

- Providing low-cost, custom-tailored financing for essential public projects
- Creating innovative solutions for local governments
- Assisting with regional cooperation.

The 2005 General Assembly expanded VRA's project areas to include transportation projects, recognizing the ongoing value that VRA can and does provide the Commonwealth. Prince William County quickly took advantage of this new authority and financed VRA's first road project in the fall of 2005. Hampton Roads Transit financed 39 buses in the spring of 2006 to serve its seven member localities. In total, VRA issued over \$154 million in bonds in FY 2006.

In early spring 2006, VRA completed an innovative procurement for underwriting services. The process involved a rigorous, complex and detailed approach reflecting best practices in municipal finance. VRA held extensive interviews with the prospective firms. As a result of the procurement, VRA has pre-qualified a group of eleven firms to serve the Authority in the sale of VRA's bonds over the next 2 years. Each of these firms has demonstrated its ability to provide value-added ideas and services to promote VRA's

objectives, a broad bond distribution capability, strong technical and analytical capability, proven underwriting experience and quality personnel.

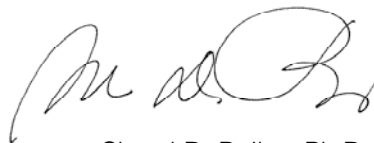
As a result of our new bond sale procedures, VRA's "AAA" bonds achieved the *lowest interest rates in the nation* for virtually every maturity in the series when compared to other similar bonds sold in the same period. For our borrowers, low rates means money saved and getting the projects going.

In FY 2006, a number of regional projects were financed through VRA's Virginia Pooled Financing Program. Local governments recognize that efficiencies are gained when localities work together to deliver services. It can sometimes be challenging to localities to secure financing for projects through a new regional authority. With VRA's state-level credit enhancements, VRA is uniquely situated to assist in financing these types of projects. For FY 2007, the regional focus will continue by holding workshops across the state with agendas and speakers customized to the needs of the region.

As the Chairman enters his 20th year of service and the Executive Director is halfway through her first year, VRA is proud of our past accomplishments, while looking to the future with great anticipation.




 William G. O'Brien
 Chairman, Board of Directors



Sheryl D. Bailey, Ph.D.
 Executive Director



06 BOARD OF DIRECTORS



William G. O'Brien, Chairman
Port Republic



Barbara M. Donnellan,
Vice Chairman
Clifton



Philip J. Duke
Middleburg



H. Hiter Harris, III
Richmond



Thomas L. Hasty, III
Chesapeake



J. Barry Purcell, III
Richmond



James H. Spencer, III
Tazewell



Randall P. Burdette,
Executive Director
Virginia Department of Aviation



David K. Paylor, Director
Virginia Department of
Environmental Quality



J. Braxton Powell, Treasurer
Commonwealth of Virginia



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

The VRA Board of Directors provides leadership in setting the Authority's administrative policies and approving loans for borrowers. Representing diverse backgrounds and geographic locations throughout Virginia, the members of VRA's Board of Directors offer expertise on environmental, financial, business, and government issues.

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 June 2006, Hari K. Thakkar, Director, vacated his position on the VRA Board of Directors. The VRA Board and staff recognize and appreciate the leadership and dedication he afforded the Authority during his tenure on the Board.

ADVISORS

McGuireWoods LLP
Bond Counsel

Public Financial Management, Inc.
Financial Advisor

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

STAFF

NEW EXECUTIVE DIRECTOR APPOINTMENT

Sheryl D. Bailey, Ph.D., was appointed Executive Director of the Virginia Resources Authority by Governor Timothy M. Kaine in January 2006. She most recently served as Deputy Secretary of Administration and has over 15 years of experience in government finance and administration, including directing financial policy and planning in the cities of Hampton and Norfolk, Virginia. In these capacities, she directed municipal debt and capital management programs that involved over \$800 million in financings and major debt restructurings. Dr. Bailey also oversaw financial, regional and international programs and large

strategic initiatives, such as MacArthur Center, the Peninsula Workforce Development Center and the new Hampton Roads Convention Center in Hampton.

A native of Norfolk, Dr. Bailey received her undergraduate training at Norfolk State University and she received her Master and Doctorate degrees in Economics from Harvard University. Dr. Bailey is known for her work in strategic and financial management, having served as a consultant to organizations worldwide and a faculty member for several universities.

L. Douglas Wilder Graduate Scholars Fellowship

Brooks Harrington joined Virginia Resources Authority for the 2006 – 2007 academic year. He is one of seven inaugural Wilder Graduate Scholars at Virginia Commonwealth University. Selection as a Scholar is a prestigious appointment and includes a full tuition scholarship. Fellowships are awarded to students from master's programs in criminal justice, public administration, sociology, and urban and regional planning.

Corrine A. Louden
Acting Controller

Peter G. D'Alema
Senior Financial Analyst

Brian D. DeProfio
Director of Finance and Administration

Mary B. Barnes
Director of Financial Services

Bradley L. Jones
Financial Analyst

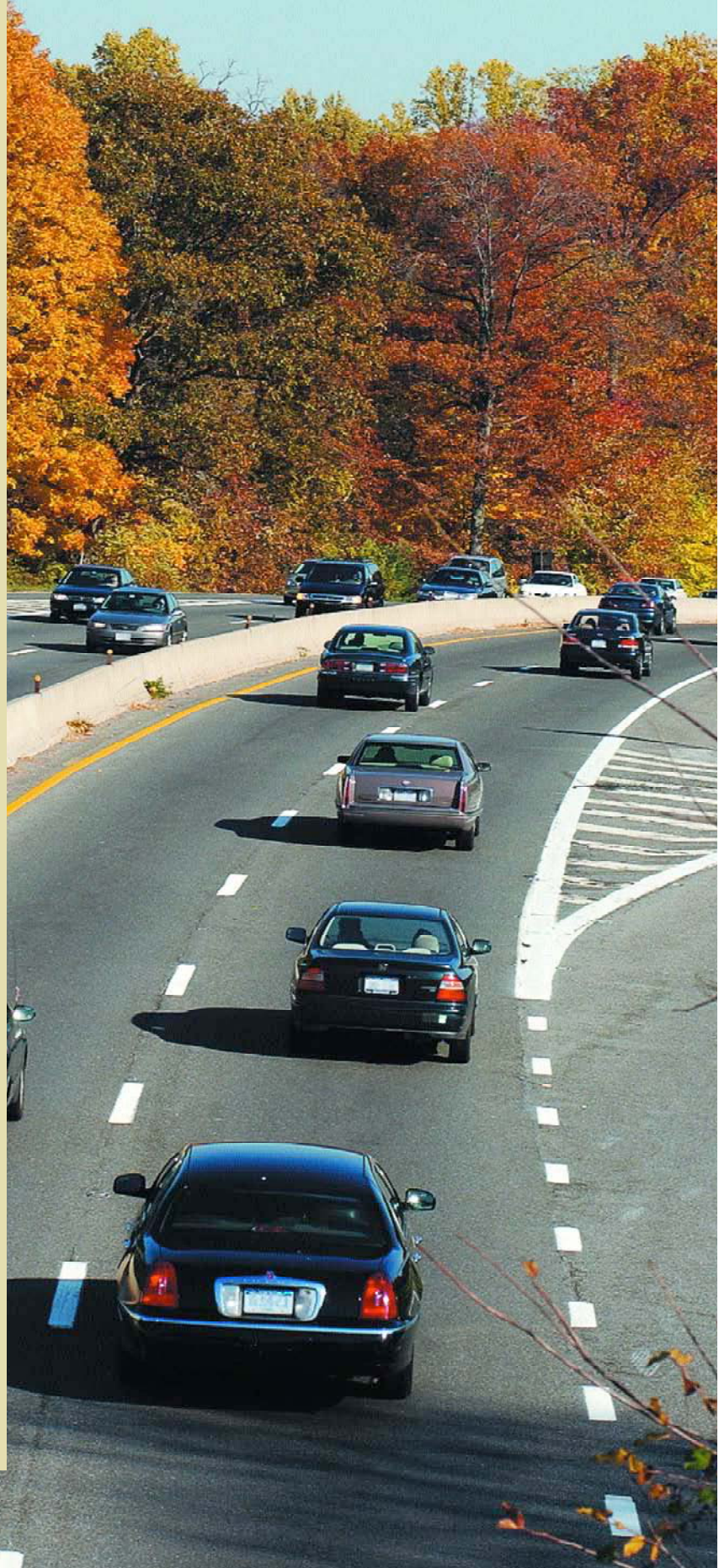
Shawn B. Crumlish
Program Manager

Brooks R. Harrington
Graduate Scholar

Sheryl D. Bailey, Ph.D.
Executive Director

INTRODUCTION

VRA works for the cities, towns, counties, service authorities, and people of Virginia. VRA helps clean and restore the Chesapeake Bay, build firehouses and regional jails, provide safe and healthy drinking water, expand airports, roads and transit and move other essential projects forward. VRA works by providing innovative financing solutions to local governments.



VRA WORKS

Public Safety
Transportation
Flood Prevention

Wastewater

Low cost and custom-tailored loans are available to local governments and authorities for public safety, transportation, dam safety and flood prevention, wastewater, drinking water, solid waste, storm water drainage, federal facility development, and brownfield remediation projects. Since its creation by the General Assembly in 1984, VRA has supported over 700 such projects totaling more than \$2.6 billion of investment in Virginia's communities.

Several times a year VRA issues bonds and lends the proceeds to local governments. Additional loan funds come from federal grants and state appropriations. These state

and federal funds are used to provide rate reductions on loans for eligible projects. These below-market rate loans, some at 0%, are made available through three revolving loan funds.

Virginia Resources Authority closed 55 loans and 3 grants in fiscal year 2006. The 58 transactions represent over \$250 million invested in Virginia's communities for projects that varied from water treatment improvements to road expansion to fire and rescue-building renovations to regional jails. 55 of Virginia's cities, counties, and towns will be impacted by the projects VRA funded in fiscal year 2006.



Drinking Water
Solid Waste
Storm Water Drainage
Federal Facility Development
Brownfield Remediation
Airports

06 VIRGINIA POOLED FINANCING PROGRAM

Under the VPFP, VRA sells bonds and then loans the proceeds to local governments to finance eligible projects. The borrowers' interest rates are based on the rates that VPFP bonds obtain in the public bond market. Based in part on the use of the Commonwealth's moral obligation, VRA's high credit ratings result in interest savings for localities. This translates to reduced rates, taxes and user fees for our borrowers' constituents. Further savings are realized by efficiently bringing the borrowing needs of multiple localities into one bond issue. Through economies of scale and sharing of expenses, borrowers significantly reduce issuance costs versus other methods of financing. These efficiencies do not hinder loan flexibility for individual borrowers. Each loan is customized to meet the needs and financial policies of each locality, or in the case of regional projects, group of localities.

The current pooled bond structure, the VPFP, was created in fall of 2003. The VPFP uses a unique senior/subordinate structure where 70% of the bonds issued are rated natural "AAA" and 30% are backed by the moral obligation of the Commonwealth and rated "AA." Bonds are issued at least twice a year in the fall and spring. Should a locality need funds prior to a bond issue, VRA offers an Interim Financing Program to meet the timing needs of the project. VRA has issued \$472 million over the last three years for 42 cities, towns, counties, and service authorities in the VPFP structure.

VPFP Fall 2005

Amelia County	\$700,000
Frederick County Sanitation Authority	6,665,000
Greene County	10,420,000
City of Hopewell	8,640,000
Prince William County	21,240,000
City of Suffolk	14,050,000
Total	\$61,715,000

VPFP Spring 2006

Botetourt County	\$17,570,000
Town of Edinburg	390,000
Town of Front Royal	10,315,000
Hampton Roads Transit	12,770,000
Hanover County	9,000,000
New River Regional Water Authority	13,565,000
Powhatan County	6,680,000
Southeastern Public Service Authority	17,740,000
Vinton, Town of	755,000
Total	\$88,785,000
Total FY2006 VPFP	\$150,500,000



VRA WORKS FOR REGIONAL PROJECTS

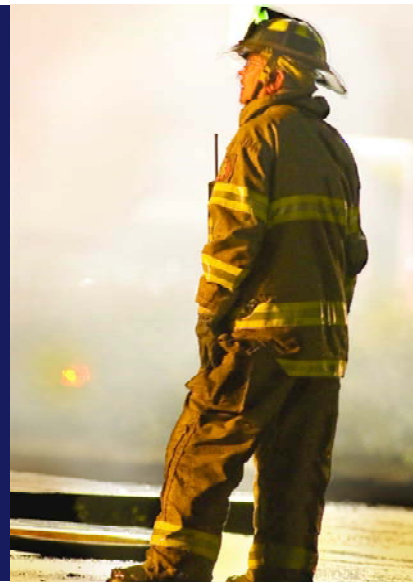
Wythe and Carroll Counties and the Town of Wytheville formed New River Regional Water Authority (NRRWA) to provide a regional answer to the localities' water needs. This important project will solidify the attractiveness of the region for increased investment by private industry, while providing more access to a reliable public water system for citizens. Wayne Sutherland, Chairman, New River Regional Water Authority, said, "Using

a regional approach was definitely the most efficient way to serve all the localities involved in the project. The challenge was then to secure financing for a new entity with no financial history. VRA got it done. The low interest rates and common sense terms in their pooled financing program allowed the project to move forward. VRA provides a custom-tailored approach while balancing the needs of all localities."

VRA WORKS FOR PUBLIC SAFETY

Botetourt County entered into a cost-sharing contract with Craig County for the construction and operation of a regional jail. The jail is to be located in the Town of Fincastle and will consist of an 83,855 square foot, two story building that will initially hold up to 213 inmates. The project is expected to be completed by the end of 2007 and will include the sheriff's department, magistrates' offices, the emergency services department, and the regional jail staff. Botetourt County borrowed

\$17.6 million as part of the Virginia Pooled Financing Program for the long-term financing of the project. The short-term portion to be reimbursed by the state was financed with SunTrust Bank. According to Tony Zerrilla, the County's Financial Services Manager, "VRA worked through the complexities of linking different lease agreements together, created an acceptable intercreditor agreement, and the pool secured favorable financing rates for this project."



VRA WORKS FOR TRANSPORTATION

Prince William County took immediate advantage of VRA's expanded financing authority to finance the first VRA road project. The County borrowed \$21 million in the Fall 2005 VPPF to finance improvements to Spriggs Road. The project will expand an existing two-lane road into a four-lane divided highway. According to Christopher E. Martino, the County's Director of Finance, "VRA financing works for Prince William County. In the area of transportation, the County's needs are almost endless. While we finance the majority of our road projects with County general obligation bonds, we often

need supplementary funding to support the projects. By financing through VRA, we can make more happen sooner. The County will continue to utilize VRA, where possible, because we believe it is a cost effective, fast and flexible financing source."

Under the expanded financing authority, beginning July 1, 2005 localities may finance transportation related projects through VRA, including, roads, buses, parking facilities, traffic signals, sidewalks, buses and light commuter rail.

VRA WORKS

“VRA and the revolving loan funds have been there for Tazewell County, investing over \$40 million in 23 water and sewer projects. We will continue to use these financing programs to enhance the community development and quality of life for Tazewell County citizens.”

*Jim Spencer, County Administrator,
Tazewell County*



l to r: Jim Spencer, County Administrator, Tazewell County; Sheryl Bailey, Executive Director, Virginia Resources Authority; Project Field Engineer

CLEAN WATER REVOLVING LOAN FUND

The Virginia Clean Water Revolving Loan Fund (CWRLF) was created in 1987 in response to the widening gap between improvement needs and financial resources. Interest rates are reduced for local governments with funds provided by the U.S. EPA and state matching funds. In fiscal year 2006, rates ranged from 3.1% down to 0%. This is a permanent and perpetual fund with loan repayments recycled into new loans. Annual recycled funds will approach \$50 million beginning in 2007.

The Department of Environmental Quality, on behalf of the State Water Control Board, administers the program and policy aspects of the fund. Virginia Resources Authority serves as the financial manager of the fund: underwriting loans, investing monies, closing loans, making disbursements, and maximizing economic benefits.

Initially, the CWRLF included a single program to provide financial assistance in the form of low-interest loans for needed improvements at publicly owned wastewater treatment facilities. Since then, the scope of CWRLF activity was expanded by the State Water Control Board and DEQ implemented additional programs to provide low interest loans related to water quality issues, such as, brownfield remediation and open space preservation.

In FY 2006, the CWRLF funded 18 projects to provide \$83 million of investment in 13 localities. Localities, large and small, rural and urban, benefit from this low interest program for wastewater, brownfield remediation, open space preservation, and combined sewer overflow projects. From 1987 through June 30, 2006, nearly \$1.4 billion has been invested in 279 projects.

VRA WORKS FOR CLEAN WATER

Tazewell County Public Service Authority is a frequent VRA borrower, having financed 19 projects with funds from the Drinking Water State Revolving Fund. In fiscal year 2006, the PSA financed its first wastewater projects through the CWRLF. The first project was financed with a \$1.3 million, 3.00% loan. This sewer service extension will provide sewer service to 22 households suffering from failing sewage disposal systems due to poor soil quality. Tazewell

County PSA's second project, a 500,000 gallons-per-day wastewater treatment plant, was financed with a \$4.7 million, 0.00% loan. The new facilities will improve service for 225 households, provide sewer service to 5 households for the first time, and will service a new 1,000-inmate state prison.

FY 06 CWRLF LOANS CLOSED

Alexandria Sanitation Authority	\$3,000,000
Alexandria Sanitation Authority	12,000,000
Caroline County	2,850,023
Town of Chilhowie	992,739
Hampton Roads Sanitation District	1,235,000
Hampton Roads Sanitation District	7,339,600
Hampton Roads Sanitation District	1,605,200
City of Lynchburg	2,000,000
City of Lynchburg	9,600,000
City of Newport News	3,400,000
City of Norfolk	11,500,000
City of Richmond	11,000,000
Rivanna WSA	2,377,600
Town of Stanley	500,000
Tazewell Co. PSA	1,328,089
Tazewell Co. PSA	4,746,285
City of Waynesboro	6,245,039
Town of Vinton	1,210,000
Total	\$82,929,575

CWRLF FY 1988 - FY 2006

Federal Grants and State Match	\$711,615,877
Total Loans and Commitments	\$1,424,904,237



06 COMMUNITIES SERVED FY 1984 – FY 2006



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

VIRGINIA DRINKING WATER STATE REVOLVING FUND

Virginia Drinking Water State Revolving Fund (DWSRF) provides low interest loans, in addition to some grants, for drinking water projects to local governments and privately organized water suppliers. Like the Virginia Clean Water Revolving Loan Fund, the fund receives U.S. EPA grants and state matching funds and is permanent and perpetual.

Virginia Department of Health administers the fund, while VRA acts as financial administrator and services the loans.

In fiscal year 2006, loan rates ranged from 3% down to 0%. Four grants were made to support \$2.45 million of investment in two southwest Virginia counties. Twenty loans closed for 12 water systems that totaled \$14.4 million in fiscal year 2006. Since 1998, nearly \$150 million has been funded for critical water projects. In just the last five years, the fund has been instrumental in connecting 70,000 Virginians to safe, reliable water supplies.

VRA WORKS FOR DRINKING WATER

During fiscal year 2006, VRA closed 5 loans and 2 grants to fund five projects with Russell County, Russell County Public Service Authority, and Russell County Water and Sewage Authority. With funding from the Drinking Water Revolving Fund, VRA invested \$3.7 million in the region in connection with these projects. Four of the loans were made at 0.00%, with one loan at 3.00%. Three projects consisted of water line extensions providing water service to 329 new connections. The fourth project corrected water line leak issues that were creating a health hazard as well as causing water loss for 67 households. The fifth project completed in the Russell County area was a water line upgrade that improved water delivery to the entire system that consists of 2,097 connections.



FY 06 DWSRF LOANS AND GRANTS CLOSED

Town of Appalachia	\$185,342	Rockingham County	171,288
Town of Chilhowie	1,710,090	Russell County	91,439
Clarke County Sanitary Authority	829,104	Russell County	116,377
Town of Gate City	1,005,362	Russell County	1,906,717
Town of Gate City	822,569	Russell County	817,164
Lee County PSA	474,083	Russell County	415,518
Lee County PSA	880,441	Russell County PSA	99,775
Town of Marion	49,500	Russell County WSA	299,409
Town of Marion	1,684,600	Scott County PSA	1,010,816
New River Water Company	429,645	Scott County PSA	1,492,529
City of Radford	167,700	Washington County SA	193,021
Town of Richlands	2,002,799	Total	\$16,855,288

VRA WORKS

“The Virginia Airports
Revolving Loan
Program has proven to
be an invaluable tool
for the timely and
cost effective
implementation of
the Charlottesville-
Albemarle Airport
Authority capital
improvement
program.”

*Bryan Elliott, Executive Director of the
Charlottesville-Albemarle
Airport Authority*



VIRGINIA AIRPORTS REVOLVING FUND

The economic impact of the 67 public use airports in Virginia is \$14 billion annually. (Virginia Leading the Way – Economic Development Strategic Plan, September 2006). To support and induce more investment in these important assets, the Virginia Airports Revolving Fund (VARF) was created in 2000 with an appropriation or “seed money” of \$25 million from the General Assembly. From this \$25 million, VRA has invested over \$78 million in below-market interest rate loans to assist with 20 governmental airport projects. Rates are reduced

0.50% below prevailing market rates. As with other state revolving funds, VRA partners with a state agency to administer the fund. The Virginia Aviation Board prioritizes individual loan requests. Two projects were funded in fiscal year 2006. Charlottesville-Albemarle Airport Authority (CAAA) financed its third project through the VARF in fiscal year 2006. CAAA borrowed \$710,000 to fund a new 132-space surface parking lot. Middle Peninsula Airport Authority, another repeat VARF borrower, borrowed \$23,000 to finance grounds maintenance equipment.

VRA WORKS FOR AIRPORTS

Bryan Elliott, Executive Director of the Charlottesville-Albemarle Airport Authority has participated in the VARF on three different occasions. According to Mr. Elliott, *“The Virginia Airports Revolving Loan Program has proven to be an invaluable tool for the timely and cost effective implementation of the Charlottesville-Albemarle Airport Authority capital improvement program. Without the benefits of this VRA program, the Airport Authority would certainly encounter delays and additional expenses associated with providing aviation facilities for the benefit of the citizens and guests of the Charlottesville-Albemarle County region.”*

FY 06 LOANS CLOSED

Charlottesville-Albemarle Airport Authority	\$710,000
Middle Peninsula Regional Airport Authority	<u>23,000</u>
Total	\$733,000

Fiscal Years	State Appropriations	Total Loans and Commitments
2000 - 2006	\$25,000,000	\$78,686,474



2005 CONFERENCE

The LGAC Award of
Excellence recognizes
localities that
demonstrate excellence
in planning, designing,
and financing important
infrastructure and
other capital projects.



COMMUNITY OUTREACH

In September 2005, Virginia Resources Authority was host to Virginia's local government financing conference at the newly constructed Hampton Roads Convention Center in Hampton, Virginia. The 2005 conference provided an invaluable opportunity for local government administrators, managers, attorneys, finance directors, and public works directors, among others, to meet and learn about the ever-evolving fundamentals and complexities of infrastructure finance.

The conference showcased presentations on derivatives, local government financing options, and post-closing com-

pliance, in addition to roundtable discussions that featured a variety of topics, including: brownfield remediation, the Clean Water Revolving Loan Fund, Community Development Block Grants, Economic Development Administration, open space and purchase of development rights, public safety grant funding, rural utilities funding programs, public school funding, Southeastern Rural Community Assistance Programs, Tobacco Indemnification program funding, and VRA's interim financing and pooled financing programs.

LGAC

The 2005 conference also provided a convenient opportunity for the Local Government Advisory Committee (LGAC), consisting of more than 50 locality representatives from across the Commonwealth, to meet and cast their votes for the 2005 LGAC Award of Excellence. The LGAC Award of Excellence recognizes localities that demonstrate excellence in planning, designing, and financing important infrastructure and other capital projects. Members of the LGAC selected three finalists from 35 nominees. The finalists included: Bedford County Public Service Authority for improvements to the Authority's water and sewer systems;

Dickenson County for installation of the County's wireless integrated network project, including enhanced 911 service; and the Town of Vinton for improvements to the Roanoke Regional Wastewater Treatment Plant. While all three finalists presented their significant accomplishments to the LGAC, the members present selected Dickenson County to receive the 2005 Award of Excellence for innovation of design, innovation in financing, cost-effectiveness of the project, and contribution to economic development and the conservation of natural resources.



CONCLUSION AND FY 2007 OUTLOOK

Virginia Resources Authority works for the communities of Virginia. VRA's financing programs provide low-cost, custom tailored financing, while meeting high service expectations and producing needed results.

Many challenges and issues face local governments in fiscal year 2007. There are tremendous needs in many areas, including wastewater improvements to meet the 2010 Chesapeake Bay requirements and public safety equipment upgrades and improvements to meet mandatory interoperability requirements. In addition, all regions of the Commonwealth must continue to pursue community development and redevelopment projects to maintain and enhance their quality of life and economic vitality. VRA looks forward to continuing our long tradition of providing innovative financing solutions to assist local governments in meeting these needs in the most efficient and cost-effective manner.

In fiscal year 2007, Virginia Resources Authority looks forward to the successful implementation of Dam Safety and Flood Prevention Assistance Program with the Department of Conservation and Recreation. New for 2007, VRA will hold four seminars across Virginia as part of the Government Financing Workshop Series. Each workshop will be customized to the needs of the region with multiple organizations and governmental agencies participating to bring service directly to the communities.

Moral Obligation (MO) Bonds Outstanding as of June 30, 2006

MO Bonds, Outstanding	July 1, 2005	\$695,099,419
Less MO Bond Repayments		(40,742,585)
New MO Bonds Issued		50,120,000
MO Bonds, Outstanding	June 30, 2006	\$704,476,834

Non-Moral Obligation Bonds Outstanding as of June 30, 2006:

Non-MO Bonds, Outstanding	July 1, 2005	\$578,295,000
Less Total Non-MO Bond Repayments		(19,750,000)
New Non-MO Bonds Issued		104,305,000
Non-MO Bonds, Outstanding	June 30, 2006	\$662,850,000



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.



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Financial Statements
Years Ended
June 30, 2006 and 2005

Virginia Resources Authority



Certified Public Accountants
Specialized Services
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Virginia Resources Authority

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Virginia Resources AUTHORITY

August 22, 2006

Sheryl D. Bailey, Ph.D.
Executive Director

Board of Directors
Virginia Resources Authority
707 East Main Street, Suite 1350
Richmond, VA 23219

I am pleased to present the Virginia Resources Authority (Authority) Fiscal Year 2006 Financial Statements. State law requires that the Authority publish, at the close of each fiscal year, a complete set of financial statements presented in conformance with generally accepted accounting principals (GAAP) and audited in accordance with Governmental Accounting Auditing Standards.

In fiscal year 2006, the Authority was audited by Goodman & Company, a licensed certified public accounting firm. As a result of an audit of the Authority's financial records and transaction of all funds, Goodman & Company has issued an unqualified opinion on the Authority's financial statements for the year ended June 30, 2006.

GAAP requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

Fiscal Year 2006 Financial Results

VRA had another strong year in fiscal year 2006. The Authority surpassed \$1 billion in net assets, an increase of 6.9% from the prior year. Total assets increased by \$163.2 million (7.2%) and total liabilities increased by \$96.3 million (7.4%) in comparison to the June 30, 2005 balances. The Authority's operating revenue also increased \$5.5 million and operating expenses increased \$2.0 million in comparison to the prior fiscal year, resulting in a \$3.5 million increase in operating income.

The Authority's net assets increased by approximately \$67.0 million primarily as a result of contributions from federal and state governments and interest on loans. The increase represents the disbursement of loans during the fiscal year with a large share of federal funds received in comparison with the prior year.

Fiscal Year 2006 Accomplishments

In addition to the significant performance described above, VRA accomplished many other things in fiscal year 2006, including continuing to provide unparalleled Financial Services, expanding Community Outreach, and implementing significant improvements in Internal Operations.

Service and Results

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Virginia's Governor and General Assembly have continued to expand VRA's business areas, recognizing the ongoing value that VRA can and does provide to the Commonwealth. The 2006 General Assembly enacted two pieces of legislation that have a notable impact on the Authority. The first action expanded the Authority's program area to include the Dam Safety, Flood Prevention and Protection Assistance Fund to be jointly administered with the Virginia Department of Conservation and Recreation. The General Assembly also directed the Secretary of Natural Resources to develop a plan for Chesapeake Bay cleanup with the assistance of the Authority and the Department of Environmental Quality.

VRA is committed to continually improving its operations to meet the expectations of the Governor and General Assembly as well as the needs of our existing and future customers. During fiscal year 2006, management launched several initiatives to streamline operational procedures to enhance efficiency and effectiveness. To this end, VRA staff implemented a number of measures to enhance internal operations in fiscal year 2006 and further align VRA with the goals articulated by the Governor and General Assembly:

Financial Services

- Completed internal underwriting for 65 projects
- Achieved lowest interest rates in the nation on Senior Spring Virginia Pooled Financing Program (VPFP) Bonds
- Closed \$155 million total of VPFP loans for 15 total borrowers (6 new borrowers)
- Closed 17 Virginia Water Facilities Revolving Fund loans
- Closed 18 Virginia Water Supply Revolving Fund loans (and 5 grants)
- Closed first transportation project (\$21.24 million)
- Closed first regional jail project (\$17.57 million)
- Implemented new state of the art underwriting procurement
- Enhanced loan monitoring procedures to reduce late payments (only 1 late payment in FY2006).

Community Outreach

- Held successful, privately sponsored Local Government Financing Conference
- Initiated new Customer Profile System to more effectively reach current customer base and develop strategies for future initiatives.

Internal Operations

- Completed new chart of accounts structure and financial reporting system
- Implemented bank reconciliation module in financial reporting software
- Drafted policies and procedures manual for the Controller and Assistant Controller
- Incorporated Virginia Airports Revolving Fund into loan servicing
- Instituted the use of the Commonwealth's electronic procurement program (eVA)

- Coordinated request for proposal formats to encourage participation of Small, Woman and Minority Vendors (SWaM)
- Initiated comprehensive technology review and redesign
- Implemented new employee life and health insurance plans
- Completed comprehensive classification and compensation study
- Enhanced internal communications

Fiscal Year 2007 Key Goals & Initiatives

VRA management also recognizes that we operate in an ever-changing, highly competitive global marketplace with constantly increasing expectations for all business sectors, including government. Given this dynamic environment, VRA is committed to continually identify areas for improved performance to better serve our customers. Therefore, VRA management and staff recommended additional program advancements and process improvements during the fiscal year 2007 budget process. The Board approved several Fiscal Year 2007 Goals and Initiatives to further augment VRA's programs and operational efficiencies:

Refine & Expand Financial Programs

- Complete Strategic Plan with broad stakeholder input
- Collaborate with Secretary of Commerce & Trade on key initiatives
- Develop & implement Financial Policies
- Develop & implement Best Practices in Debt Management
- Develop & implement protocol for loan servicing and monitoring
- Successfully implement Dam Safety and Flood Prevention Assistance Program with the Department of Conservation and Recreation

Expand Community Outreach & Education

- Realign outreach and education as a component of Financial Services for the most effective service delivery
- Integrate project tracking, customer profile system and contact database into one customer relationship management system for increased efficiency in analysis and reporting
- Update printed education material and website with new creative look that fully reflects all current service areas
- Hold four regional workshops with focus on specific needs of geographic regions
- Explore partnership opportunities with private industry stakeholders
- Develop investor relations program

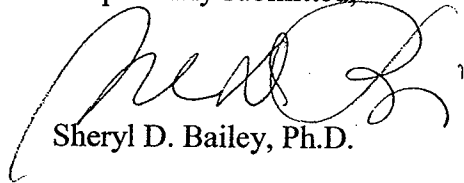
Streamline Operations to Enhance Efficiency & Effectiveness

- Complete internal operational efficiency review
- Complete training on financial software to more efficiently and effectively utilize available accounting system

- Implement activity based cost management system
- Automate revolving loan fund disbursements and payments
- Automate accounts payable
- Automate payroll function
- Implement human resource module of financial software
- Complete comprehensive review of employee policies and procedures
- Implement revised classification & compensation plan
- Increase training opportunities to enhance staff development
- Complete replacement and upgrade of technical infrastructure to improve connectivity, security, and reliability of IT system
- Complete negotiations for office space to reduce cost and improve space

In summary, I am pleased to report that the Authority had a strong fiscal year 2006. Additionally, we launched several initiatives to streamline operational procedures to enhance efficiency and effectiveness. With the fiscal year 2007 Budget, the Board and staff have demonstrated the Authority's commitment to continually improve programs and operations to meet the growing expectations of the Governor and General Assembly as well as the needs of our existing and future customers.

Respectfully submitted,



Sheryl D. Bailey, Ph.D.



Certified Public Accountants
Specialized Services
Business Solutions

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, 2006 and 2005, 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, 2006 and 2005, 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 22, 2006 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 3 - 5 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.

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying 2006 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.

Sodman & Company, LLP

Richmond, Virginia
August 22, 2006

Virginia Resources Authority

Management's Discussion and Analysis

June 30, 2006 and 2005

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

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

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

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 are 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 2006

The Authority had another strong year in fiscal year 2006. The Authority surpassed \$1 billion in net assets, an increase of 6.9% from the prior year. Total assets increased by \$163.2 million (7.2%) and total liabilities increased by \$96.3 million (7.4%) in comparison to the June 30, 2005 balances. The Authority also brought in an additional \$5.5 million in operating revenue and operating expenses increased \$2.0 million in comparison to the prior fiscal year, resulting in a \$3.5 million increase in operating income.

The Authority's net assets increased by approximately \$67.0 million primarily as a result of contributions from federal and state governments and interest on loans. The increase represents the disbursement of loans during the fiscal year with a large share of federal funds received in comparison with the prior year. The accompanying Letter of Transmittal contains additional details on the Authority's 2006 accomplishments.

Fiscal Year 2005

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.

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.

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 municipality, and/or (b) a pledge of certain revenues of the municipality 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. Under the 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. In addition, during fiscal year 2006, Moody's maintained its "Aa2" rating on the Authority's outstanding VARF bonds and, subsequent to the fiscal year end, Fitch upgraded its rating on those bonds to "AA" from "A+."

During the fiscal year ended June 30, 2006, the Authority issued two Infrastructure Revenue Bond Series for the Virginia Pooled Financing Program totaling \$128.0 million in tax-exempt bonds, \$22.9 million in AMT bonds and \$3.5 million in taxable bonds. From these proceeds, loans were made to 15 Virginia localities, including six borrowers new to the VFPF program.

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, \$13.1 million in AMT bonds, and \$2.3 million in taxable bonds (of which \$43.5 million was refunded debt); \$4.1 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).

Economic Conditions

The Authority is in the preliminary stages of the next Virginia Pooled Financing Program issuance due in the fall of 2006; however, the Authority currently has no pending bond issuance matters.

Notable Legislative Actions

The 2006 General Assembly enacted two pieces of legislation that have a notable impact on the Authority. The first action expanded the Authority's program area to include dam safety and flood prevention by creating the Dam Safety, Flood Prevention and Protection Assistance Fund and directing that the fund be administered jointly with the Virginia Department of Conservation and Recreation. The General Assembly also directed the Secretary of Natural Resources to develop a plan for Chesapeake Bay cleanup. In response, the Secretary of Natural Resources has been working with the Authority to refocus existing wastewater initiatives to Chesapeake Bay cleanup efforts.

Virginia Resources Authority

Statements of Net Assets

June 30,	2006	2005
Assets		
Current assets		
Cash	\$ 18,049,585	\$ 6,010,822
Cash equivalents	196,590,788	212,224,925
Investments	17,430,562	4,786,916
Loans receivable - current portion	62,356,473	75,529,142
Receivables:		
Investment interest	4,495,822	2,801,417
Loan interest	15,852,101	13,747,997
Federal funds	254,432	6,090,793
Other	5,504	260,465
Other	10,883	19,044
Total current assets	<u>315,046,150</u>	<u>321,471,521</u>
Noncurrent assets		
Investments	276,866,102	294,602,603
Loans receivable - less current portion - net	1,845,842,177	1,658,442,190
Furniture and fixtures - at cost - less accumulated depreciation of \$194,982 and \$167,219, respectively	45,721	68,003
Total noncurrent assets	<u>2,122,754,000</u>	<u>1,953,112,796</u>
Total assets	<u>2,437,800,150</u>	<u>2,274,584,317</u>
Liabilities		
Current liabilities		
Bonds payable - current portion	49,880,000	45,775,000
Accrued interest on bonds payable	12,424,183	10,013,634
Arbitrage rebate liability	199,281	2,048,537
Deferred revenue	64,054	68,094
Accounts payable and other liabilities	217,778	256,925
Total current liabilities	<u>62,785,296</u>	<u>58,162,190</u>
Noncurrent liabilities		
Bonds payable - less current portion - net	1,331,978,870	1,240,520,249
Deferred revenue	542,602	628,047
Arbitrage rebate liability	615,044	325,966
Total noncurrent liabilities	<u>1,333,136,516</u>	<u>1,241,474,262</u>
Total liabilities	<u>1,395,921,812</u>	<u>1,299,636,452</u>
Net assets		
Invested in capital assets - net of related debt	45,721	68,003
Restricted	1,037,733,171	971,377,454
Unrestricted	4,099,446	3,502,408
Total net assets	<u>\$ 1,041,878,338</u>	<u>\$ 974,947,865</u>

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,	2006	2005
Operating revenues		
Interest on loans	\$ 71,949,057	\$ 66,724,683
Interest on investments	21,519,977	21,130,519
Bond administrative fees	967,723	869,610
Administrative reimbursement	646,725	705,449
Other income	145,791	333,004
Total operating revenues	<u>95,229,273</u>	<u>89,763,265</u>
Operating expenses		
Interest on bonds	65,638,871	63,155,132
Grants to local governments	3,669,141	4,184,019
Personnel services	892,365	871,477
General operating	457,772	412,270
Contractual services	174,041	165,417
Total operating expenses	<u>70,832,190</u>	<u>68,788,315</u>
Operating income	<u>24,397,083</u>	<u>20,974,950</u>
Non-operating revenues		
Contributions from other governments	42,533,390	33,531,712
Gain (loss) on sale of fixed assets	-	(41)
Total non-operating revenues	<u>42,533,390</u>	<u>33,531,671</u>
Change in net assets	66,930,473	54,506,621
Net assets - beginning of year	<u>974,947,865</u>	<u>920,441,244</u>
Net assets - end of year	<u>\$ 1,041,878,338</u>	<u>\$ 974,947,865</u>

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

Virginia Resources Authority

Statements of Cash Flows

Years Ended June 30,	2006	2005
Cash flows from operating activities		
Cash payments to localities for loans	\$ (259,076,135)	\$ (227,309,669)
Principal repayments from localities on loans	84,707,429	130,827,902
Interest received on loans	61,764,362	59,224,760
Bond administration fees	967,723	869,610
Federal administrative reimbursement funds received	634,905	766,323
Cash received from other income	56,306	50,766
Net reimbursable expenses received (paid)	254,460	(242,148)
Cash payments for salaries and related benefits	(908,066)	(877,602)
Cash payments for contractual services	(164,986)	(165,417)
Cash payments for general operating expenses	(451,705)	(362,609)
Cash payments for operating grants	(3,669,141)	(4,184,019)
Net cash from operating activities	(115,884,848)	(41,402,103)
Cash flows from non-capital financing activities		
Proceeds from sale of bonds	157,503,389	331,632,120
Principal paid on bonds	(61,041,459)	(275,745,000)
Contributions from other governments	48,382,073	39,649,323
Cash received from other accounts	-	3,929
Interest paid on bonds	(55,904,649)	(56,688,720)
Net cash from non-capital financing activities	88,939,354	38,851,652
Cash flows from capital and related financing activities		
Purchase of furniture and fixtures	(5,480)	(20,855)
Proceeds from sale of furniture and fixtures	-	800
Net cash from capital and related financing activities	(5,480)	(20,055)
Cash flows from investing activities		
Purchase of investments	(1,656,927,581)	(171,412,454)
Proceeds from sales or maturities of investments	1,661,934,913	225,514,103
Interest received on investments - net	18,348,268	19,166,750
Net cash from investing activities	23,355,600	73,268,399
Net change in cash and cash equivalents	(3,595,374)	70,697,893
Cash and cash equivalents - beginning of year	218,235,747	147,537,854
Cash and cash equivalents - end of year	\$ 214,640,373	\$ 218,235,747
Reconciliation of cash and cash equivalents		
Cash per statements of net assets	\$ 18,049,585	\$ 6,010,822
Cash equivalents per statements of net assets	196,590,788	212,224,925
Cash and cash equivalents per the statements of cash flows	\$ 214,640,373	\$ 218,235,747

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

Virginia Resources Authority

Statements of Cash Flows

Years Ended June 30,	2006	2005
Reconciliation of operating income to net cash used in operating activities		
Operating income	\$ 24,397,083	\$ 20,974,950
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation, amortization and (accretion) - net	(960,033)	(3,518,539)
Interest on investments	(21,605,496)	(21,149,466)
Interest on bonds	58,315,198	63,115,832
Realized (gain) loss on investments	(51,479)	47,625
Unrealized (gain) loss on investments	136,998	(28,678)
(Gain) loss on sale of fixed assets	-	41
Change in:		
Loans receivable	(174,227,315)	(96,331,530)
Loan interest receivable	(2,104,103)	(1,796,386)
Federal funds receivable	(12,321)	60,874
Other receivables	254,961	(194,908)
Other current assets	9,055	(6,626)
Accounts payable and other liabilities	(37,396)	(2,530,319)
Deferred revenue	-	(44,973)
Net cash from operating activities	\$ (115,884,848)	\$ (41,402,103)

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

June 30, 2006 and 2005

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, federal facilities, public safety, professional sports facilities, aviation, brownfields remediation and transportation. Chesapeake Bay cleanup and Dam Safety legislation was passed in fiscal year 2006 by the General Assembly and will be implemented during fiscal year 2007. 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 municipalities 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 is 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 municipalities. 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 municipalities 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 municipalities 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 Agriculture Best Management Practices (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.

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, 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.

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 2006 and 2005.

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.

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 2006 and 2005 is \$27,762 and \$32,481, 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.

Net Assets

Components of net assets include the following:

Unrestricted amounts are those currently available at the discretion of the Authority's Board for use in the Authority's operations.

Restricted amounts are net assets less related liabilities reported in the statement of net assets that are subject to constraints on their use by creditors, grantors, contributors, or legislation.

Net assets invested in capital assets - net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of debt issued to finance the acquisition, improvement, or construction of those assets. There was no related debt at June 30, 2006 or 2005.

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 have been reclassified to conform to current year financial statement presentation.

3. Cash, Cash Equivalents and Investments

Cash includes cash on hand and amounts in checking accounts, which are insured by the Federal Deposit Insurance Corporation or are collateralized under provisions of the Commonwealth of Virginia Security for Public Deposits Act. At June 30, 2006 and 2005, the carrying amount of the Authority's cash was \$18,049,585 and \$6,010,822, respectively, and the bank balance was \$19,854,545 and \$8,322,829, respectively. The difference between the carrying amount and the bank balance is due to outstanding checks, deposits in transit and other reconciling items.

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 or Agency 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 of domestic corporations, mortgage or asset-backed securities, money market funds, guaranteed investment contracts (GICs), and the State Treasurer's Local Government Investment Pool.

As of June 30, 2006, the Authority had the following investments and maturities.

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Asset-Backed Securities	\$ 246,457	\$ -	\$ 246,457	\$ -	\$ -
Bankers' Acceptance	670,157	670,157	-	-	-
Commercial Paper	52,436,161	52,436,161	-	-	-
Corporate Notes	29,829	29,829	-	-	-
Guaranteed Investment Contracts	263,169,892	-	-	1,515,000	261,654,892
Local Government Investment Pool	45,912,983	45,912,983	-	-	-
Money Market Funds	16,698,098	16,698,098	-	-	-
Municipal Securities	328,750	-	70,000	-	258,750
Negotiable Certificates of Deposit	3,512,495	3,512,495	-	-	-
U.S. Treasury and Agency Securities	107,882,630	94,761,627	7,562,990	7,467	5,550,546
Totals	\$ 490,887,452	\$ 214,021,350	\$ 7,879,447	\$ 1,522,467	\$ 267,464,188

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority places emphasis on securities of high credit quality and marketability.

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, 2006, the Authority had the following investments:

Investment	Amount	S&P Rating	Percent of Portfolio
Commercial Paper	\$ 19,574,885	A-1+	4%
Commercial Paper	32,861,276	A-1	7%
Guaranteed Investment Contracts	263,169,892	Not Rated	54%
Local Government Investment Pool	45,912,983	AAAm	9%
Money Market Funds	16,698,098	AAAm	3%
U.S. Treasury and Agency Securities	7,777,712	Not Rated	2%
U.S. Treasury and Agency Securities	19,206,638	AAA	4%
U.S. Treasury and Agency Securities	46,168,835	A-1+	9%
U.S. Treasury and Agency Securities	34,704,554	A-1	7%
Other	4,812,579	Various	1%
Totals	\$ 490,887,452		100%

The Guaranteed Investment Contracts (GICs) that comprise over half of the investment portfolio were entered into based upon the credit rating of the GIC provider. The S&P ratings of the GIC providers are as follows:

Provider	Amount	Rating	Percent of Portfolio
Citigroup Capital Markets	\$ 4,331,974	AA-	1%
Fannie Mae	1,515,000	AAA	1%
FSA Capital Management Services	169,744,003	AAA	34%
MBIA Investment Management Corporation	3,853,689	AAA	1%
Trinity Funding Company, LLC	83,725,226	AAA	17%
Totals	\$ 263,169,892		54%

Concentration of Credit Risk

Concentration of credit risk is related to the risk of loss that may be attributed to the magnitude of a government's investment in a single source.

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:

Disbursement Funds

Investment Type	Fair Value	Percent of Portfolio	Maximum
Agency Mortgage-Backed Securities issued by the U.S. Government or Federal Agencies	\$ -	0%	15%
Asset-Backed Securities of authorized corporations or Federal Agencies	246,457	1%	15%
Bankers' Acceptance	543,234	1%	35%
Prime Quality Commercial Paper	52,140,217	26%	35%
Corporate Bonds and Notes	-	0%	35%
Local Government Investment Pool	44,209,579	22%	100%
Money Market Funds	7,053,442	3%	10%
Municipal Securities	-	0%	0%
Negotiable Certificates of Deposit	3,512,495	2%	5%
Repurchase Agreements	-	0%	25%
U.S. Treasury and Agency Securities	90,173,176	45%	100%
Totals	\$ 197,878,600	100%	

Appropriated Funds

Investment Type	Fair Value	Percent of Portfolio	Maximum
Agency Mortgage-Backed Securities issued by the U.S. Government or Federal Agencies	\$ -	0%	15%
Asset-Backed Securities of authorized corporations or Federal Agencies	-	0%	15%
Bankers' Acceptance	126,923	4%	35%
Prime Quality Commercial Paper	295,944	9%	35%
Corporate Bonds and Notes	-	0%	35%
Local Government Investment Pool	473,821	15%	100%
Money Market Funds	121,161	4%	10%
Municipal Securities	-	0%	0%
Negotiable Certificates of Deposit	-	0%	10%
Repurchase Agreements	-	0%	25%
U.S. Treasury and Agency Securities	2,201,897	68%	100%
Totals	\$ 3,219,746	100%	

General Fund

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Portfolio</u>	<u>Maximum</u>
Agency Mortgage-Backed Securities issued by the U.S. Government or Federal Agencies	\$ -	0%	50%
Asset-Backed Securities of authorized corporations or Federal Agencies	-	0%	25%
Bankers' Acceptance	-	0%	25%
Prime Quality Commercial Paper	-	0%	25%
Corporate Bonds and Notes	29,829	1%	40%
Local Government Investment Pool	1,229,583	13%	100%
Money Market Funds	264,838	3%	10%
Municipal Securities	328,750	4%	0%
Negotiable Certificates of Deposit	-	0%	5%
Repurchase Agreements	-	0%	25%
U.S. Treasury and Agency Securities	7,419,083	79%	100%
Totals	\$ 9,272,083	100%	

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.

As of June 30, 2006, bond fund investments totaled \$280,517,023. The Policy does not establish limitations on the portfolio composition in the bond fund. However, the investment of bond funds must be diversified in such a manner to ensure the preservation of principal.

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.

The Policy also establishes limitations on portfolio composition by issuer in order to further 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) the Local Government Investment Pool, (3) fully insured/collateralized certificates of deposit or repurchase agreements that are collateralized by the U.S. Government or Agencies thereof, and (4) mutual funds whereby the portfolio is limited to U.S. Government or Agency securities.

As of June 30, 2006, the portion of the Authority's portfolio, excluding U.S. Government guaranteed obligations, the Virginia Local Government Investment Pool, money market funds, and bond fund investments, that exceeded 5% of the total portfolio was as follows:

<u>Issuer</u>	<u>% of Portfolio</u>
Federal Home Loan Mortgage Corporation (Freddie Mac)	7.99%
Federal National Mortgage Association (Fannie Mae)	7.66%

Interest Rate Risk

Interest rate risk is the risk that changes in the interest rates of debt instruments will adversely affect the fair value of an investment. The Authority has selected the Segmented Time Distribution method of disclosure.

As a means of limiting exposure to fair value losses arising from rising interest rates, the Authority's Policy limits disbursement and appropriated fund individual investments to a stated maturity of no more than one year from the date of purchase. The average maturity of a single security in the general fund may not exceed five years. The average maturity of each portfolio fund type may not exceed 180 days for disbursement funds, 120 days for appropriated funds, and three years for the general fund.

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, 2006, the Authority had the following investments and maturities:

Disbursement Funds

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Asset-Backed Securities	\$ 246,457	\$ -	\$ 246,457	\$ -	\$ -
Bankers' Acceptance	543,234	543,234	-	-	-
Commercial Paper	52,140,217	52,140,217	-	-	-
Local Government					
Investment Pool	44,209,579	44,209,579	-	-	-
Money Market Funds	7,053,442	7,053,442	-	-	-
Negotiable Certificates of Deposit	3,512,495	3,512,495	-	-	-
U.S. Treasury and Agency Securities	90,173,176	88,176,456	1,996,720	-	-
Totals	\$ 197,878,600	\$ 195,635,423	\$ 2,243,177	\$ -	\$ -

Average maturity of all investments 55 Days

Appropriated Funds

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Banker's Acceptance	\$ 126,923	\$ 126,923	\$ -	\$ -	\$ -
Commercial Paper	295,944	295,944	-	-	-
Local Government					
Investment Pool	473,821	473,821	-	-	-
Money Market Funds	121,161	121,161	-	-	-
U.S. Treasury and Agency Securities	2,201,897	2,201,897	-	-	-
Totals	\$ 3,219,746	\$ 3,219,746	\$ -	\$ -	\$ -

Average maturity of all investments 12 Days

General Fund

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Corporate Notes	\$ 29,829	\$ 29,829	\$ -	\$ -	\$ -
Local Government Investment Pool	1,229,583	1,229,583	-	-	-
Money Market Funds	264,838	264,838	-	-	-
Municipal Securities	328,750	-	70,000	-	258,750
U.S. Treasury and Agency Securities	7,419,083	1,803,385	5,566,270	7,467	41,961
Totals	\$ 9,272,083	\$ 3,327,635	\$ 5,636,270	\$ 7,467	\$ 300,711
Average maturity of all investments					<u>341 Days</u>

Bond Fund

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Guaranteed Investment Contracts	\$ 263,169,892	\$ -	\$ -	\$ 1,515,000	\$ 261,654,892
Money Market Funds	9,258,657	9,258,657	-	-	-
U.S. Treasury and Agency Securities	8,088,474	2,579,889	-	-	5,508,585
Totals	\$ 280,517,023	\$ 11,838,546	\$ -	\$ 1,515,000	\$ 267,163,477
Average maturity of all investments					<u>437 Days</u>

The disbursement funds include \$2,243,177 of investments with maturities over one year and the general fund includes \$308,178 of investments with maturities over five years. These investments were purchased as short-term securities and are not expected to be held until maturity.

Custodial 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 Authority's Investment 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 Depository 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, 2006, all of the Authority's deposits and investments are held and insured by a qualified public depository in the Authority's name.

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, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Loans receivable related to bond issues:		
Water and Sewer System Revenue Bonds	\$ 225,216,834	\$ 219,994,418
Solid Waste Disposal System Revenue Bonds	95,315,000	104,230,000
Water, Sewer, and Solid Waste Disposal System Revenue Bonds	126,865,000	102,785,000
Water, Sewer, and Public Safety Revenue Bonds	485,880,000	401,285,000
Airport Revolving Fund Revenue Bonds	68,320,183	70,262,749
Unamortized discount/premium and issuance expenses – net	4,543,143	1,731,144
Subtotal – loans receivable related to bond issues	<u>1,006,140,160</u>	<u>900,288,311</u>
Loans receivable related to revolving loan funds:		
VWFRF	552,658,162	514,931,583
VWFRF – Leveraged	254,745,219	232,800,822
VWFRF – AgBMP	6,550,589	4,956,148
VWSRF	88,104,520	80,994,468
Subtotal – loans receivable related to revolving loan funds	<u>902,058,490</u>	<u>833,683,021</u>
Total loans receivable	<u>\$ 1,908,198,650</u>	<u>\$ 1,733,971,332</u>
Loans receivable – current	\$ 62,356,473	\$ 75,529,142
Loans receivable – noncurrent	<u>1,845,842,177</u>	<u>1,658,442,190</u>
	<u>\$ 1,908,198,650</u>	<u>\$ 1,733,971,332</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 fiscal years 2007 to 2038 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 \$54,409,026 from the VWFRF and \$12,499,247 from the VWSRF as of June 30, 2006. At June 30, 2006 and 2005, no loans receivable were considered delinquent nor in default and no allowance for loan losses had been provided. There were no losses incurred in 2006 or 2005.

5. Bonds Payable

Description	Original Amount	Amount Outstanding	
		June 30, 2006	2005
<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	235,000	300,000
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	2,113,221	3,077,115
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	5,000
Lot 17, dated July 1, 1993, interest rates ranging from 2.60% to 5.40%, final due date October 1, 2008	1,855,000	405,000	510,000
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
1993 Series B, dated October 1, 1993, interest rates ranging from 3.25% to 5.125%, final due date October 1, 2006	13,965,000	20,000	495,000
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
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	310,000	605,000
Series 1997 C, dated March 15, 1997, interest rates ranging from 3.85% to 5.50%, final due date October 1, 2027	3,100,000	2,655,000	2,720,000
Series 1997 E, dated August 7, 1997, variable rate 7-day demand securities, final due date October 1, 2028	34,380,000	30,085,000	30,730,000

Description	Original Amount	Amount Outstanding	
		2006	June 30, 2005
Series 1997F, dated September 1, 1997, interest rates ranging from 3.80% to 5.20%, final due date November 1, 2017	3,650,000	2,575,000	2,730,000
Series 1997 H, dated November 15, 1997, interest rates ranging from 3.85% to 5.30%, final due date October 1, 2018	6,365,000	4,635,000	4,895,000
Series 1998A (Sewer System), dated March 1, 1998, interest rates ranging from 3.60% to 5.00%, final due date May 1, 2022	16,520,000	15,635,000	15,970,000
Series 1998B, dated March 1, 1998, interest rates ranging from 3.75% to 5.00%, final due date October 1, 2028.	2,380,000	2,080,000	2,130,000
Series 1998C, 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
Series 1998D, dated October 1, 1998, interest rates ranging from 3.20% to 4.75%, final due date October 1, 2028	16,185,000	14,210,000	14,525,000
Series 1999A, dated October 15, 1999, interest rates ranging from 4.00% to 5.80%, final due date October 1, 2024	4,500,000	3,875,000	3,990,000
Series 2000C, dated October 1, 2000, interest rates ranging from 4.70% to 5.00%, final due date October 1, 2021	4,640,000	4,045,000	4,205,000
Series 2001, dated October 1, 2001, interest rates ranging from 2.50% to 5.25%, final due date May 1, 2032	13,155,000	12,615,000	12,770,000
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	16,355,000	16,405,000
Series 2002, dated July 31, 2002, interest rates ranging from 4.875% to 5.465%, final due date November 1, 2035	62,747,167	68,768,613	67,122,304
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	21,970,000	22,475,000
Series 2004 CWSRF, dated June 3, 2004, interest rates ranging from 3.00% to 5.25%, final due date October 1, 2026	160,800,000	159,160,000	160,490,000
Series 2005 CWSRF (Refunding), dated June 30, 2005, interest rates ranging from 3.00% to 5.50%, final due date October 1, 2022	188,475,000	177,810,000	188,475,000

Description	Original Amount	Amount Outstanding	
		2006	June 30, 2005
<i>Solid Waste Disposal System Revenue Bonds:</i>			
Series 1997 A, dated March 1, 1997, interest rates ranging from 3.65% to 4.90%, final due date April 1, 2008	1,230,000	270,000	395,000
Series 1997, dated September 1, 1997, interest rates ranging from 3.80% to 5.20%, final due date November 1, 2017	1,180,000	830,000	880,000
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	2,830,000	5,245,000
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	2,740,000	2,915,000
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	26,895,000	29,725,000
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	12,030,000	13,280,000
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	2,355,000	2,600,000
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	36,335,000	38,160,000
<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	28,840,000	29,655,000
Series 2000B, dated November 1, 2000, interest rates ranging from 4.40% to 5.60%, final due date May 1, 2030	25,805,000	20,340,000	21,010,000
Series 2001A, dated June 28, 2001, interest rates ranging from 4.00% to 5.20%, final due date May 1, 2031	29,140,000	24,610,000	25,815,000
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	17,360,000	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	7,855,000	8,190,000

Description	Original Amount	Amount Outstanding June 30,	
		2006	2005
<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	43,900,000	45,045,000
Series 2002A, dated June 6, 2002, interest rates ranging from 3.00% to 5.13%, final due date May 1, 2027	42,845,000	36,320,000	38,175,000
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	34,920,000	36,460,000
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	13,645,000	14,625,000
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	51,745,000	52,795,000
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	31,445,000	31,940,000
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	7,395,000	8,505,000
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	3,235,000	3,725,000
Series 2003 Senior (Taxable), dated December 4, 2003, interest rate ranging from 1.410% to 4.570%, final due date November 1, 2011	2,375,000	1,850,000	2,125,000
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	795,000	910,000
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	59,605,000	60,230,000
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	32,120,000	32,355,000
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	28,020,000	28,690,000

Description	Original Amount	Amount Outstanding	
		2006	June 30, 2005
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	13,625,000	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	8,155,000	8,965,000
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	3,710,000	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	1,465,000	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	630,000	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	21,660,000	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	9,330,000	9,485,000
Series 2005C Senior (Non-AMT), dated December 7, 2005, interest rates ranging from 4.63% to 5.00%, final due date November 1, 2035	36,710,000	36,710,000	-
Series 2005C Subordinate (Non-AMT), dated December 7, 2005, interest rates ranging from 4.00% to 4.75%, final due date November 1, 2035	16,365,000	16,365,000	-
Series 2005C Senior (AMT), dated December 7, 2005, interest rates ranging from 3.35% to 4.75%, final due date November 1, 2025	6,045,000	6,045,000	-
Series 2005C Subordinate (AMT), dated December 7, 2005, interest rates ranging from 3.63% to 4.85%, final due date November 1, 2025	2,595,000	2,595,000	-
Series 2006A Senior (Non-AMT), dated June 8, 2006, interest rates ranging from 3.50% to 5.00%, final due date November 1, 2036	49,145,000	49,145,000	-
Series 2006A Subordinate (Non-AMT), dated June 8, 2006, interest rates ranging from 3.65% to 5.00%, final due date November 1, 2036	25,825,000	25,825,000	-
Series 2006A Senior (AMT), dated June 8, 2006, interest rates ranging from 4.00% to 5.00%, final due date November 1, 2013	9,955,000	9,955,000	-
Series 2006A Subordinate (AMT), dated June 8, 2006, interest rate of 5.00%, final due date November 1, 2013	4,290,000	4,290,000	-

Description	Original Amount	Amount Outstanding June 30,	
		2006	2005
Series 2006A Senior (Taxable), dated June 8, 2006, interest rates ranging from 5.52% to 5.59%, final due date November 1, 2013	2,450,000	2,450,000	-
Series 2006A Subordinate (Taxable), dated June 8, 2006, interest rates ranging from 5.59% to 5.66%, final due date November 1, 2013	1,045,000	1,045,000	-
<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	25,340,000	26,135,000
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	22,915,000	23,685,000
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	5,600,000	6,000,000
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	2,375,000	2,450,000
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	2,120,000	2,205,000
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	10,170,000	10,735,000
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	4,055,000	4,090,000
Total bonds at June 30		1,367,326,834	1,273,394,419
Unamortized discounts/premiums and issuance expenses		14,532,036	12,900,830
Total bonds – net		\$ 1,381,858,870	\$ 1,286,295,249
Total bonds outstanding as of June 30:		\$ 1,367,326,834	\$ 1,273,394,419
Unaccreted Capital Appreciation Bonds as of June 30		50,966,036	52,805,581
Total outstanding maturities		\$ 1,418,292,870	\$ 1,326,200,000
Bonds payable – current		\$ 49,880,000	\$ 45,775,000
Bonds payable – noncurrent		1,331,978,870	1,240,520,249
		\$ 1,381,858,870	\$ 1,286,295,249

Activity in the bonds payable and related accounts for fiscal year 2006 was as follows:

Description	Balance at June 30, 2005	Issued	Retired	Balance at June 30, 2006	Amount Due Within One Year
Total bonds outstanding	\$ 1,273,394,419	\$ 154,425,000	\$ (60,492,585)	\$ 1,367,326,834	\$ 49,880,000
Unamortized discounts/ premiums and issuance expense	<u>12,900,830</u>	2,948,727	(1,317,521)	<u>14,532,036</u>	898,310
	<u>\$ 1,286,295,249</u>			<u>\$ 1,381,858,870</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	Amount Due Within One Year
Total bonds outstanding	\$ 1,238,920,671	\$ 308,380,000	\$ (273,906,252)	\$ 1,273,394,419	\$ 45,775,000
Unamortized discounts/ premiums and issuance expense	<u>2,298,328</u>	8,534,599	2,067,903	<u>12,900,830</u>	581,065
	<u>\$ 1,241,218,999</u>			<u>\$ 1,286,295,249</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 Revenue Bonds have Capital Appreciation Bonds with unaccreted values of \$176,779 and \$50,789,257, respectively, as of June 30, 2006.

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

Water and Sewer Revenue Bond	Difference Between Previous and New Debt Service	Economic Gain as a Result of the Refunding
1995 Series AS	\$ 2,293,816	\$ 695,388
1998 Series C	<u>1,768,308</u>	<u>247,265</u>
Total bonds - net	<u>\$ 4,062,124</u>	<u>\$ 942,653</u>

The amount of outstanding bonds payable related to bonds, which have been in-substance defeased or refunded was \$212,014,100 and \$227,550,100 at June 30, 2006 and 2005, respectively. This includes bonds that were in-substance defeased during prior years: 1996 Series A, 1997 Series B and D, and CWSRF 1999 and 2000.

Future principal and interest obligations related to bond indebtedness, including unaccreted capital

appreciation bonds are as follows:

June 30,	Principal	Interest	Total
2007	\$ 49,880,000	61,468,644	111,348,644
2008	58,300,000	58,955,882	117,255,882
2009	59,530,000	56,608,609	116,138,609
2010	60,775,000	54,190,302	114,965,302
2011	75,480,000	51,642,202	127,122,202
2012 – 2016	360,115,000	205,116,759	565,231,759
2017 – 2021	308,645,000	128,011,592	436,656,592
2022 – 2026	238,340,000	64,092,461	302,432,461
2027 – 2031	119,477,870	28,641,230	148,119,100
2032 – 2036	86,060,000	11,033,145	97,093,145
2037	1,690,000	40,750	1,730,750
Total	\$ 1,418,292,870	\$ 719,801,576	\$ 2,138,094,446

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 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, 2006 and June 30, 2005, the cash, cash equivalent, and investments restricted for use related to the Operating Reserve Fund amounted to \$5,255,900 and \$5,148,612, 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 \$814,325 and \$2,374,503 at June 30, 2006 and 2005, respectively (\$199,281 and \$2,048,537, 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 \$606,656 and \$696,141 at June 30, 2006 and 2005, respectively (\$64,054 and \$68,094, respectively, was considered to be current).

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, 2006 and 2005, an accrual for employee compensated absences in the amount of \$25,032 and \$54,209, respectively, was included in accounts payable and other liabilities in the accompanying statement of net assets.

The following summarizes the activity related to these other noncurrent liabilities for fiscal year 2006:

	Noncurrent			Noncurrent	
	Balance			Balance	
	June 30,			June 30,	
	2005	Additions	Deletions	2006	
Arbitrage rebate liability	\$ 325,966	\$ 615,044	\$ 325,966	\$ 615,044	
Deferred revenue	628,047	542,602	628,047	542,602	
Accrued leave	54,209	-	29,177	25,032	

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

	Noncurrent			Noncurrent	
	Balance			Balance	
	June 30,			June 30,	
	2004	Additions	Deletions	2005	
Arbitrage rebate liability	\$ 1,595,081	\$ 325,966	\$ 1,595,081	\$ 325,966	
Deferred revenue	687,758	211,951	271,662	628,047	
Accrued leave	60,333	-	6,124	54,209	

8. Contributions from Other Governments

During the years ended June 30, 2006 and 2005, the Authority received \$32,968,147 and \$25,392,019, 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 municipalities. 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 \$9,565,243 and \$8,139,692, 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 www.varetire.org 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 Code of Virginia and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended June 30, 2006 was 5% 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, 2006, VRS retirement expense was \$59,100. Total retirement savings expense was \$77,203 and \$86,230 for the years ended June 30, 2006 and 2005, respectively, a portion of which is reimbursed.

For fiscal year 2006, the Authority's annual pension cost of \$59,100 was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4.00% to 7.00% per year, and (c) 3.00% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period.

Trend information for the Authority is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2005	\$ 27,876	100%	\$ -
June 30, 2006	\$ 59,100	100%	\$ -

Required supplementary information:

Schedule of funding progress for the Authority is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage Of Covered Payroll
June 30, 2005	\$ 7,759	\$ 112,659	\$ 104,900	6.89%	\$ 324,506	32.33%

Notes to schedules of employer contributions on funding progress:

Valuation date	June 30, 2005
Actuarial cost method	Entry age normal
Amortization method	Level percent, open
Payroll growth method	3.00%
Remaining amortization period	21 years
Asset valuation method	Modified market

10. 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, 2006, 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.

11. Leases

The Authority leases its corporate office space under an operating lease. The office lease expires in November 2006 and future minimum rental payments for fiscal year 2007 total \$41,594. The Authority expects that in the normal course of business, the lease will be replaced by a similar operating lease.

Rental expense totaled \$76,691 and \$84,520 for the years ended June 30, 2006 and 2005, respectively.

12. Subsequent Events

Subsequent to June 30, 2006 and through August 22, 2006, the VWFRF closed two loans totaling \$6,361,526, with 0% interest rates and the VWSRF closed one loan totaling \$481,875 with a 0% interest rate.

* * * * *

Virginia Resources Authority

Supplementary Information

Year Ended June 30, 2006

Virginia Resources Authority

Combining Schedule of Net Assets

June 30, 2006	General Accounts	Revolving Loan Fund Accounts	Airport Revolving Fund Accounts	Bond Accounts	Total
Assets					
Current assets					
Cash	\$ 414,252	\$ 17,635,333	\$ -	\$ -	\$ 18,049,585
Cash equivalents	1,494,421	187,695,673	4,644,296	2,756,398	196,590,788
Investments	1,833,216	15,497,846	99,500	-	17,430,562
Loans receivable - current portion	-	49,028,906	2,692,567	10,635,000	62,356,473
Receivables:					
Investment interest	61,874	3,888,700	290,921	254,327	4,495,822
Loan interest	60,934	8,776,755	313,487	6,700,925	15,852,101
Federal funds	-	254,432	-	-	254,432
Other	5,504	-	-	-	5,504
Other	9,273	716	-	894	10,883
Total current assets	3,879,474	282,778,361	8,040,771	20,347,544	315,046,150
Noncurrent assets					
Investments	5,944,446	223,347,678	26,177,145	21,396,833	276,866,102
Loans receivable - less current - net	-	853,029,584	65,627,616	927,184,977	1,845,842,177
Furniture and fixtures - at cost - less accumulated depreciation of \$194,982	18,817	26,904	-	-	45,721
Total noncurrent assets	5,963,263	1,076,404,166	91,804,761	948,581,810	2,122,754,000
Total assets	9,842,737	1,359,182,527	99,845,532	968,929,354	2,437,800,150
Liabilities					
Current liabilities					
Bonds payable - current portion	-	11,780,000	2,960,000	35,140,000	49,880,000
Accrued interest on bonds payable	-	4,234,099	1,439,852	6,750,232	12,424,183
Arbitrage rebate liability	-	199,281	-	-	199,281
Due to (from) other accounts	(418,227)	418,227	-	-	-
Deferred revenue	64,054	-	-	-	64,054
Accounts payable and other liabilities	104,876	-	112,902	-	217,778
Total current liabilities	(249,297)	16,631,607	4,512,754	41,890,232	62,785,296
Noncurrent liabilities					
Bonds payable - less current - net	-	336,097,944	68,537,438	927,343,488	1,331,978,870
Deferred revenue	542,602	-	-	-	542,602
Arbitrage rebate liability	-	579,512	35,532	-	615,044
Total noncurrent liabilities	542,602	336,677,456	68,572,970	927,343,488	1,333,136,516
Total liabilities	293,305	353,309,063	73,085,724	969,233,720	1,395,921,812
Net assets					
Invested in capital assets - net of related debt	18,817	26,904	-	-	45,721
Restricted	5,431,169	1,005,846,560	26,759,808	(304,366)	1,037,733,171
Unrestricted	4,099,446	-	-	-	4,099,446
Total net assets	\$ 9,549,432	\$ 1,005,873,464	\$ 26,759,808	\$ (304,366)	\$ 1,041,878,338

See report of independent auditors.

Virginia Resources Authority

Combining Schedule of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2006	General Accounts	Revolving Loan Fund Accounts	Airport Revolving Fund Accounts	Bond Accounts	Total
Operating revenues					
Interest on loans	\$ 97,541	\$ 26,813,833	\$ 3,043,141	\$ 41,994,542	\$ 71,949,057
Investment income	267,493	18,806,797	1,271,761	1,173,926	21,519,977
Bond administrative fees	-	-	132,155	835,568	967,723
Administrative reimbursement	-	646,725	-	-	646,725
Other income	56,306	38,394	4,044	47,047	145,791
Total operating revenues	421,340	46,305,749	4,451,101	44,051,083	95,229,273
Operating expenses					
Interest on bonds	-	18,822,926	3,568,221	43,247,724	65,638,871
Grants to local governments	-	3,669,141	-	-	3,669,141
Personnel services	442,412	449,953	-	-	892,365
General operating	194,983	241,184	21,605	-	457,772
Contractual services	40,584	126,507	6,950	-	174,041
Total operating expenses	677,979	23,309,711	3,596,776	43,247,724	70,832,190
Operating income (loss)	(256,639)	22,996,038	854,325	803,359	24,397,083
Non-operating revenues (expenses)					
Contributions from other governments	-	42,533,390	-	-	42,533,390
Operating transfers	1,129,633	(48,643)	(73,930)	(1,007,060)	-
Total non-operating revenues (expenses)	1,129,633	42,484,747	(73,930)	(1,007,060)	42,533,390
Change in net assets	872,994	65,480,785	780,395	(203,701)	66,930,473
Net assets - beginning of year	8,676,438	940,392,679	25,979,413	(100,665)	974,947,865
Net assets - end of year	\$ 9,549,432	\$ 1,005,873,464	\$ 26,759,808	\$ (304,366)	\$ 1,041,878,338

See report of independent auditors.

Virginia Resources Authority

Combining Schedule of Cash Flows

For the Year Ended June 30, 2006	General Accounts	Revolving Loan Fund Accounts	Airport Revolving Fund Accounts	Bond Accounts	Total
Cash flows from operating activities					
Cash payments to localities for loans	\$ -	\$ (104,872,744)	\$ (750,002)	\$ (153,453,389)	\$ (259,076,135)
Principal repayments from localities on loans	-	36,497,276	2,692,568	45,517,585	84,707,429
Interest received on loans	54,373	22,034,593	3,018,740	36,656,656	61,764,362
Bond administration fees received	-	-	132,155	835,568	967,723
Federal administrative reimbursement funds received	-	634,905	-	-	634,905
Cash received from other income	56,306	-	-	-	56,306
Net reimbursable expenses received	254,460	-	-	-	254,460
Cash payments for salaries and related benefits	(458,113)	(449,953)	-	-	(908,066)
Cash payments for contractual services	(32,818)	(125,218)	(6,950)	-	(164,986)
Cash payments for general operating expenses	(206,774)	(223,326)	(21,605)	-	(451,705)
Cash payments for operating grants	-	(3,669,141)	-	-	(3,669,141)
Net cash from operating activities	(332,566)	(50,173,608)	5,064,906	(70,443,580)	(115,884,848)
Cash flows from non-capital financing activities					
Proceeds from sale of bonds	-	-	-	157,503,389	157,503,389
Principal paid on bonds	-	(12,538,874)	(2,730,000)	(45,772,585)	(61,041,459)
Contributions from other governments	-	48,382,073	-	-	48,382,073
Cash received (paid) from other accounts	1,196,674	(166,775)	(69,886)	(960,013)	-
Interest paid on bonds	-	(14,772,285)	(3,480,767)	(37,651,597)	(55,904,649)
Net cash from non-capital financing activities	1,196,674	20,904,139	(6,280,653)	73,119,194	88,939,354
Cash flows from capital and related financing activities					
Purchase of furniture and fixtures	(3,303)	(2,177)	-	-	(5,480)
Cash flows from investing activities					
Purchase of investments	(10,212,685)	(1,582,987,126)	(59,844,168)	(3,883,602)	(1,656,927,581)
Proceeds from sales or maturities of investments	8,767,161	1,591,320,542	61,847,210	-	1,661,934,913
Interest received on investments - net	352,028	15,683,736	1,193,118	1,119,386	18,348,268
Net cash from investing activities	(1,093,496)	24,017,152	3,196,160	(2,764,216)	23,355,600
Net change in cash and cash equivalents	(232,691)	(5,254,494)	1,980,413	(88,602)	(3,595,374)
Cash and cash equivalents - beginning of year	2,141,364	210,585,500	2,663,883	2,845,000	218,235,747
Cash and cash equivalents - end of year	\$ 1,908,673	\$ 205,331,006	\$ 4,644,296	\$ 2,756,398	\$ 214,640,373
Reconciliation of cash and cash equivalents					
Cash per statements of net assets	\$ 414,252	\$ 17,635,333	\$ -	\$ -	\$ 18,049,585
Cash equivalents per statements of net assets	1,494,421	187,695,673	4,644,296	2,756,398	196,590,788
Cash and cash equivalents per the statements of cash flows	\$ 1,908,673	\$ 205,331,006	\$ 4,644,296	\$ 2,756,398	\$ 214,640,373

Virginia Resources Authority

Combining Schedule of Cash Flows

For the Year Ended June 30, 2006	General Accounts	Loan Fund Accounts	Airport Revolving Fund Accounts	Bond Accounts	Total
Reconciliation of operating income (loss) to net cash from operating activities					
Operating income (loss)	\$ (256,639)	\$ 22,996,038	\$ 854,325	\$ 803,359	\$ 24,397,083
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation, amortization and (accretion) - net	9,904	(1,118,407)	101,735	46,735	(960,033)
Interest on investments	(380,167)	(18,754,241)	(1,272,145)	(1,198,943)	(21,605,496)
Interest on bonds	-	17,079,957	3,462,442	37,772,799	58,315,198
Realized (gain) loss on investments	42,535	(93,970)	(44)	-	(51,479)
Unrealized (gain) loss on investments	70,139	41,414	428	25,017	136,998
Change in:					
Loans receivable	-	(68,375,468)	1,942,566	(107,794,413)	(174,227,315)
Loan interest receivable	(43,168)	(1,938,400)	(24,401)	(98,134)	(2,104,103)
Federal funds receivable	-	(12,321)	-	-	(12,321)
Other receivables	254,460	501	-	-	254,961
Other current assets	7,766	1,289	-	-	9,055
Accounts payable and other liabilities	(37,396)	-	-	-	(37,396)
Net cash from operating activities	\$ (332,566)	\$ (50,173,608)	\$ 5,064,906	\$ (70,443,580)	\$ (115,884,848)

See report of independent auditors.

Schedule of Net Assets - Revolving Loan Fund Accounts

June 30, 2006	Virginia Water Facilities Revolving Fund Accounts	Virginia Water Supply Revolving Fund Construction Account	Virginia Water Supply Revolving Fund Administrative Account	Virginia Water Facilities Investment Fund Accounts	Virginia Water Supply Fund Account	Combined Sewer Overflow Fund Account	Total
Assets							
Current assets							
Cash	\$ 13,896,373	\$ 2,804,809	\$ -	\$ 763,897	\$ 170,254	\$ -	\$ 17,635,333
Cash equivalents	166,667,782	9,603,525	-	6,901,895	-	4,522,471	187,695,673
Investments	15,297,990	199,856	-	-	-	-	15,497,846
Loans receivable - current portion	45,536,874	3,392,468	-	63,011	36,553	-	49,028,906
Receivables:							
Investment interest	3,819,107	69,593	-	-	-	-	3,888,700
Loan interest	8,626,698	148,920	-	-	1,137	-	8,776,755
Federal funds	107,696	-	146,736	-	-	-	254,432
Other	415	-	301	-	-	-	716
Total current assets	253,952,935	16,219,171	147,037	7,728,803	207,944	4,522,471	282,778,361
Noncurrent assets							
Investments	223,348,534	(856)	-	-	-	-	223,347,678
Loans receivable - less current - net	768,113,122	84,416,075	-	240,963	259,424	-	853,029,584
Furniture and fixtures - at cost - less accumulated depreciation	15,341	-	11,563	-	-	-	26,904
Total noncurrent assets	991,476,997	84,415,219	11,563	240,963	259,424	-	1,076,404,166
Total assets	1,245,429,932	100,634,390	158,600	7,969,766	467,368	4,522,471	1,359,182,527
Liabilities							
Current liabilities							
Bonds payable - current portion	11,780,000	-	-	-	-	-	11,780,000
Accrued interest on bonds payable	4,234,099	-	-	-	-	-	4,234,099
Arbitrage rebate liability	199,281	-	-	-	-	-	199,281
Due to (from) other accounts	274,827	9,792	143,403	-	(9,795)	-	418,227
Total current liabilities	16,488,207	9,792	143,403	-	(9,795)	-	16,631,607
Noncurrent liabilities							
Bonds payable - less current portion - net	336,097,944	-	-	-	-	-	336,097,944
Arbitrage rebate liability	579,512	-	-	-	-	-	579,512
Total noncurrent liabilities	336,677,456	-	-	-	-	-	336,677,456
Total liabilities	353,165,663	9,792	143,403	-	(9,795)	-	353,309,063
Net Assets							
Invested in capital assets - net of related debt	15,341	-	11,563	-	-	-	26,904
Restricted	892,248,928	100,624,598	3,634	7,969,766	477,163	4,522,471	1,005,846,560
Total net assets	\$ 892,264,269	\$ 100,624,598	\$ 15,197	\$ 7,969,766	\$ 477,163	\$ 4,522,471	\$ 1,005,873,464

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, 2006	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	\$ 26,269,430	\$ 537,950	\$ -	\$ -	\$ 6,453	\$ -	\$ 26,813,833
Interest on investments	17,942,635	457,605	-	222,617	4,069	179,871	18,806,797
Administrative reimbursement	375,009	-	271,716	-	-	-	646,725
Other income	38,394	-	-	-	-	-	38,394
Total operating revenues	44,625,468	995,555	271,716	222,617	10,522	179,871	46,305,749
Operating expenses							
Interest on bonds	18,822,926	-	-	-	-	-	18,822,926
Grants to local governments	-	3,444,484	-	-	75,367	149,290	3,669,141
Personnel services	268,980	-	180,973	-	-	-	449,953
General operating	185,440	7,277	42,609	3,122	174	2,562	241,184
Contractual services	74,419	-	52,088	-	-	-	126,507
Total operating expenses	19,351,765	3,451,761	275,670	3,122	75,541	151,852	23,309,711
Operating income (loss)	25,273,703	(2,456,206)	(3,954)	219,495	(65,019)	28,019	22,996,038
Non-operating revenues (expenses)							
Contributions from other governments	19,436,373	13,799,486	-	5,297,531	-	4,000,000	42,533,390
Operating transfers	3,869,170	(7,638)	(2,156)	(3,917,814)	9,795	-	(48,643)
Total non-operating revenues	23,305,543	13,791,848	(2,156)	1,379,717	9,795	4,000,000	42,484,747
Change in net assets	48,579,246	11,335,642	(6,110)	1,599,212	(55,224)	4,028,019	65,480,785
Net assets - beginning of year	843,685,023	89,288,956	21,307	6,370,554	532,387	494,452	940,392,679
Net assets - end of year	\$ 892,264,269	\$ 100,624,598	\$ 15,197	\$ 7,969,766	\$ 477,163	\$ 4,522,471	\$ 1,005,873,464

See report of independent auditors.

Virginia Resources Authority

Schedule of Cash Flows - Revolving Loan Fund Accounts

Year Ended June 30, 2006	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	\$ (94,903,178)	\$ (9,969,566)	\$ -	\$ -	\$ -	\$ -	\$ (104,872,744)
Principal repayments from localities on loans	33,574,751	2,830,076	-	63,010	29,439	-	36,497,276
Interest received on loans	21,500,236	527,772	-	-	6,585	-	22,034,593
Federal administrative reimbursement funds received	390,892	-	244,013	-	-	-	634,905
Cash received from other income	-	-	-	-	-	-	-
Cash payments for salaries and related benefits	(268,980)	-	(180,973)	-	-	-	(449,953)
Cash payments from contractual services	(73,734)	-	(51,484)	-	-	-	(125,218)
Cash payments for general operating expenses	(175,217)	(7,277)	(34,974)	(3,122)	(174)	(2,562)	(223,326)
Cash payments for operating grants	-	(3,444,484)	-	-	(75,367)	(149,290)	(3,669,141)
Net cash from operating activities	(39,955,230)	(10,063,479)	(23,418)	59,888	(39,517)	(151,852)	(50,173,608)
Cash flows from non-capital financing activities							
Principal paid on bonds	(12,538,874)	-	-	-	-	-	(12,538,874)
Contributions from other governments	25,285,056	13,799,486	-	5,297,531	-	4,000,000	48,382,073
Cash received from (paid to) other accounts	3,724,514	2,154	24,371	(3,917,814)	-	-	(166,775)
Interest paid on bonds	(14,772,285)	-	-	-	-	-	(14,772,285)
Net cash from non-capital financing activities	1,698,411	13,801,640	24,371	1,379,717	-	4,000,000	20,904,139
Cash flows from capital and related financing activities							
Purchase of furniture and fixtures	(1,224)	-	(953)	-	-	-	(2,177)
Cash flows from investing activities							
Purchase of investments	(1,523,074,631)	(59,912,495)	-	-	-	-	(1,582,987,126)
Proceeds from sales or maturities of investments	1,531,383,723	59,936,819	-	-	-	-	1,591,320,542
Interest received on investments - net	14,876,518	400,661	-	222,617	4,069	179,871	15,683,736
Net cash from investing activities	23,185,610	424,985	-	222,617	4,069	179,871	24,017,152
Net change in cash and cash equivalents	(15,072,433)	4,163,146	-	1,662,222	(35,448)	4,028,019	(5,254,494)
Cash and cash equivalents - beginning of year	195,636,588	8,245,188	-	6,003,570	205,702	494,452	210,585,500
Cash and cash equivalents - end of year	\$ 180,564,155	\$ 12,408,334	\$ -	\$ 7,665,792	\$ 170,254	\$ 4,522,471	\$ 205,331,006
Reconciliation of cash and cash equivalents							
Cash per statements of net assets	\$ 13,896,373	\$ 2,804,809	\$ -	\$ 763,897	\$ 170,254	\$ -	\$ 17,635,333
Cash equivalents per statements of net assets	166,667,782	9,603,525	-	6,901,895	-	4,522,471	187,695,673
Cash and cash equivalents per the schedule of cash flows	\$ 180,564,155	\$ 12,408,334	\$ -	\$ 7,665,792	\$ 170,254	\$ 4,522,471	\$ 205,331,006

Virginia Resources Authority

Schedule of Cash Flows - Revolving Loan Fund Accounts

Year Ende	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
June 30, 2006	\$ 25,273,703	\$ (2,456,206)	\$ (3,954)	\$ 219,495	\$ (65,019)	\$ 28,019	\$ 22,996,038
Reconciliation of operating income (loss) to net cash from operating activities							
Operating income (loss)	(1,126,042)	-	7,635	-	-	-	(1,118,407)
Adjustments to reconcile operating income (loss) to net cash from operating activities:	(17,889,403)	(458,281)	-	(222,617)	(4,069)	(179,871)	(18,754,241)
Depreciation, amortization and (accretion) - net	17,079,957	-	-	-	-	-	17,079,957
Interest on investments	(93,970)	-	-	-	-	-	(93,970)
Interest on bonds	40,738	676	-	-	-	-	41,414
Realized (gain) loss on investments	(61,328,427)	(7,139,490)	-	63,010	29,439	-	(68,375,468)
Unrealized (gain) loss on investments	(1,928,354)	(10,178)	-	-	132	-	(1,938,400)
Change in:	15,620	-	(27,941)	-	-	-	(12,321)
Loans receivable	263	-	238	-	-	-	501
Loan interest receivable	685	-	604	-	-	-	1,289
Federal funds receivable							
Other receivables							
Other current assets							
Net cash from operating activities	\$ (39,955,230)	\$ (10,063,479)	\$ (23,418)	\$ 59,888	\$ (39,517)	\$ (151,852)	\$ (50,173,608)

See report of independent auditors.

Virginia Resources Authority

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

<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	\$ 17,988,087
Pass-through - Virginia Department of Health - Capitalization Grants for Drinking Water State Revolving Funds (VWSRF)	66.468	<u>9,443,964</u>
Total expenditures of federal awards		<u>\$ 27,432,051</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, 2006

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 \$54,409,026 from the VWFRF and \$12,499,247 from the VWSRF as of June 30, 2006.

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 revenues	\$ 375,009	\$ 271,716	\$ 646,725
Contributions from other governments	17,613,078	9,172,248	26,785,326
	<u>\$ 17,988,087</u>	<u>\$ 9,443,964</u>	<u>\$ 27,432,051</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 2006.

Virginia Resources Authority

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

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 Drinking Water State Revolving Funds (VWSRF) (CFDA Number 66.468)
- The dollar threshold used to distinguish between Type A and Type B programs is \$803,560
- 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, 2006



***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***

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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, 2006 and have issued our report thereon dated August 22, 2006. 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*.

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We noted certain matters that we reported to management of *Virginia Resources Authority*, in a separate letter dated August 22, 2006.

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

Richmond, Virginia
August 22, 2006



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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, 2006. 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, 2006.

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.

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Our consideration of the internal control over compliance 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation 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

Richmond, Virginia
August 22, 2006