

INNOVATIVE FINANCING TO  
BUILD VIRGINIA COMMUNITIES

# 07

## ANNUAL REPORT



**VRA** VIRGINIA  
RESOURCES  
AUTHORITY

# Did You Know



**VRA investment in Virginia's communities since 1984 exceeds \$3.1 billion**

**VRA has funded more than 750 projects across the Commonwealth since 1984**

**VRA funded \$377.5 million in FY2007 alone for essential projects and equipment**

**51 local governments in all regions of Virginia benefited from VRA financings in FY2007**

**VRA Senior Bonds are rated natural "AAA" and "Aaa" by Standard and Poor's and Moody's**

**VRA finances:**

- Public Safety
- Transportation
- Broadband
- Land Conservation & Preservation
- Wastewater
- Solid Waste
- Water
- Brownfield Remediation and Redevelopment
- Flood Prevention & Dam Safety
- Airports
- Federal Facility Development

**VRA provides below-market loans in select programs with state partners**

- Clean Water State Revolving Fund
- Drinking Water State Revolving Fund
- Airports Revolving Fund
- Dam Safety and Flood Prevention Fund

# The Governor of Virginia Members of the General Assembly Citizens of the Commonwealth

We are pleased to present this report of the activities of the Virginia Resources Authority (VRA) during the 2007 Fiscal Year, pursuant to Section 62.1-222 of the Code of Virginia, as amended.

Remaining true to its core mission of providing cost-effective financial solutions to local governments, the VRA Board and staff undertook a thorough strategic planning and performance management process that established priorities, aligned with the goals of the Administration and the General Assembly, and provided creative and effective assistance to localities for critical infrastructure needs.

VRA completed its Strategic Plan with broad stakeholder input and formally accepted the invitation of Governor Timothy Kaine to participate in the Commonwealth's Management Scorecard and Agency Key Measures initiative. In particular, the Board adopted the following Strategic Plan Goals in FY 2007:

- Support local initiatives through value added programs that maximize economic impact and community benefit
- Strengthen and expand state partnerships
- Refine financial programs to meet customer needs
- Streamline and sustain VRA's ability to provide affordable financing options

VRA enjoyed a record-breaking year in collaboration with its state agency partners. Over \$377.5 million of total investment was achieved in FY2007, impacting 51 communities statewide. With these strong FY2007 results, VRA's total investment in Virginia now exceeds \$3.1 billion for more than 750 projects since 1984. VRA answered the call for service with innovative financing solutions that support restoring the Chesapeake Bay, meeting local transportation and public safety needs, ensuring reliable drinking water, and more.

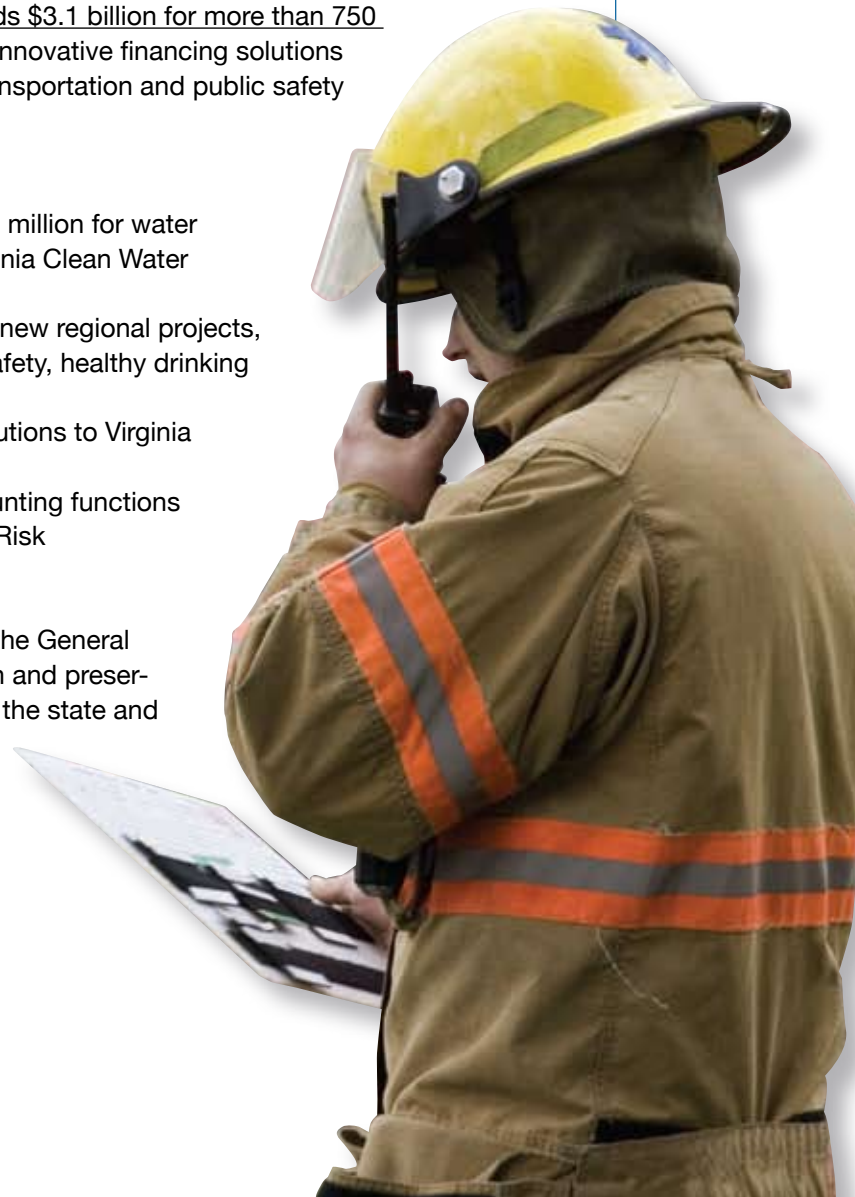
#### **Additional FY2007 milestones included:**

- The largest bond issue in VRA's history to provide \$253.7 million for water quality improvement projects through leveraging the Virginia Clean Water Revolving Loan Fund (CWRLF)
- Four additional bond issues to provide \$139.9 million for new regional projects, economic development, local roads and transit, public safety, healthy drinking water, and real dollar savings statewide
- Three regional workshops to bring effective financing solutions to Virginia communities
- Streamlined operations and revamped finance and accounting functions to conform with the new SAS 112 and the State Agency Risk Management and Internal Control Standards

In addition, VRA embraced two new project areas added by the General Assembly in 2007, wireless broadband and land conservation and preservation. These initiatives are gaining importance and focus at the state and local levels. As with its other projects, VRA stands ready to serve and committed to providing affordable financing options to localities.

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

**Sheryl D. Bailey, Ph.D.**  
  
Executive Director





# Board of Directors

*From Left to Right*

**William G. O'Brien**  
**Chairman**  
Port Republic



**James H. Spencer, III**  
**Vice Chairman**  
Tazewell



**Barbara M. Donnellan**  
Clifton



**Philip J. Duke**  
Middleburg



**H. Hiter Harris, III**  
Richmond



**Thomas L. Hasty, III**  
Chesapeake



**J. Barry Purcell, III**  
Richmond



**Randall P. Burdette**  
**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



A political subdivision of the Commonwealth of Virginia, VRA is guided by a Board of Directors that is chaired by William G. O'Brien. The Board 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 governmental issues.

The Board is comprised of 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.

# Staff

The hard work and dedication of VRA's staff to better the communities of Virginia has been a constant throughout VRA's history. Borrowers consistently comment on staff assistance and expertise as one of the many reasons to finance projects with Virginia Resources Authority.

***“When another financing option became infeasible, the County filed an application with Virginia Resources Authority. VRA was able to quickly get up to speed on the project and VRA’s staff was invaluable to us. VRA’s common sense terms and favorable rates met our requirements and policies for this project without difficulty.”*** Reed Ennis, Finance Director, Accomack County.

VRA's Executive Director and staff draw on a tremendous breadth of experience to assist the Commonwealth and its communities. VRA's Executive Director, Dr. Sheryl D. Bailey, 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. Throughout her public service career, she has directed municipal debt and capital management programs that involved over \$1.28 billion in financings and major debt restructurings. She also oversaw financial, regional and international programs and large strategic initiatives. Dr. Bailey has been active for many years with the Government Finance Officers Association, including serving as Co-Chair and Subcommittee Chair of the National Standing Committee for Governmental Budgeting and Management (1997-2002), as Women's Network Co-Chair (1999-2000), and as Black Caucus Vice Chair and Secretary (1997-2002).

In addition to a combined 20-year history at VRA, the staff has broad state and local government experience as well as private sector business and finance experience. Committed to customer service, the VRA staff closed 57 custom-tailored loans and five grants and completed five bond issues to deliver a \$377.5 million investment in Virginia communities in FY2007.



**Front - Joya G. Burriesci, Mary B. Barnes, Martha Shiflett, Jean F. Bass, Dr. Sheryl D. Bailey  
Back - Bradley L. Jones, Corrine A. Loudon, Peter G. D’Alema, Shawn B. Crumlish,  
Brian D. DeProfio**



# VRA Works

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



The VRA staff offers over 40 years of experience and expertise in a variety of financing options and provides ongoing assistance to localities and their public projects.



VRA provides innovative financial solutions to local governments for projects that improve the quality of life for Virginians. Created by the General Assembly in 1984, VRA supports community investments in 11 distinct project areas.

Since its inception, VRA has funded more than 750 critical projects across the Commonwealth exceeding \$3.1 billion of investment in Virginia's communities. Financing solutions draw on VRA's creativity and its unique ability to provide revolving fund loans to localities at below-market interest rates and to issue bonds backed by the moral obligation of the Commonwealth. The VRA staff offers extensive experience and expertise in a variety of financings and provides ongoing assistance to localities in connection with their public projects.

Virginia Resources Authority closed 57 loans and 5 grants in fiscal year 2007. The 62 transactions represent over \$377.5 million invested in Virginia's communities for projects that varied from water treatment improvements to bus purchases to fire and rescue-building renovations to airport hangar construction. 51 of Virginia's cities, counties, and towns are being impacted by the projects VRA funded in fiscal year 2007.

*Public Safety*

*Transportation*

*Broadband*

*Land Conservation & Preservation*

*Wastewater*

*Solid Waste*

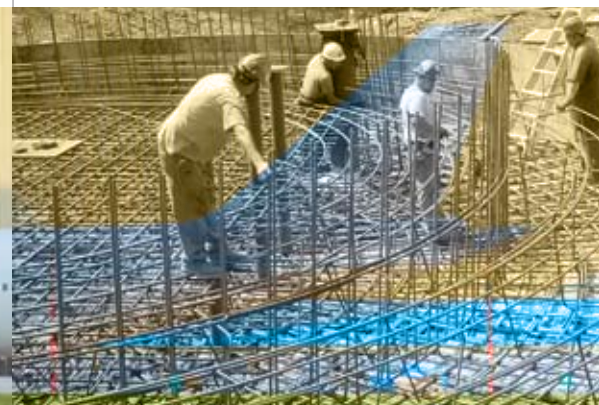
*Water*

*Brownfield Remediation and Redevelopment*

*Flood Prevention & Dam Safety*

*Airports*

*Federal Facility Development*



# Virginia Pooled Financing Program

VRA's Virginia Pooled Financing Program (VPFP) makes critical projects happen with creative financing solutions for local governments. Since VPFP inception in 2003, VRA has financed over \$582 million of projects for 50 local governments and authorities across the Commonwealth. This investment in Virginia's communities provides real value to local government borrowers in the form of speed, flexibility and cost savings. According to a frequent VPFP borrower Christopher E. Martino, Finance Director of Prince William County, "VRA Financing Works!"

Each loan is customized to meet the needs and financial policies of each locality or group of localities in the case of regional projects. This is evident with the range of participants using the program that include newly formed service authorities, large growing counties, and infrequent borrowers. Throughout the process, VRA makes the experience easy for the borrower and shares in a commitment to community enhancement.

Borrowers realize savings from VRA's unique state credit enhancements based in part on the Commonwealth's moral obligation, the sharing of expenses, and a straightforward process. VRA's high credit ratings, natural "AAA" for the senior bonds and "AA" for the subordinate bonds, result in favorable access to the capital markets, without the need for costly bond insurance or other credit enhancements. The VPFP issued bonds three times in FY2007 for 15 different borrowers and a total par value exceeding \$134 million. Moreover, refundings provided present value savings of over \$2.26 million to seven localities as part of VPFP's FY2007 total benefits.

## VPFP Summer 2006 Refunding

Gloucester County	\$ 8,560,000
Goochland County	3,390,000
City of Suffolk	12,750,000
<b>Total</b>	<b>\$ 24,700,000</b>

## VPFP Fall 2006

Accomack County	\$ 2,665,000
Frederick County Sanitation Authority	4,790,000
King William County	1,460,000
Prince William County	5,000,000
Town of South Boston	3,305,000
Southside Regional PSA	8,995,000
City of Suffolk	36,460,000
Town of Tappahannock	4,225,000
<b>Total</b>	<b>\$ 66,900,000</b>

## VPFP Spring 2007

Goochland County	\$2,595,000
Transportation District Commission of Hampton Roads	4,975,000
Town of Lovettsville	3,450,000
Town of Marion	3,415,000
Nelson County	2,460,000
Prince William County	14,795,000
Prince William County	5,275,000
Rockingham County	3,065,000
Rockingham County	3,015,000
<b>Total</b>	<b>\$43,045,000</b>
<b>Total FY2007 VPFP</b>	<b>\$134,645,000</b>







## VRA Works for Regional Projects

The counties of Mecklenburg, Halifax and Charlotte created the Southside Regional Public Service Authority in September of 2004 to begin planning, constructing and operating a regional landfill. The cooperation of the three counties solves landfill capacity issues for the next 50 years. Charlotte County did not own a landfill and had an agreement to deliver its municipal solid waste to a private landfill in a neighboring county. Mecklenburg County and Halifax County have landfills that will reach their capacity and useful life in the near future.

## VRA Works for Transportation

The Transportation District Commission of Hampton Roads, known by its riders as HRT, again used the VFPF to purchase urban transit buses. This recent borrowing will finance 14 vehicles. HRT and VRA structured the transaction as a lease-leaseback with a 10-year term. *"I am a true believer in the benefits of VRA's programs. VRA's Pooled Financing Program is particularly well suited for regional authorities like the Transportation District Commission of Hampton Roads. They understand the intricacies involved in regional agreements and regional projects and have proven to be an excellent financing option for HRT."* Larry W. Davenport, Vice President for Finance, Hampton Roads Transit.

# Clean Water Revolving Loan Fund



The 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 Commonwealth matching funds. In fiscal year 2007, rates ranged from 3.00% down to 0%.

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

In FY2007, the CWRLF supported 15 projects to provide \$227.1 million of investment in 17 localities. More than \$1.5 billion has been invested since inception of the fund in 1987. Localities of all sizes and with varying needs benefit from this low interest program for wastewater, brownfield remediation, open space preservation, and combined sewer overflow projects that improve the quality of Virginia's water.





# VRA Works for Chesapeake Bay Restoration

Since 2004, VRA has invested \$180 million in Arlington County through the CWRLF including an \$80,000,000 investment in FY2007. The total cost of the project will be approximately \$500 million when completed.

The funding will finance a major upgrade to the existing 30 million-gallon per day (MGD) Arlington Water Pollution Control Facility (WPCF), with a flow expansion to 40 MGD. The facility also serves part of the Cities of Alexandria and Falls Church and additional monies have been loaned to Alexandria Sanitation Authority and the City of Falls Church for their portions of the project. The Arlington Facility serves a variable population of Washington DC commuters during the day and local population at night.

The upgrade/expansion is a six-year project to address requirements of the facility permit, the revised Potomac Embayment Policy and the nutrient reduction goals of the Virginia Water Quality Improvement Act. The addition of the 11 MGD flow equalization tanks provides a cost effective way of treating flows to the facility during storm events, which will address bypasses to Four Mile Run, which is a tributary to the Potomac River and the Chesapeake Bay. The project is expected to reduce annual nitrogen discharges by 609,112 pounds and significantly reduce the frequency and volume of raw sewage overflows.

*“Improving the health of our rivers and Chesapeake Bay is a primary goal of the Kaine Administration. This VRA bond initiative – and the plant upgrades resulting from it – will propel us further toward our water quality improvement goals set forth in the Chesapeake 2000 Agreement.”* L. Preston Bryant, Jr., Virginia Secretary of Natural Resources.



In May 2007, VRA closed the largest bond issue in VRA's history to leverage

the Virginia Clean Water Revolving Loan Fund (CWRLF) and multiply the dollar impacts of the federal grant and state match.

As the individual loans are closed, the financing will provide \$253.7 million of total funding for water quality improvement projects that will have a positive impact on marine life and the overall health of the Chesapeake Bay.

## CWRLF Closed Loans

Alleghany County	\$ 3,408,175
Arlington County	4,000,000
Arlington County	76,000,000
Fluvanna County	1,200,000
Frederick-Winchester Service Authority	39,000,000
Town of Kilmarnock	1,358,400
City of Lynchburg	7,000,000
Town of Middletown	5,161,526
Town of Mount Jackson	6,478,763
City of Newport News	3,123,000
City of Norfolk	14,250,000
Prince William County SA	45,000,000
Scott County PSA	2,637,350
Shenandoah County	4,000,000
Western Virginia Water Authority	9,993,612
Town of Woodstock	4,561,156
<b>Total</b>	<b>\$ 227,171,982</b>



**Arlington County wastewater treatment plant under construction.**

# Virginia Drinking Water State Revolving Fund

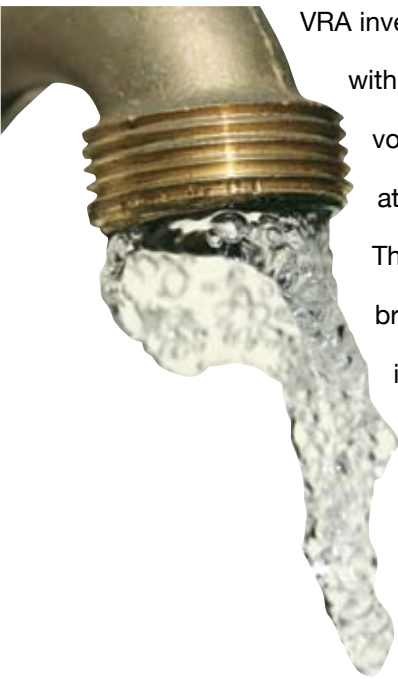
Virginia Drinking Water State Revolving Fund (DWSRF) provides low interest loans, in addition to some grants, for drinking water projects to local governments and privately organized water suppliers. The fund receives U.S. EPA grants and state matching funds and is permanent and perpetual.

Virginia Department of Health administers the fund, while VRA acts as financial advisor and services the loans. In fiscal year 2007, loan rates ranged from 3% down to 0%. Five grants were made to support over a half million dollars of investment in three counties and one town. Sixteen loans closed for 12 water systems that totaled \$9.96 million in fiscal year 2007. Since 1998, nearly \$160 million has been provided for critical water projects.





# VRA Works for Drinking Water



VRA invested \$1.5 million in the Augusta County area with funding from the Drinking Water State Revolving Fund. Three of the loans were made at 0.0%, while one loan was made at 0.50%. Three projects involved the installation of membrane filtration units. The filtration units were installed to protect residences as well as commercial structures; the improvements in filtration will reduce the possibility of contamination. The fourth project involved a new elevated storage tank that will allow for additional connections as well as create the needed pressure to achieve fire flows for 107 single family dwellings and 55 mobile home units.

*“The Service Authority thoroughly appreciates the professional care that VRA gave us this year as we closed on four separate loans and two grants with the Virginia Department of Health and the Drinking Water State Revolving Fund, one of which was complicated because they allowed us to save costs by combining three similar projects in one bond issue. With 12 independent water systems and nine wastewater treatment plants, we appreciate the fact that most of our long-term financing has been conducted with the assistance of one agency, VRA. Their staff members are easy to talk to and promptly answer our debt-related questions, regardless of whether we are actively involved in a bond closing or not.”* Debbie White, CPA, Director of Finance, Augusta County Service Authority



## DWSRF Closed Loans and Grants

Augusta County SA	\$ 135,539
Augusta County SA	83,073
Augusta County SA	128,936
Augusta County SA	79,026
Augusta County SA	816,690
Augusta County SA	280,105
Bath County SA	634,057
Town of Charlotte Courthouse	1,183,256
Dickenson County PSA	520,795
Town of Onancock	3,113,535
Town of Richlands	438,037
Russell County	197,179
Scott County PSA	648,886
Shenandoah Utility Services	65,550
Town of South Boston	54,183
Tazewell County PSA	228,788
Washington County SA	891,158
Washington County SA	169,360
Wise County PSA	481,875
Wise County PSA	90,745
Wise County PSA	272,234
<b>Total</b>	<b>\$ 10,513,007</b>



Augusta County SA new filtering system

# 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 of Virginia. VRA leveraged this \$25 million appropriation in order to invest over \$83.9 million in below-market rate loans to support 27 projects at 19 public-use airports in Virginia between 2001 and 2007.

Interest rates on VARF loans are reduced 0.50% below prevailing AA 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 and VRA closes the authorized loans after completing the necessary due diligence. Five projects were funded in fiscal year 2007, including four T-hangar projects and an airport relocation and replacement project.





# VRA Works for New Airports

The all-new Tappahannock-Essex Airport official opening was celebrated on October 9, 2007 with a fully equipped 4,300 ft runway, 4,000-square-foot terminal building, 24 hangars, weather station, and self-serve fuel. The VARF loan of \$1.27 million supported the construction of two T-hangar facilities with a total of 20 aircraft spaces and for the local share of terminal building, fuel farm, and access road costs. The loan complemented Federal Aviation Administration and state grants that totaled more than \$10 million.



Tappahannock-Essex Airport under construction  
Credit: David Broad ©2007 Digital Wisdom Inc.



## Virginia Airport Revolving Fund Closed Loans

Hanover County Airport	\$ 1,795,000
Middle Peninsula Regional Airport Authority	480,000
Stafford Regional Airport Authority	1,601,000
Tappahannock-Essex County Airport Authority	1,272,000
Tazewell County Airport Authority	100,000
<b>Total</b>	<b>\$ 5,248,000</b>

Fiscal Years	State Appropriations	Total Loans & Commitments
2001 – 2007	\$25,000,000	\$83,934,474.32

# VRA Works for Economic Development

The total economic impacts associated with VRA's \$83.9 million investment in Virginia's airport community have been estimated at \$151.3 million for construction-phase spending alone, representing a 505% return on the Commonwealth's initial investment of \$25 million. Further, the spending activities associated with the 27 VARF projects supported an estimated 1,619 construction and service-related jobs in the Commonwealth between 2001 and 2007.



Sheryl D. Bailey, VRA Executive Director and Buford Cordle, Tazewell County Airport Manager

# VRA Community Investment Workshop Series

VRA held three workshops across Virginia in Tazewell County, the Town of Farmville, and the City of Hampton in partnership with corporate sponsors. Agendas were tailored to address the needs of each unique region. Planning the workshops directly with local representatives ensured the programs were relevant, timely, and produced the most value. Partners from multiple state and federal funding agencies participated, allowing VRA to bring wide-ranging services to the people of Virginia.

Workshop participants receive updated information on financing solutions, VRA Community Investment Workshop, Hampton





**Sheryl D. Bailey, Executive Director, introducing Senator Thomas K. Norment, Jr., for Legislative Update session in Hampton**



**VRA staff toured Tazewell County prior to the workshop including several construction sites.**



**Coal Miners Memorial, Town of Richlands**

# New Project Areas

Wireless broadband and land conservation and preservation were added to VRA eligible project areas during the 2007 General Assembly session.

The addition of wireless broadband offers an opportunity for smaller communities that have been unable to attract traditional providers to develop other business arrangements to deliver this important service. This vital public safety and economic development tool will enable communities across the Commonwealth, to provide that critical “last mile” infrastructure necessary for connectivity especially in Southside and Southwest Virginia that have already benefited from the support of the Tobacco Indemnification Commission’s efforts. Project areas for wireless broadband include any infrastructure, technology, and equipment necessary for the deployment of wireless broadband services to schools, businesses, and residential areas.

In 2006 the Virginia General Assembly reaffirmed its commitment to the conservation and preservation of its natural resources and public lands and established a joint subcommittee to study long-term funding sources that could assist in that effort. Governor Kaine also established a goal of conserving and preserving an additional 400,000 acres. As part of these initiatives, VRA’s eligible project areas were officially expanded to include land conservation and preservation. This amendment now permits VRA to assist local communities in providing quality of life benefits to their citizens and in retaining community character.

# Mission

Virginia Resources Authority provides cost-effective financial solutions for community investments that improve the quality of life for Virginians.

# Vision

Our Vision is to be the choice provider of financing for public projects for Virginia communities.

# Values

## **Customer Service**

We recognize that customer service is our highest priority. Towards that end, we are professional, honest, compassionate, courteous, and accountable.

## **Collaboration**

We work together with state agency partners and local governments to custom-design financing solutions to meet local needs and state objectives.

## **Consistency**

We give the same attention to all of our customers, large or small, and aim to support social equity among all Virginia communities.

## **Commitment**

We are dedicated to crafting financing solutions to meet the growing needs of Virginia's communities.

## **Creativity**

We thrive on innovation and our ability to provide our customers and the citizens of Virginia with custom-tailored, cost-effective products that meet their financing needs.

### **Moral Obligation (MO) Bonds Outstanding as of June 30, 2007**

MO Bonds Outstanding as of July 1, 2006:	\$697,189,112
Less MO Bond Repayments:	(63,918,741)
New MO Bonds Issued:	45,330,000
MO Bonds Outstanding as of June 30, 2007:	\$678,600,371

### **Non-Moral Obligation Bonds Outstanding as of June 30, 2007**

Non-MO Bonds Outstanding as of July 1, 2006:	\$662,850,000
Less Non-MO Bond Repayments:	(21,855,000)
New Non-MO Bonds Issued:	342,575,000
Non-MO Bonds Outstanding as of June 30, 2007:	\$983,570,000





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.



Richmond, Virginia

Financial Statements for the

Fiscal Year Ended June 30, 2007



# VIRGINIA RESOURCES AUTHORITY

## Financial Statements for the Year Ended June 30, 2007

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September 10, 2007

Board of Directors  
Virginia Resources Authority  
1111 East Main Street, Suite 1920  
Richmond, VA 23219

I am pleased to present the Virginia Resources Authority (Authority) Fiscal Year 2007 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 accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with *Governmental Auditing Standards*.

In fiscal year 2007, the Authority was audited by PBGH, a licensed certified public accounting firm. As a result of an audit of the Authority's financial records and transaction of all funds, PBGH has issued an unqualified opinion on the Authority's financial statements for the year ended June 30, 2007.

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.

### **Authority Profile**

The Authority was created in 1984 as a political subdivision of the Commonwealth of Virginia pursuant to the Virginia Resources Authority Act, being Chapter 21 of Title 62.1 of the *Code of Virginia* of 1950, as amended. The Authority is governed by an eleven member Board of Directors (the "Board"), appointed by the Governor of Virginia and the Chairman of the Board is also appointed by the Governor. The Authority's Executive Director, who is also appointed by the Governor of Virginia, administers, manages and directs the affairs of the Authority, subject to the policies, control and direction of the Board.

The Authority works for the cities, towns, counties, service authorities, and people of Virginia. Authority financing helps clean and restore the Chesapeake Bay, provide public safety facilities and equipment, ensure safe and healthy drinking water, expand airports, upgrade local roads and transit, and move other essential projects forward. Since its creation in 1984, the Authority has funded more than 750 critical projects across the Commonwealth, representing more than \$3.1 billion of investment in Virginia's communities.

### **Authority Programs**

The Authority's bond program includes stand-alone bond issuances and pooled bond issuances. The Virginia Pooled Financing Program (VPFP) significantly 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 borrower's project timing requirements.

The Authority also currently serves as co-administrator for four revolving funds: the Virginia Water Facilities Revolving Fund (VWFRF), the Virginia Water Supply Revolving Fund (VWSRF), the Virginia Airports Revolving Fund (VARF) and the Virginia Dam Safety and Flood Prevention Fund (VDSFPF). In each case, the Authority serves as financial manager while its state-agency partners, the Virginia Department of Environmental Quality (DEQ), the Virginia Department of Health, the Virginia Department of Aviation and the Virginia Department of Conservation and Recreation, respectively, perform the programmatic and 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 and VDSFPF are solely funded by the Commonwealth. In all four revolving funds, the initial grant monies are invested and, along with the investment earnings and loan repayments, then loaned 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 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.

### **Fiscal Year 2007 Financial Results**

The Authority had another strong year in fiscal year 2007. The Authority surpassed \$1.1 billion in net assets, an increase of 6.6% from the prior year. Total assets increased by \$387.2 million (15.9%) and total liabilities increased by \$318.2 million (22.8%) in comparison to the June 30, 2006 balances. The Authority surpassed \$29.3 million in net operating income, an increase of \$4.9 million (20.2%) from the prior year. The Authority's operating revenue increased \$11.2 million and operating expenses increased \$6.2 million in comparison to the prior fiscal year.

The Authority's net assets increased by approximately \$69 million primarily as a result of contributions from federal and state governments, interest on loans and investment earnings.

### **Fiscal Year 2007 Accomplishments**

In addition to the significant financial performance described above, the Authority is proud of many additional accomplishments in fiscal year 2007. These accomplishments included adopting its Strategic Plan with goals to Support Local Community and Economic Development Initiatives, Strengthen and Expand State Partnerships, Refine Financial Programs to Meet Customer Needs and Strengthen and Sustain the Authority's Ability to Provide Affordable Financing Options.

The Authority had a very successful year in funding over \$377.5 million in essential projects for 51 localities across the Commonwealth in its various program areas.

The Authority also completed the largest bond transaction in its history, providing \$253.7 million investment in the Chesapeake Bay cleanup. The 2006 General Assembly directed the Secretary of



Natural Resources to develop the Chesapeake Bay cleanup plan with the assistance of the Authority and the Department of Environmental Quality. This \$253.7 million investment is the first of a series of similar investments that the Authority will finance in partnership with DEQ over the coming years.

Virginia's Governor and General Assembly have continued to expand the Authority's project areas, recognizing the ongoing value that the Authority can and does provide to the Commonwealth. The 2007 General Assembly enacted two pieces of legislation that expanded the Authority's program areas to include land conservation and preservation and wireless broadband, supporting the Governor's initiatives to preserve 400,000 acres of land across the Commonwealth and provide broadband access to every Virginia resident and business.

The Authority is committed to continually improving its programs and 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 2007, management launched several initiatives and proactively streamlined operations to enhance efficiency and effectiveness and accomplish the Authority's strategic objectives, as outlined below:

### ***Refine and Expand Financial Programs***

- Completed Strategic Plan with broad stakeholder input
- Completed largest bond sale in Authority history funding unprecedented \$253.7 M of wastewater plant upgrades statewide, in partnership with DEQ
- Improved Pricing Levels on VFPF Bonds by average of 3.6 basis points relative to the market benchmark
- Achieved Net Present Value Refunding Savings to existing Authority Borrowers in excess of 5.5%
- Completed 2007 Airport, Clean Water Leveraging and Bond Pool transactions, while maintaining current ratings on all three programs
- Developed and Implemented protocol for Loan Servicing and Monitoring
- Completed all scheduled Credit Summaries for all programs
- Collaborated with Secretary of Commerce and Trade on federal facilities and other key initiatives
- Promoted the addition of land conservation and preservation and wireless broadband to Authority program areas

### ***Expand Community Outreach and Education***

- Realigned Outreach and Education as a component of Financial Services for the most effective service delivery
- Assisted eight New Borrowers with VFPF loans
- Assisted 18 Borrowers with 20 VFPF loans
- Assisted four Borrowers with loans in Authority project areas new to the respective community
- Held 3 regional workshops with focus on specific needs of each geographic region

### ***Expand Community Outreach and Education (Cont'd)***

- Integrated project tracking, Customer Profile System and contact database into one Customer Relationship Management System for increased efficiency in analysis and reporting
- Developed investor relations program
- Updated printed education material with new creative look that fully reflects all current service areas
- Significantly enhanced public communications efforts around Authority's programs
- Developed partnership opportunities with private industry stakeholders

### ***Streamline Operations to Enhance Efficiency and Effectiveness***

- Developed and Implementing improvements to Authority's finance/accounting operation to address audit management letter items and bring Authority into conformance with the new SAS 112 and state Agency Risk Management and Internal Controls Standards (ARMICS)
  - Acquired operational efficiency consultant to assist with process and efficiency enhancements
  - Initiative recognized as a model for the Commonwealth
  - Outsourcing compilation of financial statements for enhanced short-term and long-term effectiveness and cost savings
- Implemented first set of operational efficiency review recommendations
- Strengthened accounting review and reconciliation procedures and internal controls
- Continued refinements to budgeting and accounting practices, including identifying and shifting non-general fund items out of General Fund accounts
- Expanded existing accounting manual that focused on loan servicing and investments to include:
  - General accounting policies and procedures
  - Fiscal and Administrative Specialist procedures
  - Description of Authority account structure
  - Documentation of internal control structure
- Completed training on Great Plains to more efficiently and effectively utilize available accounting system
- Completed automation of internal accounting operations
- Refined procurement system whereby vendor payments tied to appropriate documentation and director approvals
- Implemented Great Plains Purchasing Module with transition to FY08
- Developed and Implementing Activity Based Cost Management System in Collaboration with Agency Partners including new time tracking methodology
- Loaded budget into financial system and established budget tracking and management system with quarterly budget reporting to the Board
- Restructured financial statement schedules to reflect more detailed programmatic activity per EPA's request
- Refined audit process to provide the Board advance review of annual financial statements before submission to the State Comptroller
- Restructured Administration and Finance Division for improved operations and cost savings

### ***Streamline Operations to Enhance Efficiency and Effectiveness (Cont'd)***

- Completed replacement and upgrade of technical infrastructure to improve connectivity, security, and reliability of information technology system
- Increased training opportunities to enhance staff development
- Implemented Revised Classification and Compensation Plan
- Automated accounts payable and payroll
- Automated RLF disbursements and repayments
- Completed negotiations for office space to reduce cost and improve space and completed office relocation
- Reviewed and eliminated unnecessary expenses (fax machine maintenance contract, various equipment rental contracts, etc.)
- Joined State Consolidated Mail program to generate cost savings
- Developed Small Woman and Minority (SWaM) plan and made significant improvements in using SWaM vendors for procurements
- Refined Board Packages and Agendas with emphasis on Strategic Goals
- Based on Board adoption, implemented State Travel Policy

### **Fiscal Year 2008 Key Goals and Initiatives**

Authority 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, the Authority 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 2008 budget process. The Board approved Fiscal Year 2008 Budget funded a series of goals and initiatives to further augment Authority's programs and operational efficiencies, based on the adopted Strategic Plan Goals:

### ***Support local community and economic development initiatives through value-added programs that maximize economic impact and community benefit***

- Collaborate with the Governor's Office and executive and legislative branch officials on key initiatives
- Establish Authority Community Investment Advisory Group
- Forge working relationships with organizations supporting community and economic development in urban and rural communities
- Explore public-private partnership opportunities to advance Authority and Commonwealth goals
- Collaborate with other economic development entities (state, regional, local and non-profit)



***Strengthen and expand State partnerships***

- Collaborate with existing state partners
- Assist state partners in implementing and refining programs
- Support the Department of Aviation's efforts for recapitalization of VARF
- Work with the Administration and Executive Branch agencies to augment state and federal programs with innovative financing options

***Refine financial programs to meet customer needs and increase the economic impact and community benefit of Authority projects***

- Increase access for customers through enhanced community service and outreach efforts
- Develop additional financing options for local and state projects through innovative funding strategies
- Launch plan for new and refined programs based on value added outcomes produced for localities and the Commonwealth
- Provide concrete data to localities and the Commonwealth on the direct, indirect and induced impact of Authority-financed projects
- Strengthen the financial security of local obligations

***Strengthen and sustain the Authority's ability to provide affordable financing options***

- Complete Strategic Plan Implementation Plan including establishing Authority performance benchmarks to measure performance
- Refine and implement permanent pay-for-performance plan structure that includes an employee development plan component
- Update Authority policies and procedures to support strategic direction
- Update Memoranda of Understanding with existing state agency partners as needed
- Increase organization efficiency and capacity through implementation of recommendations from the Operational Efficiency Review
- Conduct resource augmentation and allocation study to support value-added outcomes
- Develop a continuity of operations plan

In summary, I am pleased to report that the Authority had a strong fiscal year 2007. Additionally, we launched several initiatives to streamline operational procedures to enhance efficiency and effectiveness. With the fiscal year 2008 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.  
Executive Director



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Mensel D. Dean  
Gregory W. Geisert  
Herman W. Hale  
John L. Vincie, III  
Keith L. Wampler  
Daniel B. Martin  
Sean R. O'Connell

Kevin D. Humphries  
Bradford R. Jones  
Virginia B. Miller  
John E. Zigler, Jr  
Michael T. Kennison  
Michael A. Garber  
Donald W. Knotts  
Daniel J. Bender

## INDEPENDENT AUDITORS' REPORT

To the Honorable Board Members  
Virginia Resources Authority  
Richmond, Virginia

We have audited the accompanying financial statements of the Virginia Resources Authority (Authority) as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2007, and the changes in financial position and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2007 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

The Management's Discussion and Analysis on pages 9 through 12 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the Authority's financial statements. The accompanying schedules listed as Supplementary Information in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenses of Federal Awards is presented for purposes of additional analysis as required by 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PBGH, LLP

Harrisonburg, Virginia  
September 10, 2007



## Virginia Resources Authority

### Management's Discussion and Analysis

Year Ended June 30, 2007

The management of the Virginia Resources Authority (Authority) provides readers of the Authority's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the preceding transmittal letter and the Authority's financial statements, which immediately follow this section.

#### **FINANCIAL HIGHLIGHTS**

- The Authority's assets exceeded the liabilities at the close of the fiscal year by \$1.1 billion (net assets), an increase of 6.6%.
- Total assets of \$2.8 billion increased by \$387.2 million or 15.9%.
- Total liabilities of \$1.7 billion increased by \$318.2 million or 22.8%.
- Operating income of \$29.3 million, increased by \$4.9 million or 20.2%.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of this annual report consists of: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and other supplementary information. The Authority is reported in the Commonwealth of Virginia's Comprehensive Annual Financial Report as a discretely presented component unit.

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The financial statements provide both long-term and short-term information about the Authority's overall financial status. The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to proprietary funds of government units. 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). Net assets – the difference between assets and liabilities – is one way to measure the Authority's financial health or position. The current fiscal year revenues and expenses of the Authority are accounted for in the **Statement of Revenues, Expenses and Changes in Net Assets**. This statement measures whether the Authority successfully recovered its costs through interest on loans, investments earnings, fees, and contributions from other governments. The **Statement of Cash Flows** provides information on the Authority's cash receipts, payments, and net changes in cash. It also provides insight on the source, use, and change in cash for the reporting period.

**Notes to the financial statements** provide additional information that is essential to understanding data in the financial statements.

This report also includes **other information**, in addition to the basic financial statements and accompanying Notes to the financial statements. *Required supplementary information* concerning the Authority's progress in funding its obligation to provide pension benefits to employees is included at note 9. Other supplementary information that further explains and support information in the basic financial statements immediately follows the notes. Combining schedules provide information for the separate Authority programs. The Schedule of Expenses of Federal Awards provides detail of Federal Assistance, followed by explanatory notes. The compliance section is required under provisions of the Single Audit Act and the U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-profit Organizations; and includes auditors' reports on compliance and internal controls.

## FINANCIAL ANALYSIS

**Table 1**

**Virginia Resources Authority's Summary Statement of Net Assets**

*(In thousands of dollars)*

	2007	2006	Percentage Change 2007– 2006
Current and other assets	\$ 326,842	\$ 315,046	3.7%
Noncurrent assets	2,498,118	2,122,754	17.7
Total assets	<u>2,824,960</u>	<u>2,437,800</u>	15.9
Current liabilities	73,772	62,785	17.5
Long-term liabilities	1,640,325	1,333,137	23.0
Total liabilities	<u>1,714,097</u>	<u>1,395,922</u>	22.8
Net assets:			
Invested in capital assets	10	46	(78.1)
Restricted	1,106,474	1,037,733	6.1
Unrestricted	4,379	4,099	6.8
Total net assets	<u>\$ 1,110,863</u>	<u>\$ 1,041,878</u>	6.6%

The Virginia Resources Authority's (Authority) lending programs significantly reduce the cost of financing local infrastructure projects. The Authority provides low-cost, custom tailored financing through its bond issuing program and the revolving loan programs. As noted earlier, net assets may serve as a useful indicator of the Authority's financial position. At the close of the most recent year, the Authority's assets exceeded the liabilities by \$1.1 billion (net assets). By far the largest portion of net assets (99.6%), are restricted net assets. These are primarily restricted for the purpose of making loans under the programs the Authority administers. Restricted net assets also include a \$5.8 million operating reserve fund described further at note 6.

Total assets of \$2.8 billion increased by \$387.2 million or 15.9%. Assets primarily consist of loans receivable (72.7%) from participating localities and other governmental entities in the Commonwealth of Virginia. The Authority's source for providing loans is a combination of bond issues and contributions from the State and Federal governments. See note 4 for additional information for loans receivable. Total liabilities of \$1.7 billion increased by \$318.2 million or

22.8%. Liabilities primarily consist of bonds payable (99.0%). See Note 5 for additional information on bonds payable.

**Table 2**  
**Virginia Resources Authority's**  
**Summary Statement of Revenues, Expenses, and Changes in Net Assets**  
*(In thousands of dollars)*

	2007	2006	Percentage Change 2007– 2006
Operating revenues	\$ 106,395	\$ 95,229	11.7%
Operating expenses	(77,061)	(70,832)	8.8
Operating income	29,334	24,397	20.2
Nonoperating revenue	39,651	42,533	( 6.8)
Change in net assets	68,985	66,930	3.1
Total net assets - beginning	1,041,878	974,948	6.9
Total net assets - ending	\$ 1,110,863	\$ 1,041,878	6.6%

- Operating income of \$29.3 million, increased by \$4.9 million or 20.2%.
- Operating revenue of \$106.4 million increased by \$11.2 million or 11.7%.
- Operating expenses of \$77 million increased by \$6.2 million or 8.8%.

At the end of fiscal year 2007, net assets increased \$69 million or 6.6% to \$1.1 billion. Operating revenues of \$106.4 million increased \$11.2 million (11.7%). This change was largely driven by an increase in investment earnings and loan interest repayments (98.2%). Operating expenses of \$77.1 million increased \$6.2 million (8.8%). This increase was the result of an increase in bond interest payments and grants to local government (97.5%). Non-operating revenue decreased \$2.9 million to \$39.7 million (6.8%). This change was the result of a decrease in federal revenue from the EPA capitalization grant award.

#### **CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital assets of the Authority are limited to office furniture and fixtures, and are not a significant component of the financial statements. The Authority leases its office space, and entered into a new lease during the fiscal year. The commitment for the office lease is described in Note 11.

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 upon 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 Investor 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%) has been rated "AAA" and the subordinate portion (30%) has been rated "AA." These ratings were affirmed on subsequent issues. In addition, during fiscal year 2007, Moody's maintained its "Aa2" rating on the Authority's outstanding VARF bonds and Fitch upgraded its rating on those bonds from "A+" to "AA."

During the fiscal year ended June 30, 2007, the Authority issued five bond series for three programs. From these proceeds, loans were made to 26 localities, including 4 new borrowers to the Authority.

## **ECONOMIC FACTORS**

General conditions for the Commonwealth of Virginia, which is served by the Authority's operation, include:

- Average unemployment rate, as reported by the U.S. Department of Labor, Bureau of Labor Statistics for Virginia in June 2007 was 3.0%, a 0.1% decrease from June 2006. Virginia's rate compares favorably to the national rate of 4.5%.
- Virginia's 2006 per capita personal income is ranked 9<sup>th</sup> among the states. The 2006 per capita personal income for Virginia, as reported by the U.S. Department of Commerce Bureau of Economic Analysis, was \$39,173. This compares favorably to the \$36,276 per capita for the United States.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance and Administration, Virginia Resources Authority, 1111 E. Main Street, Suite 1920, Richmond, VA 23219, or telephone (804) 644-3100, or visit the Authority's website at [www.virginiaresources.org](http://www.virginiaresources.org).

# Virginia Resources Authority

## Statement of Net Assets

June 30, 2007

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### Assets

Current assets	
Cash	\$ 8,468,574
Cash equivalents	175,356,697
Investments	31,954,757
Loans receivable - current portion	85,746,332
Receivables:	
Investment interest	7,102,530
Loan interest	17,441,502
Federal funds	591,108
Loan administrative fees	127,110
Other	42,137
Other	10,930
Total current assets	<u>326,841,677</u>
Noncurrent assets	
Investments	531,204,082
Loans receivable - less current - net	1,966,904,277
Furniture and fixtures - at cost - less accumulated depreciation of \$42,821	9,996
Total noncurrent assets	<u>2,498,118,355</u>
Total assets	<u>2,824,960,032</u>

### Liabilities

Current liabilities	
Bonds payable - current portion	57,675,000
Accrued interest on bonds payable	15,410,477
Arbitrage rebate liability	170,519
Deferred revenue	79,429
Accounts payable and other liabilities	436,217
Total current liabilities	<u>73,771,642</u>
Noncurrent liabilities	
Bonds payable - less current - net	1,638,913,481
Deferred revenue	770,464
Arbitrage rebate liability	640,854
Total noncurrent liabilities	<u>1,640,324,799</u>
Total liabilities	<u>1,714,096,441</u>

### Net assets

Invested in capital assets	9,996
Restricted:	
Operating Reserve	5,846,023
Loan Programs	1,100,628,289
Unrestricted	4,379,283
Total net assets	<u>\$ 1,110,863,591</u>

## Virginia Resources Authority

### Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2007

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<b>Operating revenues</b>	
Interest on loans	\$ 77,789,985
Investment income	26,702,863
Bond administrative fees	1,048,007
Loan administrative fees	181,790
Administrative reimbursement	624,309
Other income	47,579
Total operating revenues	<u>106,394,533</u>
<b>Operating expenses</b>	
Interest on bonds	72,092,728
Grants to local governments	3,041,355
Personnel services	936,548
General operating	577,848
Contractual services	412,073
Total operating expenses	<u>77,060,552</u>
<b>Operating income</b>	29,333,981
<b>Nonoperating revenue</b>	
Contributions from other governments	<u>39,651,272</u>
<b>Change in net assets</b>	68,985,253
<b>Total net assets - beginning</b>	<u>1,041,878,338</u>
<b>Total net assets - ending</b>	<u>\$ 1,110,863,591</u>



# Virginia Resources Authority

## Statement of Cash Flows Year Ended June 30, 2007

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<b>Cash flows from operating activities</b>	
Cash payments to localities for loans	\$ (274,315,395)
Principal repayments from localities on loans	129,863,437
Interest received on loans	76,200,585
Bond administrative fees received	1,291,244
Loan administrative fees received	54,680
Federal administrative reimbursement funds received	286,933
Cash received from other income	11,599
Cash payments for salaries and related benefits	(936,548)
Cash payments for contractual services	(412,073)
Cash payments for general operating expenses	(342,760)
Cash payments for operating grants	(3,041,355)
Interest paid on bonds	(69,106,436)
<b>Net cash used in operating activities</b>	<u>(140,446,089)</u>
<b>Cash flows from noncapital financing activities</b>	
Proceeds from sale of bonds	400,403,969
Principal paid on bonds	(85,674,359)
Contributions from other governments	39,651,272
Cash paid to other accounts	(2,952)
<b>Net cash provided by noncapital financing activities</b>	<u>354,377,930</u>
<b>Cash flows from investing activities</b>	
Purchase of investments	(4,899,217,958)
Proceeds from sales or maturities of investments	4,630,324,062
Interest received on investments - net	24,146,953
<b>Net cash used in investing activities</b>	<u>(244,746,943)</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(30,815,102)</u>
<b>Cash and cash equivalents</b>	
<b>Beginning of year</b>	<u>214,640,373</u>
<b>End of year</b>	<u>\$ 183,825,271</u>

# Virginia Resources Authority

## Statement of Cash Flows

Year Ended June 30, 2007

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<b>Reconciliation of operating income to net cash used in operating activities</b>	
Operating income	\$ 29,333,981
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	35,723
Interest on investments	(26,702,863)
Interest on bonds, amortization and accretion - net	2,986,292
Change in assets and liabilities	
Loans receivables	(144,459,527)
Loan interest receivable	(1,589,400)
Federal funds receivable	(336,676)
Loan administrative fee receivable	(119,541)
Other receivables	(36,633)
Other current assets	(47)
Accounts payable and other liabilities	199,365
Deferred revenue	243,237
<b>Net cash used in operating activities</b>	<b>\$ (140,446,089)</b>

**1. Organization and Nature of Activities**

The *Virginia Resources Authority* (Authority) was created in 1984 by an Act of the General Assembly of the Commonwealth of Virginia. 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, transportation, Chesapeake Bay cleanup and dam safety. General Assembly legislation added projects for land conservation and preservation, and wireless broadband starting fiscal year 2008. 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.

The Authority is governed by a Board of Directors consisting of eleven members. Seven members are appointed to four year terms by the Governor, subject to confirmation by the General Assembly. Other members consist of the State Treasurer, the State Health Commissioner, the Director of the Department of Environmental Quality or his designee, the Director of the Department of Aviation or his designee. The Governor appoints the Chairman of the Board. The Governor also appoints the Executive Director of the Authority, who reports to, but is not a member of the Board of Directors. The Executive Director serves as the ex officio secretary of the Board of Directors and administers, manages and directs the affairs and activities of the Authority in accordance with the policies and under the control and direction of the Board of Directors.

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), the Virginia Airports Revolving Fund (VARF), and the Virginia Dam Safety and Flood Prevention Fund (VDSFPF) 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.

The Authority's VDSFPF was created in 2006 and received its first appropriation from existing State funds on July 1, 2006. The VDSFPF's purpose is to make grants or loans to local governments for the purpose of assisting the local government in the development and implementation of flood prevention or protection projects, or for flood prevention or protection studies. In addition VDSFPF can be used to make grants or loans to local governments owning dams and to make loans to private entities for the design, repair and the safety modifications of qualifying dams, and to make grants for the mapping and digitization of dam break inundation zones. The VDSFPF's enabling legislation provides that the program will be jointly administered by the Authority and the Virginia Department of Conservation and Recreation (VDNR).

## **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 are recognized 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.

### **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 year 2007.

### **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, or investments purchased as short-term securities and not expected to be held to maturity.

### **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, rated AAAM by Standard and Poor's. 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 the unpaid principal balances. 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.

#### **Bond Discounts, Premiums, Bond Issuance Expenses and Loss on Refinancing**

Bond discounts, premiums, and bond issuance expenses are amortized over the lives of the related issues using the effective interest method. Loss on refinancing is amortized over the original remaining life of the old debt or life of the new debt, whichever is less. The unamortized discounts, issuance expenses, and loss of refinancing 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 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.

#### **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.

### **3. Cash, Cash Equivalents and Investments**

Cash is maintained in accounts insured by the Federal Deposit Insurance Corporation or are collateralized under provisions of the Commonwealth of Virginia Security for Public Deposits Act, Sec. 2.2-4400 et. seq. of the *Code of Virginia*.

**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, 2007, the Authority had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Commercial Paper	\$ 28,611,861	\$ 28,611,861	\$ -	\$ -	\$ -
Corporate Bonds and Notes	34,028	-	34,028	-	-
Guaranteed Investment Contracts	516,081,867	-	248,415,810	-	267,666,057
Local Government Investment Pool	70,400,877	70,400,877	-	-	-
Money Market Funds	36,311,554	36,311,554	-	-	-
Municipal Securities	35,918	-	35,918	-	-
Negotiable Certificates of Deposit	2,202,640	2,202,640	-	-	-
U.S. Agency Securities	75,823,847	67,513,847	8,275,470	5,698	28,832
U.S. Treasury Securities	9,012,944	292,009	1,525,276	2,635,698	4,559,961
Totals	\$738,515,536	\$205,332,788	\$258,286,502	\$ 2,641,396	\$272,254,850

**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.



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At June 30, 2007, the Authority had the following investments and ratings:

<b>Investment</b>	<b>Fair Value</b>	<b>Rating</b>	<b>Percent of Portfolio</b>
Commercial Paper	\$ 28,611,861	A-1	3.9%
Corporate Bonds and Notes	34,028	AAA	0.0%
Guaranteed Investment Contracts	516,081,867	Not Rated	69.9%
Local Government Investment Pool	70,400,877	AAAm	9.5%
Money Market Funds	36,311,554	AAAm	4.9%
U.S. Agency Securities	75,823,847	AAA	10.3%
U.S. Treasury Securities	9,012,944	AAA	1.2%
Other	2,238,558	A-1	0.3%
Totals	<u>\$ 738,515,536</u>		<u>100.0%</u>

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 Moody's ratings of the GIC providers are as follows:

<b>Provider</b>	<b>Fair Value</b>	<b>Rating</b>	<b>Percent of Portfolio</b>
Trinity Plus	\$ 78,225,040	Aaa	10.6%
Salomon Smith Barney (Citigroup)	5,899,439	Aa1	0.8%
MBIA Inc.	3,695,703	Aaa	0.5%
FNMA	1,515,000	Aaa	0.2%
Calyon	246,900,810	Aa1	33.4%
FSA	<u>179,845,875</u>	Aaa	<u>24.4%</u>
Totals	<u>\$ 516,081,867</u>		<u>69.9%</u>

**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**

<b>Investment Type</b>	<b>Fair Value</b>	<b>Percent of Portfolio</b>	<b>Maximum</b>
Agency Mortgage-Backed issued by U.S. Government or Federal Agencies	\$ -	0%	15%
Asset Backed Securities of authorized corporations or Federal Agencies	-	0%	15%
Bankers' Acceptance	-	0%	35%
Prime Quality Commercial Paper	28,611,861	16%	35%
Corporate Bonds and Notes	-	0%	35%
Local Government Investment Pool	65,629,650	37%	100%
Money Market Funds	16,007,263	9%	10%
Negotiable Certificates of Deposit	2,202,640	1%	5%
U.S. Agency Securities	66,518,363	37%	100%
U.S. Treasury Securities	-	0%	100%
Totals	<u>\$ 178,969,777</u>	<u>100%</u>	

**Appropriated Funds**

<b>Investment Type</b>	<b>Fair Value</b>	<b>Percent of Portfolio</b>	<b>Maximum</b>
Agency Mortgage-Backed issued by U.S. Government or Federal Agencies	\$ -	0%	15%
Asset Backed Securities of authorized corporations or Federal Agencies	-	0%	15%
Bankers' Acceptance	-	0%	35%
Prime Quality Commercial Paper	-	0%	35%
Corporate Bonds and Notes	-	0%	35%
Guaranteed Investment Contracts	-	0%	35%
Local Government Investment Pool	3,409,684	81%	100%
Money Market Funds	209,256	5%	10%
U.S. Agency Securities	598,002	14%	100%
U.S. Treasury Securities	-	0%	100%
Totals	<u>\$ 4,216,942</u>	<u>100%</u>	

**General Fund**

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Portfolio Maximum</u>	
Agency Mortgage-Backed issued by U.S. Government or Federal Agencies	\$ -	0%	50%
Asset Backed Securities of authorized corporations or Federal Agencies	-	0%	25%
Prime Quality Commercial Paper	-	0%	25%
Corporate Bonds and Notes	34,028	0%	40%
Repurchase Agreements	-	0%	25%
Local Government Investment Pool	1,179,818	12%	100%
Money Market Funds	466,092	5%	10%
Municipal Securities	35,918	0%	0%
Bankers' Acceptance	-	0%	25%
U.S. Agency Securities	6,115,857	64%	100%
U.S. Treasury Securities	1,817,285	19%	100%
Totals	<u>\$ 9,648,998</u>	<u>100%</u>	

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, 2007, bond fund investments totaled \$545,679,819. 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, 2007, excluding U.S. Government guaranteed obligations, the Virginia Local Government Investment Pool, money market funds, and bond fund investments, no portions of the Authority's portfolio exceeded 5% of the total portfolio.

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**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, 2007, 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
Commercial Paper	\$ 28,611,861	\$ 28,611,861	\$ -	\$ -	\$ -
Local Government Investment Pool	65,629,650	65,629,650	-	-	-
Money Market Funds	16,007,263	16,007,263	-	-	-
Negotiable Certificates of Deposit	2,202,640	2,202,640	-	-	-
U.S. Treasury Securities	66,518,363	63,518,673	2,999,690	-	-
	<u>\$ 178,969,777</u>	<u>\$ 175,970,087</u>	<u>\$ 2,999,690</u>	<u>\$ -</u>	<u>\$ -</u>
Average maturity of all investments					<u>50 Days</u>

**Appropriated Funds**

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Local Government Investment Pool	\$ 3,409,684	\$ 3,409,684	\$ -	\$ -	\$ -
Money Market Funds	209,256	209,256	-	-	-
U.S. Agency Securities	598,002	598,002	-	-	-
	<u>\$ 4,216,942</u>	<u>\$ 4,216,942</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Average maturity of all investments					<u>4 Days</u>



**Virginia Resources Authority**  
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**General Fund**

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Corporate Bonds and Notes	\$ 34,028	\$ -	\$ 34,028	\$ -	\$ -
Local Government Investment Pool	1,179,818	1,179,818	-	-	-
Money Market Funds	466,092	466,092	-	-	-
Municipal Securities	35,918	-	35,918	-	-
U.S. Agency Securities	6,115,857	805,547	5,275,780	5,698	28,832
U.S. Treasury Securities	1,817,285	292,009	1,525,276	-	-
Totals	\$ 9,648,998	\$ 2,743,466	\$ 6,871,002	\$ 5,698	\$ 28,832
Average maturity of all investments					<u>306 Days</u>

**Bond Fund**

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Guaranteed Investment Contracts	\$ 516,081,867	\$ -	\$248,415,810	\$ -	\$267,666,057
Local Government Investment Pool	181,724	181,724	-	-	-
Money Market Funds	19,628,943	19,628,943	-	-	-
U.S. Agency Securities	2,591,627	2,591,627	-	-	-
U.S. Treasury Securities	7,195,658	-	-	2,635,698	4,559,960
	\$545,679,819	\$22,402,294	\$248,415,810	\$2,635,698	\$272,226,017
Average maturity of all investments					<u>717 Days</u>

The Disbursement Funds include \$2,999,690 of investments with maturities over one year and the General Fund includes \$34,530 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 an institution 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 counterparty to the investment transaction, under provisions of the Commonwealth of Virginia Security for Public Deposits Act. As of June 30, 2007, 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, 2007:

Loans receivable related to bond issues:	
Water and Sewer System Revenue Bonds	\$ 220,611,095
Solid Waste Disposal System Revenue Bonds	86,035,000
Water, Sewer, and Solid Waste Disposal System Revenue Bonds	86,165,000
Water, Sewer, and Public Safety Revenue Bonds	605,240,000
Unamortized discount/premium and cost of issuance – net	7,339,682
<b>Subtotal – loans receivable related to bond issues</b>	<u>1,005,390,777</u>
Loans receivable related to revolving loan funds:	
VWFRF	583,998,758
VWFRF – Leveraged	286,972,710
VWFRF – AgBMP	9,184,921
VWSRF	96,396,262
VARF	70,707,181
<b>Subtotal – loans receivable related to revolving loan funds</b>	<u>1,047,259,832</u>
<b>Total loans receivable</b>	<u>\$ 2,052,650,609</u>
Loans receivable – current	\$ 85,746,332
Loans receivable – noncurrent	1,966,904,277
	<u>\$ 2,052,650,609</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.

*Virginia Resources Authority*

*Notes to Financial Statements*

**June 30, 2007**

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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. As of June 30, 2007, the Authority is also obligated under outstanding commitment letters and undisbursed loans to lend approximately:

<u>Type</u>	<u>VWFRF</u>	<u>VWSRF</u>	<u>VARF</u>
Committed, to be disbursed:			
Revolving fund	\$ 81,600,833	\$ 6,827,014	\$ -
Leveraged bonds	198,037,067	-	-
Commitment letter only (loan or grant not closed)	67,626,819	8,183,663	665,000

At June 30, 2007, no loans receivable were considered delinquent nor in default and no allowance for loan losses has been provided. There were no losses incurred in 2007.

**Virginia Resources Authority**  
**Notes to Financial Statements**  
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**5. Bonds Payable**

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
<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
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	165,000
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. Amount outstanding includes \$682,494 accretion for capital appreciation bonds.	26,116,069	1,090,698
1993 Bond Lot Program, Lot 17, dated July 1, 1993, interest rates ranging from 2.60% to 5.40%, final due date October 1, 2008	1,855,000	305,000
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	2,590,000
Series 1997 E, dated August 7, 1997, variable rate 7-day demand securities, final due date October 1, 2028.	34,380,000	29,405,000
Series 1997F, dated September 1, 1997, interest rates ranging from 3.80% to 5.20%, final due date November 1, 2017	3,650,000	2,410,000
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	4,365,000
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	15,280,000
Series 1998B, dated March 1, 1998, interest rates ranging from 3.75% to 5.00%, final due date October 1, 2028	2,380,000	2,030,000
Series 1998D, dated October 1, 1998, interest rates ranging from 3.20% to 4.75%, final due date October 1, 2028	16,185,000	13,880,000



**Virginia Resources Authority**  
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<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
Series 1999A, dated October 15, 1999, interest rates ranging from 4.00% to 5.80%, final due date October 1, 2024	\$ 4,500,000	\$ 3,755,000
Series 2000C, dated October 1, 2000, interest rates ranging from 4.70% to 5.00%, final due date October 1, 2021	4,640,000	3,880,000
Series 2001, dated October 1, 2001, interest rates ranging from 2.50% to 5.25%, final due date May 1, 2032	13,155,000	12,255,000
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	16,300,000
Series 2002, dated July 31, 2002, interest rates ranging from 4.875% to 5.465%, final due date November 1, 2035. Amount outstanding includes \$7,768,230 accretion for capital appreciation bonds.	62,747,167	70,515,397
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	21,455,000
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	155,650,000
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	169,540,000
Series 2007 CWSRF, dated May 3, 2007, interest rates ranging from 4.00% to 5.00%, final due date October 1, 2029	244,155,000	244,155,000

*Solid Waste Disposal System Revenue Bonds:*

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	140,000
Series 1997, dated September 1, 1997, interest rates ranging from 3.80% to 5.20%, final due date November 1, 2017	1,180,000	775,000
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

**Virginia Resources Authority**  
**Notes to Financial Statements**  
**June 30, 2007**

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<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
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	\$ 270,000
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	2,555,000
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	23,965,000
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	10,730,000
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	2,100,000
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	34,470,000
 <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	5,955,000
Series 2000B, dated November 1, 2000, interest rates ranging from 4.40% to 5.60%, final due date May 1, 2030	25,805,000	5,530,000
Series 2001A, dated June 28, 2001, interest rates ranging from 4.00% to 5.20%, final due date May 1, 2031	29,140,000	23,365,000
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	16,195,000
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	7,325,000

**Virginia Resources Authority**  
**Notes to Financial Statements**  
**June 30, 2007**

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<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
<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	\$ 42,720,000
Series 2002A, dated June 6, 2002, interest rates ranging from 3.00% to 5.13%, final due date May 1, 2027	42,845,000	34,425,000
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	33,335,000
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	12,645,000
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	50,655,000
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	30,940,000
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	6,250,000
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	2,730,000
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	1,565,000
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	675,000
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	58,650,000
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	31,745,000

**Virginia Resources Authority**  
**Notes to Financial Statements**  
**June 30, 2007**

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<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
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
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	27,325,000
Series 2004B Subordinate (Non-AMT), dated October 28, 2004, interest rate ranging from 2.25% to 5.00%, final due date November 1, 2035	13,920,000	13,330,000
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	7,280,000
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	3,295,000
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	1,305,000
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	560,000
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	20,725,000
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	8,935,000
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	35,515,000
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	15,800,000



**Virginia Resources Authority**  
**Notes to Financial Statements**  
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<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
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	\$ 5,820,000
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	2,500,000
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
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
Series 2006B Senior (Refunding), dated August 31, 2006, interest rates ranging from 4.00% to 5.00%, final due date May 1, 2030	17,270,000	16,935,000
Series 2006B Subordinate (Refunding), dated August 31, 2006, interest rates ranging from 4.00% to 4.50%, final due date May 1, 2030	8,005,000	7,855,000
Series 2006C Senior (Non-AMT), dated December 14, 2006, interest rates ranging from 4.00% to 5.00%, final due date November 1, 2036	45,935,000	45,935,000
Series 2006C Subordinate (Non-AMT), dated December 14, 2006, interest rates ranging from 3.50% to 4.375%, final due date November 1, 2036	22,860,000	22,860,000

**Virginia Resources Authority**  
**Notes to Financial Statements**  
**June 30, 2007**

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
Series 2007A Senior, dated June 7, 2007, interest rates ranging from 4.00% to 5.00%, final due date November 1, 2027	\$ 29,790,000	\$ 29,790,000
Series 2007A Subordinate, dated June 7, 2007, interest rates ranging from 4.00% to 4.375%, final due date November 1, 2027	14,465,000	14,465,000
<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	23,730,000
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
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	5,030,000
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
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
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	9,570,000
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	3,875,000
Series 2007 (Taxable), dated March 18, 2007, interest rates ranging from 5.10% to 5.18%, final due date August 1, 2032	5,425,000	5,425,000
<b>Total bonds at June 30</b>		1,670,621,095
Unamortized discounts/premiums and issuance expenses		25,967,386
<b>Total bonds – net</b>		<b>\$ 1,696,588,481</b>

**Virginia Resources Authority**  
**Notes to Financial Statements**  
**June 30, 2007**

Total bonds outstanding as of June 30:	\$ 1,670,621,095
Unaccreted Capital Appreciation Bonds as of June 30	49,103,905
<b>Total outstanding maturities</b>	<u><u>\$ 1,719,725,000</u></u>
Bonds payable – current	\$ 57,675,000
Bonds payable – noncurrent	1,638,913,481
	<u><u>\$ 1,696,588,481</u></u>

Activity in the bonds payable and related accounts for fiscal year 2007 was as follows:

<b>Description</b>	<b>Balance at June 30, 2006</b>	<b>Issued</b>	<b>Retired</b>	<b>Balance at June 30, 2007</b>	<b>Amount Due Within One Year</b>
Total bonds outstanding	\$ 1,367,326,834	\$ 387,905,000	\$ ( 84,610,739)	\$ 1,670,621,095	\$ 57,675,000
Unamortized discounts / premiums	42,289,820	15,594,377	(4,840,486)	53,043,711	1,831,233
Issuance expense	(27,757,784)	(3,095,408)	3,776,867	(27,076,325)	(934,758)
	<u><u>\$ 1,381,858,870</u></u>	<u><u>\$ 400,403,969</u></u>	<u><u>\$ ( 85,674,358)</u></u>	<u><u>\$ 1,696,588,481</u></u>	<u><u>\$ 58,571,475</u></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.

\$678,600,371 outstanding bonds at June 30, 2007 were secured by the moral obligation of the Commonwealth. The Authority is 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.

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 \$54,302 and \$49,049,603, respectively, as of June 30, 2007.

**Advance Refundings**

During the current year, the Authority issued refunding bond series 2006B and 2006C (partial refunding) to provide resources to place in trust for the purpose of making future debt service payments for the bonds listed below. As a result, the refunded bonds listed below are considered to be defeased and the liability has been removed from the statement of net assets:

**Virginia Resources Authority**  
**Notes to Financial Statements**  
**June 30, 2007**

<u>Water and Sewer Revenue Bond</u>	<u>Principal Deceased</u>	<u>Difference between Previous and New Debt Service</u>	<u>Economic Gain as a Result of the Refunding</u>
2000 Series A	\$ 22,020,000	\$ 2,336,889	\$ 1,393,936
2000 Series B	14,095,000	1,441,091	869,874
Total bonds - net	<u>\$ 36,115,000</u>	<u>\$ 3,777,980</u>	<u>\$ 2,263,810</u>

The amount outstanding at June 30, 2007 for bonds which have been in-substance defeased or refunded was \$225,066,700. In addition to current year refundings noted above, 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:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 57,675,000	\$ 74,497,838	\$ 132,172,838
2009	64,620,000	73,406,655	138,026,655
2010	66,115,000	70,597,898	136,712,898
2011	90,955,000	67,221,708	158,176,708
2012	94,685,000	62,843,044	157,528,044
2013-2017	425,880,000	251,878,605	677,758,605
2018-2022	381,915,000	158,322,661	540,237,661
2023-2027	304,225,000	78,425,980	382,650,980
2028-2032	151,310,000	31,138,319	182,448,319
2033-2037	82,345,000	8,758,870	91,103,870
<b>Total</b>	<u>\$ 1,719,725,000</u>	<u>\$ 877,091,578</u>	<u>\$ 2,596,816,578</u>

**6. Restricted Net Assets**

Restricted net assets represent the portion of total net assets restricted for the purpose of making loans to local governments or by the requirements of the various bond indentures or federal and state regulations for the various revolving funds. Restricted net assets include Revolving Loan Fund Accounts (net of furniture and fixtures), Airport Revolving Fund Accounts, Bond Accounts, and the Operating Reserve Fund. All assets and liabilities included in the Authority's General Accounts are non-restricted in nature; however, the General Account pledged assets to establish an Operating Reserve Fund for the 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, 2007 the cash, cash equivalents, and investments restricted for use related to the Operating Reserve Fund amounted to \$5,846,023.

**Virginia Resources Authority**  
**Notes to Financial Statements**  
**June 30, 2007**

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**7. Other Noncurrent Liabilities**

The amount of interest on investments of tax exempt bond proceeds the Authority may earn 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 are determined through arbitrage rebate calculations, with the arbitrage rebate liability separately reported on the financial statements.

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 \$849,893 at June 30, 2007 (\$79,429 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, 2007 an accrual for employee compensated absences in the amount of \$52,817 was included in accounts payable and other liabilities in the accompanying statement of net assets.

The following summarizes the activity related to these other liabilities for fiscal year 2007:

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007	Due Within one year
Arbitrage Rebate Liability	\$ 814,325	\$ 90,963	\$ 93,915	\$ 811,373	\$ 170,519
Deferred revenue	606,656	311,975	68,738	849,893	79,429
Accrued leave	25,032	27,785	-	52,817	52,817

**8. Contributions from Other Governments**

During the year the Authority received \$29,455,496 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 net assets. In addition, the Authority received \$10,195,776 from the Commonwealth as the required state match of federal funds.

**9. Employee Benefit Plans**

**A. Plan Descriptions**

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 annual retirement benefit at age 65 with five years of service or at age 50 with at least 30 years of service for participating employees, payable monthly for life, in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service, or age 55 with credit for at least five years of 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 reported compensation. 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](http://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 (including the 5% member contribution) for the fiscal year ended June 30, 2007 was 10.13% of the annual covered payroll.

**C. Annual Pension Cost**

For fiscal year 2007, the Authority's annual pension cost of \$62,904 was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. 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.



**Virginia Resources Authority**  
**Notes to Financial Statements**  
**June 30, 2007**

Trend information for the Authority is as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 7,991	100%	\$ -
June 30, 2006	63,840	100%	-
June 30, 2007	62,904	100%	-

Required supplementary information:

Schedule of funding progress for the Authority is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
June 30, 2006	\$ 72,262	\$ 142,769	\$ 70,507	50.61%	\$ 446,070	15.81%
June 30, 2005	7,759	112,659	104,900	6.89%	324,506	32.33%

The Authority also has a deferred compensation plan and, in accordance with Internal Revenue Code, 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 deferred compensation plan.

**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 expenses 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.

**Virginia Resources Authority**  
**Notes to Financial Statements**  
**June 30, 2007**

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**11. Leases**

The Authority leases its corporate office space under an operating lease. Rental expense totaled \$97,496 for the year ended June 30, 2007. The future minimum rental payments are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2008	\$ 102,720
2009	105,288
2010	107,920
2011	110,618
2012	113,383
2013	116,218
2014	119,123
2015	122,102
2016	125,154
2017	117,348
	<u>\$ 1,139,874</u>

Terms of a new office lease fiscal year 2007 eliminated payments for the first five months of the agreement. For accounting purposes lease expense is based on total lease payments allocated over the full lease period. At June 30, 2007 other liabilities include \$40,368 for fiscal year 2007 rent expense that will be paid in the future over the lease term.

**12. Subsequent Events**

Subsequent to June 30, 2007, the VWFRF closed one loan totaling \$616,206, with 0.0% interest rate and the VWSRF closed one loan totaling \$375,408 with a 0.0% interest rate.

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**Virginia Resources Authority**  
**Combining Schedule of Net Assets**  
**June 30, 2007**

	General Accounts	Virginia Revolving Loan Fund Accounts		Airport Accounts	Bond Accounts	Dam Safety Accounts	Total
		Water Facilities	Water Supply				
<b>Assets</b>							
Current assets							
Cash	\$ 318,549	\$ 6,446,155	\$ 1,703,870	\$ -	\$ -	\$ -	\$ 8,468,574
Cash equivalents	1,645,910	148,669,619	15,737,922	6,952,135	381,642	1,969,469	175,356,697
Investments	3,076,165	26,086,725	200,240	-	2,591,627	-	31,954,757
Loans receivable - current portion	-	59,827,511	3,395,499	3,018,640	19,504,682	-	85,746,332
Receivables:							
Investment interest	96,924	6,263,805	128,941	340,746	272,114	-	7,102,530
Loan interest	-	9,228,139	164,804	309,482	7,739,077	-	17,441,502
Federal funds	-	512,951	78,157	-	-	-	591,108
Loan administrative fees	-	55,095	7,569	64,446	-	-	127,110
Other	33,652	7,785	700	-	-	-	42,137
Other	8,679	415	301	-	1,535	-	10,930
Total current assets	5,179,879	257,098,200	21,418,003	10,685,449	30,490,677	1,969,469	326,841,677
Noncurrent assets							
Investments	4,926,868	476,404,294	-	24,914,012	24,958,908	-	531,204,082
Loans receivable - less current - net	-	820,328,878	93,000,763	67,688,541	985,886,095	-	1,966,904,277
Furniture and fixtures - at cost - less accumulated depreciation	4,252	3,187	2,557	-	-	-	9,996
Total noncurrent assets	4,931,120	1,296,736,359	93,003,320	92,602,553	1,010,845,003	-	2,498,118,355
Total assets	10,110,999	1,553,834,559	114,421,323	103,288,002	1,041,335,680	1,969,469	2,824,960,032
<b>Liabilities</b>							
Current liabilities							
Bonds payable - current portion	-	14,275,000	-	3,050,000	40,350,000	-	57,675,000
Accrued interest on bonds payable	-	6,031,404	-	1,480,865	7,898,208	-	15,410,477
Arbitrage rebate liability	-	170,519	-	-	-	-	170,519
Due to (from) other accounts	(416,125)	330,265	85,860	-	-	-	-
Deferred revenue	-	59,415	-	4,234	15,780	-	79,429
Accounts payable and other liabilities	297,566	-	20,105	118,546	-	-	436,217
Total current liabilities	(118,559)	20,866,603	105,965	4,653,645	48,263,988	-	73,771,642
Noncurrent liabilities							
Bonds payable - less current - net	-	574,433,643	-	70,854,664	993,625,174	-	1,638,913,481
Deferred revenue	-	586,264	-	41,168	143,032	-	770,464
Arbitrage rebate liability	-	639,802	-	1,052	-	-	640,854
Total noncurrent liabilities	-	575,659,709	-	70,896,884	993,768,206	-	1,640,324,799
Total liabilities	(118,559)	596,526,312	105,965	75,550,529	1,042,032,194	-	1,714,096,441
<b>Net assets</b>							
Invested in capital assets	4,252	3,187	2,557	-	-	-	9,996
Restricted:							
Loan Programs	-	957,305,060	114,312,801	27,737,473	(696,514)	1,969,469	1,100,628,289
Operating Reserve	5,846,023	-	-	-	-	-	5,846,023
Unrestricted	4,379,283	-	-	-	-	-	4,379,283
Total net assets	\$ 10,229,558	\$ 957,308,247	\$ 114,315,358	\$ 27,737,473	\$ (696,514)	\$ 1,969,469	\$ 1,110,863,591

Virginia Resources Authority

Combining Schedule of Revenues, Expenses, and Changes in Net Assets  
Year Ended June 30, 2007

	General	Virginia Revolving Loan Fund Accounts		Airport	Bond	Dam	Total
	Accounts	Water Facilities	Water Supply	Accounts	Accounts	Safety Accounts	
<b>Operating revenues</b>							
Interest on loans	\$ -	\$ 27,222,473	\$ 591,931	\$ 3,045,133	\$ 46,930,448	\$ -	\$ 77,789,985
Investment income	643,785	22,606,925	800,961	1,520,032	1,103,942	27,218	26,702,863
Bond administrative fees	-	41,746	-	4,082	1,002,179	-	1,048,007
Loan administrative fees	-	94,038	17,646	70,106	-	-	181,790
Administrative reimbursement	-	391,636	232,673	-	-	-	624,309
Other income	46,185	1,394	-	-	-	-	47,579
Total operating revenues	689,970	50,358,212	1,643,211	4,639,353	49,036,569	27,218	106,394,533
<b>Operating expenses</b>							
Interest on bonds	-	20,215,540	-	3,542,873	48,334,315	-	72,092,728
Grants to local governments	-	637,913	2,403,442	-	-	-	3,041,355
Personnel services	522,321	284,121	130,106	-	-	-	936,548
General operating	307,970	215,899	36,032	17,643	-	304	577,848
Contractual services	125,393	167,902	85,537	33,241	-	-	412,073
Total operating expenses	955,684	21,521,375	2,655,117	3,593,757	48,334,315	304	77,060,552
<b>Operating income (loss)</b>	(265,714)	28,836,837	(1,011,906)	1,045,596	702,254	26,914	29,333,981
<b>Nonoperating revenue</b>							
Contributions from other governments	-	23,509,671	14,199,046	-	-	1,942,555	39,651,272
<b>Income (loss) before transfers</b>	(265,714)	52,346,508	13,187,140	1,045,596	702,254	1,969,469	68,985,253
<b>Operating transfers</b>	945,840	205,233	11,260	(67,931)	(1,094,402)	-	-
<b>Change in net assets</b>	680,126	52,551,741	13,198,400	977,665	(392,148)	1,969,469	68,985,253
<b>Total net assets - beginning</b>	9,549,432	904,756,506	101,116,958	26,759,808	(304,366)	-	1,041,878,338
<b>Total net assets - ending</b>	\$ 10,229,558	\$ 957,308,247	\$ 114,315,358	\$ 27,737,473	\$ (696,514)	\$ 1,969,469	\$ 1,110,863,591

**Virginia Resources Authority**  
**Combining Schedule of Cash Flows**  
**Year Ended June 30, 2007**

	<b>General Accounts</b>	<b>Virginia Revolving Loan Fund Accounts</b>		<b>Airport Accounts</b>	<b>Bond Accounts</b>	<b>Dam Safety Accounts</b>	<b>Total</b>
		<b>Water Facilities</b>	<b>Water Supply</b>				
<b>Cash flows from operating activities</b>							
Cash payments to localities for loans	\$ -	\$ (118,457,216)	\$ (12,285,179)	\$ (5,248,000)	\$ (138,325,000)	\$ -	\$ (274,315,395)
Principal repayments from localities on loans	-	52,254,798	3,993,437	2,861,002	70,754,200	-	129,863,437
Interest received on loans	60,934	26,621,032	577,184	3,049,138	45,892,297	-	76,200,585
Bond administrative fees received	-	305,194	-	6,781	979,269	-	1,291,244
Loan administrative fees received	-	38,943	10,077	5,660	-	-	54,680
Federal administrative reimbursement funds received	-	(13,619)	300,552	-	-	-	286,933
Cash received from other income	18,631	(6,391)	-	-	(641)	-	11,599
Cash payments for salaries and related benefits	(522,321)	(284,121)	(130,106)	-	-	-	(936,548)
Cash payments for contractual services	(125,393)	(167,902)	(85,537)	(33,241)	-	-	(412,073)
Cash payments for general operating expenses	(100,716)	(203,746)	(25,995)	(11,999)	-	(304)	(342,760)
Cash payments for operating grants	-	(637,913)	(2,403,442)	-	-	-	(3,041,355)
Interest paid on bonds	-	(18,418,235)	-	(3,501,860)	(47,186,341)	-	(69,106,436)
Interfund activity	2,102	55,438	(57,540)	-	-	-	-
<b>Net cash used in operating activities</b>	<b>(666,763)</b>	<b>(58,913,738)</b>	<b>(10,106,549)</b>	<b>(2,872,519)</b>	<b>(67,886,216)</b>	<b>(304)</b>	<b>(140,446,089)</b>
<b>Cash flows from noncapital financing activities</b>							
Proceeds from sale of bonds	-	253,671,026	-	5,248,000	141,484,943	-	400,403,969
Principal paid on bonds	-	(12,840,327)	-	(2,840,774)	(69,993,258)	-	(85,674,359)
Contributions from other governments	-	23,509,671	14,199,046	-	-	1,942,555	39,651,272
Cash received (paid) from other accounts	945,840	236,761	11,260	(102,411)	(1,094,402)	-	(2,952)
<b>Net cash provided by noncapital financing activities</b>	<b>945,840</b>	<b>264,577,131</b>	<b>14,210,306</b>	<b>2,304,815</b>	<b>70,397,283</b>	<b>1,942,555</b>	<b>354,377,930</b>
<b>Cash flows from investing activities</b>							
Purchase of investments	(7,989,999)	(4,777,942,224)	(33,741,882)	(25,101,364)	(54,442,489)	-	(4,899,217,958)
Proceeds from sales or maturities of investments	7,764,628	4,514,046,932	33,759,716	26,463,997	48,288,789	-	4,630,324,062
Interest received on investments - net	608,736	20,213,024	741,613	1,470,207	1,086,155	27,218	24,146,953
<b>Net cash provided by (used in) investing activities</b>	<b>383,365</b>	<b>(243,682,268)</b>	<b>759,447</b>	<b>2,832,840</b>	<b>(5,067,545)</b>	<b>27,218</b>	<b>(244,746,943)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>662,442</b>	<b>(38,018,875)</b>	<b>4,863,204</b>	<b>2,265,136</b>	<b>(2,556,478)</b>	<b>1,969,469</b>	<b>(30,815,102)</b>
<b>Cash and cash equivalents</b>							
<b>Beginning of year</b>	<b>1,302,017</b>	<b>193,134,649</b>	<b>12,578,588</b>	<b>4,686,999</b>	<b>2,938,120</b>	<b>-</b>	<b>214,640,373</b>
<b>End of year</b>	<b>\$ 1,964,459</b>	<b>\$ 155,115,774</b>	<b>\$ 17,441,792</b>	<b>\$ 6,952,135</b>	<b>\$ 381,642</b>	<b>\$ 1,969,469</b>	<b>\$ 183,825,271</b>

**Virginia Resources Authority**  
**Combining Schedule of Cash Flows**  
**Year Ended June 30, 2007**

	<u>General Accounts</u>	<u>Virginia Revolving Loan Fund Accounts</u>		<u>Airport Accounts</u>	<u>Bond Accounts</u>	<u>Dam Safety Accounts</u>	<u>Total</u>
		<u>Water Facilities</u>	<u>Water Supply</u>				
<b>Reconciliation of operating income (loss) to net cash used in operating activities</b>							
Operating income (loss)	\$ (265,714)	\$ 28,836,837	\$ (1,011,906)	\$ 1,045,596	\$ 702,254	\$ 26,914	\$ 29,333,981
Adjustments to reconcile operating income (loss) to net cash used in operating activities:							
Depreciation	14,564	12,153	9,006	-	-	-	35,723
Interest on investments	(643,785)	(22,606,925)	(800,961)	(1,520,032)	(1,103,942)	(27,218)	(26,702,863)
Interest on bonds, amortization and accretion - net	-	1,797,305	-	41,013	1,147,974	-	2,986,292
Change in assets and liabilities							
Loans receivables	-	(66,202,418)	(8,299,311)	(2,386,998)	(67,570,800)	-	(144,459,527)
Loan interest receivable	60,934	(601,441)	(14,747)	4,005	(1,038,151)	-	(1,589,400)
Federal funds receivable	-	(405,255)	68,579	-	-	-	(336,676)
Loan administrative fee receivable	-	(55,095)	-	(64,446)	-	-	(119,541)
Other receivables	(28,148)	(7,785)	(700)	-	-	-	(36,633)
Other current assets	594	-	-	-	(641)	-	(47)
Accounts payable and other liabilities	192,690	-	1,031	5,644	-	-	199,365
Deferred revenue	-	263,448	-	2,699	(22,910)	-	243,237
Due to (from) other funds	2,102	55,438	(57,540)	-	-	-	-
<b>Net cash used in operating activities</b>	<u>\$ (666,763)</u>	<u>\$ (58,913,738)</u>	<u>\$ (10,106,549)</u>	<u>\$ (2,872,519)</u>	<u>\$ (67,886,216)</u>	<u>\$ (304)</u>	<u>\$ (140,446,089)</u>



Virginia Resources Authority

Combining Schedule of Net Assets

Virginia Revolving Loan Fund Accounts - Water Facilities

June 30, 2007

	Direct Loan Accounts	Leveraged Loan Accounts	Agricultural Best Management Practices Account	Combined Sewer Overflow Fund Account	Investment Fund Accounts	Administrative Fee Accounts	Total
<b>Assets</b>							
Current assets							
Cash	\$ 2,326,437	\$ -	\$ 2,403,625	\$ -	\$ 822,680	\$ 893,413	\$ 6,446,155
Cash equivalents	116,354,157	14,724,365	5,349,993	7,957,122	4,283,982	-	148,669,619
Investments	25,886,485	-	200,240	-	-	-	26,086,725
Loans receivable - current portion	39,783,109	15,010,911	4,970,481	-	63,010	-	59,827,511
Receivables:							
Investment interest	1,428,489	4,731,909	103,407	-	-	-	6,263,805
Loan interest	6,155,712	3,007,971	64,456	-	-	-	9,228,139
Federal funds	504,375	8,576	-	-	-	-	512,951
Loan administrative fees	-	-	-	-	-	55,095	55,095
Other	7,785	-	-	-	-	-	7,785
Other	415	-	-	-	-	-	415
Total current assets	192,446,964	37,483,732	13,092,202	7,957,122	5,169,672	948,508	257,098,200
Noncurrent assets							
Investments	2,999,690	473,404,604	-	-	-	-	476,404,294
Loans receivable - less current - net	543,974,686	271,961,799	4,214,440	-	177,953	-	820,328,878
Furniture and fixtures - at cost - less accumulated depreciation	3,187	-	-	-	-	-	3,187
Total noncurrent assets	546,977,563	745,366,403	4,214,440	-	177,953	-	1,296,736,359
Total assets	739,424,527	782,850,135	17,306,642	7,957,122	5,347,625	948,508	1,553,834,559
<b>Liabilities</b>							
Current liabilities							
Bonds payable - current portion	-	14,275,000	-	-	-	-	14,275,000
Accrued interest on bonds payable	-	6,031,404	-	-	-	-	6,031,404
Arbitrage rebate liability	-	170,519	-	-	-	-	170,519
Due to (from) other accounts	442,166	(35,613)	-	-	(10,213)	(66,075)	330,265
Deferred revenue	-	59,415	-	-	-	-	59,415
Total current liabilities	442,166	20,500,725	-	-	(10,213)	(66,075)	20,866,603
Noncurrent liabilities							
Bonds payable - less current - net	-	574,433,643	-	-	-	-	574,433,643
Deferred revenue	-	586,264	-	-	-	-	586,264
Arbitrage rebate liability	-	639,802	-	-	-	-	639,802
Total noncurrent liabilities	-	575,659,709	-	-	-	-	575,659,709
Total liabilities	442,166	596,160,434	-	-	(10,213)	(66,075)	596,526,312
<b>Net assets</b>							
Invested in capital assets	3,187	-	-	-	-	-	3,187
Restricted:							
Loan Programs	738,979,174	186,689,701	17,306,642	7,957,122	5,357,838	1,014,583	957,305,060
Total net assets	\$ 738,982,361	\$ 186,689,701	\$ 17,306,642	\$ 7,957,122	\$ 5,357,838	\$ 1,014,583	\$ 957,308,247

Virginia Resources Authority

Combining Schedule of Revenues, Expenses, and Changes in Net Assets  
 Virginia Revolving Loan Fund Accounts - Water Facilities  
 Year Ended June 30, 2007

	Direct Loan Accounts	Leveraged Loan Accounts	Agricultural Best Management Practices Account	Combined Sewer Overflow Fund Account	Investment Fund Accounts	Administrative Fee Accounts	Total
<b>Operating revenues</b>							
Interest on loans	\$ 15,983,996	\$ 11,024,362	\$ 214,115	\$ -	\$ -	\$ -	\$ 27,222,473
Investment income	9,648,513	11,936,417	441,350	233,407	337,235	10,003	22,606,925
Bond administrative fees	-	41,746	-	-	-	-	41,746
Loan administrative fees	24,636	-	-	-	-	69,402	94,038
Administrative reimbursement	391,636	-	-	-	-	-	391,636
Other income	380	-	1,014	-	-	-	1,394
Total operating revenues	26,049,161	23,002,525	656,479	233,407	337,235	79,405	50,358,212
<b>Operating expenses</b>							
Interest on bonds	-	20,215,540	-	-	-	-	20,215,540
Grants to local governments	-	-	-	637,913	-	-	637,913
Personnel services	284,121	-	-	-	-	-	284,121
General operating	199,108	-	7,075	4,445	5,271	-	215,899
Contractual services	167,902	-	-	-	-	-	167,902
Total operating expenses	651,131	20,215,540	7,075	642,358	5,271	-	21,521,375
<b>Operating income (loss)</b>	25,398,030	2,786,985	649,404	(408,951)	331,964	79,405	28,836,837
<b>Nonoperating revenue</b>							
Contributions from other governments	19,014,639	304,032	-	-	4,191,000	-	23,509,671
<b>Income (loss) before transfers</b>	44,412,669	3,091,017	649,404	(408,951)	4,522,964	79,405	52,346,508
<b>Operating transfers</b>	(44,951,235)	47,512,580	-	3,843,602	(7,134,892)	935,178	205,233
<b>Change in net assets</b>	(538,566)	50,603,597	649,404	3,434,651	(2,611,928)	1,014,583	52,551,741
<b>Total net assets - beginning</b>	739,520,927	136,086,104	16,657,238	4,522,471	7,969,766	-	904,756,506
<b>Total net assets - ending</b>	\$ 738,982,361	\$ 186,689,701	\$ 17,306,642	\$ 7,957,122	\$ 5,357,838	\$ 1,014,583	\$ 957,308,247

Virginia Resources Authority

Combining Schedule of Cash Flows

Virginia Revolving Loan Fund Accounts - Water Facilities  
Year Ended June 30, 2007

	Direct Loan Accounts	Leveraged Loan Accounts	Agricultural Best Management Practices Account	Combined Sewer Overflow Fund Account	Investment Fund Accounts	Administrative Fee Accounts	Total
<b>Operating activities</b>							
Cash payments to localities for loans	\$ (67,116,573)	\$ (45,780,504)	\$ (5,560,139)	\$ -	\$ -	\$ -	\$ (118,457,216)
Principal repayments from localities on loans	35,712,967	13,553,013	2,925,807	-	63,011	-	52,254,798
Interest received on loans	15,447,556	10,984,991	188,485	-	-	-	26,621,032
Bond administrative fees received	-	305,194	-	-	-	-	305,194
Loan administrative fees received	24,636	-	-	-	-	14,307	38,943
Federal administrative reimbursement funds received	(5,043)	(8,576)	-	-	-	-	(13,619)
Cash received from other income	(7,405)	-	1,014	-	-	-	(6,391)
Cash payments for salaries and related benefits	(284,121)	-	-	-	-	-	(284,121)
Cash payments for contractual services	(167,902)	-	-	-	-	-	(167,902)
Cash payments for general operating expenses	(186,955)	-	(7,075)	(4,445)	(5,271)	-	(203,746)
Cash payments for operating grants	-	-	-	(637,913)	-	-	(637,913)
Interest paid on bonds	-	(18,418,235)	-	-	-	-	(18,418,235)
Interfund activity	167,339	(35,613)	-	-	(10,213)	(66,075)	55,438
<b>Net cash provided by (used in) operating activities</b>	<b>(16,415,501)</b>	<b>(39,399,730)</b>	<b>(2,451,908)</b>	<b>(642,358)</b>	<b>47,527</b>	<b>(51,768)</b>	<b>(58,913,738)</b>
<b>Noncapital financing activities</b>							
Proceeds from sale of bonds	-	253,671,026	-	-	-	-	253,671,026
Principal paid on bonds	-	(12,840,327)	-	-	-	-	(12,840,327)
Contributions from other governments	19,014,639	304,032	-	-	4,191,000	-	23,509,671
Cash received (paid) from other accounts	(44,951,237)	47,544,110	-	3,843,602	(7,134,892)	935,178	236,761
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(25,936,598)</b>	<b>288,678,841</b>	<b>-</b>	<b>3,843,602</b>	<b>(2,943,892)</b>	<b>935,178</b>	<b>264,577,131</b>
<b>Investing activities</b>							
Purchase of investments	(3,008,397,716)	(1,744,191,193)	(25,353,315)	-	-	-	(4,777,942,224)
Proceeds from sales or maturities of investments	2,996,854,567	1,491,891,087	25,301,278	-	-	-	4,514,046,932
Interest received on investments - net	9,385,999	9,805,030	441,350	233,407	337,235	10,003	20,213,024
<b>Net cash provided by (used in) investing activities</b>	<b>(2,157,150)</b>	<b>(242,495,076)</b>	<b>389,313</b>	<b>233,407</b>	<b>337,235</b>	<b>10,003</b>	<b>(243,682,268)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(44,509,249)</b>	<b>6,784,035</b>	<b>(2,062,595)</b>	<b>3,434,651</b>	<b>(2,559,130)</b>	<b>893,413</b>	<b>(38,018,875)</b>
<b>Cash and cash equivalents</b>							
<b>Beginning of year</b>	<b>163,189,843</b>	<b>7,940,330</b>	<b>9,816,213</b>	<b>4,522,471</b>	<b>7,665,792</b>	<b>-</b>	<b>193,134,649</b>
<b>End of year</b>	<b>\$ 118,680,594</b>	<b>\$ 14,724,365</b>	<b>\$ 7,753,618</b>	<b>\$ 7,957,122</b>	<b>\$ 5,106,662</b>	<b>\$ 893,413</b>	<b>\$ 155,115,774</b>

Virginia Resources Authority

Combining Schedule of Cash Flows

Virginia Revolving Loan Fund Accounts - Water Facilities

Year Ended June 30, 2007

	Direct Loan Accounts	Leveraged Loan Accounts	Agricultural Best Management Practices Account	Combined Sewer Overflow Fund Account	Investment Fund Accounts	Administrative Fee Accounts	Total
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>							
Operating income (loss)	\$ 25,398,030	\$ 2,786,985	\$ 649,404	\$ (408,951)	\$ 331,964	\$ 79,405	\$ 28,836,837
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	12,153	-	-	-	-	-	12,153
Interest on investments	(9,648,513)	(11,936,417)	(441,350)	(233,407)	(337,235)	(10,003)	(22,606,925)
Interest on bonds, amortization and accretion - net	-	1,797,305	-	-	-	-	1,797,305
Change in assets and liabilities							
Loans receivables	(31,403,606)	(32,227,491)	(2,634,332)	-	63,011	-	(66,202,418)
Loan interest receivable	(536,440)	(39,371)	(25,630)	-	-	-	(601,441)
Federal funds receivable	(396,679)	(8,576)	-	-	-	-	(405,255)
Loan administrative fee receivable	-	-	-	-	-	(55,095)	(55,095)
Other receivables	(7,785)	-	-	-	-	-	(7,785)
Deferred revenue	-	263,448	-	-	-	-	263,448
Due to (from) other funds	167,339	(35,613)	-	-	(10,213)	(66,075)	55,438
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (16,415,501)</b>	<b>\$ (39,399,730)</b>	<b>\$ (2,451,908)</b>	<b>\$ (642,358)</b>	<b>\$ 47,527</b>	<b>\$ (51,768)</b>	<b>\$ (58,913,738)</b>

Virginia Resources Authority  
Combining Schedule of Net Assets  
Virginia Revolving Loan Fund Accounts - Water Supply  
June 30, 2007

	Construction Accounts	Supply Accounts	Administrative Accounts	Administrative Fee Accounts	Total
<b>Assets</b>					
Current assets					
Cash	\$ 1,537,045	\$ 144,791	\$ -	\$ 22,034	\$ 1,703,870
Cash equivalents	15,737,922	-	-	-	15,737,922
Investments	200,240	-	-	-	200,240
Loans receivable - current portion	3,364,651	30,848	-	-	3,395,499
Receivables:					
Investment interest	128,941	-	-	-	128,941
Loan interest	163,804	1,000	-	-	164,804
Federal funds	-	-	78,157	-	78,157
Loan administrative fees	-	-	-	7,569	7,569
Other	-	-	700	-	700
Other	-	-	301	-	301
Total current assets	<u>21,132,603</u>	<u>176,639</u>	<u>79,158</u>	<u>29,603</u>	<u>21,418,003</u>
Noncurrent assets					
Loans receivable - less current - net	92,765,767	234,996	-	-	93,000,763
Furniture and fixtures - at cost - less accumulated depreciation	-	-	2,557	-	2,557
Total noncurrent assets	<u>92,765,767</u>	<u>234,996</u>	<u>2,557</u>	<u>-</u>	<u>93,003,320</u>
Total assets	<u>113,898,370</u>	<u>411,635</u>	<u>81,715</u>	<u>29,603</u>	<u>114,421,323</u>
<b>Liabilities</b>					
Current liabilities					
Due to (from) other accounts	20,832	(9,795)	74,823	-	85,860
Accounts payable and other liabilities	20,105	-	-	-	20,105
Total liabilities	<u>40,937</u>	<u>(9,795)</u>	<u>74,823</u>	<u>-</u>	<u>105,965</u>
<b>Net assets</b>					
Invested in capital assets	-	-	2,557	-	2,557
Restricted:					
Loan Programs	113,857,433	421,430	4,335	29,603	114,312,801
Total net assets	<u>\$ 113,857,433</u>	<u>\$ 421,430</u>	<u>\$ 6,892</u>	<u>\$ 29,603</u>	<u>\$ 114,315,358</u>

Virginia Resources Authority

Combining Schedule of Revenues, Expenses, and Changes in Net Assets  
 Virginia Revolving Loan Fund Accounts - Water Supply  
 Year Ended June 30, 2007

	Construction Accounts	Supply Accounts	Administrative Accounts	Administrative Fee Accounts	Total
<b>Operating revenues</b>					
Interest on loans	\$ 586,177	\$ 5,754	\$ -	\$ -	\$ 591,931
Investment income	795,636	4,625	-	700	800,961
Loan administrative fees	3,922	-	-	13,724	17,646
Administrative reimbursement	-	-	232,673	-	232,673
Total operating revenues	<u>1,385,735</u>	<u>10,379</u>	<u>232,673</u>	<u>14,424</u>	<u>1,643,211</u>
<b>Operating expenses</b>					
Grants to local governments	2,337,530	65,912	-	-	2,403,442
Personnel services	-	-	130,106	-	130,106
General operating	10,497	200	25,335	-	36,032
Contractual services	-	-	85,537	-	85,537
Total operating expenses	<u>2,348,027</u>	<u>66,112</u>	<u>240,978</u>	<u>-</u>	<u>2,655,117</u>
<b>Operating income (loss)</b>	<u>(962,292)</u>	<u>(55,733)</u>	<u>(8,305)</u>	<u>14,424</u>	<u>(1,011,906)</u>
<b>Nonoperating revenue</b>					
Contributions from other governments	14,199,046	-	-	-	14,199,046
<b>Income (loss) before transfers</b>	13,236,754	(55,733)	(8,305)	14,424	13,187,140
<b>Operating transfers</b>	(3,919)	-	-	15,179	11,260
<b>Change in net assets</b>	13,232,835	(55,733)	(8,305)	29,603	13,198,400
<b>Total net assets - beginning</b>	100,624,598	477,163	15,197	-	101,116,958
<b>Total net assets - ending</b>	<u>\$ 113,857,433</u>	<u>\$ 421,430</u>	<u>\$ 6,892</u>	<u>\$ 29,603</u>	<u>\$ 114,315,358</u>



Virginia Resources Authority  
Combining Schedule of Cash Flows  
Virginia Revolving Loan Fund Accounts - Water Supply  
Year Ended June 30, 2007

	Construction Accounts	Supply Accounts	Administrative Accounts	Administrative Fee Accounts	Total
<b>Operating activities</b>					
Cash payments to localities for loans	\$ (12,285,179)	\$ -	\$ -	\$ -	\$ (12,285,179)
Principal repayments from localities on loans	3,963,304	30,133	-	-	3,993,437
Interest received on loans	571,293	5,891	-	-	577,184
Loan administration fees received	3,922	-	-	6,155	10,077
Federal administrative reimbursement funds received	-	-	300,552	-	300,552
Cash payments for salaries and related benefits	-	-	(130,106)	-	(130,106)
Cash payments for contractual services	-	-	(85,537)	-	(85,537)
Cash payments for general operating expenses	(9,466)	(200)	(16,329)	-	(25,995)
Cash payments for operating grants	(2,337,530)	(65,912)	-	-	(2,403,442)
Interfund activity	11,040	-	(68,580)	-	(57,540)
<b>Net cash provided by (used in) operating activities</b>	<b>(10,082,616)</b>	<b>(30,088)</b>	<b>-</b>	<b>6,155</b>	<b>(10,106,549)</b>
<b>Noncapital financing activities</b>					
Contributions from other governments	14,199,046	-	-	-	14,199,046
Cash received (paid) from other accounts	(3,919)	-	-	15,179	11,260
<b>Net cash provided by noncapital financing activities</b>	<b>14,195,127</b>	<b>-</b>	<b>-</b>	<b>15,179</b>	<b>14,210,306</b>
<b>Investing activities</b>					
Purchase of investments	(33,741,882)	-	-	-	(33,741,882)
Proceeds from sales or maturities of investments	33,759,716	-	-	-	33,759,716
Interest received on investments - net	736,288	4,625	-	700	741,613
<b>Net cash provided by investing activities</b>	<b>754,122</b>	<b>4,625</b>	<b>-</b>	<b>700</b>	<b>759,447</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>4,866,633</b>	<b>(25,463)</b>	<b>-</b>	<b>22,034</b>	<b>4,863,204</b>
<b>Cash and cash equivalents</b>					
<b>Beginning of year</b>	<b>12,408,334</b>	<b>170,254</b>	<b>-</b>	<b>-</b>	<b>12,578,588</b>
<b>End of year</b>	<b>\$ 17,274,967</b>	<b>\$ 144,791</b>	<b>\$ -</b>	<b>\$ 22,034</b>	<b>\$ 17,441,792</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>					
Operating income (loss)	\$ (962,292)	\$ (55,733)	\$ (8,305)	\$ 14,424	\$ (1,011,906)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	9,006	-	9,006
Interest on investments	(795,636)	(4,625)	-	(700)	(800,961)
Change in assets and liabilities					
Loans receivables	(8,321,875)	30,133	-	(7,569)	(8,299,311)
Loan interest receivable	(14,884)	137	-	-	(14,747)
Federal funds receivable	-	-	68,579	-	68,579
Other receivables	-	-	(700)	-	(700)
Accounts payable and other liabilities	1,031	-	-	-	1,031
Due to (from) other funds	11,040	-	(68,580)	-	(57,540)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (10,082,616)</b>	<b>\$ (30,088)</b>	<b>\$ -</b>	<b>\$ 6,155</b>	<b>\$ (10,106,549)</b>



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**INDEPENDENT AUDITORS' 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***

To the Honorable Board Members  
Virginia Resources Authority  
Richmond, Virginia

We have audited the financial statements of the Virginia Resources Authority (Authority) as of and for the year ended June 30, 2007, and have issued our report thereon dated September 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential, will not be prevented or detected by the Authority's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a significant deficiency in internal control over financial reporting. The significant deficiency in internal control is described in the accompanying Schedule of Findings and Responses as item 07-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in the accompanying Schedule of Findings and Responses not to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated September 10, 2007.

This report is intended solely for the information and use of management, the Board of Directors, the Auditor of Public Accounts, and other Federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

PBGH, LLP

Harrisonburg, Virginia  
September 10, 2007



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

To the Honorable Board Members  
Virginia Resources Authority  
Richmond, Virginia

Compliance

We have audited the compliance of the Virginia Resources Authority (Authority) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia that are applicable to its major federal program for the year ended June 30, 2007. The Authority's major federal program is identified in the Summary of Independent Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards, specifications, 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 the 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 of the Authority's compliance with those requirements.

In our opinion, the 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, 2007.

## Internal Control Over Compliance

The management of the 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 the 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 but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A control deficiency in the Authority's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, the Auditor of Public Accounts, management, Federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PBGH, LLP

Harrisonburg, Virginia  
September 10, 2007

**Virginia Resources Authority**  
**Schedule of Expenses of Federal Awards**  
**For the year ended June 30, 2007**

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<b>Federal Granting Agency / Recipient State Agency / Grant Program</b>	<b>Catalog of Federal Domestic Assistance (CFDA) Number</b>	<b>Expenses</b>
<b>Environmental Protection Agency</b>		
Pass through payments from Commonwealth of Virginia:		
Department of Environmental Quality		
Capitalization Grants for Clean Water State Revolving Funds (VWFRF)	66.458	\$ 19,710,307
Department of Health		
Capitalization Grants for Drinking Water State Revolving Funds (VWSRF)	66.468	10,711,848
		<u>\$ 30,422,155</u>

See notes to the Schedule of Expenses of Federal Awards.

**Virginia Resources Authority**

**Notes to Schedule of Expenses of Federal Awards**

**For the year ended June 30, 2007**

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1. General

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

2. Basis of Accounting

The accompanying Schedule is presented on 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 commitments for undisbursed loans to lend of approximately \$81,600,833 from the VWFRF and \$6,827,014 from the VWSRF as of June 30, 2007.

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 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 revenue (administrative reimbursement and contributions from other governments) in the Authority's basic financial statements as follows:

	<b>VWFRF</b>	<b>VWSRF</b>	<b>VDSFPF</b>	<b>Total</b>
Revenue Per Financial Statements				
Administrative Reimbursement	\$ 391,636	\$ 232,673	\$ -	\$ 624,309
Contributions from other Governments	23,509,671	14,199,046	1,942,555	39,651,272
Total Governmental Revenue	23,901,307	14,431,719	1,942,555	40,275,581
Less amounts not related to federal financial assistance	(4,191,000)	(4,062,221)	(1,942,555)	(10,195,776)
Less received current year, but expensed next fiscal year	-	(17,176)	-	(17,176)
Add expensed current year, but received prior fiscal year	-	359,526	-	359,526
Federal Schedule of Expenses	<u>\$ 19,710,307</u>	<u>\$ 10,711,848</u>	<u>\$ -</u>	<u>\$ 30,422,155</u>



**VIRGINIA RESOURCES AUTHORITY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended June 30, 2007**

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified \_\_\_\_\_ Yes   √   No

Significant deficiency identified that is not  
considered to be a material weakness \_\_\_\_\_   √   Yes \_\_\_\_\_ No

Noncompliance material to financial statements noted \_\_\_\_\_ Yes   √   No

Federal awards

Internal control over major program:

Material weaknesses identified \_\_\_\_\_ Yes   √   No

Significant deficiencies identified that are  
not considered to be material weaknesses \_\_\_\_\_ Yes   √   No

Type of auditors' report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to  
be reported in accordance with section 510(a) of  
Circular A-133? \_\_\_\_\_ Yes   √   No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds (VWFRF)

Dollar threshold used to distinguish between type A and type B programs \$912,664

Auditee qualified as low-risk auditee? \_\_\_\_\_   √   Yes \_\_\_\_\_ No

VIRGINIA RESOURCES AUTHORITY

Page 2

SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

A. Significant Deficiency in Internal Control

07-1 Segregation of Duties

Journal entries should be reviewed and approved by someone other than the preparer of the entries before they are posted. The Fiscal and Administrative Specialist processed payroll and accounts payable, reconciled checking accounts and posted journal entries, which were not reviewed or approved by a second person during most of fiscal year 2007. The Loan Servicing and Investment Coordinator reconciled, prepared and posted journal entries for all investment, loans receivable and bonds payable activity without review or approval during most of fiscal year 2007. This condition is a deficiency in the Authority's design of internal control and could allow the Authority's financial reports to be misstated without timely detection. In June 2007, the Senior Accountant began reviewing and posting journal entries, although the individuals who prepared entries still had the capability in the general ledger to post them. For standard, recurring journal entries, we suggest the Authority continue with the practice that was established in June 2007 to have someone review, approve and post journal entries; however, rights to post within the general ledger software should be removed for those preparing the entries. We recommend that nonrecurring journal entries and any journal entries prepared by the Senior Accountant be approved by someone else, possibly the Director of Administration and Finance before being posted. Also, we recommend the Director of Administration and Finance initial the support for entries to document approval. These procedures would improve controls over journal entries posted to the general ledger.

VIRGINIA RESOURCES AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

A. Significant Deficiency in Internal Control

07-1 Segregation of Duties

**Management's Response:**

The Authority previously identified similar concerns and, as a matter of procedure, the Senior Accountant and Director of Administration and Finance have been reviewing and posting entries since June 2007. Also since June 2007, the Director of Administration and Finance reviews and posts any entry prepared by the Senior Accountant.

The posting feature in the financial system has been password protected as of September 2007 with the Senior Accountant and Director of Administration and Finance retaining that password. Because of the password protection, nothing can be posted to the general ledger without it first being approved by the Senior Accountant or Director of Administration and Finance. In order to address operational needs, the password may be provided to the Coordinator and Specialist on a temporary basis, when the Senior Accountant and Director of Administration and Finance are absent. Any items posted by the Coordinator or Specialist are logged and subsequently reviewed by the Senior Accountant or Director of Administration and Finance.

An additional mitigating control has been established where VRA runs a report on a monthly basis and compares it to the journal entry back up to make sure the person who entered the transaction is different than the person who posts the transaction. The Authority is committed to exercising strong internal controls while maintaining its two-day turnaround and mail commitment for disbursements of the critical revolving loan funds.

B. Compliance Findings

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**VIRGINIA RESOURCES AUTHORITY**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2007**

The prior year single audit disclosed no findings in the Schedule of Findings and Responses and no uncorrected or unresolved findings exist from prior audit's Schedule of Prior Audit Findings.