



VRA VIRGINIA
RESOURCES
AUTHORITY

ANNUAL REPORT
2008

DID YOU KNOW?

- **VRA investment in Virginia's communities exceeds \$3.4 billion since 1984**
- **VRA has funded more than 800 projects across the Commonwealth since 1984**
- **50 local governments in all regions of Virginia benefited from VRA financings in FY2008 alone**
- **\$340 million funded in FY2008 for essential projects and equipment**
- **VRA Senior Bonds are rated natural "AAA" and "Aaa" by Standard and Poor's and Moody's**
- **VRA finances:**
 - Public Safety
 - Transportation
 - Local Government Buildings
 - Parks & Recreation
 - Wastewater
 - Solid Waste
 - Water
 - Federal Facility Development
 - Flood Prevention & Dam Safety
 - Brownfield Remediation & Redevelopment
 - Airports
 - Land Conservation & Preservation
 - Broadband
 - Energy
- **VRA provides below-market loans in select programs with state partners**
 - Clean Water Revolving Loan Fund
 - Drinking Water State Revolving Fund
 - Airports Revolving Fund
 - Dam Safety and Flood Prevention Fund

Governor Kaine, Members of the General Assembly, Citizens of the Commonwealth:

We are pleased to present VRA's 2008 Annual Report pursuant to the provisions of §62.1-222 of the Code of Virginia, as amended.

This has been an outstanding year for VRA. The Authority closed over \$340 million in loans and grants. VRA's financing of critical public projects has moved Virginia forward in restoring the Chesapeake Bay; developing local roads and other transportation infrastructure; improving the health and well-being of Virginia families with critical drinking water; updating water, sewer, and drainage systems for many communities; building and repairing dams; conserving precious land and other natural resources; remediating brownfields and other contaminated properties; building and enhancing public safety facilities; providing equipment and vehicles for first responders; improving airports; and in promoting broadband deployment in unserved and underserved areas of Virginia. Each of these projects, done in collaboration with state agency partners, has added tremendous benefits to their communities and to this Commonwealth. VRA has been pleased to play a role in bringing them to fruition.

In 2008, VRA established a Community Investment Advisory Council (CIAC) made up of 25 exceptional local government professionals. Serving as a catalyst for creativity and advancement, the CIAC is assisting VRA in developing programs to meet the needs of Virginia's communities and in promoting best practices in local government financing.

Other key FY08 accomplishments are listed below:

- Closing over \$340 million in loans and grants for projects across the Commonwealth;
- Maintaining VRA's outstanding credit ratings with all three rating agencies despite financial market turmoil;
- Adding four new project areas (energy, broadband, parks and recreational facilities, and general government buildings);
- Strengthening our existing and forging new state agency partnerships;
- Greatly increasing the visibility of the Authority's programs;
- Implementing lockbox and ACH processes in cooperation with the Treasurer's office;
- Successfully establishing the Equipment & Term Financing Program; and
- Substantially improving our internal operations resulting in VRA's first Comprehensive Annual Financial Report.

Again, VRA has had a successful year. The Board and staff are demonstrating 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.

William G. O'Brien, Chairman

Sheryl D. Bailey, Executive Director



BOARD OF DIRECTORS

In June 2008, Hiter Harris and Dr. Robert B. Stroube, vacated their positions on the VRA Board of Directors. The VRA Board and staff recognize and appreciate the leadership and dedication afforded the Authority during their tenures.

William G. O'Brien
Chairman
Port Republic



James H. Spencer, III
Vice Chairman
Tazewell



Philip J. Duke
Middleburg



Thomas L. Hasty, III
Chesapeake



Dena Frith Moore
Richmond



J. Barry Purcell, III
Richmond



Barbara M. Donnellan
Clifton



Randall P. Burdette
Director
Virginia
Department of
Aviation



David K. Paylor
Director
Virginia Department
of Environmental
Quality



J. Braxton Powell
Treasurer
Commonwealth of
Virginia



Karen Remley, MD
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 government 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

VRA's staff embodies the Authority's values of Customer Service, Collaboration, Consistency, Commitment and Creativity on a daily basis. Colleagues and associates from outside the Authority are frequently amazed at the volume of loans and projects that are originated at VRA on an annual basis with the small staff. VRA's commitment to Virginia's communities is unwavering. As you read through this annual report, you will see the results of this commitment on every page.

Local governments are faced with ever changing challenges and opportunities and VRA continually strives to adapt our programs to help address these ever evolving needs. With that in mind, in FY2008, VRA's Executive Director created an Equipment and Term Financing program to assist localities with financing projects in the 3-15 year range.

Additionally, the Executive Director created the Community Investment Advisory Council to enable a formal, regular dialogue between communities and VRA. The Council provides a forum for community leaders from around the Commonwealth to identify the financing needs of local communities and enhance strategic partnerships.

The real "resources" - and most important asset - of Virginia Resources Authority are the VRA Staff. They provide knowledgeable support to borrowers and their representatives, and are always quick to lend their expertise to solve problems. VRA makes deals happen.

- Carolyn Perry, Botkin Rose

From left to right: Jean F. Bass, Mary B. Barnes, Martha Shiflett, Sheryl D. Bailey, Brian D. DeProfio, Bradley L. Jones, Diana T. Hughes
Shawn B. Crumlish, missing from photo: Rodney M. Davis



"The Western Virginia Water Authority has worked with VRA on three different loan packages recently: the Revolving Loan Fund, the Spring Pooled Financing and the Equipment Financing Program. We have found VRA's experienced staff delightful to work with and concerned about our needs. VRA's flexibility, ability to finance projects at low interest rates and commitment to excellence are a good match for WVWA's financing requirements."
Bruce M. Grant, Director of Finance & Administrative Services, Western Virginia Water Authority

VRA, THE SOLUTION

VRA provides innovative financial solutions to local governments for projects that improve the quality of life of Virginians. Created by the General Assembly in 1984, VRA supports community investments in 14 primary areas.

Since its inception, VRA has funded more than 800 critical projects across the Commonwealth exceeding \$3.4 billion of investment in Virginia's communities. Financing solutions draw on VRA's 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 and their public projects.



Virginia Resources Authority invested over \$340 million in Virginia's communities in fiscal year 2008 for projects that varied from water treatment improvements to police car purchases to airport hangar construction. Fifty of Virginia's cities, counties, and towns will be impacted by the projects VRA funded in fiscal year 2008.

Public Safety, Transportation
Broadband, Energy, Wastewater, Solid Waste
Parks & Recreation, Brownfield Remediation & Redevelopment
Land Conservation & Preservation, Water
Federal Facility Development
Flood Prevention & Dam Safety, Airports
Local Government Buildings



VIRGINIA POOLED FINANCING PROGRAM

VRA's Virginia Pooled Financing Program (VPFP) makes critical projects happen with creative financing solutions for local governments. Established in 2003, the VPFP has had a tremendous impact in just five years. VRA financed over \$718 million for 57 local governments and authorities through the VPFP in FY2004 – FY2008. This investment in Virginia's communities provides real value to local government borrowers in the form of speed, flexibility and cost savings.

Each loan is customized to meet the needs and financial policies of each locality or regional authority. This custom-tailored approach has attracted a wide range of participants including newly formed service authorities, large growing counties, and infrequent borrowers. Throughout the process, VRA makes the ex-

perience easy for the borrower and shares in the 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 twice in FY2008 for 14 different borrowers and a total par value exceeding \$135 million. Moreover, refundings provided present value savings of over \$1.79 million to two service authorities as part of VPFP's FY2008 total benefits.



ROAD CONSTRUCTION, FUNDED PARTIALLY BY VRA, IMPACTING THOUSANDS IN NORTHERN VIRGINIA

Anything that can be done to save a few minutes commuting to work means a lot. Take for example the Linton Hall Road Project in Prince William County. A multi-year construction endeavor, VRA completed its second investment in the project, which is still underway.

The project consists of widening Linton Hall Road between Sudley Manor Drive and Route 28 and a bridge expansion over Broad Run. An estimated 12,000 homes in area neighborhoods will be impacted by this improvement.

Prince William County Transportation Business Manager, Adam Brown, says the major impact of the construction will be felt by folks going north on Route 28 into DC, Centerville, Herndon, Fairfax, or any of the other commuter destinations.

The project, anticipated to be completed next summer, will cost an estimated total \$43.6 million. Revenue sources include proffer monies, some state and federal funding, general obligation bonds, and funding through VRA.

Fall 2007

Town of Broadway	\$2,555,000
City of Falls Church	8,220,000
Frederick County Sanitation Authority	10,495,000
City of Suffolk	39,795,000
Tazewell County	2,675,000
Town of Woodstock	<u>2,470,000</u>
	\$66,210,000

Spring 2008

Frederick-Winchester Service Authority	\$19,685,000
Harrisonburg-Rockingham Sewer Authority	12,650,000
New River Regional Water Authority	2,090,000
Prince William County	4,455,000
Prince William County	6,255,000
Rapidan Service Authority	3,600,000
Rockingham County	6,215,000
Stafford County	800,000
Western Virginia Water Authority	10,690,000
Western Virginia Water Authority	<u>3,215,000</u>
	\$69,655,000



EQUIPMENT AND TERM FINANCING PROGRAM

VRA launched the Equipment and Term Financing Program (ETF) in FY2008 to better meet the increasing needs of communities. The ETF enhances financing options for three to fifteen year terms and ideally supports major capital equipment purchases. Rates are lowered for borrowers with VRA's unique credit enhancement tools and internal underwriting services. After a rigorous procurement process, banking partners were selected based on rates, flexibility, and municipal tax-exempt leasing experience.

In FY2008, VRA provided financing for four projects in the ETF for \$4.35 million. Rates ranged from 2.26% to 3.49% (January – June 2008) for five and ten year terms. Projects included police car and fire truck purchases, a computer-aided dispatch system, and a landfill cell.



City of Covington	\$959,000
City of Falls Church	428,800
Goochland County	2,500,000
City of Radford	<u>461,638</u>
	\$4,349,438

FALLS CHURCH GETS NEW POLICE CARS



*Officer Jannie Moreno and Cpl. Michael Bunker
with their new police cruiser*

"They can tailor your specific borrowing to whatever your requirements are. It's sort of like having a private banker."

That's how John Tuohy, Chief Financial Officer for the City of Falls Church, describes working with VRA. His most recent dealings involved the purchase of new police vehicles.

About a third of the fleet needed to be replaced. All the stop-and-go traffic in Northern Virginia takes a hefty toll and some of the cars were simply wearing out. The city used to do a lease-purchase through a local dealership, but this time went through the state contract and financed the purchase through VRA. Working with the state saved them 16% and the VRA loan rate was only 2.26% (March 2008). Nine vehicles have been added, with three more to go. All at a pricetag of \$450,000.

Tuohy says the officers love the new vehicles. Not only are they driving shiny new Fords, but the "stripe" on the side of the cars is a brand new design – created by members of the force.

"By participating in the process they were vested in it. It's like they bought their own cars."



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 FY2008, rates ranged from 3.00% down to 0%.

VRA serves as financial manager: underwriting loans, investing monies, closing and monitoring loans, making disbursements and maximizing economic benefits. VRA takes the limited funds available and sells bonds to magnify statewide impacts. VRA's approach will make possible upwards of \$250 million each year over the next five years in this fund.

In FY2008, the CWRLF supported projects with loan and grant funding totaling \$193,543,988. Participating Virginia communities utilized the CWRLF in FY2008 for projects ranging from brownfield remediation and cleanup to sewer system expansion and treatment plant upgrades. The CWRLF continues to be an integral partner with Virginia localities in upgrading and improving wastewater treatment plants to meet the requirements of the Chesapeake Bay 2000 Agreement. By utilizing the subsidized loans from the CWRLF for these significant projects, costs are reduced resulting in more affordable rates for Virginia's communities and rate payers.

Augusta County SA	\$17,028,808
Cafferty - 5321 Shawnee Road LLC	1,000,000
Caroline County	516,291
Town of Chilhowie	1,584,125
Town of Colonial Beach	2,671,606
Hanover County	616,206
Harrisonburg-Rockingham RSA	30,000,000
City of Lynchburg	12,350,000
Mercury Mall Associates	1,500,000
City of Newport News	3,200,000
City of Norfolk	17,000,000
Town of Orange	16,177,744
Town of Purcellville	24,944,377
City of Richmond	6,900,000
Stafford County	9,500,000
City of Staunton	9,528,519
Truxton Development LLC	900,000
Town of Tappahannock	4,564,116
City of Waynesboro	14,594,900
Town of Woodstock	<u>13,917,296</u>
	\$188,493,988

Combined Sewer Overflow (CSO) Grants

City of Richmond	\$ 2,000,000
City of Lynchburg	<u>3,050,000</u>
	\$5,050,000

EPA 2007 PISCES AWARD

In November 2007, the Environmental Protection Agency recognized the work of VRA and DEQ in the area of water quality protection. VRA and DEQ received the 2007 PISCES Award (Performance and Innovation in the States Creating Environmental Success). The award acknowledges and promotes program innovations that advance EPA goals of performance and water quality protection. For VRA and DEQ, the award highlighted both the successful financial leveraging of the CWRLF to provide funding for key Chesapeake Bay restoration projects and the innovative rela-

tionship with our Farm Credit Associations in providing low interest loans to farmers for the installation of agricultural pollution control practices. "We were delighted to be honored with our state partner, the Virginia Department of Environmental Quality," said Sheryl Bailey, Executive Director of the VRA. "This partnership really is good for Virginia. With these critical water quality improvement projects, our work basically boils down to DEQ taking care of the administrative and technical details while we take care of the funding. We each do what we do best and it works."

CROW'S NEST PRESERVATION

The CWRLF financed a major land conservation and open space project in FY2008. \$9,500,000 was provided to Stafford County to finance a portion of the acquisition of 1,770 acres of waterfront property in the County known as the Crow's Nest Peninsula. The property was jointly funded with grants provided through the Virginia Department of Conservation and Recreation. Crow's Nest has been the target of conservation organizations for many years as one of the largest and most significant natural areas left on the east coast. The area will include public access for hiking, canoeing and wildlife observation. "Crow's Nest is one of Stafford's greatest treasures," said Anthony Romanello, Stafford County Administrator. "Thanks to the persistence and innovative thinking of the Board of Supervisors and the Virginia Department of Conservation and Recreation, Crow's Nest will be preserved for generations to come, allowing us to showcase its unique environmental resources, provide hours of recreational opportunities, and educate visitors about Stafford's special role in our nation's history."

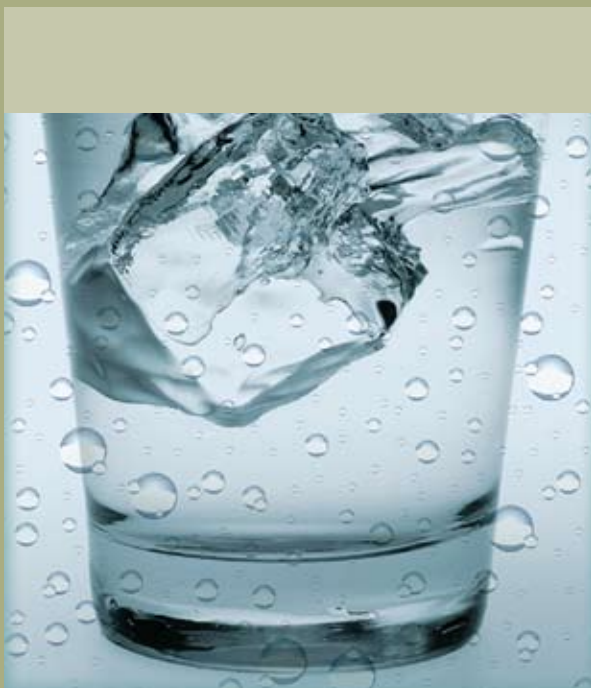


VIRGINIA DRINKING WATER STATE REVOLVING FUND

Since the DWSRF was created in 1992, VRA has positively changed the lives of many Virginians. VRA's partnership with the Virginia Department of Health has given VRA the opportunity to finance projects that provide individuals with the most important necessity for life – safe drinking water. The fund provides low interest loans and some grants to local governments and privately organized water suppliers through funding from U.S. EPA grants and state matching funds.

VRA serves as Financial Manager: underwriting loans, investing monies, closing loans, making disbursements, and maximizing economic benefits. The Virginia Department of Health administers the policy and technical aspects of the DWSRF.

In FY2008, the DWSRF supported 13 projects to provide \$6.14 million of investment in 8 localities. Regions as far west as the Town of Big Stone Gap and as far east as the Town of Onancock have benefited from the DWSRF. Since 1998, nearly \$160 million has been funded for critical water projects.



VRA HELPS SCOTT COUNTY PSA EXPAND SERVICE TO 250 HOUSEHOLDS

During FY2008, \$1.91 million was invested in the Scott County area with funding from the DWSRF. The Scott County PSA received financing through five water-line extension loans, all of which were made at 0.0%. The fiscal year 2008 no-interest loans have made it possible for the PSA to provide a clean and reliable drinking water source to more than 250 households around Scott County.

Dickenson County PSA	\$321,200
Dickenson County PSA	51,686
Dickenson County PSA	44,029
Town of Gretna	260,000
Town of Independence	299,156
Town of Independence	161,084
Rockingham County	456,490
Russell County PSA	1,534,941
Russell County PSA	756,016
Scott County PSA	365,822
Scott County PSA	334,252
Scott County PSA	280,446
Scott County PSA	554,730
Scott County PSA	375,408
Town of Tappahannock	39,233
Tazewell County PSA	<u>309,055</u>
	\$ 6,143,548



VIRGINIA AIRPORTS REVOLVING FUND

Virginia's 67 public-use airports have an estimated annual economic impact of \$14 billion on the Commonwealth (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 maximized the return on this appropriation by leveraging the \$25 million between 2001 and 2008 in order to invest over \$83.5 million in below-market interest rate loans to support 26 projects at 18 public-use airports in Virginia.

Interest rates on VARF loans are reduced 0.50% below prevailing market rates. As with other state revolving funds, VRA partners with a state agency to administer the fund. The Virginia Aviation Board prioritizes individual loan requests and VRA closes the authorized loans after completing the necessary due diligence.

In FY2008, New Kent County constructed a T-hangar facility at the New Kent Airport with loan proceeds from the VARF. The \$140,000 loan provided a portion of the needed local-share funding that leveraged a \$450,000 grant from the Federal Aviation Administration and a \$449,136 grant from the Virginia Department of Aviation to support the project.



FISCAL YEAR 2008 VARF BORROWER

New Kent County

\$140,000

Fiscal Years	State Appropriations	Total Loans & Commitments
2001 – 2008	\$25,000,000	\$83,579,532

“New Kent Airport’s T-hanger construction project would never have been completed without the use of the Virginia Airports Revolving Fund.”

Bill Kelly - New Kent Airport Manager



MEETING COMMUNITY NEEDS

Aimed at meeting the needs of local governments through cost-effective financing, VRA's enabling statute was amended to allow it to provide financing to communities for:

- Local government buildings
- Broadband
- Parks and recreation
- Energy

This means bringing high-speed Internet to underserved areas, replacing aging administrative buildings, implementing energy performance contracting, building athletic fields, and creating recreational trail systems.

VRA has embraced each of these eligible project areas and was quickly called upon by local communities across the Commonwealth to be the necessary instrument for project financing.



DAM SAFETY, FLOOD PREVENTION AND PROTECTION ASSISTANCE FUND

In 2007, financial management of the DSFPF was transferred to VRA to provide funding to local governments and private entities. This fund is a low-cost mechanism for qualified dam rehabilitation and other flood hazard mitigation activities.

The Department of Conservation and Recreation, on behalf of the Soil and Water Conservation Board administers the program and policy aspects of the DSFPF and VRA serves as financial manager.

No loans or grants were made from the fund in FY2008.

VRA COMMUNITY INVESTMENT WORKSHOP SERIES

Dr. Sheryl D. Bailey, Executive Director and Senator Charles J. Colgan at the Workshop in Prince William County.



Bill O'Brien, VRA Chairman, Dr. Sheryl D. Bailey, Executive Director and Senator Emmett W. Hanger at the Workshop in Harrisonburg.



VRA held three seminars across Virginia to bring relevant information and resources directly to the communities in partnership with corporate sponsors. Multiple organizations and government agencies participated at workshops in Dinwiddie County, Harrisonburg, and Prince William County with agendas tailored to address the needs of each region.

Moral Obligation (MO) Bonds Outstanding as of June 30, 2008

MO Bonds Outstanding as of July 1, 2007	\$	678,600,371
Less MO Bond Repayments		(40,819,006)
New MO Bonds Issued		<u>44,105,000</u>
MO Bonds Outstanding as of June 30, 2008	\$	681,886,365

Non-Moral Obligation Bonds Outstanding as of June 30, 2008

Non-MO Bonds Outstanding as of July 1, 2007	\$	992,020,724
Less Non-MO Bond Repayments		(37,057,404)
New Non-MO Bonds Issued		<u>94,890,000</u>
Non-MO Bonds Outstanding as of June 30, 2008	\$	1,049,853,320





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Richmond, Virginia

Comprehensive Annual Financial Report

Year Ended June 30, 2008

VIRGINIA RESOURCES AUTHORITY

Financial Statements for the Year Ended June 30, 2008

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VIRGINIA RESOURCES AUTHORITY

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Prepared by the Virginia Resources Authority, Director of Administration and Finance

INTRODUCTORY SECTION



September 10, 2008

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 2008 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 Accounting Auditing Standards.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements.

In fiscal year 2008, the Authority was audited by PBGH, LLP, 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, 2008.

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.

VRA Profile

VRA 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. VRA is governed by an eleven member Board of Directors (the "Board"), appointed by the Governor of Virginia. VRA's Executive Director (the "Executive Director"), who is also appointed by the Governor of Virginia, administers, manages and directs the affairs of VRA, subject to the policies, control and direction of the Board.

VRA works for the cities, towns, counties, service authorities, and people of Virginia. VRA financing helps clean and restore the Chesapeake Bay, provide public safety facilities and equipment, ensure safe and healthy drinking water, expand airports, local roads and transit, and move other essential projects

forward. Since its creation in 1984, VRA has funded more than 800 critical projects across the Commonwealth, representing more than \$3.4 billion of investment in Virginia's communities.

VRA 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 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, 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 the revolving fund borrowers. As program demand justifies, these funds can be, and have been, leveraged. Fund assets are placed in a reserve and bonds are issued to meet program financing demand levels. The bonds are secured by the fund reserves.

The Equipment and Term Financing Program (ETF) was authorized July 2007 to enhance financing options for terms under fifteen years. Ideally suited for equipment purchases, any eligible VRA project area can be funded in this program. Several local governments took advantage of this new program in fiscal year 2008 to meet their needs. The program is funded with a banking partner selected through a rigorous procurement process. The Authority offers the banking partner VRA's unique credit enhancement to obtain the most competitive rates.

Fiscal Year 2008 Financial Results

VRA had another strong year in fiscal year 2008. The Authority surpassed \$1.16 billion in net assets, an increase of 5.1% from the prior year. Total assets increased by \$151.9 million (5.4%) and total liabilities increased by \$94.8 million (5.5%) in comparison to the June 30, 2007 balances. The Authority surpassed \$24.8 million in net operating income during the fiscal year. The Authority's operating revenue increased

\$8.5 million and operating expenses increased \$13.0 million in comparison to the prior fiscal year. The significant increase in operating expenses is due to increased interest on bonds, largely driven by the leverage of the Water Facilities Fund and increased grants to localities from the Combined Sewer Overflow Fund.

The Authority's net assets increased by approximately \$57.1 million primarily as a result of contributions from federal and state governments, interest on loans and investment earnings.

Fiscal Year 2008 Accomplishments

In addition to the significant financial performance described above, VRA is proud of many additional accomplishments in fiscal year 2008. These accomplishments included many that support the Authority's Strategic Plan goals to Support Local Community & Economic Development Initiatives, Strengthen and Expand State Partnerships, Refine Financial Programs to Meet Customer Needs and Strengthen & Sustain VRA's Ability to Provide Affordable Financing Options.

VRA had a very successful year in funding over \$340 million in essential projects for 50 localities across the Commonwealth in its various program areas.

Virginia's Governor and General Assembly have continued to expand VRA's project areas, recognizing the ongoing value that VRA can and does provide to the Commonwealth. The 2008 General Assembly enacted four pieces of legislation that expanded the Authority's program areas to include Energy, Local Government Buildings, Broadband and Parks & Recreational Facilities supporting various Commonwealth and local initiatives and needs.

VRA 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 2008, management launched several initiatives and achieved many accomplishments to streamline operational procedures to enhance efficiency and effectiveness and accomplish the Authority's strategic objectives. A brief summary of the Authority's key FY08 accomplishments is listed below:

- Closed over *\$340 million* in loans and grants for projects across the Commonwealth;
- Maintained VRA's *outstanding credit ratings* with all three rating agencies despite financial market turmoil;
- Added four new project areas (energy, broadband, parks and recreational facilities, and general government buildings) to be effective July 2008;
- Strengthened our existing and forged new state agency partnerships;
- Successfully established the Community Investment Advisory Council;
- Greatly increased the visibility of the Authority's programs;
- Successfully established the new Equipment & Term Financing Program; and
- Substantially improved our internal operations.

Fiscal Year 2009 Key Goals & Initiatives

VRA management also recognizes that we operate in an ever-changing, highly competitive global marketplace with constantly increasing expectations for all business sectors, including government. Given this dynamic environment, VRA is committed to continually identifying 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 2009 budget process. The Board approved Fiscal Year 2009 Budget funded a series of goals and initiatives to further augment VRA'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
- Collaborate with other economic development entities (state, regional, local & non-profit)
- Engage the VRA Community Investment Advisory Group to enhance programs
- Establish an enhanced community outreach program
- 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

Strengthen and expand State partnerships

- Collaborate with existing state partners to create unified goals
- Assist state partners in implementing and refining programs
- Work with the Department of Aviation to continue to enhance the sustainability 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 VRA 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 to increase revenues through new and refined programs based on value added outcomes produced for localities and the Commonwealth
- Provide data to localities and the Commonwealth on the direct, indirect and induced impact of VRA-financed projects
- Strengthen the financial security of local obligations

Strengthen and sustain VRA's ability to provide affordable financing options

- Establish and track Authority performance benchmarks to measure performance
- Update Authority policies and procedures to support strategic direction
- Increase organization efficiency and capacity through continued process improvement
- Develop a risk management matrix
- Evaluate specific program costs and cost recovery

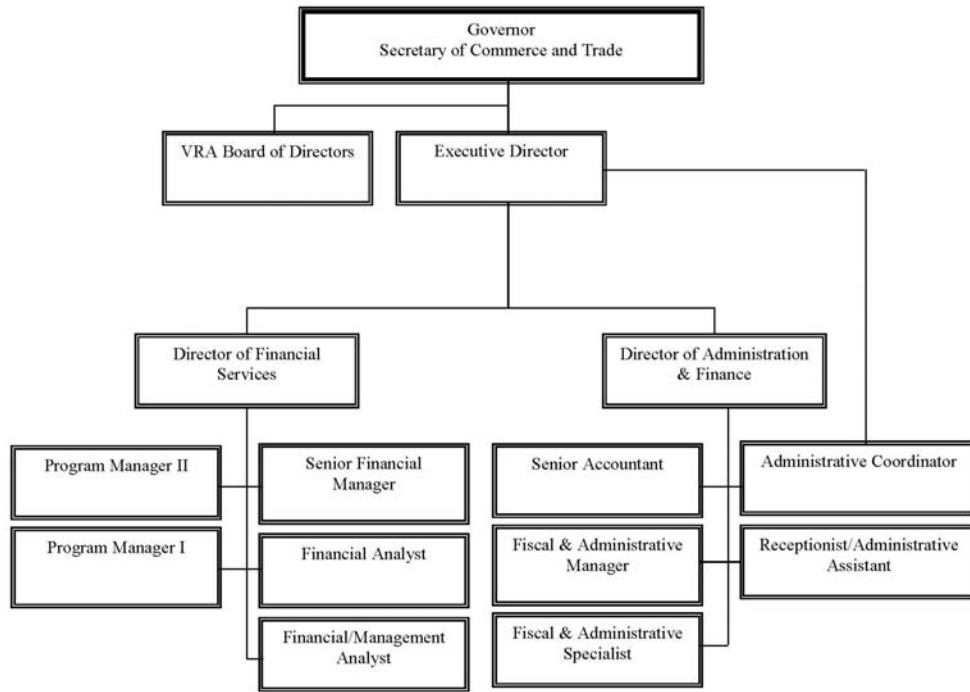
In summary, I am pleased to report that the Authority had a strong fiscal year 2008. Additionally, we launched several initiatives to streamline operational procedures to enhance efficiency and effectiveness. With the fiscal year 2009 Budget, the Board and staff have demonstrated the Authority's commitment 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,

A handwritten signature in black ink, appearing to read "S. D. Bailey". The signature is fluid and cursive, with a large initial "S" and "B".

Sheryl D. Bailey, Ph.D

Virginia Resources Authority
Organizational Structure
June 30, 2008



Virginia Resources Authority
Directory of Principal Officials
June 30, 2008

Board of Directors

William G. O'Brien, Chairman

James H. Spencer, III, Vice Chairman

Barbara McCarthy Donnellan

Philip J. Duke

H. Hiter Harris, III

Thomas L. Hasty, III

J. Barry Purcell, III

Ex-Officio Board Members

Randall P Burdette
Director of the Department of Aviation

David K. Paylor
Director of the Department of Environmental Quality

J. Braxton Powell
Treasurer of Virginia

Karen Remley, M.D.
State Health Commissioner

Administrative Officials

Sheryl D. Bailey, Ph.D.
Executive Director

Brian D. DeProfio
Director of Administration and Finance

Mary B. Barnes
Director of Financial Services

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Honorable Board Members
Virginia Resources Authority
Richmond, Virginia

We have audited the accompanying basic financial statements of Virginia Resources Authority (Authority) as of and for the year ended June 30, 2008, 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, 2008, 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, 2008 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 11 through 14 and the required supplementary information on page 44 are not a required part of the basic financial statements but are 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 basic financial statements. The accompanying schedules listed as Supplementary Information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

PBGH, LLP

Harrisonburg, Virginia
September 10, 2008

Virginia Resources Authority

Management's Discussion and Analysis

Year Ended June 30, 2008

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, 2008. 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 \$1.2 billion (net assets), an increase of 5.1%.
- Total assets of \$3.0 billion increased by \$151.9 million or 5.4%.
- Total liabilities of \$1.8 billion increased by \$94.8 million or 5.5%.
- Operating income of \$24.8 million, decreased by \$4.5 million or 15.3%.

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 required 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 is 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, investment 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 separately presented. Other supplementary information that further explains and supports 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
Summary Statement of Net Assets
(In thousands of dollars)

	2008	2007	Percentage Change 2008– 2007
Current and other assets	\$ 362,624	\$ 326,842	10.9%
Noncurrent assets	2,614,207	2,498,118	4.6
Total assets	<u>2,976,831</u>	<u>2,824,960</u>	5.4
Current liabilities	86,707	73,772	17.5
Long-term liabilities	1,722,187	1,640,325	5.0
Total liabilities	<u>1,808,894</u>	<u>1,714,097</u>	5.5
Net assets:			
Invested in capital assets	6	10	(40.0)
Restricted	1,163,460	1,106,474	5.2
Unrestricted	4,471	4,379	2.1
Total net assets	<u>\$ 1,167,937</u>	<u>\$ 1,110,863</u>	5.1

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 \$1.2 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 \$6.5 million operating reserve fund described further in note 6.

Total assets of \$3.0 billion increased by \$151.9 million or 5.4%. Assets primarily consist of loans receivable (77.3%) 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 \$1.8 billion increased by \$94.8 million or 5.5%. Liabilities primarily consist of bonds payable (98.6%). See Note 5 for additional information on bonds payable.

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

	2008	2007	Percentage Change 2008– 2007
Operating revenues	\$ 114,900	\$ 106,395	8.0%
Operating expenses	(90,062)	(77,061)	16.9
Operating income	24,838	29,334	(15.3)
Nonoperating revenue	32,236	39,651	(18.7)
Change in net assets	57,074	68,985	(17.3)
Total net assets - beginning	1,110,863	1,041,878	6.6
Total net assets - ending	\$ 1,167,937	\$ 1,110,863	5.1%

- Operating income of \$24.8 million, decreased by \$4.5 million or 15.3%.
- Operating revenue of \$114.9 million increased by \$8.5 million or 8.0%.
- Operating expenses of \$90.1 million increased by \$13.0 million or 16.9%.

At the end of fiscal year 2008, net assets increased \$57.1 million or 5.1% to \$1.2 billion. Operating revenues of \$114.9 million increased \$8.5 million (8.0%). This change was largely driven by an increase in investment earnings and loan interest repayments (98.2%). Operating expenses of \$90.1 million increased \$13.0 million (16.9%). This increase was the result of an increase in bond interest payments and grants to local government (97.5%). Non-operating revenue decreased \$7.4 million to \$32.2 million (18.7%). 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, 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, and/or (c) the moral obligation of the municipality and/or (d) the moral obligation of the Commonwealth.

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 of the VFPF, 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, 2008, the Authority issued two bond series for the VFPF. From these proceeds, loans were made to 14 borrowers including 2 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 2008 was 4.0%, a 1.0% increase from June 2007. Virginia's rate compares favorably to the national rate of 5.5%.
- Virginia's 2007 per capita personal income is ranked 9th among the states. The 2007 per capita personal income for Virginia, as reported by the U.S. Department of Commerce Bureau of Economic Analysis, was \$41,347. This compares favorably to the \$38,611 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.

Virginia Resources Authority

Statement of Net Assets

June 30, 2008

Assets

Current assets:

Cash	\$	16,470,666
Cash equivalents		208,962,716
Investments		12,750,856
Loans receivable - current portion (Note 4)		98,072,896
Receivables:		
Investment interest		6,014,476
Loan interest		17,677,177
Federal funds		1,343,346
Loan administrative fees		241,504
Other		133,869
Deferred charges		947,990
Other		8,755
Total current assets		<u>362,624,251</u>

Noncurrent assets:

Investments		386,049,578
Loans receivable - less current - net (Note 4)		2,204,021,530
Deferred charges		24,130,208
Furniture and fixtures - at cost - less accumulated depreciation of \$47,301		5,516
Total noncurrent assets		<u>2,614,206,832</u>
Total assets		<u>2,976,831,083</u>

Liabilities

Current liabilities:

Loans payable - current portion		962,783
Bonds payable - current portion (Note 5)		65,465,000
Accrued interest on bonds payable		16,802,341
Arbitrage rebate liability		2,877,456
Deferred revenue		73,595
Accounts payable and other liabilities		526,045
Total current liabilities		<u>86,707,220</u>

Noncurrent liabilities:

Loans payable - less current - net		3,386,655
Bonds payable - less current - net (Note 5)		1,717,476,391
Deferred revenue		694,890
Arbitrage rebate liability		628,725
Total noncurrent liabilities		<u>1,722,186,661</u>
Total liabilities		<u>1,808,893,881</u>

Net assets

Invested in capital assets		5,516
Restricted (Note 6):		
Loan Programs		1,156,994,532
Operating Reserve		6,465,712
Unrestricted		4,471,442
Total net assets	\$	<u>1,167,937,202</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

Virginia Resources Authority

Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2008

Operating revenues	
Interest on loans	\$ 83,445,613
Investment income	29,419,254
Bond administrative fees	1,082,589
Loan administrative fees	387,024
Administrative reimbursement	501,629
Other income	64,138
Total operating revenues	<u>114,900,247</u>
Operating expenses	
Interest on loans	23,240
Interest on bonds	83,982,853
Grants to local governments	3,838,470
Personnel services	972,514
General operating	654,917
Contractual services	590,844
Total operating expenses	<u>90,062,838</u>
Operating income	24,837,409
Nonoperating revenue	
Contributions from other governments (Note 8)	<u>32,236,202</u>
Change in net assets	57,073,611
Total net assets - beginning	<u>1,110,863,591</u>
Total net assets - ending	<u><u>\$ 1,167,937,202</u></u>

The accompanying notes to the financial statements are an integral part of this financial statement.

Virginia Resources Authority

Statement of Cash Flows

Year Ended June 30, 2008

Cash flows from operating activities	
Cash payments to localities for loans	\$ (378,443,685)
Principal repayments from localities on loans	127,773,188
Interest received on loans	83,209,938
Bond administrative fees received	1,001,181
Loan administrative fees received	272,630
Federal administrative reimbursement funds received	559,079
Cash received from other income	(26,119)
Cash payments for salaries and related benefits	(983,524)
Cash payments for contractual services	(592,868)
Cash payments for general operating expenses	(565,450)
Cash payments for operating grants	(3,838,470)
Interest paid on loans	(23,240)
Interest paid on bonds	<u>(80,647,364)</u>
Net cash used in operating activities	<u>(252,304,704)</u>
Cash flows from noncapital financing activities	
Proceeds from loan	4,349,438
Proceeds from sale of bonds	138,995,001
Principal paid on bonds	(78,437,234)
Contributions from other governments	<u>31,445,089</u>
Net cash provided by noncapital financing activities	<u>96,352,294</u>
Cash flows from investing activities	
Purchase of investments	(1,049,400,987)
Proceeds from sales or maturities of investments	1,213,827,001
Interest received on investments - net	<u>33,134,507</u>
Net cash provided by investing activities	<u>197,560,521</u>
Net increase in cash and cash equivalents	<u>41,608,111</u>
Cash and cash equivalents	
Beginning of year	<u>183,825,271</u>
End of year	<u>\$ 225,433,382</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

Virginia Resources Authority

Statement of Cash Flows

Year Ended June 30, 2008

Reconciliation of operating income to net cash used in operating activities	
Operating income	\$ 24,837,409
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	4,480
Interest on investments	(29,419,254)
Interest on bonds, amortization and accretion - net	1,391,864
Change in assets and liabilities:	
Loans receivables	(250,673,246)
Loan interest receivable	(240,387)
Federal funds receivable	38,875
Loan administrative fee receivable	(106,933)
Other receivables	(91,016)
Deferred charges	1,943,625
Other current assets	1,459
Accounts payable and other liabilities	89,828
Deferred revenue	(81,408)
Total adjustments	<u>(277,142,113)</u>
Net cash used in operating activities	\$ <u>(252,304,704)</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

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, dam safety and land conservation and preservation. General Assembly legislation added projects for energy, government buildings, parks and recreation facilities, and broadband. 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, and 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), the Virginia Dam Safety and Flood Prevention Fund (VDSFPF), and the Equipment and Term Financing program (ETF) 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 projects 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 the 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 (VDCR).

The Equipment and Term Financing Program (ETF) was authorized beginning July 2007 to enhance financing options for terms up to ten years. Ideally suited for equipment purchases, any eligible Authority project area can be funded in this program. Several local governments already have used the loan program to meet their public safety and solid waste operation needs. The program is funded with a banking partner selected through a rigorous procurement process. The Authority offers the banking partner VRA's unique credit enhancement to obtain the most competitive rates for the Authority's borrowers.

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 2008.

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 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, 2008, 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	\$ 59,229,331	\$ 59,229,331	\$ -	\$ -	\$ -
Corporate Bonds and Notes	411,668	-	411,668	-	-
Guaranteed Investment Contracts	365,033,318	-	148,933,613	-	216,099,705
Local Government Investment Pool	78,657,509	78,657,509	-	-	-
Money Market Funds	72,325,614	72,325,614	-	-	-
U.S. Agency Securities	17,668,871	11,393,756	6,248,808	4,252	22,055
U.S. Treasury Securities	14,436,839	-	1,763,867	3,245,827	9,427,145
Totals	\$ 607,763,150	\$ 221,606,210	\$ 157,357,956	\$ 3,250,079	\$ 225,548,905

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.

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June 30, 2008

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.

At June 30, 2008, the Authority had the following investments and ratings:

Investment	Fair Value	Standard & Poor's Rating	Percent of Portfolio
Commercial Paper	\$ 59,229,331	P-1	9.7%
Corporate Bonds and Notes	411,668	AAA	0.1%
Guaranteed Investment Contracts	365,033,318	See below	60.1%
Local Government Investment Pool	78,657,509	AAAm	12.9%
Money Market Funds	23,763,223	AAAm	3.9%
U.S. Agency Securities	17,668,871	AAA	2.9%
U.S. Treasury Securities - Money Market Funds	48,562,391	AAAm	8.0%
U.S. Treasury Securities	14,436,839	AAA	2.4%
Totals	<u>\$ 607,763,150</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:

Provider	Fair Value	Moody's Rating	Percent of Portfolio
Trinity Plus	\$ 78,237,937	Aaa	12.9%
Salomon Smith Barney (Citigroup)	5,738,466	Aa3	0.9%
FNMA	1,515,000	Aaa	0.2%
Calyon	147,418,613	Aa1	24.3%
FSA	132,123,302	Aaa	21.7%
Totals	<u>\$ 365,033,318</u>		<u>60.1%</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. For policy monitoring the US Treasury Security category includes Money Market Funds limited to that investment type. (\$47,706,350 for Disbursement Funds and \$856,401 Appropriated Funds) The maximum percentage of the portfolio permitted in each security (by fund type) is as follows:

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June 30, 2008

Disbursement Funds

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Portfolio</u>	<u>Maximum</u>
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	59,229,331	30%	35%
Corporate Bonds and Notes	-	0%	35%
Local Government Investment Pool	70,785,968	36%	100%
Money Market Funds	-	0%	10%
Negotiable Certificates of Deposit	-	0%	5%
U.S. Agency Securities	8,340,142	4%	100%
U.S. Treasury Securities	60,379,321	30%	100%
Totals	<u>\$ 198,734,762</u>	<u>100%</u>	

Appropriated Funds

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Portfolio</u>	<u>Maximum</u>
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	6,499,053	88%	100%
Money Market Funds	-	0%	10%
Negotiable Certificates of Deposit	-	0%	5%
U.S. Agency Securities	-	0%	100%
U.S. Treasury Securities	856,401	12%	100%
Totals	<u>\$ 7,355,454</u>	<u>100%</u>	

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June 30, 2008

General Fund

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent</u>	
		<u>of Portfolio</u>	<u>Maximum</u>
Agency Mortgage-Backed issued by U.S. Government or Federal Agencies	\$ -	0%	15%
Asset Backed Securities of authorized corporations or Federal Agencies	-	0%	15%
Banker's Acceptance	-	0%	35%
Prime Quality Commercial Paper	-	0%	35%
Corporate Bonds and Notes	411,668	4%	35%
Local Government Investment Pool	1,148,063	11%	100%
Money Market Funds	89,170	1%	10%
Negotiable Certificates of Deposit	-	0%	5%
U.S. Agency Securities	6,951,824	67%	100%
U.S. Treasury Securities	1,763,867	17%	100%
Totals	<u>\$ 10,364,592</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, 2008, bond fund investments totaled \$391,308,342. 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, 2008, 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.

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, 2008, 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	\$ 59,229,331	\$ 59,229,331	\$ -	\$ -	\$ -
Local Government Investment Pool	70,785,968	70,785,968	-	-	-
Money Market Funds	47,706,350	47,706,350	-	-	-
U.S. Agency Securities	8,340,141	7,338,991	1,001,150	-	-
U.S. Treasury Securities	12,672,972	-	-	3,245,828	9,427,144
	<u>\$ 198,734,762</u>	<u>\$ 185,060,640</u>	<u>\$ 1,001,150</u>	<u>\$ 3,245,828</u>	<u>\$ 9,427,144</u>
Average maturity of all investments					<u>133 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	\$ 6,499,053	\$ 6,499,053	\$ -	\$ -	\$ -
Money Market Funds	856,401	856,401	-	-	-
	<u>\$ 7,355,454</u>	<u>\$ 7,355,454</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Average maturity of all investments					<u>1 Day</u>

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General Fund

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Corporate Bonds and Notes	\$ 411,668	\$ -	\$ 411,668	\$ -	\$ -
Local Government Investment Pool	1,148,063	1,148,063	-	-	-
Money Market Funds	89,170	89,170	-	-	-
Municipal Securities	-	-	-	-	-
U.S. Agency Securities	6,951,824	1,677,858	5,247,659	4,252	22,055
U.S. Treasury Securities	1,763,867	-	1,763,867	-	-
Totals	\$ 10,364,592	\$ 2,915,091	\$ 7,423,194	\$ 4,252	\$ 22,055
Average maturity of all investments					1,122 Days

Bond Fund

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Guaranteed Investment Contracts	\$ 365,033,318	\$ -	\$ 148,933,613	\$ -	\$ 216,099,705
Local Government Investment Pool	224,425	224,425	-	-	-
Money Market Funds	23,673,693	23,673,693	-	-	-
U.S. Agency Securities	2,376,906	2,376,906	-	-	-
	\$ 391,308,342	\$26,275,024	\$148,933,613	\$ -	\$216,099,705
Average maturity of all investments					3,834 Days

The Disbursement Funds include \$13,674,122 of investments with maturities over one year and the General Fund includes \$26,307 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, 2008, all of the Authority's deposits and investments are held and insured by a qualified public depository in the Authority's name.

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Notes to Financial Statements

June 30, 2008

4. Loans Receivable

The Authority has outstanding loans related to its bond issues, the VWFRF, VWSRF, VARF, and the ETF. 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, 2008:

Loans receivable related to bond issues:	
Water and Sewer System Revenue Bonds	\$ 194,346,440
Solid Waste Disposal System Revenue Bonds	75,665,000
Water, Sewer, and Solid Waste Disposal System Revenue Bonds	81,560,000
Water, Sewer, and Public Safety Revenue Bonds	722,020,763
Airport Revolving Fund Revenue Bonds	67,836,728
Unamortized discount/premium and cost of issuance – net	13,366,101
Subtotal – loans receivable related to bond issues	<u>1,154,795,032</u>
Loans receivable related to revolving loan funds:	
VWFRF	617,467,421
VWFRF – Leveraged	418,335,308
VWFRF – AgBMP	10,229,714
VWSRF	101,266,951
Subtotal – loans receivable related to revolving loan funds	<u>1,147,299,394</u>
Total loans receivable	<u>\$ 2,302,094,426</u>
Loans receivable – current	\$ 98,072,896
Loans receivable – noncurrent	2,204,021,530
	<u>\$ 2,302,094,426</u>

VFPF and other bonds secured by the Commonwealth's moral obligation all 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.

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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 2011 to 2038 and accrue interest at various rates of interest ranging from 0% to 6.29%. 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, 2008, 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>	<u>ETF</u>
Committed, to be disbursed:				
Revolving fund	\$ 103,281,841	\$ 3,750,355	\$ -	\$ -
Leveraged bonds	143,736,103	-	-	-
Loans from notes	-	-	-	90,607
Commitment letter only (loan or grant not closed)	62,064,000	8,750,017	614,307	-

At June 30, 2008, no loans receivable were considered delinquent nor in default and no allowance for loan losses has been provided. There were no losses incurred in 2008.

Virginia Resources Authority
Notes to Financial Statements
June 30, 2008

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	85,000
Series 1997 E, dated August 7, 1997, variable rate 7-day demand securities, final due date October 1, 2028	34,380,000	28,690,000
Series 1997F, dated September 1, 1997, interest rates ranging from 3.80% to 5.20%, final due date November 1, 2017	3,650,000	2,240,000
Series 1998B, dated March 1, 1998, interest rates ranging from 3.75% to 5.00%, final due date October 1, 2028	2,380,000	1,975,000
Series 1998D, dated October 1, 1998, interest rates ranging from 3.20% to 4.75%, final due date October 1, 2028	16,185,000	13,540,000
Series 1999A, dated October 15, 1999, interest rates ranging from 4.00% to 5.80%, final due date October 1, 2024	4,500,000	3,630,000
Series 2000C, dated October 1, 2000, interest rates ranging from 4.70% to 5.00%, final due date October 1, 2021	4,640,000	3,705,000
Series 2001, dated October 1, 2001, interest rates ranging from 2.50% to 5.25%, final due date May 1, 2032	13,155,000	11,885,000
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	16,245,000

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<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
Series 2002, dated July 31, 2002, interest rates ranging from 4.875% to 5.465%, final due date November 1, 2035. Amount outstanding includes \$9,277,618 accretion for capital appreciation bonds.	\$ 62,747,167	\$ 72,024,785
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	20,925,000
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	149,840,000
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	161,075,000
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 2001B (AMT), dated June 28, 2001, interest rates ranging from 4.25% to 4.50%, final due date May 1, 2011	11,030,000	8,590,000
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	2,360,000
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	20,940,000
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	9,380,000
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	1,835,000
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	32,560,000

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Notes to Financial Statements
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<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
<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	\$ 5,045,000
Series 2000B, dated November 1, 2000, interest rates ranging from 4.40% to 5.60%, final due date May 1, 2030	25,805,000	4,785,000
Series 2001A, dated June 28, 2001, interest rates ranging from 4.00% to 5.20%, final due date May 1, 2031	29,140,000	22,080,000
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	14,980,000
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	6,785,000
<i>Water, Sewer, and Public Safety Revenue Bonds:</i>		
Series 2001D, dated December 14, 2001, interest rates ranging from 3.75% to 5.00%, final due date May 1, 2031	48,235,000	41,490,000
Series 2002A, dated June 6, 2002, interest rates ranging from 3.00% to 5.13%, final due date May 1, 2027	42,845,000	32,725,000
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	31,705,000
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	11,625,000
Series 2003 Senior (Non-AMT), dated December 4, 2003, interest rates ranging from 2.00% to 5.00%, final due date November 1, 2033	53,790,000	49,535,000
Series 2003 Subordinate (Non-AMT), dated December 4, 2003, interest rates ranging from 2.00% to 5.00%, final due date November 1, 2034	32,415,000	30,440,000
Series 2003 Senior (AMT), dated December 4, 2003, interest rates ranging from 2.25% to 5.00%, final due date November 1, 2011	9,490,000	5,075,000

Virginia Resources Authority
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<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
Series 2003 Subordinate (AMT), dated December 4, 2003, interest rates ranging from 2.25% to 3.375%, final due date November 1, 2011	\$ 4,160,000	\$ 2,215,000
Series 2003 Senior (Taxable), dated December 4, 2003, interest rates ranging from 1.410% to 4.570%, final due date November 1, 2011	2,375,000	1,275,000
Series 2003 Subordinate (Taxable), dated December 4, 2003, interest rates ranging from 1.56% to 4.70%, final due date November 1, 2011	1,015,000	550,000
Series 2004 Senior (Non-AMT), dated June 30, 2004, interest rates ranging from 4.00% to 5.125%, final due date November 1, 2033	60,630,000	57,665,000
Series 2004 Subordinate (Non-AMT), dated June 30, 2004, interest rates ranging from 4.00% to 5.125%, final due date November 1, 2034	32,515,000	31,350,000
Series 2004 Subordinate (Taxable), dated June 30, 2004, interest rate of 5.50%, final due date May 1, 2013	1,360,000	1,360,000
Series 2004B Senior (Non-AMT), dated October 28, 2004, interest rates ranging from 2.25% to 4.50%, final due date November 1, 2034	28,690,000	26,155,000
Series 2004B Subordinate (Non-AMT), dated October 28, 2004, interest rates ranging from 2.25% to 5.00%, final due date November 1, 2035	13,920,000	12,825,000
Series 2004B Senior (AMT), dated October 28, 2004, interest rates ranging from 3.00% to 5.00%, final due date November 1, 2013	8,965,000	6,380,000
Series 2004B Subordinate (AMT), dated October 28, 2004, interest rates ranging from 3.00% to 3.85%, final due date November 1, 2013	4,095,000	2,870,000
Series 2004B Senior (Taxable), dated October 28, 2004, interest rates ranging from 4.00% to 4.50%, final due date November 1, 2013	1,610,000	1,140,000
Series 2004B Subordinate (Taxable), dated October 28, 2004, interest rates ranging from 4.00% to 4.75%, final due date November 1, 2013	690,000	490,000

Virginia Resources Authority
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June 30, 2008

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
Series 2005B Senior (Non-AMT), dated June 8, 2005, interest rates ranging from 3.00% to 5.00%, final due date November 1, 2035	\$ 22,055,000	\$ 19,760,000
Series 2005B Subordinate (Non-AMT), dated June 8, 2005, interest rates ranging from 3.00% to 5.00%, final due date November 1, 2035	9,485,000	8,525,000
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	34,380,000
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	15,270,000
Series 2005C Senior (AMT), dated December 7, 2005, interest rates ranging from 3.35% to 4.75%, final due date November 1, 2025	6,045,000	5,615,000
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	2,415,000
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	48,045,000
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	25,320,000
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

Virginia Resources Authority
Notes to Financial Statements
June 30, 2008

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
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	16,825,000
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	7,809,000
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	45,590,000
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	22,665,000
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	28,960,000
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	14,095,000
Series 2007B Senior (Non-AMT), dated November 28, 2007, interest rates ranging from 3.30% to 5.00%, final due date November 1, 2037	38,470,000	38,470,000
Series 2007B Subordinate, dated June 7, 2007, interest rates ranging from 3.30% to 5.00%, final due date November 1, 2037	18,410,000	18,410,000
Series 2007B Senior (AMT), dated November 28, 2007, interest rates ranging from 3.60% to 5.00%, final due date November 1, 2027	7,530,000	7,530,000
Series 2007B Subordinate (AMT), dated November 28, 2007, interest rates ranging from 3.60% to 5.00%, final due date November 1, 2027	3,245,000	3,245,000
Series 2008A Senior (Non-AMT), dated June 6, 2008, interest rates ranging from 3.00% to 5.00%, final due date November 1, 2038	48,890,000	48,890,000

Virginia Resources Authority
Notes to Financial Statements
June 30, 2008

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
Series 2008A Subordinate (Non-AMT), dated June 6, 2008, interest ranging from 2.50% to 4.625%, final due date November 1, 2038	\$ 22,450,000	\$ 22,450,000
<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	23,685,000
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	21,305,000
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	4,780,000
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	2,215,000
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	1,945,000
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	8,965,000
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	3,670,000
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
Total bonds at June 30		1,731,739,685
Unamortized discounts/premiums		51,201,706
Total bonds – net		<u>\$ 1,782,941,391</u>
Total bonds outstanding as of June 30:		\$ 1,731,739,685
Unaccreted Capital Appreciation Bonds as of June 30		47,219,166
Total outstanding maturities		<u>\$ 1,778,958,851</u>
Bonds payable – current		\$ 65,465,000
Bonds payable – noncurrent		1,717,476,391
		<u>\$ 1,782,941,391</u>

Virginia Resources Authority
Notes to Financial Statements
June 30, 2008

Activity in the bonds payable and related accounts for fiscal year 2008 was as follows:

Description	Balance at June 30, 2007	Issued	Retired	Balance at June 30, 2008	Amount Due Within One Year
Total bonds outstanding	\$ 1,670,621,095	\$ 138,995,000	\$ (77,876,410)	\$ 1,731,739,685	\$ 65,465,000
Unamortized discounts / premiums	53,043,711	4,116,707	(5,958,712)	51,201,706	1,934,209
	<u>\$ 1,723,664,806</u>	<u>\$ 143,111,707</u>	<u>\$ (83,835,122)</u>	<u>\$ 1,782,941,391</u>	<u>\$ 67,399,209</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.

At June 30, 2008, \$681,886,365 of outstanding bonds 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 Series 2002 Water and Sewer Revenue Bonds have Capital Appreciation Bonds with unaccreted values of \$47,219,166, as of June 30, 2008.

Advance Refundings

During the current year, the Authority issued bond series 2008A and 2007B, from which a portion of proceeds were used 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:

<u>Water and Sewer Revenue Bond</u>	<u>Principal Defeased</u>	<u>Difference between Previous and New Debt Service</u>	<u>Economic Gain as a Result of the Refunding</u>
1997 Series	\$ 720,000	\$ 281,568	\$ 29,417
1997 Series H	4,080,000	917,742	259,846
1998 Series A	<u>14,560,000</u>	<u>3,780,655</u>	<u>1,010,777</u>
Total bonds - net	<u>\$ 19,360,000</u>	<u>\$ 4,979,965</u>	<u>\$ 1,300,040</u>

The amount outstanding at June 30, 2008 for bonds which have been in-substance defeased or refunded was \$230,255,000. In addition to 1997 Series H and 1998 Series A refundings noted above, this includes bonds that were in-substance defeased during prior years: 1998 Series C, CWSRF 1999 and 2000, 2000 Series A,

Virginia Resources Authority
Notes to Financial Statements
June 30, 2008

and 2000 Series B.

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>
2009	\$ 65,465,000	\$ 78,144,326	\$ 143,609,326
2010	69,250,000	75,704,822	144,954,822
2011	94,220,000	72,244,810	166,464,810
2012	98,035,000	67,773,878	165,808,878
2013	100,314,940	63,703,029	164,017,969
2014-2018	423,865,000	255,520,272	679,385,272
2019-2023	399,595,000	159,845,318	559,440,318
2024-2028	302,925,000	80,887,154	383,812,154
2029-2033	143,214,700	28,090,927	171,305,627
2034-2038	80,439,211	7,949,985	88,389,196
2039	<u>1,635,000</u>	<u>38,566</u>	<u>1,673,566</u>
Total	<u>\$ 1,778,958,851</u>	<u>\$ 889,903,087</u>	<u>\$ 2,668,861,938</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 Authority has the option of releasing the pledge 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, 2008 the cash, cash equivalents, and investments restricted for use related to the Operating Reserve Fund amounted to \$6,465,712.

Virginia Resources Authority
Notes to Financial Statements
June 30, 2008

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 \$768,485 at June 30, 2008 (\$73,595 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, 2008 an accrual for employee compensated absences in the amount of \$67,260 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 2008:

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008	Due Within one year
Arbitrage Rebate Liability	\$ 811,373	\$2,823,534	\$ 128,726	\$ 3,506,181	\$ 2,877,456
Deferred revenue	849,893	-	81,408	768,485	73,595
Accrued leave	52,817	14,443	-	67,260	67,260

8. Contributions from Other Governments

During the year the Authority received \$19,775,847 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 \$11,773,416 from the Commonwealth as the required state match of federal funds, plus another \$686,939 from the Commonwealth for the VDSFPF.

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 VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at www.varetire.org or obtained by writing to the VRS 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, 2008 was 10.13% of the annual covered payroll.

C. Annual Pension Cost

For fiscal year 2008, the Authority's annual pension cost of \$70,295 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 at June 30, 2007 included (a) 7.5% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.73% 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. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of payroll, on an open basis within a period of 21 years.

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, 2006	\$ 63,840	100%	-
June 30, 2007	62,904	100%	-
June 30, 2008	70,295	100%	-

D. Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was 61.68% funded. The actuarial accrued liability for benefits was \$222,832 and the actuarial value of assets was \$137,433, resulting in an unfunded actuarial accrued liability (UAAL) of \$85,399. The covered payroll (annual payroll of active employees covered by the plan) was \$722,277 and the ratio of the UAAL to the covered payroll was 11.82%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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, 2008, 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, 2008

11. Leases

The Authority leases its corporate office space under an operating lease. Rental expense totaled \$98,649 for the year ended June 30, 2008. The future minimum rental payments are as follows:

<u>Year ending June 30,</u>	Amount
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>\$ 1,037,154</u>

12. Subsequent Events

Subsequent to June 30, 2008, the VWFRF issued bonds in the amount of \$181,280,000, dated August 14, 2008. The interest rates range from 3.344% to 5% with a final due date of October 1, 2031.

* * * *

Virginia Resources Authority

Required Supplementary Information

June 30, 2008

Schedule of Funding Progress (unaudited):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2007	\$ 137,433	\$ 222,832	\$ 85,399	61.68%	\$ 722,277	11.82%
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%

Virginia Resources Authority
Combining Schedule of Net Assets
June 30, 2008

	General Accounts	Virginia Revolving Loan Fund Accounts		Airport Accounts	Bond Accounts	Dam Safety Accounts	Equipment & Term Financing	Total
		Water Facilities	Water Supply					
Assets								
Current assets								
Cash	\$ 667,460	\$ 11,471,997	\$ 4,217,936	\$ -	\$ -	\$ -	\$ 113,273	\$ 16,470,666
Cash equivalents	1,237,233	180,287,789	17,644,980	6,556,558	478,740	2,757,416	-	208,962,716
Investments	1,785,221	7,989,523	599,206	-	2,376,906	-	-	12,750,856
Loans receivable - current portion	-	64,326,312	3,784,650	3,564,970	25,524,789	-	872,175	98,072,896
Receivables:								
Investment interest	78,032	5,471,211	58,794	151,304	255,135	-	-	6,014,476
Loan interest	-	9,217,978	153,858	357,848	7,935,619	-	11,874	17,677,177
Federal funds	-	1,304,064	39,282	-	-	-	-	1,343,346
Loan administrative fees	-	162,026	10,318	64,448	-	-	4,712	241,504
Other	103,010	5,750	-	9,690	-	15,419	-	133,869
Deferred charges	-	528,725	-	38,905	380,360	-	-	947,990
Other	8,755	-	-	-	-	-	-	8,755
Total current assets	3,879,711	280,765,375	26,509,024	10,743,723	36,951,549	2,772,835	1,002,034	362,624,251
Noncurrent assets								
Investments	7,342,138	324,286,952	-	26,014,602	28,405,886	-	-	386,049,578
Loans receivable - less current - net	-	981,706,131	97,482,301	64,271,758	1,057,174,685	-	3,386,655	2,204,021,530
Deferred charges	-	13,458,223	-	990,281	9,681,704	-	-	24,130,208
Furniture and fixtures - at cost - less accumulated depreciation	2,364	1,755	1,397	-	-	-	-	5,516
Total noncurrent assets	7,344,502	1,319,453,061	97,483,698	91,276,641	1,095,262,275	-	3,386,655	2,614,206,832
Total assets	11,224,213	1,600,218,436	123,992,722	102,020,364	1,132,213,824	2,772,835	4,388,689	2,976,831,083
Liabilities								
Current liabilities								
Loans payable - current portion	-	-	-	-	-	-	962,783	962,783
Bonds payable - current portion	-	14,735,000	-	3,225,000	47,505,000	-	-	65,465,000
Accrued interest on bonds payable	-	7,168,103	-	1,470,253	8,163,985	-	-	16,802,341
Arbitrage rebate liability	-	2,877,456	-	-	-	-	-	2,877,456
Due to (from) other accounts	(75,190)	(3,035)	7,071	39,724	-	15,419	16,011	-
Deferred revenue	-	56,991	-	4,058	12,546	-	-	73,595
Accounts payable and other liabilities	359,885	-	20,970	121,950	-	-	23,240	526,045
Total current liabilities	284,695	24,834,515	28,041	4,860,985	55,681,531	15,419	1,002,034	86,707,220
Noncurrent liabilities								
Loans payable - less current - net	-	-	-	-	-	-	3,386,655	3,386,655
Bonds payable - less current - net	-	571,656,592	-	68,765,000	1,077,054,799	-	-	1,717,476,391
Deferred revenue	-	529,273	-	37,110	128,507	-	-	694,890
Arbitrage rebate liability	-	562,986	-	65,739	-	-	-	628,725
Total noncurrent liabilities	-	572,748,851	-	68,867,849	1,077,183,306	-	3,386,655	1,722,186,661
Total liabilities	284,695	597,583,366	28,041	73,728,834	1,132,864,837	15,419	4,388,689	1,808,893,881
Net assets								
Invested in capital assets	2,364	1,755	1,397	-	-	-	-	5,516
Restricted:								
Loan Programs	-	1,002,633,315	123,963,284	28,291,530	(651,013)	2,757,416	-	1,156,994,532
Operating Reserve	6,465,712	-	-	-	-	-	-	6,465,712
Unrestricted	4,471,442	-	-	-	-	-	-	4,471,442
Total net assets	\$ 10,939,518	\$ 1,002,635,070	\$ 123,964,681	\$ 28,291,530	\$ (651,013)	\$ 2,757,416	\$ -	\$ 1,167,937,202

Virginia Resources Authority

Combining Schedule of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2008

	General Accounts	Virginia Revolving Loan Fund Accounts		Airport Accounts	Bond Accounts	Dam Safety Accounts	Equipment & Term Financing	Total
		Water Facilities	Water Supply					
Operating revenues								
Interest on loans	\$ -	\$ 30,493,415	\$ 615,040	\$ 3,104,537	\$ 49,209,381	\$ -	\$ 23,240	\$ 83,445,613
Investment income	691,759	25,032,826	803,308	1,160,751	1,627,976	102,634	-	29,419,254
Bond administrative fees	-	59,415	-	4,234	1,018,940	-	-	1,082,589
Loan administrative fees	-	271,565	29,142	70,306	-	-	16,011	387,024
Administrative reimbursement	-	306,979	194,650	-	-	-	-	501,629
Other income	33,825	5,204	-	9,690	-	15,419	-	64,138
Total operating revenues	725,584	56,169,404	1,642,140	4,349,518	51,856,297	118,053	39,251	114,900,247
Operating expenses								
Interest on loans	-	-	-	-	-	-	23,240	23,240
Interest on bonds	-	29,686,121	-	3,641,132	50,655,600	-	-	83,982,853
Grants to local governments	-	2,955,747	882,723	-	-	-	-	3,838,470
Personnel services	570,444	285,117	116,953	-	-	-	-	972,514
General operating	340,181	221,078	47,620	44,412	-	1,626	-	654,917
Contractual services	406,790	111,727	46,639	25,688	-	-	-	590,844
Total operating expenses	1,317,415	33,259,790	1,093,935	3,711,232	50,655,600	1,626	23,240	90,062,838
Operating income (loss)	(591,831)	22,909,614	548,205	638,286	1,200,697	116,427	16,011	24,837,409
Nonoperating revenue								
Contributions from other governments	-	22,448,145	9,101,118	-	-	686,939	-	32,236,202
Income (loss) before transfers	(591,831)	45,357,759	9,649,323	638,286	1,200,697	803,366	16,011	57,073,611
Operating transfers	1,301,791	(30,936)	-	(84,229)	(1,155,196)	(15,419)	(16,011)	-
Change in net assets	709,960	45,326,823	9,649,323	554,057	45,501	787,947	-	57,073,611
Total net assets - beginning	10,229,558	957,308,247	114,315,358	27,737,473	(696,514)	1,969,469	-	1,110,863,591
Total net assets - ending	\$ 10,939,518	\$ 1,002,635,070	\$ 123,964,681	\$ 28,291,530	\$ (651,013)	\$ 2,757,416	\$ -	\$ 1,167,937,202

Virginia Resources Authority
Combining Schedule of Cash Flows
Year Ended June 30, 2008

	General Accounts	Virginia Revolving Loan Fund Accounts		Airport Accounts	Bond Accounts	Dam Safety Accounts	Equipment & Term Financing	Total
		Water Facilities	Water Supply					
Cash flows from operating activities								
Cash payments to localities for loans	\$ -	\$ (223,060,565)	\$ (8,303,908)	\$ (282,750)	\$ (142,447,024)	\$ -	\$ (4,349,438)	\$ (378,443,685)
Principal repayments from localities on loans	-	57,184,511	3,433,219	3,153,203	63,911,647	-	90,608	127,773,188
Interest received on loans	-	30,503,576	625,986	3,056,171	49,012,839	-	11,366	83,209,938
Bond administrative fees received	-	-	-	-	1,001,181	-	-	1,001,181
Loan administrative fees received	-	164,634	26,393	70,304	-	-	11,299	272,630
Federal administrative reimbursement funds received	-	306,979	252,100	-	-	-	-	559,079
Cash received from other income	(35,609)	7,654	301	-	1,535	-	-	(26,119)
Cash payments for salaries and related benefits	(570,444)	(285,117)	(127,963)	-	-	-	-	(983,524)
Cash payments for contractual services	(406,790)	(111,727)	(48,663)	(25,688)	-	-	-	(592,868)
Cash payments for general operating expenses	(275,974)	(219,646)	(50,436)	(41,008)	-	(1,626)	23,240	(565,450)
Cash payments for operating grants	-	(2,955,747)	(882,723)	-	-	-	-	(3,838,470)
Interest paid on loans	-	-	-	-	-	-	(23,240)	(23,240)
Interest paid on bonds	-	(26,872,319)	-	(3,545,594)	(50,229,451)	-	-	(80,647,364)
Interfund activity	340,935	(333,300)	(78,789)	39,724	-	15,419	16,011	-
Net cash provided by (used in) operating activities	(947,882)	(165,671,067)	(5,154,483)	2,424,362	(78,749,273)	13,793	(4,220,154)	(252,304,704)
Cash flows from noncapital financing activities								
Proceeds from loan	-	-	-	-	-	-	4,349,438	4,349,438
Proceeds from sale of bonds	-	-	-	-	138,995,001	-	-	138,995,001
Principal paid on bonds	-	(17,981,102)	-	(3,050,000)	(57,406,132)	-	-	(78,437,234)
Contributions from other governments	-	21,657,032	9,101,118	-	-	686,939	-	31,445,089
Cash received (paid) from other accounts	1,301,791	(30,936)	-	(84,229)	(1,155,196)	(15,419)	(16,011)	-
Net cash provided by (used in) noncapital financing activities	1,301,791	3,644,994	9,101,118	(3,134,229)	80,433,673	671,520	4,333,427	96,352,294
Cash flows from investing activities								
Purchase of investments	(11,686,236)	(916,300,162)	(39,820,085)	(32,468,385)	(49,126,119)	-	-	(1,049,400,987)
Proceeds from sales or maturities of investments	10,561,910	1,086,582,315	39,421,119	31,367,795	45,893,862	-	-	1,213,827,001
Interest received on investments - net	710,651	28,387,932	873,455	1,414,880	1,644,955	102,634	-	33,134,507
Net cash provided by (used in) investing activities	(413,675)	198,670,085	474,489	314,290	(1,587,302)	102,634	-	197,560,521
Net increase (decrease) in cash and cash equivalents	(59,766)	36,644,012	4,421,124	(395,577)	97,098	787,947	113,273	41,608,111
Cash and cash equivalents								
Beginning of year	1,964,459	155,115,774	17,441,792	6,952,135	381,642	1,969,469	-	183,825,271
End of year	\$ 1,904,693	\$ 191,759,786	\$ 21,862,916	\$ 6,556,558	\$ 478,740	\$ 2,757,416	\$ 113,273	\$ 225,433,382

Virginia Resources Authority
Combining Schedule of Cash Flows
Year Ended June 30, 2008

	General Accounts	Virginia Revolving Loan Fund Accounts		Airport Accounts	Bond Accounts	Dam Safety Accounts	Equipment & Term Financing	Total
		Water Facilities	Water Supply					
Reconciliation of operating income (loss) to net cash used in operating activities								
Operating income (loss)	\$ (591,831)	\$ 22,909,614	\$ 548,205	\$ 638,286	\$ 1,200,697	\$ 116,427	\$ 16,011	\$ 24,837,409
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	1,888	1,432	1,160	-	-	-	-	4,480
Interest on investments	(691,759)	(25,032,826)	(803,308)	(1,160,751)	(1,627,976)	(102,634)	-	(29,419,254)
Interest on bonds, amortization and accretion - net	-	1,136,699	-	(10,612)	265,777	-	-	1,391,864
Change in assets and liabilities								
Loans receivables	-	(165,876,054)	(4,873,438)	2,870,453	(78,535,377)	-	(4,258,830)	(250,673,246)
Loan interest receivable	-	10,161	10,946	(48,366)	(196,542)	-	(16,586)	(240,387)
Federal funds receivable	-	-	38,875	-	-	-	-	38,875
Loan administrative fee receivable	-	(106,931)	-	(2)	-	-	-	(106,933)
Other receivables	(69,358)	2,450	1,001	(9,690)	-	(15,419)	-	(91,016)
Deferred charges	-	1,677,103	-	106,150	160,372	-	-	1,943,625
Other current assets	(76)	-	-	-	1,535	-	-	1,459
Accounts payable and other liabilities	62,319	-	865	3,404	-	-	23,240	89,828
Deferred revenue	-	(59,415)	-	(4,234)	(17,759)	-	-	(81,408)
Due to (from) other funds	340,935	(333,300)	(78,789)	39,724	-	15,419	16,011	-
Total adjustments	(356,051)	(188,580,681)	(5,702,688)	1,786,076	(79,949,970)	(102,634)	(4,236,165)	(277,142,113)
Net cash provided by (used in) operating activities	\$ (947,882)	\$ (165,671,067)	\$ (5,154,483)	\$ 2,424,362	\$ (78,749,273)	\$ 13,793	\$ (4,220,154)	\$ (252,304,704)

Virginia Resources Authority

Combining Schedule of Net Assets

Virginia Revolving Loan Fund Accounts - Water Facilities

June 30, 2008

	Direct Loan Accounts	Leveraged Loan Accounts	Agricultural Best Management Practices Account	Combined Sewer Overflow Fund Account	Investment Fund Accounts	Administrative Fee Accounts	Total
Assets							
Current assets							
Cash	\$ 5,218,687	\$ -	\$ 4,378,320	\$ -	\$ 868,490	\$ 1,006,500	\$ 11,471,997
Cash equivalents	140,791,305	21,460,858	2,679,044	11,628,912	3,727,670	-	180,287,789
Investments	7,590,103	-	399,420	-	-	-	7,989,523
Loans receivable - current portion	42,014,231	16,713,192	5,535,878	-	63,011	-	64,326,312
Receivables:							
Investment interest	732,442	4,702,971	35,798	-	-	-	5,471,211
Loan interest	4,854,104	4,297,827	66,047	-	-	-	9,217,978
Federal funds	1,295,187	8,877	-	-	-	-	1,304,064
Loan administrative fees	-	-	-	-	-	162,026	162,026
Other	5,750	-	-	-	-	-	5,750
Deferred charges	-	528,725	-	-	-	-	528,725
Total current assets	202,501,809	47,712,450	13,094,507	11,628,912	4,659,171	1,168,526	280,765,375
Noncurrent assets							
Investments	1,001,150	323,285,802	-	-	-	-	324,286,952
Loans receivable - less current - net	575,265,024	401,622,116	4,693,836	-	125,155	-	981,706,131
Deferred charges	-	13,458,223	-	-	-	-	13,458,223
Furniture and fixtures - at cost - less accumulated depreciation	1,755	-	-	-	-	-	1,755
Total noncurrent assets	576,267,929	738,366,141	4,693,836	-	125,155	-	1,319,453,061
Total assets	778,769,738	786,078,591	17,788,343	11,628,912	4,784,326	1,168,526	1,600,218,436
Liabilities							
Current liabilities							
Bonds payable - current portion	-	14,735,000	-	-	-	-	14,735,000
Accrued interest on bonds payable	-	7,168,103	-	-	-	-	7,168,103
Arbitrage rebate liability	-	2,877,456	-	-	-	-	2,877,456
Due to (from) other accounts	(28,273)	(34,116)	-	-	-	59,354	(3,035)
Deferred revenue	-	56,991	-	-	-	-	56,991
Total current liabilities	(28,273)	24,803,434	-	-	-	59,354	24,834,515
Noncurrent liabilities							
Bonds payable - less current - net	-	571,656,592	-	-	-	-	571,656,592
Deferred revenue	-	529,273	-	-	-	-	529,273
Arbitrage rebate liability	-	562,986	-	-	-	-	562,986
Total noncurrent liabilities	-	572,748,851	-	-	-	-	572,748,851
Total liabilities	(28,273)	597,552,285	-	-	-	59,354	597,583,366
Net assets							
Invested in capital assets	1,755	-	-	-	-	-	1,755
Restricted:							
Loan Programs	778,796,256	188,526,306	17,788,343	11,628,912	4,784,326	1,109,172	1,002,633,315
Total net assets	\$ 778,798,011	\$ 188,526,306	\$ 17,788,343	\$ 11,628,912	\$ 4,784,326	\$ 1,109,172	\$ 1,002,635,070

Virginia Resources Authority

Combining Schedule of Revenues, Expenses, and Changes in Net Assets

Virginia Revolving Loan Fund Accounts - Water Facilities

Year Ended June 30, 2008

	Direct Loan Accounts	Leveraged Loan Accounts	Agricultural Best Management Practices Account	Combined Sewer Overflow Fund Account	Investment Fund Accounts	Administrative Fee Accounts	Total
Operating revenues							
Interest on loans	\$ 16,539,462	\$ 13,705,534	\$ 248,419	\$ -	\$ -	\$ -	\$ 30,493,415
Investment income	6,350,219	17,697,010	235,608	535,621	186,442	27,926	25,032,826
Bond administrative fees	-	59,415	-	-	-	-	59,415
Loan administrative fees	-	-	-	-	-	271,565	271,565
Administrative reimbursement	306,979	-	-	-	-	-	306,979
Other income	2,832	-	2,372	-	-	-	5,204
Total operating revenues	<u>23,199,492</u>	<u>31,461,959</u>	<u>486,399</u>	<u>535,621</u>	<u>186,442</u>	<u>299,491</u>	<u>56,169,404</u>
Operating expenses							
Interest on bonds	-	29,686,121	-	-	-	-	29,686,121
Grants to local governments	-	-	-	2,955,747	-	-	2,955,747
Personnel services	285,117	-	-	-	-	-	285,117
General operating	205,592	-	4,698	8,084	2,704	-	221,078
Contractual services	111,727	-	-	-	-	-	111,727
Total operating expenses	<u>602,436</u>	<u>29,686,121</u>	<u>4,698</u>	<u>2,963,831</u>	<u>2,704</u>	<u>-</u>	<u>33,259,790</u>
Operating income (loss)	<u>22,597,056</u>	<u>1,775,838</u>	<u>481,701</u>	<u>(2,428,210)</u>	<u>183,738</u>	<u>299,491</u>	<u>22,909,614</u>
Nonoperating revenue							
Contributions from other governments	12,663,878	60,767	-	6,100,000	3,623,500	-	22,448,145
Income before transfers	35,260,934	1,836,605	481,701	3,671,790	3,807,238	299,491	45,357,759
Operating transfers	4,554,716	-	-	-	(4,380,750)	(204,902)	(30,936)
Change in net assets	39,815,650	1,836,605	481,701	3,671,790	(573,512)	94,589	45,326,823
Total net assets - beginning	<u>738,982,361</u>	<u>186,689,701</u>	<u>17,306,642</u>	<u>7,957,122</u>	<u>5,357,838</u>	<u>1,014,583</u>	<u>957,308,247</u>
Total net assets - ending	<u>\$ 778,798,011</u>	<u>\$ 188,526,306</u>	<u>\$ 17,788,343</u>	<u>\$ 11,628,912</u>	<u>\$ 4,784,326</u>	<u>\$ 1,109,172</u>	<u>\$ 1,002,635,070</u>

Virginia Resources Authority

Combining Schedule of Cash Flows

Virginia Revolving Loan Fund Accounts - Water Facilities

Year Ended June 30, 2008

	Direct Loan Accounts	Leveraged Loan Accounts	Agricultural Best Management Practices Account	Combined Sewer Overflow Fund Account	Investment Fund Accounts	Administrative Fee Accounts	Total
Operating activities							
Cash payments to localities for loans	\$ (73,048,506)	\$ (146,021,452)	\$ (3,990,607)	\$ -	\$ -	\$ -	\$ (223,060,565)
Principal repayments from localities on loans	39,527,046	14,658,854	2,945,814	-	52,797	-	57,184,511
Interest received on loans	17,841,070	12,415,678	246,828	-	-	-	30,503,576
Loan administrative fees received	-	-	-	-	-	164,634	164,634
Federal administrative reimbursement funds received	306,979	-	-	-	-	-	306,979
Cash received from other income	5,282	-	2,372	-	-	-	7,654
Cash payments for salaries and related benefits	(285,117)	-	-	-	-	-	(285,117)
Cash payments for contractual services	(111,727)	-	-	-	-	-	(111,727)
Cash payments for general operating expenses	(204,160)	-	(4,698)	(8,084)	(2,704)	-	(219,646)
Cash payments for operating grants	-	-	-	(2,955,747)	-	-	(2,955,747)
Interest paid on bonds	-	(26,872,319)	-	-	-	-	(26,872,319)
Interfund activity	(470,439)	1,497	-	-	10,213	125,429	(333,300)
Net cash provided by (used in) operating activities	<u>(16,439,572)</u>	<u>(145,817,742)</u>	<u>(800,291)</u>	<u>(2,963,831)</u>	<u>60,306</u>	<u>290,063</u>	<u>(165,671,067)</u>
Noncapital financing activities							
Principal paid on bonds	-	(17,981,102)	-	-	-	-	(17,981,102)
Contributions from other governments	11,873,066	60,466	-	6,100,000	3,623,500	-	21,657,032
Cash received (paid) from other accounts	4,554,716	-	-	-	(4,380,750)	(204,902)	(30,936)
Net cash provided by (used in) noncapital financing activities	<u>16,427,782</u>	<u>(17,920,636)</u>	<u>-</u>	<u>6,100,000</u>	<u>(757,250)</u>	<u>(204,902)</u>	<u>3,644,994</u>
Investing activities							
Purchase of investments	(682,072,369)	(216,942,253)	(17,285,540)	-	-	-	(916,300,162)
Proceeds from sales or maturities of investments	702,367,291	367,061,055	17,153,969	-	-	-	1,086,582,315
Interest received on investments - net	7,046,266	20,356,069	235,608	535,621	186,442	27,926	28,387,932
Net cash provided by investing activities	<u>27,341,188</u>	<u>170,474,871</u>	<u>104,037</u>	<u>535,621</u>	<u>186,442</u>	<u>27,926</u>	<u>198,670,085</u>
Net increase (decrease) in cash and cash equivalents	<u>27,329,398</u>	<u>6,736,493</u>	<u>(696,254)</u>	<u>3,671,790</u>	<u>(510,502)</u>	<u>113,087</u>	<u>36,644,012</u>
Cash and cash equivalents Beginning of year	<u>118,680,594</u>	<u>14,724,365</u>	<u>7,753,618</u>	<u>7,957,122</u>	<u>5,106,662</u>	<u>893,413</u>	<u>155,115,774</u>
End of year	<u>\$ 146,009,992</u>	<u>\$ 21,460,858</u>	<u>\$ 7,057,364</u>	<u>\$ 11,628,912</u>	<u>\$ 4,596,160</u>	<u>\$ 1,006,500</u>	<u>\$ 191,759,786</u>

Virginia Resources Authority

Combining Schedule of Cash Flows

Virginia Revolving Loan Fund Accounts - Water Facilities

Year Ended June 30, 2008

	Direct Loan Accounts	Leveraged Loan Accounts	Agricultural Best Management Practices Account	Combined Sewer Overflow Fund Account	Investment Fund Accounts	Administrative Fee Accounts	Total
Reconciliation of operating income (loss)							
to net cash provided by							
(used in) operating activities							
Operating income (loss)	\$ 22,597,056	\$ 1,775,838	\$ 481,701	\$ (2,428,210)	\$ 183,738	\$ 299,491	\$ 22,909,614
Adjustments to reconcile operating income (loss)							
to net cash provided by (used in) operating							
activities:							
Depreciation	1,432	-	-	-	-	-	1,432
Interest on investments	(6,350,219)	(17,697,010)	(235,608)	(535,621)	(186,442)	(27,926)	(25,032,826)
Interest on bonds, amortization and accretion - net	-	1,136,699	-	-	-	-	1,136,699
Change in assets and liabilities							
Loans receivables	(33,521,460)	(131,362,598)	(1,044,793)	-	52,797	-	(165,876,054)
Loan interest receivable	1,301,608	(1,289,856)	(1,591)	-	-	-	10,161
Loan administrative fee receivable	-	-	-	-	-	(106,931)	(106,931)
Other receivables	2,450	-	-	-	-	-	2,450
Deferred charges	-	1,677,103	-	-	-	-	1,677,103
Deferred revenue	-	(59,415)	-	-	-	-	(59,415)
Due to (from) other funds	(470,439)	1,497	-	-	10,213	125,429	(333,300)
Total adjustments	(39,036,628)	(147,593,580)	(1,281,992)	(535,621)	(123,432)	(9,428)	(188,580,681)
Net cash provided by (used in) operating activities	\$ (16,439,572)	\$ (145,817,742)	\$ (800,291)	\$ (2,963,831)	\$ 60,306	\$ 290,063	\$ (165,671,067)

Virginia Resources Authority
Combining Schedule of Net Assets
Virginia Revolving Loan Fund Accounts - Water Supply
June 30, 2008

	Construction Accounts	Supply Accounts	Administrative Accounts	Administrative Fee Accounts	Total
Assets					
Current assets					
Cash	\$ 4,040,003	\$ 128,550	\$ -	\$ 49,383	\$ 4,217,936
Cash equivalents	17,630,018	14,962	-	-	17,644,980
Investments	599,206	-	-	-	599,206
Loans receivable - current portion	3,753,066	31,584	-	-	3,784,650
Receivables:					
Investment interest	58,794	-	-	-	58,794
Loan interest	152,998	860	-	-	153,858
Federal funds	-	-	39,282	-	39,282
Loan administrative fees	-	-	-	10,318	10,318
Total current assets	<u>26,234,085</u>	<u>175,956</u>	<u>39,282</u>	<u>59,701</u>	<u>26,509,024</u>
Noncurrent assets					
Loans receivable - less current - net	97,278,889	203,412	-	-	97,482,301
Furniture and fixtures - at cost - less accumulated depreciation	-	-	1,397	-	1,397
Total noncurrent assets	<u>97,278,889</u>	<u>203,412</u>	<u>1,397</u>	<u>-</u>	<u>97,483,698</u>
Total assets	<u>123,512,974</u>	<u>379,368</u>	<u>40,679</u>	<u>59,701</u>	<u>123,992,722</u>
Liabilities					
Current liabilities					
Due to (from) other accounts	(19,082)	(9,795)	35,948	-	7,071
Accounts payable and other liabilities	20,970	-	-	-	20,970
Total current liabilities	<u>1,888</u>	<u>(9,795)</u>	<u>35,948</u>	<u>-</u>	<u>28,041</u>
Total liabilities	<u>1,888</u>	<u>(9,795)</u>	<u>35,948</u>	<u>-</u>	<u>28,041</u>
Net assets					
Invested in capital assets	-	-	1,397	-	1,397
Restricted:					
Loan Programs	123,511,086	389,163	3,334	59,701	123,963,284
Total net assets	<u>\$ 123,511,086</u>	<u>\$ 389,163</u>	<u>\$ 4,731</u>	<u>\$ 59,701</u>	<u>\$ 123,964,681</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, 2008

	Construction Accounts	Supply Accounts	Administrative Accounts	Administrative Fee Accounts	Total
Operating revenues					
Interest on loans	\$ 610,004	\$ 5,036	\$ -	\$ -	\$ 615,040
Investment income	800,244	2,108	-	956	803,308
Loan administrative fees	-	-	-	29,142	29,142
Administrative reimbursement	-	-	194,650	-	194,650
Total operating revenues	<u>1,410,248</u>	<u>7,144</u>	<u>194,650</u>	<u>30,098</u>	<u>1,642,140</u>
Operating expenses					
Grants to local governments	843,489	39,234	-	-	882,723
Personnel services	-	-	116,953	-	116,953
General operating	14,224	177	33,219	-	47,620
Contractual services	-	-	46,639	-	46,639
Total operating expenses	<u>857,713</u>	<u>39,411</u>	<u>196,811</u>	<u>-</u>	<u>1,093,935</u>
Operating income (loss)	<u>552,535</u>	<u>(32,267)</u>	<u>(2,161)</u>	<u>30,098</u>	<u>548,205</u>
Nonoperating revenue					
Contributions from other governments	<u>9,101,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,101,118</u>
Change in net assets	<u>9,653,653</u>	<u>(32,267)</u>	<u>(2,161)</u>	<u>30,098</u>	<u>9,649,323</u>
Total net assets - beginning	<u>113,857,433</u>	<u>421,430</u>	<u>6,892</u>	<u>29,603</u>	<u>114,315,358</u>
Total net assets - ending	<u>\$ 123,511,086</u>	<u>\$ 389,163</u>	<u>\$ 4,731</u>	<u>\$ 59,701</u>	<u>\$ 123,964,681</u>

Virginia Resources Authority

Combining Schedule of Cash Flows

Virginia Revolving Loan Fund Accounts - Water Supply

Year Ended June 30, 2008

	Construction Accounts	Supply Accounts	Administrative Accounts	Administrative Fee Accounts	Total
Operating activities					
Cash payments to localities for loans	\$ (7,715,213)	\$ (588,695)	\$ -	\$ -	\$ (8,303,908)
Principal repayments from localities on loans	2,813,676	619,543	-	-	3,433,219
Interest received on loans	620,810	5,176	-	-	625,986
Loan administration fees received	-	-	-	26,393	26,393
Federal administrative reimbursement funds received	-	-	252,100	-	252,100
Cash received from other income	-	-	301	-	301
Cash payments for salaries and related benefits	-	-	(127,963)	-	(127,963)
Cash payments for contractual services	-	-	(48,663)	-	(48,663)
Cash payments for general operating expenses	(13,359)	(177)	(36,900)	-	(50,436)
Cash payments for operating grants	(843,489)	(39,234)	-	-	(882,723)
Interfund activity	(39,914)	-	(38,875)	-	(78,789)
Net cash provided by (used in) operating activities	<u>(5,177,489)</u>	<u>(3,387)</u>	<u>-</u>	<u>26,393</u>	<u>(5,154,483)</u>
Noncapital financing activities					
Contributions from other governments	9,101,118	-	-	-	9,101,118
Net cash provided by noncapital financing activities	<u>9,101,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,101,118</u>
Investing activities					
Purchase of investments	(39,820,085)	-	-	-	(39,820,085)
Proceeds from sales or maturities of investments	39,421,119	-	-	-	39,421,119
Interest received on investments - net	870,391	2,108	-	956	873,455
Net cash provided by investing activities	<u>471,425</u>	<u>2,108</u>	<u>-</u>	<u>956</u>	<u>474,489</u>
Net increase (decrease) in cash and cash equivalents	<u>4,395,054</u>	<u>(1,279)</u>	<u>-</u>	<u>27,349</u>	<u>4,421,124</u>
Cash and cash equivalents					
Beginning of year	<u>17,274,967</u>	<u>144,791</u>	<u>-</u>	<u>22,034</u>	<u>17,441,792</u>
End of year	<u>\$ 21,670,021</u>	<u>\$ 143,512</u>	<u>\$ -</u>	<u>\$ 49,383</u>	<u>\$ 21,862,916</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ 552,535	\$ (32,267)	\$ (2,161)	\$ 30,098	\$ 548,205
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	1,160	-	1,160
Interest on investments	(800,244)	(2,108)	-	(956)	(803,308)
Change in assets and liabilities					
Loans receivables	(4,901,537)	30,848	-	(2,749)	(4,873,438)
Loan interest receivable	10,806	140	-	-	10,946
Federal funds receivable	-	-	38,875	-	38,875
Other receivables	-	-	1,001	-	1,001
Accounts payable and other liabilities	865	-	-	-	865
Due to (from) other funds	(39,914)	-	(38,875)	-	(78,789)
Total adjustments	<u>(5,730,024)</u>	<u>28,880</u>	<u>2,161</u>	<u>(3,705)</u>	<u>(5,702,688)</u>
Net cash provided by (used in) operating activities	<u>\$ (5,177,489)</u>	<u>\$ (3,387)</u>	<u>\$ -</u>	<u>\$ 26,393</u>	<u>\$ (5,154,483)</u>

STATISTICAL SECTION

This section of the Authority's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the Authority's overall financial health.

Financial Trends

These tables contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.

Table 1 Net assets by component

Table 2 Changes in net assets

Table 3 Operating revenues by source

Table 4 Operating expenses

Revenue Capacity

This table contains information to help the reader assess the Authority's significant operating revenues.

Table 5 Schedule of Outstanding Loans Receivable

Debt Capacity

This table presents information to help the reader assess the affordability of the Authority's current levels of outstanding debt, and the Authority's ability to issue additional debt in the future.

Table 6 Schedule of Outstanding Debt

Demographic and Economic Information

These tables offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.

Table 7 Virginia Principal Employers

Table 8 Virginia Demographic and Economic Statistics

Operating Information

These tables contain information about Virginia Resource Authority's operations and resources to help the reader understand how the Authority's financial report relates to services the Authority provides and the activities it performs.

Table 9 Operating Indicators

Table 10 Authorized Employee by Identifiable Activity

Sources: Unless otherwise noted, information in these tables is derived from the annual financial reports for the relevant year. The Authority implemented GASB Statement 34 in 2002; these tables include information beginning in that year.

Table 1

*Virginia Resources Authority***Net Assets by Component**

Last Seven Fiscal Years

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Invested in capital assets, net of related debt	\$ 68,023	\$ 71,117	\$ 80,470	\$ 68,003	\$ 45,721	\$ 9,996	\$ 5,516
Restricted	802,126,322	852,807,085	917,598,522	971,377,454	1,037,733,171	1,106,474,312	1,163,460,244
Unrestricted	6,811,927	7,295,735	2,762,252	3,502,408	4,099,446	4,379,283	4,471,442
Total net assets	\$ 809,006,272	\$ 860,173,937	\$ 920,441,244	\$ 974,947,865	\$ 1,041,878,338	\$ 1,110,863,591	\$ 1,167,937,202

Table 2

*Virginia Resources Authority***Changes in Net Assets**

Last Seven Fiscal Years

Fiscal Year	Operating Revenue	Operating Expenses	Operating Income	Total Nonoperating Revenues/ Contributions from other Governments (1)	Change in Net Assets
2002	\$ 59,880,834	\$ 56,718,204	\$ 3,162,630	\$ 69,433,639	\$ 72,596,269
2003	68,300,734	54,869,127	13,431,607	37,736,058	51,167,665
2004	70,413,057	59,018,740	11,394,317	48,872,990	60,267,307
2005	89,763,265	68,788,315	20,974,950	33,531,671	54,506,621
2006	95,229,273	70,832,190	24,397,083	42,533,390	66,930,473
2007	106,394,533	77,060,552	29,333,981	39,651,272	68,985,253
2008	114,900,247	90,062,838	24,837,409	32,236,202	57,073,611

(1) In 2002, VRA received \$61,151,204 in contributions from the EPA under the Capitalization Grants for State Revolving Funds. The Authority received \$10,282,435 in 2002 from the Commonwealth as the required state match of federal funds, and transferred \$2,000,000 to other governments.

Table 3

Virginia Resources Authority
Operating Revenues by Source
 Last Seven Fiscal Years

Fiscal Year	Interest on Loans	Investment Income	Administrative Reimbursement	Bond Administrative Fees (1)	Loan Administrative Fees (2)	Other Income	Total
2002	\$ 43,982,498	\$ 15,064,517	\$ 799,271	\$ -	\$ -	\$ 34,548	\$ 59,880,834
2003	55,556,234	11,916,396	795,286	-	-	32,818	68,300,734
2004	58,317,155	11,411,893	669,663	-	-	14,346	70,413,057
2005	66,724,683	21,130,519	705,449	869,610	-	333,004	89,763,265
2006	71,949,057	21,519,977	646,725	967,723	-	145,791	95,229,273
2007	77,789,985	26,702,863	624,309	1,048,007	181,790	47,579	106,394,533
2008	83,445,613	29,419,254	501,629	1,082,589	387,024	64,138	114,900,247

(1) Beginning in 2005, Bond Administrative Fees were collected.

(2) Beginning in 2007, Loan Administrative Fees were collected.

Table 4

*Virginia Resources Authority***Operating Expenses**

Last Seven Fiscal Years

Fiscal Year	Interest on Bonds and Loans	Grants to Local Governments	Personnel Services	General Operating	Contractual Services	Total
2002	\$ 36,759,342	\$ 18,502,724	\$ 839,492	\$ 425,783	\$ 190,863	\$ 56,718,204
2003	44,183,203	9,286,110	867,079	362,740	169,995	54,869,127
2004	49,181,968	8,448,600	905,661	372,619	109,892	59,018,740
2005	63,155,132	4,184,019	871,477	412,270	165,417	68,788,315
2006	65,638,871	3,669,141	892,365	457,772	174,041	70,832,190
2007	72,092,728	3,041,355	936,548	577,848	412,073	77,060,552
2008	84,006,093	3,838,470	972,514	654,917	590,844	90,062,838

Table 5

Virginia Resources Authority
Schedule of Outstanding Loans Receivable
 Last Seven Fiscal Years

Loans Receivable Related to Bond Issues								
Fiscal Year	Water and Sewer System	Solid Waste Disposal System	Water, Sewer, and Solid Waste Disposal System	Water, Sewer, and Public Safety	VARF	Petroleum Storage Tank Fund	Unamortized discount / premium and cost of issuance - net	Total
2002	\$ 245,834,459	\$ 38,232,082	\$ 198,825,000	\$ -	\$ 34,186,772	\$ 6,000,000	\$ (7,772,094)	\$ 515,306,219
2003	297,500,344	104,227,605	119,290,000	127,830,000	51,759,731	-	(8,306,670)	692,301,010
2004	248,552,956	131,167,713	80,535,000	322,560,000	68,594,416	-	217,383	851,627,468
2005	219,994,418	104,230,000	102,785,000	401,285,000	70,262,749	-	1,731,144	900,288,311
2006	225,216,834	95,315,000	126,865,000	485,880,000	68,320,183	-	4,543,143	1,006,140,160
2007	220,611,095	86,035,000	86,165,000	605,240,000	70,707,181	-	7,339,682	1,076,097,958
2008	194,346,440	75,665,000	81,560,000	722,020,763	67,836,728	-	13,366,101	1,154,795,032

Loans Receivable Related to Revolving Loans					
Fiscal Year	VWFRF	VWFRF - leveraged	VWFRF AgBMP	VWSRF	Total
2002	\$ 509,037,663	\$ 175,971,358	\$ 3,451,758	\$ 46,301,130	\$ 734,761,909
2003	491,329,720	190,343,281	3,889,388	60,642,465	746,204,854
2004	489,191,442	216,050,825	4,108,404	74,082,904	783,433,575
2005	514,931,583	232,800,822	4,956,148	80,994,468	833,683,021
2006	552,658,162	254,745,219	6,550,589	88,104,520	902,058,490
2007	583,998,758	286,972,710	9,184,921	96,396,262	976,552,651
2008	617,467,421	418,335,308	10,229,714	101,266,951	1,147,299,394

Table 6

Virginia Resources Authority
Schedule of Outstanding Debt
 Last Seven Fiscal Years

Fiscal Year	Total Outstanding Revenue Bonds	Unamortized discounts / premiums (1)	Net Bonds Payable	Outstanding bonds secured by Moral Obligations of Commonwealth	Commonwealth Limit on Moral Obligation Debt	Remaining capacity for Moral Obligation Debt
2002	\$ 769,466,542	\$(10,893,520)	\$ 758,573,022	\$ 543,336,542	\$ 900,000,000	\$ 356,663,458
2003	931,597,949	(11,474,431)	920,123,518	704,692,949	900,000,000	195,307,051
2004	1,238,920,671	2,298,328	1,241,218,999	724,795,670	900,000,000	175,204,330
2005	1,273,394,419	12,900,830	1,286,295,249	659,099,419	900,000,000	240,900,581
2006	1,367,326,834	14,532,036	1,381,858,870	704,476,834	900,000,000	195,523,166
2007	1,670,621,095	25,967,386	1,696,588,481	678,600,371	900,000,000	221,399,629
2008	1,731,739,685	51,201,706	1,782,941,391	681,886,365	900,000,000	218,113,635

(1) Beginning 2008 unamortized bond issuance expenses are separately reported as a deferred charge. For 2007 and prior, the unamortized issuance expense is included with unamortized discounts/premiums.

Table 7

Virginia Resources Authority

Virginia Principal Employers

Current and Nine Years Ago

Employer (1)	Fiscal Year 2008 (1)	Fiscal Year 1999 (1)
	Rank	Rank
U.S. Department of Defense	1	1
Wal Mart	2	3
Fairfax County Public Schools	3	2
Postal Service	4	4
Newport News Shipbuilding	5	5
Food Lion	6	6
Sentara Healthcare	7	9
County of Fairfax	8	8
City of Virginia Beach Schools	9	10
Inova Fairfax Hospital	10	13
University of Virginia / Blue Ridge Hospital	13	7

(1) Final quarter data for most recent calendar year (2007 and 1998).

(2) The Virginia Employment Commission does not disclose the actual number of employees, due to the Confidential Information Protection and Statistical Efficiency Act - Title V of Public Law 107-347. All Employers above have over a 1,000 individuals employed.

Source: Virginia Employment Commission

Table 8

*Virginia Resources Authority***Virginia Demographic and Economic Statistics**

Last Ten Fiscal Years

Fiscal Year	Population (1)	Per Capita Income (2)	Public Primary and Secondary School Enrollment	Unemployment Rate
2008	7,712,091	\$ 41,347	1,232,436	4.0%
2007	7,640,249	39,540	1,221,939	3.0%
2006	7,557,588	37,968	1,214,737	3.0%
2005	7,464,033	35,841	1,185,612	3.7%
2004	7,370,557	34,001	1,165,905	3.8%
2003	7,281,659	33,033	1,156,471	4.2%
2002	7,190,468	32,511	1,143,018	4.2%
2001	7,078,515	31,083	1,130,446	3.2%
2000	7,000,174	29,226	1,121,780	2.3%
1999	6,900,918	27,780	1,110,843	2.7%

(1) Population for preceding calendar year.

(2) Per capita income for preceding calendar year.

Sources: Virginia Department of Education
 Virginia Employment Commission
 U. S. Census Bureau
 U.S. Department of Labor, Bureau of Labor Statistics

Table 9

Virginia Resources Authority
Operating Indicators
Last Four Fiscal Years

	Fiscal Year				<u>Total</u>
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	
Virginia Pooled Financing Program					
Projects	21	15	15	16	67
Lending	\$ 115,815,000	\$ 150,500,000	\$ 134,000,000	\$ 135,865,000	\$ 536,180,000
Clean Water Revolving Loan Fund					
Projects	13	18	15	22	68
Closed Loans	\$ 54,130,696	\$ 82,929,575	\$ 227,171,982	\$ 193,543,988	\$ 557,776,241
Virginia Drinking Water State Revolving Fund					
Projects	17	20	16	13	66
Closed Loans and Grants	\$ 10,654,508	\$ 16,855,288	\$ 10,513,007	\$ 6,143,549	\$ 44,166,352
Virginia Airports Revolving Fund					
Projects	5	2	5	1	13
Closed Loans	\$ 4,068,874	\$ 733,000	\$ 5,248,000	\$ 140,000	\$ 10,189,874
Equipment and Term Financing (1)					
Projects	-	-	-	4	4
Closed Loans	\$ -	\$ -	\$ -	\$ 4,349,438	\$ 4,349,438
Total Localities Served	67	55	51	50	

Data presented starting from fiscal year 2005, as data becomes available the above table will be presented for ten years.

(1)Equipment and Term Financing program started fiscal year 2008.

Source: VRA Annual Reports

Table 10

Virginia Resources Authority
Authorized Employees by Identifiable Activity
Last Five Fiscal Years

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Executive	1	1	1	1	1
Financial Services	4	4	5	6	6
Finance and Administration	6	6	5	6	6
Total Authorized Employees:	<u>11</u>	<u>11</u>	<u>11</u>	<u>13</u>	<u>13</u>

Data presented starting from fiscal year 2004, as data becomes available the above table will be presented for ten years.

COMPLIANCE SECTION



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Michael A. Garber
Donald W. Knotts
Daniel J. Bender
Lawrence W. Schwartz
Helaine S. Weissman

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 Virginia Resources Authority (Authority) as of and for the year ended June 30, 2008, and have issued our report thereon dated September 10, 2008. 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.

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.

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.

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Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of the Board of Directors, the Auditor of Public Accounts, management, Federal and state 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, 2008



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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 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, 2008. The Authority's major federal program is identified in the Summary of Independent Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of the 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, 2008.

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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, 2008

Virginia Resources Authority
Schedule of Expenses of Federal Awards
Year ended June 30, 2008

Federal Granting Agency / Recipient State Agency / Grant Program	Catalog of Federal Domestic Assistance (CFDA) Number	Expenses
Environmental Protection Agency		
Pass through payments from Commonwealth of Virginia:		
Department of Environmental Quality		
Capitalization Grants for Clean Water State Revolving Funds (VWFRF)	66.458	\$ 13,031,624
Department of Health		
Capitalization Grants for Drinking Water State Revolving Funds (VWSRF)	66.468	7,263,028
		<u>\$ 20,294,652</u>

See notes to the Schedule of Expenses of Federal Awards.

Virginia Resources Authority

Notes to Schedule of Expenses of Federal Awards

June 30, 2008

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 \$103,281,841 from the VWFRF and \$3,750,355 from the VWSRF as of June 30, 2008.

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:

	VWFRF	VWSRF	VDSFPF	Total
Revenue Per Financial Statements:				
Administrative Reimbursement	\$ 306,979	\$ 194,650	\$ -	\$ 501,629
Contributions from other Governments	22,448,145	9,101,118	686,939	32,236,202
Total Governmental Revenue	22,755,124	9,295,768	686,939	32,737,831
Less amounts not related to federal financial assistance	(9,723,500)	(2,049,916)	(686,939)	(12,460,355)
Add received prior fiscal year	-	17,176	-	17,176
Federal Schedule of Expenses	<u>\$ 13,031,624</u>	<u>\$ 7,263,028</u>	<u>\$ -</u>	<u>\$ 20,294,652</u>

VIRGINIA RESOURCES AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008**

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
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Identification of major program:

CFDA Number	Name of Federal Program or Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds (VWSRF)

Dollar threshold used to distinguish between type A and type B programs \$608,840

Auditee qualified as low-risk auditee?	_____	Yes	✓	No
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VIRGINIA RESOURCES AUTHORITY

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008**

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

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

VIRGINIA RESOURCES AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2008

Identifying Number: 07-01 Segregation of Duties

Audit Finding

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.

Corrective Action Taken

The Authority implemented password protection over the approval process of journal entries. The Director of Administration and Finance and the Senior Accountant are the only individuals with approval capability. Password protection is a function of the general ledger software. Passwords are not shared with individuals preparing journal entries. Since passwords have not been shared with entry preparers, review of a monthly journal entry report, as directed in the prior year Schedule of Findings and Responses was not considered necessary by the Authority.