VRA Virginia Resources Authority

Stephanie L. Hamlett
Executive Director

December 1, 2010

The Honorable Robert F. McDonnell
Office of the Governor
Commonwealth of Virginia
Patrick Henry Building
Richmond, VA 23219

The General Assembly of Virginia
Commonwealth of Virginia
General Assembly Building
Richmond, VA 23219

RE: Annual Report of the Virginia Resources Authority

Dear Governor McDonnell and Members of the General Assembly:

We are pleased to present the annual report of the Virginia Resources Authority (VRA). This report, submitted pursuant to § 62.1-222 of the Code of Virginia, as amended, sets forth the complete operating and financial statements for the Authority during the fiscal year. As required, an independent certified public accountant has performed an audit of the books and accounts of the Authority and has issued an unqualified opinion with no audit findings or management letter. VRA's audits have been consistently recognized by the Government Finance Officers Association, which awarded the Authority a *Certificate of Achievement for Excellence in Financial Reporting* for the second consecutive year. The Authority's Comprehensive Annual Financial Report for the year ending June 30, 2010 is attached.

We are also pleased to highlight some of the Fiscal Year 2010 accomplishments of the Virginia Resources Authority and to detail its support to communities across the Commonwealth.

In a period of economic uncertainty, VRA maintained its outstanding credit rating with all three rating agencies consequently delivering cost-savings to Virginia localities. In FY10, the Authority financed more projects than in any other year in its history, closing over $640 million in financings for 133 projects. Included in this number are American Recovery and Reinvestment Act projects, closed by the federal deadline date, and done in partnership with the Department of Environmental Quality and the Virginia Department of Health.

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VRA and the Commonwealth were also able to take further advantage of the American Recovery and Reinvestment Act through the opportunities made available with Build America Bonds (BABs). The Authority completed a $197 million transaction with its Fall 2009B bonds, making it the largest multi-jurisdictional pooled Build America Bonds (BABs) transaction in the nation. This transaction resulted in the lowest all-in- true interest cost in the program's history, 3.85 percent, and provided savings of approximately $33.4 million for local government borrowers.

In addition to this and in support of VRAs continuing efforts to assist the Commonwealth in the restoration of the Chesapeake Bay, the Authority funded the $8.4 million state match requirement needed for the Clean Water Revolving Loan Fund (CWRLF) which was required to access a FY10 federal grant of over $40 million.

Finally in FY10, the Authority reduced the risk and decreased the debt of the Southeastern Public Service Authority (SPSA) bringing a degree of closure to the uncertainty associated with the management and operations of SPSA and SPSA's potential impact on VRA and the Commonwealth of Virginia. SPSA's outstanding VRA debt of $140 million was reduced to $47 million with 100 percent of this amount guaranteed by the communities in the SPSA service area. The resolution of this matter resulted in no change in the tax status of the bonds and in the recovery of all VRA expenses and administrative fees associated with the debt defeasance.

These were some of the Authority's successes. Throughout the past year and in its move forward, VRA remains true to its mission of providing cost-effective financial solutions to local governments and other public bodies for projects that improve the quality of life of Virginians.

In summary, the Virginia Resources Authority had a successful year. The Board, Executive Director and staff look forward to working with the Governor and the General Assembly in improving the health of Virginia localities, stimulating the Virginia economy and helping in job creation, and providing necessary funding for infrastructure projects throughout the Commonwealth.

Sincerely,

William G. O'Brien
Chairman

Stephanie L. Hamlett
Executive Director

Richmond, Virginia

Comprehensive Annual Financial Report of the Virginia Resources Authority – A Component Unit of the Commonwealth of Virginia

Year Ended June 30, 2010

VIRGINIA RESOURCES AUTHORITY

Financial Statements for the Year Ended June 30, 2010

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VIRGINIA RESOURCES AUTHORITY

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Prepared by the Virginia Resources Authority, Finance and Administration Department

INTRODUCTORY SECTION

September 3, 2010

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 2010 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 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 2010, the Authority is being audited by Clifton Gunderson, LLP, a licensed certified public accounting firm. As a result of an audit of the Authority's financial records and transaction of all funds, Clifton Gunderson has issued an unqualified opinion on the Authority's financial statements for the year ended June 30, 2010.

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

Fiscal Year 2010 Accomplishments

In addition to the significant financial performance described below, VRA is proud of many additional accomplishments in fiscal year 2010. 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 closing over $641 million in loans for essential projects for 96 localities across the Commonwealth in its various program areas.

The General Assembly continues to turn to VRA for policy initiatives, recognizing the ongoing value that VRA can and does provide to the Commonwealth. The 2010 General Assembly approved the addition of Oyster Restoration and Landfill Gas Energy Projects and Defective Drywall Revolving Fund and Infrastructure Loan funds to VRA's program areas.

VRA is committed to continually improving its programs and operations to meet the needs of our existing and future customers in a fiscally prudent manner. During fiscal year 2010, management achieved several accomplishments. A brief summary of the Authority's key 2010 accomplishments is listed below:

Closed over $641 million in financings for 133 projects in Fiscal Year 2010

- Financed more projects in FY10 than any other year in VRA history
- Closed all American Recovery and Reinvestment Act projects by federal deadline in partnership with Department of Environmental Quality and Virginia Department of Health

Eliminated Risk and Decreased Debt of Southeastern Public Service Authority (SPSA)

- Reduced outstanding debt from $140 million to $47 million
- Eliminated SPSA risk through 100% guarantee by Owner Communities of remaining SPSA debt ($47 million)
- Maintained tax-exempt status of the bonds
- All provisions of Board resolutions met

Implemented Portfolio Risk Management Initiative

- Drafted new underwriting guidelines
- Developed Beta Loan Monitoring & Compliance Database that tracks & reviews all loans in all programs annually
- Completed Portfolio Risk Management Technology Plan ~ Phase 1 implementation planned in FY2011 (primary focus is replacing VRA's loan servicing system)

Completed Clean Water Revolving Loan Fund (CWRLF) Refunding

- $6.4 million in gross savings
- $8 million release from program reserve funds
- Streamlined bond indenture
- Improved investment security

Other Key Accomplishments

- Maintained VRA's outstanding credit ratings with all three rating agencies
- Funded $8.4 million state match requirement for CWRLF with state match bonds to access over $40 million FFY2010 federal grant for Virginia's CWRLF program ~ first time ever issued in EPA Region 3
- Completed largest multi-jurisdictional pooled Build America Bonds transaction in the nation ($197 million) Fall 2009B bonds
- Awarded the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for the second consecutive year
- Enhanced investor relations program to support improved pricing for VRA bonds
- Established VRA as a strategic partner in state economic development and job creation effort
- Commended by the General Assembly on the occasion of VRA's 25th anniversary and for its outstanding contributions to the Commonwealth

Fiscal Year 2010 Financial Results

VRA had a strong year in fiscal year 2010. The Authority surpassed $1.267 billion in net assets, an increase of $44 million, or 3.6% from the prior year. Total assets increased by $144 million (3.8%) and total liabilities increased by $100 million (4%) in comparison to the June 30, 2009 balances. The increase in assets is primarily the result of increased lending in the Clean Water Revolving Loan Fund (CWRLF), and the Virginia Pooled Financing Program (VPFP), net of payments, payoffs, and refundings, and a decrease in cash equivalents and investments. The Authority's operating revenue increased $23 million and operating expenses increased $59.7 million in comparison to the prior fiscal year. The increase in Operating revenue is mostly due to an increase in interest from loan repayments. The significant increase in operating expenses is due to Principal Forgiveness loans to local governments of $31.9 million, new this year as part of the American Recovery and Reinvestment Act (ARRA), and an increase in bond and loan interest expense of $19.6 million, resulting from increased borrowing through the CWRLF and the VPFP.

VRA Profile

VRA was created in 1984 as a political subdivision of the Commonwealth of Virginia pursuant to the Virginia Resources Authority Act (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 betterment of the Commonwealth by assisting the cities, towns, counties, service authorities, regional authorities and other political subdivisions. 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 1,012 critical projects across the Commonwealth, representing more than $4.8 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) credit ratings, natural AAA for the senior bonds and natural AA for the subordinate bonds based in part on the Commonwealth's moral obligation, result in favorable access to the credit markets for Virginia's communities without the need for costly bond insurance or other credit enhancements. Since each loan is customized to meet the needs and financial policies of each locality or regional authority, the VPFP supports community advancement statewide with critical infrastructure financing. 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. Revolving fund borrowers achieve significant savings through discounted interest rates, payment waivers during construction and cost of issuance waivers. 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 in 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 program in fiscal year 2009 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.

Economic Information

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

- Average unemployment rate for Virginia in June 2010 (projected) was 7.0%, a 0.1% increase from June 2009 as reported by the U.S. Department of Labor, Bureau of Labor Statistics. Virginia's rate compares favorably to the national rate of 9.5%.

- Virginia's 2009 (projected) per capita personal income of $43,874 is ranked 7th among the states, as reported by the U.S. Department of Commerce Bureau of Economic Analysis. This compares favorably to the $39,138 per capita for the United States.

Fiscal Year 2011 Key Goals & Initiatives

VRA staff 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 staff recommended additional program advancements and process improvements during the fiscal year 2011 budget process. The Board approved Fiscal Year 2011 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 & economic development initiatives through value-added programs that maximize economic impact & 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
- Continue to implement Board approved reorganization
- Create 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 & expand State partnerships

- Collaborate with existing state partners to create unified goals
- Assist state partners in implementing and refining programs
- Continue to enhance the sustainability of VRA programs
- 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 & increase the economic impact & community benefit of VRA projects

- Increase access for customers through enhanced technical assistance
- Increase revenues to refine existing programs and develop programs in newly assigned areas
- Develop additional financing options for local and state projects through innovative funding strategies
- Launch plan for new and refined programs based on value added outcomes produced for localities and the Commonwealth
- Provide concrete data to localities and the Commonwealth on the direct, indirect and induced impact of VRA-financed projects
- Strengthen the financial security of local obligations.

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

- Continue to enhance investor relations program
- Establish and track Authority performance benchmarks to measure performance
- Update Authority policies and procedures to support strategic direction
- Increase organizational efficiency and capacity through continued process improvement
- Continue to enhance comprehensive risk management system
- Develop and begin phased implementation of Portfolio Risk Management Technology Plan.

Long-term Financial Planning

VRA has been working with our agency partners, Department of Environmental Quality, and the Virginia Department of Health, along with the Environmental Protection Agency, on exploring a 20-year financial model for the Water Supply Revolving Fund.

In addition, as part of VRA's annual budget, a five year budget projection is completed using certain assumptions for growth and program volume. Each year the assumptions are updated and the projection is revised accordingly.

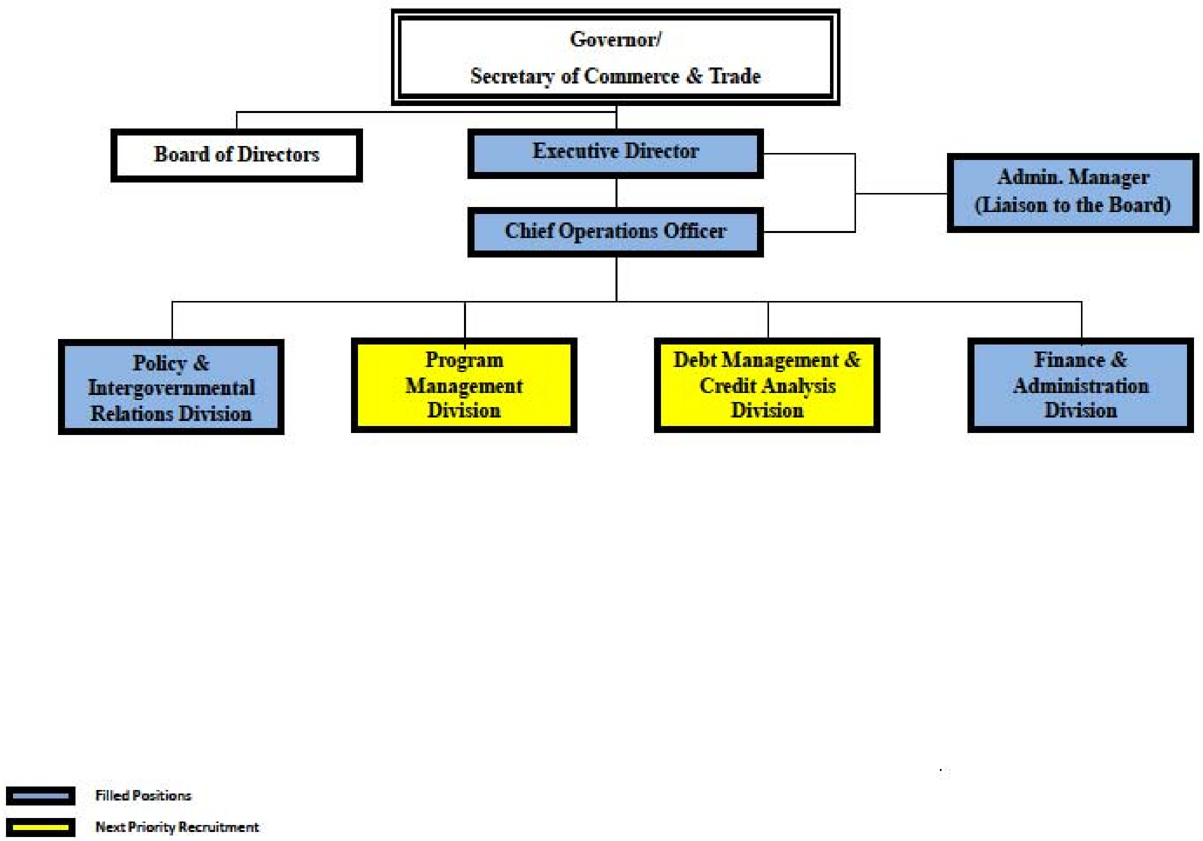
In summary, I am pleased to report that the Authority had a strong fiscal year 2010. Additionally, several initiatives have been launched to streamline operational procedures to enhance efficiency and effectiveness. With the fiscal year 2010 Budget, the Board and staff have demonstrated the Authority's 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. This year's CAFR was completed through the collaborative effort of the entire VRA staff. They are to be commended for their effort.

Respectfully submitted,

Stephanie Hamlett

Stephanie L. Hamlett

Virginia Resources Authority
Organizational Structure
June 30, 2010



Virginia Resources Authority
Directory of Principal Officials
June 30, 2010

Board of Directors

William G. O'Brien, Chairman

James H. Spencer, III, Vice Chairman

Barbara McCarthy Donnellan

Philip J. Duke

Dena Firth Moore

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

Manju Ganeriwala
Treasurer of Virginia

Karen Remley, M.D.
State Health Commissioner

Administrative Officials

Stephanie L. Hamlett
Executive Director

Brian D. DeProfio
Chief Operating Officer

Jean Bass
Director of Policy and Intergovernmental Relations

Christopher J. Carey
Director of Finance and Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Virginia Resources Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

FINANCIAL SECTION

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

To the Honorable Board Members
Virginia Resources Authority
Richmond, Virginia

We have audited the accompanying basic financial statements of Virginia Resources Authority (the Authority), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements 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 and 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2010, and the changes in financial position and 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 3, 2010 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 12 through 16 and the required supplementary information on page 47 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board and we did not audit and do not express an opinion on such information. However, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical tables listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Richmond, Virginia
September 3, 2010

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, 2010. We encourage readers to consider the information presented here in conjunction with the preceding transmittal letter and the Authority's basic financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The Authority's assets exceeded the liabilities at the close of the fiscal year by $1.267 billion (net assets), an increase of 3.6%.
- Total assets of $3.9 billion increased by $144 million or 3.8% (See FINANCIAL ANALYSIS Table 1 summary).
- Total liabilities of $2.6 billion increased by $100 million or 4%. (See FINANCIAL ANALYSIS Table 1 summary).
- Change in net assets of $44.1 million, decreased by $11.1 million or 20.2%. (See FINANCIAL ANALYSIS Table 2 summary).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

This discussion and analysis 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, investments earnings, fees, and contributions from other governments. The **Statement of Cash Flows** provides information on the Authority's cash receipts, payments, and net changes in cash. It also provides insight on the source, use, and change in cash for the reporting period.

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

This report also includes **other information**, in addition to the basic financial statements and accompanying Notes to the financial statements. *Required supplementary information* concerning the Authority's progress in funding its obligation to provide pension benefits to employees is 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

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 $1.267 billion (net assets). By far the largest portion of net assets, are restricted net assets (99.5%) which are restricted primarily for the purpose of making loans under the programs the Authority administers. Restricted net assets also include a $7.2 million operating reserve fund described further in note 7.

See Table 1. Total assets of $3.9 billion increased by $144 million or 3.8%, mostly from net increased lending of $562 million, net of payments, payoffs, refundings, premium/discount and issuance cost amortization of $306 million, and net of an overall decrease in cash equivalents and investments of $136 million. Assets primarily consist of loans receivable (79.9%) 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 $2.6 billion increased by $100 million or 4%, mostly from $461.5 million in new bond issues, in excess of $370 million of payments, payoffs, and refundings. Liabilities primarily consist of bonds payable (98.6%). See Note 6 for additional information on bonds payable.

See Table 2.

- Operating revenue of $139.4 million increased by $23 million or 19.8%.

- Operating expenses of $165.3 million increased by $59.7 million or 56.5%.

- Operating loss of $25.9 million versus Operating income the prior year of $10.7 million, a net decline of $36.7 million.

At the end of fiscal year 2010, net assets increased $44.1 million or 3.6% to $1.267 billion. Operating revenues of $139.4 million increased $23 million (19.8%). This change was mostly driven by an increase in loan interest repayments (increase of $17.7 million or 19.3%, and 76.8% of the year over year increase). Operating expenses of $165.3 million increased $59.7 million (56.5%). This increase was mostly the result of the Principal Forgiveness loans to local governments of $31.9 million, new this year as part of the American Recovery and Reinvestment Act (ARRA), and an increase in bond and loan interest expense of $19.6 million, resulting from increased borrowing through the Clean Water Revolving Loan Fund (CWRLF) and the Virginia Pooled Financing Program (VPFP). The Operating Loss this year of $25.9 million is due to the presentation of the ARRA pass-through funding to localities in the form of principal forgiveness loans under Operating expenses, with the corresponding revenue reflected as part of Nonoperating revenue. Operating income decreased by $36.7 million compared with that of last year. Aside from the impact of the ARRA presentation mentioned previously, the decrease resulted from the increase in interest expense from bond borrowing compared with interest revenue received from loan payments (-$1.9 million), and the decline in investment income of $3.7 million. The differential in interest paid versus interest received is due in part to the 1% interest rate subsidy offered on the CWRLF loans, and also since leverage loan interest is only accrued on amounts drawn to date for construction costs versus the full contracted loan amount (which is funded with bond proceeds). The decline in investment income was mostly due to a $136 million reduction in investments to fund construction draws for Clean Water Revolving Loan Fund projects. Nonoperating revenue increased $26.3 million to $70.8 million (59%). This change was primarily due to the ARRA funding.

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

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 $1.267 billion (net assets). By far the largest portion of net assets, are restricted net assets (99.5%) which are restricted primarily for the purpose of making loans under the programs the Authority administers. Restricted net assets also include a $7.2 million operating reserve fund described further in note 7.

See Table 1. Total assets of $3.9 billion increased by $144 million or 3.8%, mostly from increased lending of $562 million, net of payments, payoffs, and refundings of $306 million, and net of an overall decrease in cash equivalents and investments of $136 million. Assets primarily consist of loans receivable (79.9%) 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 $2.6 billion increased by $100 million or 4%, mostly from $461.5 million in new bond issues, in excess of $370 million of payments, payoffs, and refundings. Liabilities primarily consist of bonds payable (98.6%). See Note 6 for additional information on bonds payable.

See Table 2.

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- Operating expenses of $165.3 million increased by $59.7 million or 56.5%.

- Operating loss of $25.9 million versus Operating income the prior year of $10.7 million, a net decline of $36.7 million.

At the end of fiscal year 2010, net assets increased $44.1 million or 3.6% to $1.267 billion. Operating revenues of $139.4 million increased $23 million (19.8%). This change was mostly driven by an increase in loan interest repayments (increase of $17.7 million or 19.3%, and 76.8% of the year over year increase). Operating expenses of $165.3 million increased $59.7 million (56.5%). This increase was mostly the result of the Principal Forgiveness loans to local governments of $31.9 million, new this year as part of the American Recovery and Reinvestment Act (ARRA), and an increase in bond and loan interest expense of $19.6 million, resulting from increased borrowing through the Clean Water Revolving Loan Fund (CWRLF) and the Virginia Pooled Financing Program (VPFP). The Operating Loss this year of $25.9 million is due to the presentation of the ARRA pass-through funding to localities in the form of principal forgiveness loans under Operating expenses, with the corresponding revenue reflected as part of Nonoperating revenue. Operating income decreased by $36.7 million compared with that of last year. Aside from the impact of the ARRA presentation mentioned previously, the decrease resulted from the increase in interest expense from bond borrowing compared with interest revenue received from loan payments (-$1.9 million), and the decline in investment income of $3.7 million. The differential in interest paid versus interest received is due in part to the 1% interest rate subsidy offered on the CWRLF loans, and also since leverage loan interest is only accrued on amounts drawn to date for construction costs versus the full contracted loan amount (which is funded with bond proceeds). The decline in investment income was mostly due to a $136 million reduction in investments to fund construction draws for Clean Water Revolving Loan Fund projects. Nonoperating revenue increased $26.3 million to $70.8 million (59%). This change was primarily due to the ARRA funding.

Table 1
Virginia Resources Authority

Statement of Net Assets
(In thousands of dollars)

	June 30, 2010	June 30, 2009	$ Change 2010 - 2009	% Change 2010 - 2009
Assets				
Current assets:				
Cash	$ 10,446	$ 8,227	$ 2,219	27.0%
Cash equivalents	225,972	423,600	(197,628)	-46.7%
Investments	154,624	45,442	109,182	240.3%
Loans receivable - current portion (Note 4)	147,081	130,299	16,782	12.9%
Receivables:				
Investment interest	2,948	4,390	(1,442)	-32.9%
Loan interest	27,346	22,688	4,658	20.5%
Loan administrative fees	1,009	709	300	42.3%
Federal funds	6,665	403	6,262	1555.3%
Other	38	40	(2)	-3.9%
Deferred charges	5,391	3,221	2,170	67.4%
Other	14	22	(8)	-37.5%
Total current assets	581,534	639,041	(57,507)	-9.0%
Noncurrent assets:				
Investments	304,366	352,444	(48,078)	-13.6%
Loans receivable - less current - net (Note 4)	2,959,076	2,719,734	239,342	8.8%
Deferred charges	44,781	34,772	10,009	28.8%
Furniture and fixtures - at cost -			0	
less accumulated depreciation	18	2	16	893.4%
Total noncurrent assets	3,308,241	3,106,953	201,288	6.5%
Total assets	3,889,775	3,745,994	143,781	3.8%
Liabilities				
Current liabilities:				
Loans payable - current portion	1,557	1,544	13	0.8%
Bonds payable - current portion (Note 6)	102,469	75,882	26,587	35.0%
Accrued interest on bonds payable	22,967	21,938	1,029	4.7%
Arbitrage rebate liability	262	364	(102)	-27.9%
Deferred revenue	175	181	(6)	-3.4%
Accounts payable and other liabilities	914	477	437	91.5%
Total current liabilities	128,344	100,386	27,958	27.9%
Noncurrent liabilities:				
Loans payable - less current - net	5,668	27,303	(21,635)	-79.2%
Bonds payable - less current - net (Note 6)	2,483,087	2,390,544	92,543	3.9%
Deferred revenue	2,028	1,757	271	15.4%
Arbitrage rebate liability	3,366	2,823	543	19.2%
Total noncurrent liabilities	2,494,149	2,422,427	71,722	3.0%
Total liabilities	2,622,493	2,522,813	99,680	4.0%
Net assets				
Invested in capital assets	18	2	16	893.4%
Restricted (Note 7):			0	
Loan Programs	1,253,671	1,210,732	42,939	3.5%
Operating Reserve	7,248	6,990	258	3.7%
Unrestricted	6,345	5,457	888	16.3%
Total net assets	$ 1,267,282	$ 1,223,181	$ 44,101	3.6%

Table 2
Virginia Resources Authority

Combining Schedule of Revenues, Expenses, and Changes in Net Assets
(In thousands of dollars)

	Year Ended June 30, 2010	Year Ended June 30, 2009	$ Change 2010 - 2009	% Change 2010 - 2009
Operating revenues				
Interest on loans	$ 109,315	$ 91,639	$ 17,676	19.3%
Investment income	18,570	22,322	(3,752)	-16.8%
Bond administration fees	2,255	1,345	910	67.7%
Loan administration fees	1,186	778	408	52.4%
Administrative reimbursement	189	214	(25)	-11.7%
Administrative reimbursement - ARRA	176	-	176	100.0%
Gain on early extinguishment of loans	7,400	-	7,400	100.0%
Other Income	266	3	263	8766.7%
Community education and sponsorship	-	43	(43)	-100.0%
Total operating revenues	139,357	116,344	23,013	19.8%
Operating expenses				
Interest on bonds and loans	116,611	96,993	19,618	20.2%
Grants to local governments	6,505	6,040	465	7.7%
Principal Forgiveness loans to local governments	31,907	-	31,907	100.0%
Loss on early extinguishment of bonds	7,305	-	7,305	100.0%
Personnel services	1,200	1,058	142	13.4%
General operating	746	728	18	2.5%
Contractual services	1,006	774	232	30.0%
Total operating expenses	165,280	105,593	59,687	56.5%
Operating income (loss)	(25,923)	10,751	(36,674)	-341.1%
Nonoperating revenue				
Contributions from other governments	35,878	44,493	(8,615)	-19.4%
Contributions from other governments - ARRA	34,128	-	34,128	100.0%
Interest subsidy - Build America Bonds	792	-	792	100.0%
Nonoperating expense				
Interest subsidy passthrough - Build America Bonds	(774)	-	(774)	100.0%
Change in net assets	44,101	55,244	(11,143)	-20.2%
Total net assets - beginning	1,223,181	1,167,937	11,143	4.7%
Total net assets - ending	1,267,282	1,223,181	(22,286)	3.6%

DEBT ADMINISTRATION

As a financing entity, the Authority's purpose and objective is to issue and administer debt on behalf of other entities. The Authority issues bonds to finance infrastructure projects approved by the local governing bodies of counties, cities, towns, and service authorities of the Commonwealth of Virginia. Depending 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, (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 lease.

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. In all Clean Water State Revolving Fund leveraged issues VRA has obtained a AAA rating from all three agencies. Under the senior/subordinate structure in the Virginia Pooled Financing Program, 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, Moody's maintains its "Aa2" rating on the Authority's outstanding VARF bonds and Fitch maintains a "AA" rating.

During the fiscal year ended June 30, 2010 the Authority issued two bond series for the VPFP and two bond series for the CWSRF leveraged program. For details on these issues please see Table 9, "Operating Indicators", in the Statistical Section.

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, 2010

Assets		
Current assets:		
Cash	$	10,445,601
Cash equivalents		225,971,855
Investments		154,623,998
Loans receivable - current portion (Note 4)		147,080,667
Receivables:		-
Investment interest		2,948,104
Loan interest		27,346,388
Loan administrative fees		1,009,344
Federal funds		6,665,392
Other		37,529
Deferred charges - current portion		5,391,280
Other		14,357
Total current assets		581,534,515
Noncurrent assets:		
Investments		304,366,268
Loans receivable - less current - net (Note 4)		2,959,076,274
Deferred charges - less current - net		44,780,941
Furniture and fixtures - at cost -		
less accumulated depreciation of $43,242 (Note 5)		17,478
Total noncurrent assets		3,308,240,961
Total assets		3,889,775,476
Liabilities		
Current liabilities:		
Loans payable - current portion		1,557,000
Bonds payable - current portion (Note 6)		102,468,900
Accrued interest on bonds payable		22,967,538
Arbitrage rebate liability		262,098
Deferred revenue - current portion		174,762
Accounts payable and other liabilities		913,936
Total current liabilities		128,344,234
Noncurrent liabilities:		
Loans payable - less current - net		5,668,165
Bonds payable - less current - net (Note 6)		2,483,087,262
Deferred revenue - less current - net		2,027,702
Arbitrage rebate liability		3,366,474
Total noncurrent liabilities		2,494,149,603
Total liabilities		2,622,493,837
Net assets		
Invested in capital assets		17,478
Restricted (Note 7):		
Loan Programs		1,253,671,080
Operating Reserve		7,247,901
Unrestricted		6,345,180
Total net assets	$	1,267,281,639

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, 2010

Operating revenues	
Interest on loans	$ 109,314,607
Investment income	18,570,060
Bond administrative fees	2,254,887
Loan administrative fees	1,186,438
Administrative reimbursement	189,254
Administrative reimbursement - ARRA	176,028
Gain on early extinguishment of loans	7,400,293
Other income	265,620
Total operating revenues	139,357,187
Operating expenses	
Interest on bonds and loans	116,611,122
Grants to local governments	6,505,156
Principal forgiveness loans	31,907,130
Loss on early extinguishment of bonds	7,304,297
Personnel services	1,199,904
General operating	746,282
Contractual services	1,005,817
Total operating expenses	165,279,708
Operating loss	(25,922,521)
Nonoperating revenues	
Contributions from other governments (Note 9)	35,878,318
Contributions from other governments - ARRA (Note 9)	34,127,594
Interest subsidy - Build America Bonds	792,293
Nonoperating expense	
Interest subsidy passthrough - Build America Bonds	(774,681)
Change in net assets	44,101,003
Total net assets - beginning	1,223,180,636
Total net assets - ending	$ 1,267,281,639

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, 2010

Cash flows from operating activities		
Cash payments to localities for loans	$	(566,721,949)
Principal repayments from localities on loans		309,695,445
Interest received on loans		98,865,539
Bond administrative fees received		2,038,204
Loan administrative fees received		907,215
Federal administrative reimbursement funds received		138,104
Federal administrative reimbursement funds received - ARRA		72,052
Cash received from other income		264,810
Cash payments for salaries and related benefits		(1,036,783)
Cash payments for contractual services		(872,607)
Cash payments for general operating expenses		(701,315)
Cash payments for operating grants		(6,505,155)
Cash payments for principal forgiveness loans		(31,907,130)
Interest paid on loans		(858,262)
Interest paid on bonds		(111,053,044)
Net cash used in operating activities		(307,674,876)
Cash flows from noncapital financing activities		
Proceeds from sale of bonds		495,507,109
Principal paid on loans		(21,622,435)
Principal paid on bonds		(232,183,550)
Cash paid to escrow for refunded bonds		(152,717,114)
Arbitrage rebate		(179,018)
Proceeds from interest subsidy - Build America Bonds		578,160
Cash payments to localities for interest subsidy		(565,308)
Contributions from other governments		30,363,179
Contributions from other governments - ARRA		33,572,861
Net cash provided by noncapital financing activities		152,753,884
Cash flows from capital and financing related activities		
Purchase of office equipment		(17,775)
Net cash used in noncapital financing activities		(17,775)
Cash flows from investing activities		
Purchase of investments		(430,976,473)
Proceeds from sales or maturities of investments		369,713,774
Interest received on investments - net		20,791,699
Net cash used in investing activities		(40,471,000)
Net decrease in cash and cash equivalents		(195,409,767)
Cash and cash equivalents		
Beginning of year		431,827,223
End of year	$	236,417,456

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

Virginia Resources Authority

Statement of Cash Flows (Continued)
Year Ended June 30, 2010

Reconciliation of operating income		
to net cash used in operating activities		
Operating loss	$	(25,922,521)
Adjustments to reconcile operating loss		
to net cash used in operating activities:		
Depreciation		2,109
Interest on investments		(18,570,060)
Gain on early extinguishment of loans		(7,400,293)
Loss on early extinguishment of bonds		7,304,297
Interest on loans		(317,801)
Interest on bonds, amortization and accretion - net		(3,825,233)
Change in operating assets and liabilities:		
Loans receivables		(258,316,478)
Loan interest receivable		(4,867,856)
Loan administrative fee receivable		(300,089)
Other receivables		(139,790)
Deferred charges		4,526,295
Other current assets		8,054
Accounts payable and other liabilities		314,818
Deferred revenue		(170,328)
Total adjustments		(281,752,355)
Net cash used in operating activities	$	(307,674,876)

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, federal facilities, public safety, aviation, brownfields remediation, transportation, Chesapeake Bay cleanup, dam safety, land conservation and preservation, local government buildings, energy, parks and recreation facilities, and broadband. General Assembly legislation added projects for administrative and operations systems and site acquisition & development for economic & community development. 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 $1.5 billion 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 discounted 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 discounted 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 discounted 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 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 fifteen 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 its 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.

Basis of Presentation

The accounts of the Authority are organized on the basis of programs and activities, each of which is considered a separate accounting entity. The operations of each program are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, operating revenues, operating expenses and other nonoperating revenue and expenses. All of the authorities programs and activities are reported as a single reporting entity conforming to accounting principles generally applicable to the transactions of similar entities that use Proprietary Fund accounting.

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 2010.

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

Prior to approving a loan, a credit summary is completed. The credit summary provides information concerning the applicant and the project, as well as data regarding the systems, the revenues of which are pledged for the payment of the Local Bonds and Direct Loans. The credit summary concludes with findings and recommendations as to loan authorization and the required security provisions. A five year cash flow projection of the system whose revenues are to be pledged is also prepared as a part of the credit summary. The credit summary is then presented by the staff to the Authority's Credit Committee for their concurrence with, or override of, the staff's recommendations. Following the Authority's Credit Committee review, the credit summary is forwarded to the initiating Agency with the recommendation by the Authority's staff regarding loan authorization or denial, and the required security provisions for the loan.

The Authority provides management and oversight of their loans receivable. Included in this oversight and monitoring are formal credit analysis guidelines, monthly credit committee meetings, regular management reporting to the Authority's Board of Directors and frequent reviews by the Authority's Board Portfolio Risk Management Committee. Following the loan closing and completion of construction, the Authority monitors and ensures compliance by the Local Governments with the reporting requirements of their respective Agreements. Annually, the Local Government must submit to the Authority preliminary and final budgets, and any amendments as they occur; certificates from a consulting engineer or a certified public accountant as to the satisfaction of required rate coverage, if applicable; a financial audit, statements, notes and opinions; an auditor's Certificate of No Default and a Local Government's Certificate of No Default. Unless approved by the Authority for self-insurance, a Local Government must also maintain insurance coverage for its system, including full replacement coverage on the insurable portions of the system, comprehensive general liability insurance with a combined single limit of at least $1 million per year, and workers' compensation insurance.

Through an extensive weekly credit review and strong oversight from the Authority's Board Portfolio Risk Management Committee, the Authority is able to reduce its risk of default on loans at origination. Management works with the Fiscal and Administrative Division and their contracted financial advisors to conduct an annual review of all borrowers in VRA's loan portfolio. The review includes performing various liquidity ratios and reviewing rate covenant calculations on existing loans to identify any potential issues with loan repayments. As of June 30, 2010, all loan payments were current and there were no loans in default. In addition, there were no loans that were determined to have payment issues based on the annual review, therefore no allowance for loan losses was considered necessary. In the event management determines a material loss is anticipated, a provision for the loss will then be provided.

Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than $5,000 and an estimated useful life greater than 3 years. Such assets are recorded at historical cost and are depreciated over the useful life of the asset using the straight-line method. The Authority follows the Commonwealth's Accounting Policies and Procedures Manual (CAPP) for assigning estimated useful lives to its capital assets. The CAPP assigns an estimated useful life of 5 years to office equipment.

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 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 issuance expenses and loss of refinancing are shown on the accompanying statement of net assets as deferred charges and the amortization is included in the statement of revenues, expenses, and changes in net assets as a component of 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.

Arbitrage Rebate Liability

The U.S. Treasury has issued regulations on calculating the rebate due to the Federal government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Tax Reform Act of 1986. Arbitrage profits arise when the Authority temporarily invests the proceeds of tax exempt debt in securities with higher yields. The authority treats the estimated rebate payable as a reduction of available sources in the program that earned the arbitrage profit. Accordingly, interest earnings are reduced by the amount with a corresponding arbitrage rebate liability separately reported.

Net Assets

Components of net assets include the following:

Invested in capital assets amounts are those associated with non-liquid, capital assets, less any associated outstanding debt. As of June 30, 2010, none of the authority's capital assets had related debt outstanding.

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.

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

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*. There were no amounts that were uninsured or uncollateralized at June 30, 2010.

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, 2010, the Authority had the following cash equivalents and investments and maturities:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
Commercial Paper	$ 106,481,081	$ 106,481,081	$ -	$ -	$ -
Corporate Bonds and Notes	1,005,506	30,380	975,126	-	-
Guaranteed Investment Contracts	110,536,989	11,147,063	1,515,000	-	97,874,926
Local Government Investment Pool	102,348,936	102,348,936	-	-	-
Money Market Funds	20,729	20,729	-	-	-
Money Market Funds-Gov't Securities	14,406,147	14,406,147	-	-	-
Certificates of Deposit	63,577,945	60,733,200	2,844,745	-	-
U.S. Agency Securities	51,024,011	42,725,727	8,202,553	-	95,731
U.S. Treasury Securities	235,560,777	42,702,590	25,131,201	11,844,441	155,882,545
Totals	$ 684,962,121	$ 380,595,853	$ 38,668,625	$ 11,844,441	$ 253,853,202

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 "Aa" rating by Moody's or an "AA" by S&P. Asset-backed securities maturing in less than five years must have no less than a "AAA" 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 "Aa" by Moody's or "AA" by S&P. The various bond indentures require that bond fund investments, or any collateralizing securities, have no less than a "AA" rating by at least one nationally recognized rating agency.

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

At June 30, 2010, the Authority had the following cash equivalents and investments and ratings:

Investment	Fair Value	Standard & Poor's Rating	Percent of Portfolio
Prime Quality Commercial Paper	106,481,081	A-1+	15.55%
Corporate Bonds and Notes - AA+	83,608	AA+	0.01%
Corporate Bonds and Notes - AA	30,180	AA	0.00%
Corporate Bonds and Notes - AAA	891,718	AAA	0.13%
Guaranteed Investment Contracts	110,536,989	See below	16.14%
Local Government Investment Pool	102,348,936	AAAm	14.94%
Money Market Funds	20,729	AAAm	0.00%
Money Market Funds - Government Securities	14,406,147	AAAm	2.10%
Negotiable Certificate of Deposit *	63,577,945	AAA	9.28%
U.S. Agency Securities	51,024,011	AAA	7.45%
U.S. Treasury Securities	235,560,777	AAA	34.40%
Totals	$ 684,962,121		100.00%

* Negotiable Certificate of Deposits are fully collateralized with US Government Securities.

The Guaranteed Investment Contracts (GICs) that comprise 16.14% 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	$ 23,649,119	Aa2	3.45%
Salomon Smith Barney (Citigroup)	5,411,540	A3**	0.79%
FNMA	1,515,000	Aaa	0.22%
Calyon / Credit Agricole	11,147,063	Aa3	1.63%
FSA / Assured Guaranty	68,814,267	Aa3	10.05%
Totals	$ 110,536,989		16.14%

** Rating fell below approved level (Aa) and was collateralized with US Treasury and Agency securities in accordance with the Credit Risk Policy.

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 ($13,235,565 for Disbursement Funds, $680,457 for General Funds, and $490,125 for Bond Funds). The maximum percentage of the portfolio permitted in each security (by fund type) is as follows:

Disbursement Funds

Investment Type	Fair Value	Percent of Portfolio	Maximum
Agency Mortgage-Backed issued by U.S. Government or Federal Agencies	$ -	0%	25%
Asset Backed Securities of authorized corporations or Federal Agencies	-	0%	25%
Bankers' Acceptance	-	0%	25%
Prime Quality Commercial Paper	6,005,964	4%	25%
Corporate Bonds and Notes	-	0%	25%
Local Government Investment Pool	89,357,696	58%	100%
Money Market Funds	-	0%	10%
Negotiable Certificates of Deposit	-	0%	10%
U.S. Agency Securities	47,492,663	30%	100%
U.S. Treasury Securities	13,235,565	8%	100%
Totals	$ 156,091,888	100%	

Appropriated Funds

Investment Type	Fair Value	Percent of Portfolio	Maximum
Agency Mortgage-Backed issued by U.S. Government or Federal Agencies	$ -	0%	25%
Asset Backed Securities of authorized corporations or Federal Agencies	-	0%	25%
Bankers' Acceptance	-	0%	25%
Prime Quality Commercial Paper	-	0%	25%
Corporate Bonds and Notes	-	0%	25%
Local Government Investment Pool	10,984,717	100%	100%
Money Market Funds	-	0%	10%
Negotiable Certificates of Deposit	-	0%	10%
U.S. Agency Securities	-	0%	100%
U.S. Treasury Securities	-	0%	100%
Totals	$ 10,984,717	100%	

General Fund

Investment Type	**Fair Value**	**Percent of Portfolio**	**Maximum**
Agency Mortgage-Backed issued by U.S. Government or Federal Agencies	$ -	0%	25%
Asset Backed Securities of authorized corporations or Federal Agencies	-	0%	25%
Banker's Acceptance	-	0%	25%
Prime Quality Commercial Paper	1,077,932	8%	25%
Corporate Bonds and Notes	1,005,506	8%	25%
Local Government Investment Pool	1,824,801	13%	100%
Money Market Funds	-	0%	10%
Negotiable Certificates of Deposit	876,333	7%	10%
U.S. Agency Securities	3,531,348	26%	100%
U.S. Treasury Securities	5,051,663	38%	100%
Totals	$ 13,367,583	100%	

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

As of June 30, 2010, bond fund investments totaled $504,517,933. 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, 2010, 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, 2010, the Authority had the following investments and maturities:

Disbursement Funds

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
Prime Commercial Paper	$ 6,005,964	$ 6,005,964	$ -	$ -	$ -
Local Government Investment Pool	89,357,696	89,357,696	-	-	-
U.S. Agency Securities	13,235,565	13,235,565		-	-
U.S. Treasury Securities	47,492,663	41,331,488	6,161,175	-	-
	$ 156,091,888	$ 149,930,713	$ 6,161,175	$ -	$ -
Average maturity of all investments					33 Days

Appropriated Funds

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
Local Government Investment Pool	$ 10,984,717	$ 10,984,717	$ -	$ -	$ -
	$ 10,984,717	$ 10,984,717	$ -	$ -	$ -
Average maturity of all investments					1 Day

General Fund

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
Prime Commercial Paper	$ 1,077,932	$ 1,077,932	$ -	$ -	$ -
Corporate Bonds and Notes	1,005,506	30,380	975,126	-	-
Local Government Investment Pool	1,824,801	1,824,801	-	-	-
Negotiable Certificates of Deposit	876,333	876,333	-	-	-
U.S. Agency Securities	3,531,348	1,394,239	2,041,378	-	95,731
U.S. Treasury Securities	5,051,663	1,869,848	3,181,815	-	-
Totals	$ 13,367,583	$ 7,073,533	$ 6,198,319	$ -	$ 95,731
Average maturity of all investments					109 Days

Bond Fund

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
Prime Commercial Paper	$ 99,397,185	$ 99,397,185	$ -	$ -	$ -
Guaranteed Investment Contracts	110,536,989	11,147,063	1,515,000	-	97,874,926
Local Government Investment Pool	181,722	181,722	-	-	-
Money Market Funds	20,729	20,729	-	-	-
Negotiable Certificates of Deposit	62,701,612	59,856,867	2,844,745	-	-
U.S. Treasury Securities	231,679,696	42,003,324	21,949,386	11,844,441	155,882,545
	$ 504,517,933	$ 212,606,890	$ 26,309,131	$ 11,844,441	$ 253,757,471
Average maturity of all investments					2,287 Days

The Disbursement Funds include $6,161,175 of investments with maturities over one year and the General Fund includes $95,731 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, 2010, all of the Authority’s deposits and investments are held and insured by a qualified public depository in the Authority’s name.

4. Loans Receivable

The Authority has outstanding loans related to its bond issues, the VWFRF, VWSRF, 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, system-appropriate revenues, 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, 2010:

Loans receivable related to bond issues:	
Revenue Bonds	$ 1,413,962,642
Airport Revolving Fund Revenue Bonds	61,290,594
Unamortized discount/premium and cost of issuance – net	18,831,358
Subtotal – loans receivable related to bond issues	1,494,084,594
Loans receivable related to revolving loan funds:	
VWFRF	676,622,675
VWFRF – Leveraged	805,685,000
VWFRF – AgBMP	9,056,810
VWSRF	113,487,646
Subtotal – loans receivable related to revolving loan funds	1,604,852,131
Loans receivable related to ETF loans:	7,220,216
Total loans receivable	$ 3,106,156,941
Loans receivable – current	$ 147,080,667
Loans receivable – noncurrent	2,959,076,274
	$ 3,106,156,941

VPFP 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.

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.

Loans that are outstanding related to bond issuances have rates that range from 2.00% - 6.00% and final maturities that range from fiscal years 2011 to 2041.

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 2042 and accrue interest at various rates of interest ranging from 0% to 6.00%. 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, 2010, the Authority is also obligated under outstanding commitment letters and undisbursed loans to lend approximately:

Type	VWFRF	VWSRF	VARF
Committed, to be disbursed:			
Revolving fund	$ 101,400,975	$ 9,093,542	$ -
Leveraged bonds	186,391,446	-	-
Commitment letter only (loan or grant not closed)	32,135,786	2,270,921	500,000

There were no loan commitments related the Equipment and Term Financing Leases at June 30, 2010.

At June 30, 2010, there were no loan receivables that were in default and no allowance for loan losses has been provided. There were no losses incurred during 2010 or any other fiscal year.

5. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Office Equipment	$ 53,591	$ 17,775	$ 10,646	$ 60,720
less accumulated depreciation	51,779	2,109	10,646	43,242
Capital Assets, net	$ 1,812	$ 15,666	$ -	$ 17,478

Depreciation expense was $2,109 for the year ended June 30, 2010.

6. Bonds Payable

The authority had the following bonds payable outstanding as of June 30, 2010:

Description	Original Amount	Amount Outstanding
Revenue Bonds:		
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
Series 1999A, dated October 15, 1999, interest rates ranging from 4.00% to 5.80%, final due date October 1, 2024	4,500,000	3,355,000
Series 2000A, dated March 1, 2000, interest rates ranging from 4.10% to 5.80%, final due date May 1, 2030	36,535,000	3,060,000
Series 2000C, dated October 1, 2000, interest rates ranging from 4.70% to 5.00%, final due date October 1, 2021	4,640,000	3,325,000
Series 2001, dated October 1, 2001, interest rates ranging from 2.50% to 5.25%, final due date May 1, 2032; $1,265,000 of the bonds defeased in 2009; $6,895,000 of the bonds defeased in 2010	13,155,000	3,335,000
Series 2001A, dated June 28, 2001, interest rates ranging from 4.00% to 5.20%, final due date May 1, 2031; $14,540,000 of the bonds defeased in 2009	29,140,000	5,245,000
Series 2001D, dated December 14, 2001, interest rates ranging from 3.75% to 5.00%, final due date May 1, 2031; $19,260,000 of the bonds defeased in 2009; $17,110,000 of the bonds defeased in 2010	48,235,000	780,000
Series 2002 (Capital Appreciation Bonds), dated July 31, 2002, interest rates ranging from 4.14% to 5.59%, final due date November 1, 2031. Amount outstanding includes $13,209,025 accretion for capital appreciation bonds.	27,537,167	40,746,192
Series 2002 (Current Interest Bonds), dated July 31, 2002, interest rates ranging from 4.65% to 5.00%, final due date November 1, 2035.	35,210,000	34,085,000
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	13,820,000
Series 2002A, dated June 6, 2002, interest rates ranging from 3.00% to 5.13%, final due date May 1, 2027; $20,125,000 of the bonds defeased in 2010	42,845,000	8,995,000

Description	Original Amount	Amount Outstanding
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	$ 14,520,000
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	19,020,000
Series 2002D (AMT), dated December 5, 2002, interest rates ranging from 3.00% to 4.375%, final due date May 1, 2014; $1,530,000 of the bonds defeased in 2009; $2,980,000 of the bonds defeased in 2010	16,005,000	2,005,000
Series 2003 Senior (AMT), dated December 4, 2003, interest rates ranging from 2.25% to 5.00%, final due date November 1, 2011; $2,580,000 of the bonds defeased in 2009	9,490,000	1,285,000
Series 2003 Senior (Non-AMT), dated December 4, 2003, interest rates ranging from 2.00% to 5.00%, final due date November 1, 2033; $1,605,000 of the bonds defeased in 2009	53,790,000	44,230,000
Series 2003 Senior (Taxable), dated December 4, 2003, interest rates ranging from 1.410% to 4.570%, final due date November 1, 2011; $650,000 of the bonds defeased in 2009	2,375,000	325,000
Series 2003 Subordinate (AMT), dated December 4, 2003, interest rates ranging from 2.25% to 3.375%, final due date November 1, 2011; $545,000 of the bonds defeased in 2009; $375,000 of the bonds defeased in 2010	4,160,000	765,000
Series 2003 Subordinate (Non-AMT), dated December 4, 2003, interest rate ranging from 2.00% to 5.00%, final due date November 1, 2034; $700,000 of the bonds defeased in 2009	32,415,000	27,960,000
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	28,270,000
Series 2003B (AMT), dated May 21, 2003, interest rates ranging from 2.00% to 5.00%, final due date May 1, 2017; $2,125,000 of the bonds defeased in 2009; $18,795,000 of the bonds defeased in 2010	39,950,000	7,590,000
Series 2003C (Non-AMT), dated August 7, 2003, interest rates ranging from 2.00% to 5.00%, final due date November 1, 2018; $515,000 of the bonds defeased in 2009	15,555,000	9,185,000
Series 2004 Senior (Non-AMT), dated June 30, 2004, interest rates ranging from 4.00% to 5.125%, final due date November 1, 2033; $27,530,000 of the bonds defeased in 2009	60,630,000	28,060,000

Description	Original Amount	Amount Outstanding
Series 2004 Subordinate (Non-AMT), dated June 30, 2004, interest rates ranging from 4.00% to 5.125%, final due date November 1, 2034; $11,860,000 of the bonds defeased in 2009	$ 32,515,000	$ 18,650,000
Series 2004B Senior (AMT), dated October 28, 2004, interest rates ranging from 3.00% to 5.00%, final due date November 1, 2013; $985,000 of the bonds defeased in 2009; $2,645,000 of the bonds defeased in 2010	8,965,000	1,815,000
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	23,720,000
Series 2004B Subordinate (AMT), dated October 28, 2004, interest rates ranging from 3.00% to 3.85%, final due date November 1, 2013; $940,000 of the bonds defeased in 2009; $1,020,000 of the bonds defeased in 2010	4,095,000	470,000
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	11,785,000
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	12,380,000
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	5,615,000
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	17,755,000
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	7,660,000
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	5,180,000
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	32,050,000
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	2,230,000
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	14,185,000

Description	Original Amount	Amount Outstanding
Series 2006A Senior (AMT), dated June 8, 2006, interest rates ranging from 4.00% to 5.00%, final due date November 1, 2013; $7,955,000 of the bonds defeased in 2010	$ 9,955,000	$ 2,000,000
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	44,865,000
Series 2006A Senior (Taxable), dated June 8, 2006, interest rates ranging from 5.52% to 5.59%, final due date November 1, 2013; $2,105,000 of the bonds defeased in 2010	2,450,000	345,000
Series 2006A Subordinate (AMT), dated June 8, 2006, interest rate of 5.00%, final due date November 1, 2013; $4,040,000 of the bonds defeased in 2010	4,290,000	250,000
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	23,860,000
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	16,600,000
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	7,700,000
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	42,315,000
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	21,045,000
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	25,675,000
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	12,610,000
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	7,045,000

Description	Original Amount	Amount Outstanding
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	$ 37,160,000
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	3,035,000
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	17,820,000
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	46,325,000
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	21,365,000
Series 2008B Senior (Non-AMT), dated December 10, 2008, interest rates ranging from 3.00% to 5.125%, final due date November 1, 2038	147,495,000	144,586,450
Series 2008B Subordinate (Non-AMT), dated December 10, 2008, interest rates ranging from 3.00% to 5.25%, final due date November 1, 2038	67,945,000	67,015,000
Series 2009A Senior (ACE), dated June 17, 2009, interest rates ranging from 4.00 to 5.00%, final due date November 1, 2039	42,440,000	41,760,000
Series 2009A Senior (Non-ACE), dated June 17, 2009, interest rates ranging from 4.00 to 5.00%, final due date November 1, 2039	76,985,000	76,985,000
Series 2009A Senior (Taxable), dated June 17, 2009, interest rates ranging from 4.00 to 5.00%, final due date November 1, 2039; $41,800,000 of the bonds was defeased in 2010	50,780,000	8,980,000
Series 2009A Subordinate (ACE), dated June 17, 2009, interest rates ranging from 4.00 to 5.00%, final due date November 1, 2039	18,915,000	18,655,000

Description	Original Amount	Amount Outstanding
Series 2009A Subordinate (Non-ACE), dated June 17, 2009, interest rates ranging from 4.00 to 5.00%, final due date November 1, 2039	$ 42,985,000	$ 42,985,000
Series 2009A Subordinate (Taxable), dated June 17, 2009, interest rates ranging from 4.00 to 5.00%, final due date November 1, 2039	21,765,000	21,765,000
Series 2009B Infrastructure Revenue Bonds (Tax-Exempt), dated November 19, 2009, interest rates ranging from 2.00 to 5.00%, final due date November 1, 2030.	82,175,000	82,175,000
Series 2009B Infrastructure Revenue Bonds (Taxable - Build America Bonds), dated November 19, 2009, interest rates ranging from 4.97 to 5.70%, final due date November 1, 2039.	45,180,000	45,180,000
Series 2009B State Moral Obligation (Tax-Exempt), dated November 19, 2009, interest rates ranging from 2.00 to 5.00%, final due date November 1, 2030.	38,190,000	38,190,000
Series 2009B State Moral Obligation Bonds (Taxable - Build America Bonds), dated November 19, 2009, interest rates ranging from 5.22 to 6.00%, final due date November 1, 2039.	20,785,000	20,785,000
Series 2010A Infrastructure Revenue Bonds, dated June 17, 2010, interest rates ranging from 2.00 to 5.00%, final due date November 1, 2040.	50,470,000	50,470,000
Series 2010A State Moral Obligation, dated June 17, 2010, interest rates ranging from 2.00 to 5.00%, final due date November 1, 2040.	23,170,000	23,170,000
Airport Revolving Fund Revenue Bonds:		
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	21,930,000
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	19,595,000
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	3,925,000

Description	Original Amount	Amount Outstanding
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	$ 2,050,000
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	1,755,000
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	7,710,000
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	3,245,000
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	5,145,000
Virginia Water Facilities Revolving Fund Leveraged:		
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	143,275,000
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
Series 2008 CWSRF, dated August 14, 2008, interest rates ranging from 3.34% to 5.00%, final due date October 1, 2031	181,280,000	181,280,000
Series 2009 CWSRF, dated April 15, 2009, interest rates ranging from 3.00% to 5.00%, final due date October 1, 2031	178,320,000	178,320,000
Series 2010A CWSRF (Refunding), dated April 21, 2010 interest rates ranging from 3.00% to 5.00%, final due date October 1, 2026	94,410,000	94,410,000
Series 2010B CWSRF, dated April 21, 2010, interest rates ranging from 2.25% to 5.00%, final due date October 1, 2031	98,785,000	98,785,000
Series 2010A Clean Water State Match, dated April 21, 2010 interest rate stated at 1.00%, final due date April 1, 2011	8,345,000	8,345,000
Total bonds at June 30		2,481,612,642
Unamortized discounts/premiums		103,943,520
Total bonds – net		$ 2,585,556,162

Total bonds outstanding as of June 30:	$ 2,481,612,642
Unaccreted Capital Appreciation Bonds as of June 30	43,608,808
Total outstanding maturities	$ 2,525,221,450
Bonds payable – current	$ 102,468,900
Bonds payable – noncurrent	2,483,087,262
	$ 2,585,556,162

Activity in the bonds payable and related accounts for fiscal year 2010 was as follows:

Description	Balance at June 30, 2009	Issued	Retired	Balance at June 30, 2010	Amount Due Within One Year
Total bonds outstanding	$ 2,388,011,149	$ 461,510,000	$ (367,908,507)	$ 2,481,612,642	$ 93,828,450
Unamortized discounts / premiums	78,414,412	37,880,408	(12,351,300)	103,943,520	8,640,450
	$ 2,466,425,561	$ 499,390,408	$(380,259,807)	$ 2,585,556,162	$102,468,900

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, 2010, $669,831,192 of outstanding bonds was 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 $1.5 billion may be outstanding at any time.

The Series 2002 Water and Sewer Revenue Bonds have Capital Appreciation Bonds with unaccreted values of $43,608,808, as of June 30, 2010.

Advance Refundings

During the current year, the Authority issued bond series 2010A and 2009B, 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 certain maturities on 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:

Issue	Principal Defeased	Difference between Previous and New Debt Service	Economic Gain (Loss) as a Result of the Refunding
2000B Series	$ 3,170,000	508,057	356,803
2001 Series	6,895,000	495,306	300,399
2001D Series	17,110,000	2,484,574	1,447,201
2002A Series	20,125,000	1,344,040	914,056
CWSRF Series 2004	137,740,000	20,261,953	4,308,373
	$ 185,040,000	$ 25,093,930	$ 7,326,832

The amount outstanding at June 30, 2010 for bonds which have been in-substance defeased or refunded was $458,353,550. In addition to the refundings noted above, this includes bonds that were in-substance defeased during the current and prior years: 1998 Series C, CWSRF 1999 and 2000, 2000 Series A, 2000 Series B, 2001 Series, 2001 Series B, 2002 Series C, 2002 Series D, 2002 Series E, 2003 Series, 2003 Series B, 2003 Series C, 2004 Series A, 2004 Series B, 2006 Series A, 2008 Series B, 2009 Series A.

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

June 30,	Principal	Interest	Total
2011	93,828,450	114,352,667	208,181,117
2012	96,083,450	111,484,632	207,568,082
2013	104,236,100	107,279,731	211,515,831
2014	111,123,450	102,916,242	214,039,692
2015	117,330,000	98,257,756	215,587,756
2016-2020	631,470,000	406,567,664	1,038,037,664
2021-2025	566,280,000	263,858,335	830,138,335
2026-2030	513,395,000	133,368,394	646,763,394
2031-2035	223,675,000	41,982,563	265,657,563
2036-2040	66,910,000	6,067,541	72,977,541
2041	890,000	20,563	910,563
Total	$ 2,525,221,450	$ 1,386,156,088	$ 3,911,377,538

7. 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, 2010 the cash, cash equivalents, and investments restricted for use related to the Operating Reserve Fund amounted to $7,247,901.

8. Other Noncurrent Liabilities

Under the ETF program, VRA entered into various loan agreements with a banking partner in order to enhance financing options for terms of up to fifteen years. Rates on the loans range from 2.01% to 3.25% with maturities ranging from fiscal years 2012 to 2019. The associated loan liability is presented separately in the financial statements.

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. VRA contracts with arbitrage rebate specialists to perform the arbitrage rebate calculations which are performed on an annual basis.

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 $2,202,464 at June 30, 2010 ($174,762 was considered to be current).

The Authority provides for accumulation of Paid Time Off (PTO) leave with a maximum accumulation of up to 520 hours of unused PTO leave. The Authority provides 160 hours of annual PTO leave which is accrued at the end of each pay period. Employees are paid for unused, earned PTO (or compensatory time) at termination based on years of service, with a maximum pay out of 160 hours. Individuals employed by VRA as of August 1, 2010 are not subjected to the payout cap of 160 hours, but are subjected to a cap of 340 hours of combined PTO.

As of June 30, 2010 an accrual for employee compensated absences in the amount of $105,825 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 2010:

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010	Due Within one year
Loans Payable	$ 28,847,600	$ -	$21,622,435	$ 7,225,165	$ 1,557,000
Arbitrage Rebate Liability	3,186,799	678,567	236,794	3,628,572	262,098
Deferred revenue	1,938,246	631,699	367,481	2,202,464	174,762
Accrued leave	55,532	83,525	33,232	105,825	105,825

9. Contributions from Other Governments

During the year the Authority received $29,944,468 from the EPA under the Capitalization Grants for State Revolving Funds and $34,127,594 from the EPA under the American Recovery and Reinvestment Act (ARRA) 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 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 $4,733,850 from the Commonwealth as the required state match of federal funds.

10. 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, 2010 was 12.54% of the annual covered payroll.

C. Annual Pension Cost

For fiscal year 2010, the Authority's annual pension cost of $98,593 was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) 7.5% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) 2.50%

per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of payroll, on an open basis within a period of 20 years.

Trend information for the Authority is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	$ 70,295	100%	-
June 30, 2009	$ 96,905	100%	-
June 30, 2010	$ 98,593	100%	-

D. Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was 92.80% funded. The actuarial accrued liability for benefits was $363,969 and the actuarial value of assets was $337,753, resulting in an unfunded actuarial accrued liability (UAAL) of $26,216. The covered payroll (annual payroll of active employees covered by the plan) was $745,129 and the ratio of the UAAL to the covered payroll was 3.52%.

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.

11. Contingencies

The Authority participates in the Capitalization Grants for State Revolving Funds. Although the Authority's administration of the program has been audited in accordance with the *U.S. Office of Management and Budget Circular A-133* through June 30, 2010, 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.

12. Leases

The Authority leases its corporate office space under an operating lease. Rental expense totaled $99,737 for the year ended June 30, 2010. The future minimum rental payments are as follows:

Year ending June 30,	Amount
2011	$ 110,618
2012	113,383
2013	116,218
2014	119,123
2015	122,102
2016	125,154
2017	117,348
	$ 823,946

13. Subsequent Events

Subsequent to June 30, 2010, the Virginia Pooled Financing Program issued bonds in the amount of $41,230,000, dated August 18, 2010. The interest rates range from 3.1% to 5% with a final due date of November 1, 2040.

* * * *

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, 2009	$ 337,753	$ 363,969	$ 26,216	92.80%	$ 745,129	3.52%
June 30, 2008	221,677	347,810	126,134	63.73%	653,769	19.29%
June 30, 2007	137,433	222,832	85,399	61.68%	722,277	11.82%

Virginia Resources Authority

Combining Schedule of Net Assets
June 30, 2010

	General Accounts	Virginia Revolving Loan Fund Accounts – Water Facilities	Virginia Revolving Loan Fund Accounts – Water Supply	Airport Accounts	Bond Accounts	Dam Safety Accounts	Equipment & Term Financing	Total
Assets								
Current assets								
Cash	$ 430,738	$ 7,558,683	$ 2,456,168	$ -	$ 12	$ -	$ -	$ 10,445,601
Cash equivalents	3,583,191	183,787,268	25,051,027	9,211,258	347,964	3,991,147	-	225,971,855
Investments	3,490,342	145,742,052	4,923,392	186,099	282,113	-	-	154,623,998
Loans receivable - current portion	-	80,300,706	4,651,200	3,527,770	57,048,940	-	1,552,051	147,080,667
Receivables:								-
Investment interest	73,604	2,208,079	4,989	275,500	385,932	-	-	2,948,104
Loan interest	-	16,451,035	187,449	231,858	10,411,900	-	64,146	27,346,388
Loan administrative fees	-	718,279	14,758	-	270,431	-	5,876	1,009,344
Federal funds	-	6,505,954	159,438	-	-	-	-	6,665,392
Other	31,779	5,750	-	-	-	-	-	37,529
Deferred charges - current portion	-	2,804,887	-	97,158	2,489,235	-	-	5,391,280
Other	14,357	-	-	-	-	-	-	14,357
Total current assets	7,624,011	446,082,693	37,448,421	13,529,643	71,236,527	3,991,147	1,622,073	581,534,515
Noncurrent assets								
Investments	6,294,050	217,536,559	-	24,177,288	56,358,371	-	-	304,366,268
Loans receivable - less current - net	-	1,411,063,779	108,836,446	57,762,824	1,375,745,060	-	5,668,165	2,959,076,274
Deferred charges - less current - net	-	23,082,152	-	752,549	20,946,240	-	-	44,780,941
Furniture and fixtures - at cost - less accumulated depreciation	9,613	5,768	2,097	-	-	-	-	17,478
Total noncurrent assets	6,303,663	1,651,688,258	108,838,543	82,692,661	1,453,049,671	-	5,668,165	3,308,240,961
Total assets	13,927,674	2,097,770,951	146,286,964	96,222,304	1,524,286,198	3,991,147	7,290,238	3,889,775,476
Liabilities								
Current liabilities								
Loans payable - current portion	-	-	-	-	-	-	1,557,000	1,557,000
Bonds payable - current portion	-	38,899,284	-	3,505,000	60,064,616	-	-	102,468,900
Accrued interest on bonds payable	-	10,710,063	-	1,355,589	10,837,740	-	64,146	22,967,538
Arbitrage rebate liability	-	262,098	-	-	-	-	-	262,098
Due to (from) other accounts	(185,727)	47,466	160,376	(48,042)	-	25,000	927	-
Deferred revenue - current portion	-	96,041	-	3,672	75,049	-	-	174,762
Accounts payable and other liabilities	510,707	183,695	97,045	122,489	-	-	-	913,936
Total current liabilities	324,980	50,198,647	257,421	4,938,708	70,977,405	25,000	1,622,073	128,344,234
Noncurrent liabilities								
Loans payable - less current - net	-	-	-	-	-	-	5,668,165	5,668,165
Bonds payable - less current - net	-	966,901,063	-	61,850,000	1,454,336,199	-	-	2,483,087,262
Deferred revenue - less current - net	-	912,130	-	29,582	1,085,990	-	-	2,027,702
Arbitrage rebate liability	-	3,366,474	-	-	-	-	-	3,366,474
Total noncurrent liabilities	-	971,179,667	-	61,879,582	1,455,422,189	-	5,668,165	2,494,149,603
Total liabilities	324,980	1,021,378,314	257,421	66,818,290	1,526,399,594	25,000	7,290,238	2,622,493,837
Net assets								
Invested in capital assets	9,613	5,768	2,097	-	-	-	-	17,478
Restricted:								
Loan Programs	-	1,076,386,869	146,027,446	29,404,014	(2,113,396)	3,966,147	-	1,253,671,080
Operating Reserve	7,247,901	-	-	-	-	-	-	7,247,901
Unrestricted	6,345,180	-	-	-	-	-	-	6,345,180
Total net assets	$ 13,602,694	$ 1,076,392,637	$ 146,029,543	$ 29,404,014	$ (2,113,396)	$ 3,966,147	$ -	$ 1,267,281,639

Virginia Resources Authority

Combining Schedule of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2010

	General Accounts	Virginia Revolving Loan Fund Accounts: Water Facilities	Virginia Revolving Loan Fund Accounts: Water Supply	Airport Accounts	Bond Accounts	Dam Safety Accounts	Equipment & Term Financing	Total
Operating revenues								
Interest on loans	$ -	$ 40,056,360	$ 745,184	$ 2,771,858	$ 65,194,240	$ -	$ 546,965	$ 109,314,607
Investment income	249,198	14,834,533	102,726	1,113,223	2,259,789	10,591	-	18,570,060
Bond administrative fees	-	93,012	-	3,856	2,158,019	-	-	2,254,887
Loan administrative fees	-	1,039,583	64,702	61,477	-	-	20,676	1,186,438
Administrative reimbursement	-	-	189,254	-	-	-	-	189,254
Administrative reimbursement - ARRA	-	6,028	170,000	-	-	-	-	176,028
Gain on early extinguishment of loans	-	-	-	-	7,400,293	-	-	7,400,293
Other income	4,286	90,887	-	2,807	-	-	167,640	265,620
Total operating revenues	253,484	56,120,403	1,271,866	3,953,221	77,012,341	10,591	735,281	139,357,187
Operating expenses								
Interest on bonds and loans	-	45,147,378	-	3,367,601	67,549,178	-	546,965	116,611,122
Grants to local governments	-	3,815,603	2,687,223	-	-	2,330	-	6,505,156
Principal forgiveness loans	-	25,861,124	6,046,006	-	-	-	-	31,907,130
Loss on early extinguishment of bonds	-	-	-	-	7,304,297	-	-	7,304,297
Personnel services	622,609	333,953	209,769	21,214	-	12,359	-	1,199,904
General operating	303,051	186,418	61,878	23,921	-	3,374	167,640	746,282
Contractual services	647,592	214,340	109,887	22,938	-	11,060	-	1,005,817
Total operating expenses	1,573,252	75,558,816	9,114,763	3,435,674	74,853,475	29,123	714,605	165,279,708
Operating income (loss)	(1,319,768)	(19,438,413)	(7,842,897)	517,547	2,158,866	(18,532)	20,676	(25,922,521)
Nonoperating revenue								
Contributions from other governments	-	25,857,990	8,820,328	-	-	1,200,000	-	35,878,318
Contributions from other governments - ARRA	-	25,861,124	8,266,470	-	-	-	-	34,127,594
Interest subsidy - Build America Bonds	-	-	-	-	792,293	-	-	792,293
Nonoperating expense								
Interest subsidy pass-through - Build America Bonds	-	-	-	-	(774,681)	-	-	(774,681)
Income (loss) before transfers	(1,319,768)	32,280,701	9,243,901	517,547	2,176,478	1,181,468	20,676	44,101,003
Operating transfers	2,474,826	11,369	(11,128)	-	(2,454,391)	-	(20,676)	-
Change in net assets	1,155,058	32,292,070	9,232,773	517,547	(277,913)	1,181,468	-	44,101,003
Total net assets - beginning	12,447,636	1,044,100,567	136,796,770	28,886,467	(1,835,483)	2,784,679	-	1,223,180,636
Total net assets - ending	$ 13,602,694	$ 1,076,392,637	$ 146,029,543	$ 29,404,014	$ (2,113,396)	$ 3,966,147	$ -	$ 1,267,281,639

Combining Schedule of Cash Flows
Year Ended June 30, 2010

	General Accounts	Virginia Revolving Loan Fund Accounts: Water Facilities	Virginia Revolving Loan Fund Accounts: Water Supply	Airport Accounts	Bond Accounts	Dam Safety Accounts	Equipment & Term Financing	Total
Cash flows from operating activities								
Cash payments to localities for loans	$ -	$ (292,028,330)	$ (8,371,904)	$ -	$ (266,321,715)	$ -	$ -	$ (566,721,949)
Principal repayments from localities on loans	-	69,047,081	4,299,619	3,497,811	211,223,550	-	21,627,384	309,695,445
Interest received on loans	-	32,115,562	748,712	2,868,119	62,274,884	-	858,262	98,865,539
Bond administrative fees received	-	-	-	-	2,038,204	-	-	2,038,204
Loan administrative fees received	-	783,637	66,517	35,988	-	-	21,073	907,215
Federal administrative reimbursement funds received	-	-	138,104	-	-	-	-	138,104
Federal administrative reimbursement funds received - ARRA	-	6,028	66,024	-	-	-	-	72,052
Cash received from other income	6,283	90,887	-	-	-	-	167,640	264,810
Cash payments for salaries and related benefits	(459,487)	(333,953)	(209,770)	(21,214)	-	(12,359)	-	(1,036,783)
Cash payments for contractual services	(514,382)	(214,340)	(109,887)	(22,938)	-	(11,060)	-	(872,607)
Cash payments for general operating expenses	(266,154)	(185,995)	(57,038)	(21,114)	-	(3,374)	(167,640)	(701,315)
Cash payments for operating grants	-	(3,815,602)	(2,687,223)	-	-	(2,330)	-	(6,505,155)
Cash payments for principal forgiveness loans		(25,861,124)	(6,046,006)					(31,907,130)
Interest paid on loans	-	-	-	-	-	-	(858,262)	(858,262)
Interest paid on bonds	-	(43,103,800)	-	(3,325,092)	(64,624,152)	-	-	(111,053,044)
Interfund activity	447,457	4,050	103,318	(38,437)	(531,380)	20,338	(5,346)	-
Net cash provided by (used in) operating activities	(786,283)	(263,495,899)	(12,059,534)	2,973,123	(55,940,609)	(8,785)	21,643,111	(307,674,876)
Cash flows from noncapital financing activities								
Proceeds from sale of bonds	-	220,886,789	-	-	274,620,320	-	-	495,507,109
Principal paid on loans	-	-	-	-	-	-	(21,622,435)	(21,622,435)
Principal paid on bonds	-	(15,165,000)	-	(3,410,000)	(213,608,550)	-	-	(232,183,550)
Cash paid to escrow for refunded bonds		(152,717,114)						(152,717,114)
Arbitrage rebate		(179,018)						(179,018)
Proceeds from interest subsidy - Build America Bonds	-	-	-	-	578,160	-	-	578,160
Cash payments to localities for interest subsidy	-	-	-	-	(565,308)	-	-	(565,308)
Contributions from other governments	-	20,362,918	8,800,261	-	-	1,200,000	-	30,363,179
Contributions from other governments - ARRA		25,235,244	8,337,617					33,572,861
Cash received (paid) from other accounts	2,474,826	11,369	(11,128)	-	(2,454,391)	-	(20,676)	-
Net cash provided by (used in) noncapital financing activities	2,474,826	98,435,188	17,126,750	(3,410,000)	58,570,231	1,200,000	(21,643,111)	152,753,884
Cash flows from capital and financing related activities								
Purchase of office equipment	(9,776)	(5,866)	(2,133)	-	-	-	-	(17,775)
Net cash used in noncapital financing activities	(9,776)	(5,866)	(2,133)	-	-	-	-	(17,775)
Cash flows from investing activities								
Purchase of investments	(4,611,761)	(404,609,883)	(8,970,491)	(4,871,284)	(7,913,054)	-	-	(430,976,473)
Proceeds from sales or maturities of investments	4,123,020	348,283,197	9,121,547	5,592,405	2,593,605	-	-	369,713,774
Interest received on investments - net	376,361	17,014,781	113,755	1,111,947	2,164,264	10,591	-	20,791,699
Net cash provided by (used in) investing activities	(112,380)	(39,311,905)	264,811	1,833,068	(3,155,185)	10,591	-	(40,471,000)
Net increase (decrease) in cash and cash equivalents	1,566,387	(204,378,482)	5,329,894	1,396,191	(525,563)	1,201,806	-	(195,409,767)
Cash and cash equivalents								
Beginning of year	2,447,542	395,724,433	22,177,301	7,815,067	873,539	2,789,341	-	431,827,223
End of year	$ 4,013,929	$ 191,345,951	$ 27,507,195	$ 9,211,258	$ 347,976	$ 3,991,147	$ -	$ 236,417,456

Virginia Resources Authority

Combining Schedule of Cash Flows (Continued)
Year Ended June 30, 2010

	General Accounts	Virginia Revolving Loan Fund Accounts – Water Facilities	Virginia Revolving Loan Fund Accounts – Water Supply	Airport Accounts	Bond Accounts	Dam Safety Accounts	Equipment & Term Financing	Total
Reconciliation of operating income (loss) to net cash used in operating activities								
Operating income (loss)	$ (1,319,768)	$ (19,438,413)	$ (7,842,897)	$ 517,547	$ 2,158,866	$ (18,532)	$ 20,676	$ (25,922,521)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	1,415	421	273	-	-	-	-	2,109
Interest on investments	(249,198)	(14,834,533)	(102,726)	(1,113,223)	(2,259,789)	(10,591)	-	(18,570,060)
Gain on early extinguishment of loans					(7,400,293)			(7,400,293)
Loss on early extinguishment of bonds					7,304,297			7,304,297
Interest on loans	-	-		-	-	-	(317,801)	(317,801)
Interest on bonds, amortization and accretion - net	-	(4,255,138)		(59,733)	489,638	-	-	(3,825,233)
Change in operating assets and liabilities								
Loans receivables	-	(222,883,190)	(4,072,286)	3,497,811	(56,486,197)	-	21,627,384	(258,316,478)
Loan interest receivable	-	(3,713,493)	3,698	70,773	(1,546,635)	-	317,801	(4,867,856)
Loan administrative fee receivable	-	(255,946)	1,815	-	(46,355)	-	397	(300,089)
Other receivables	1,997	-	(141,787)	-	-	-	-	(139,790)
Deferred charges	-	1,973,355	-	102,241	2,450,699	-	-	4,526,295
Other current assets	8,054	-	-	-	-	-	-	8,054
Accounts payable and other liabilities	323,760	-	(8,942)	-	-	-	-	314,818
Deferred revenue	-	(93,012)	-	(3,856)	(73,460)	-	-	(170,328)
Due to (from) other funds	447,457	4,050	103,318	(38,437)	(531,380)	20,338	(5,346)	-
Total adjustments	533,485	(244,057,486)	(4,216,637)	2,455,576	(58,099,475)	9,747	21,622,435	(281,752,355)
Net cash provided by (used in) operating activities	$ (786,283)	$ (263,495,899)	$ (12,059,534)	$ 2,973,123	$ (55,940,609)	$ (8,785)	$ 21,643,111	$ (307,674,876)

Virginia Resources Authority

Combining Schedule of Net Assets
Virginia Revolving Loan Fund Accounts - Water Facilities
June 30, 2010

	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	$ 3,861,488	$ -	$ 1,955,426	$ -	$ 106,964	$ 1,634,805	$ 7,558,683
Cash equivalents	72,718,333	99,032,214	5,499,338	5,590,370	947,013	-	183,787,268
Investments	33,411,913	102,109,989	1,796,336	-	8,423,814	-	145,742,052
Loans receivable - current portion	49,594,867	27,254,569	3,409,552	-	41,718	-	80,300,706
Receivables:							
Investment interest	71,256	2,129,131	1,409	-	6,283	-	2,208,079
Loan interest	3,951,523	12,426,956	72,556	-		-	16,451,035
Loan administrative fees	-	-	-	-		718,279	718,279
Federal funds	6,505,954	-	-	-		-	6,505,954
Other	5,750	-	-	-		-	5,750
Deferred charges - current portion	-	2,761,986	-	-	42,901	-	2,804,887
Total current assets	170,121,084	245,714,845	12,734,617	5,590,370	9,568,693	2,353,084	446,082,693
Noncurrent assets							
Investments	6,161,175	211,375,384	-	-		-	217,536,559
Loans receivable - less current - net	626,975,877	778,430,431	5,647,258	-	10,213	-	1,411,063,779
Deferred charges - less current - net	-	23,082,152	-	-	-	-	23,082,152
Furniture and fixtures - at cost - less accumulated depreciation	5,768	-	-	-	-	-	5,768
Total noncurrent assets	633,142,820	1,012,887,967	5,647,258	-	10,213	-	1,651,688,258
Total assets	803,263,904	1,258,602,812	18,381,875	5,590,370	9,578,906	2,353,084	2,097,770,951
Liabilities							
Current liabilities							
Bonds payable - current portion	-	30,515,730	-	-	8,383,554	-	38,899,284
Accrued interest on bonds payable	-	10,694,671	-	-	15,392	-	10,710,063
Arbitrage rebate liability	-	262,098	-	-	-	-	262,098
Due to other accounts	47,466	-	-	-	-	-	47,466
Deferred revenue - current portion	-	87,645	-	-	8,396	-	96,041
Accounts payable and other liabilities	-	178,030	-	-	5,665	-	183,695
Total current liabilities	47,466	41,738,174	-	-	8,413,007	-	50,198,647
Noncurrent liabilities							
Bonds payable - less current - net	-	966,901,063	-	-	-	-	966,901,063
Deferred revenue - less current - net	-	912,130	-	-	-	-	912,130
Arbitrage rebate liability	-	3,366,474	-	-	-	-	3,366,474
Total noncurrent liabilities	-	971,179,667	-	-	-	-	971,179,667
Total liabilities	47,466	1,012,917,841	-	-	8,413,007	-	1,021,378,314
Net assets							
Invested in capital assets	5,768						5,768
Restricted:							
Loan Programs	803,210,670	245,684,971	18,381,875	5,590,370	1,165,899	2,353,084	1,076,386,869
Total net assets	$ 803,216,438	$ 245,684,971	$ 18,381,875	$ 5,590,370	$ 1,165,899	$ 2,353,084	$ 1,076,392,637

Virginia Resources Authority

Combining Schedule of Revenues, Expenses, and Changes in Net Assets
Virginia Revolving Loan Fund Accounts - Water Facilities
Year Ended June 30, 2010

	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	$ 14,756,460	$ 25,053,277	$ 246,623	$ -	$ -	$ -	$ 40,056,360
Investment income	458,872	14,306,776	25,929	26,723	16,233	-	14,834,533
Bond administrative fees	-	90,977	-	-	2,035	-	93,012
Loan administrative fees	-	-	-	-	-	1,039,583	1,039,583
Administrative reimbursement - ARRA	6,028	-	-	-	-	-	6,028
Other income	89,802	-	1,085	-	-	-	90,887
Total operating revenues	15,311,162	39,451,030	273,637	26,723	18,268	1,039,583	56,120,403
Operating expenses							
Interest on bonds	-	45,130,933	-	-	16,445	-	45,147,378
Grants to local governments	-	-	-	3,815,603	-	-	3,815,603
Principal forgiveness loans	25,861,124	-	-	-	-	-	25,861,124
Personnel services	333,953	-	-	-	-	-	333,953
General operating	175,711	-	5,301	4,314	1,092	-	186,418
Contractual services	214,340	-	-	-	-	-	214,340
Total operating expenses	26,585,128	45,130,933	5,301	3,819,917	17,537	-	75,558,816
Operating income (loss)	(11,273,966)	(5,679,903)	268,336	(3,793,194)	731	1,039,583	(19,438,413)
Nonoperating revenue							
Contributions from other governments	23,074,490	-	-	-	2,783,500	-	25,857,990
Contributions from other governments - ARRA	25,861,124	-	-	-	-	-	25,861,124
Income (loss) before transfers	37,661,648	(5,679,903)	268,336	(3,793,194)	2,784,231	1,039,583	32,280,701
Operating transfers	(8,160,515)	12,255,745	-	-	(3,655,022)	(428,839)	11,369
Change in net assets	29,501,133	6,575,842	268,336	(3,793,194)	(870,791)	610,744	32,292,070
Total net assets - beginning	773,715,305	239,109,129	18,113,539	9,383,564	2,036,690	1,742,340	1,044,100,567
Total net assets - ending	$ 803,216,438	$ 245,684,971	$ 18,381,875	$ 5,590,370	$ 1,165,899	$ 2,353,084	$ 1,076,392,637

Combining Schedule of Cash Flows
Virginia Revolving Loan Fund Accounts - Water Facilities
Year Ended June 30, 2010

	Direct Loan Accounts	Leveraged Loan Accounts	Agricultural Best Management Practices Account	Combined Sewer Overflow Fund Account	Investment Fund Accounts	Administrative Fee Accounts	Total
Cash flows from operating activities							
Cash payments to localities for loans	$ (67,687,348)	$ (222,657,986)	$ (1,682,996)	$ -	$ -	$ -	$ (292,028,330)
Principal repayments from localities on loans	45,758,770	19,965,730	3,249,357	-	73,224	-	69,047,081
Interest received on loans	14,942,102	16,925,202	248,258	-	-	-	32,115,562
Loan administrative fees received	-	-	-	-	-	783,637	783,637
Federal administrative reimbursement funds received - ARRA	6,028	-	-	-	-	-	6,028
Cash received from other income	89,802	-	1,085	-	-	-	90,887
Cash payments for salaries and related benefits	(333,953)	-	-	-	-	-	(333,953)
Cash payments for contractual services	(214,340)	-	-	-	-	-	(214,340)
Cash payments for general operating expenses	(175,289)	-	(5,301)	(4,315)	(1,090)	-	(185,995)
Cash payments for operating grants	-	-	-	(3,815,602)	-	-	(3,815,602)
Cash payments for principal forgiveness loans	(25,861,124)	-	-	-	-	-	(25,861,124)
Interest paid on bonds	-	(43,103,800)	-	-	-	-	(43,103,800)
Interfund activity	4,050	-	-	-	-	-	4,050
Net cash provided by (used in) operating activities	(33,471,302)	(228,870,854)	1,810,403	(3,819,917)	72,134	783,637	(263,495,899)
Cash flows from noncapital financing activities							
Proceeds from sale of bonds	-	212,531,093	-	-	8,355,696	-	220,886,789
Principal paid on bonds	-	(15,165,000)	-	-	-	-	(15,165,000)
Cash paid to escrow for refunded bonds	-	(152,717,114)	-	-	-	-	(152,717,114)
Arbitrage rebate	-	(179,018)	-	-	-	-	(179,018)
Contributions from other governments	17,579,418	-	-	-	2,783,500	-	20,362,918
Contributions from other governments - ARRA	25,235,244	-	-	-	-	-	25,235,244
Cash received (paid) from other accounts	(8,160,515)	12,255,745	-	-	(3,655,022)	(428,839)	11,369
Net cash provided by (used in) noncapital financing activities	34,654,147	56,725,706	-	-	7,484,174	(428,839)	98,435,188
Cash flows from capital and financing related activities							
Purchase of office equipment	(5,866)	-	-	-	-	-	(5,866)
Net cash used in noncapital financing activities	(5,866)	-	-	-	-	-	(5,866)
Cash flows from investing activities							
Purchase of investments	(62,326,699)	(330,663,979)	(3,195,390)	-	(8,423,815)	-	(404,609,883)
Proceeds from sales or maturities of investments	63,800,481	281,391,434	3,091,282	-	-	-	348,283,197
Interest received on investments - net	542,473	16,406,265	29,370	26,723	9,950	-	17,014,781
Net cash provided by (used in) investing activities	2,016,255	(32,866,280)	(74,738)	26,723	(8,413,865)	-	(39,311,905)
Net increase (decrease) in cash and cash equivalents	3,193,234	(205,011,428)	1,735,665	(3,793,194)	(857,557)	354,798	(204,378,482)
Cash and cash equivalents							
Beginning of year	73,386,587	304,043,642	5,719,099	9,383,564	1,911,534	1,280,007	395,724,433
End of year	$ 76,579,821	$ 99,032,214	$ 7,454,764	$ 5,590,370	$ 1,053,977	$ 1,634,805	$ 191,345,951

Combining Schedule of Cash Flows (Continued)
Virginia Revolving Loan Fund Accounts - Water Facilities
Year Ended June 30, 2010

	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)	$ (11,273,966)	$ (5,679,903)	$ 268,336	$ (3,793,194)	$ 731	$ 1,039,583	$ (19,438,413)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	421	-	-	-	-	-	421
Interest on investments	(458,872)	(14,306,776)	(25,929)	(26,723)	(16,233)	-	(14,834,533)
Interest on bonds, amortization and accretion - net	-	(4,261,185)	-	-	6,047	-	(4,255,138)
Change in operating assets and liabilities							
Loans receivables	(21,832,094)	(202,692,256)	1,567,936	-	73,224	-	(222,883,190)
Loan interest receivable	89,159	(3,802,712)	60	-	-	-	(3,713,493)
Loan administrative fee receivable	-	-	-	-	-	(255,946)	(255,946)
Deferred charges	-	1,962,955	-	-	10,400	-	1,973,355
Deferred revenue	-	(90,977)	-	-	(2,035)	-	(93,012)
Due to (from) other funds	4,050	-	-	-	-	-	4,050
	(22,197,336)	(223,190,951)	1,542,067	(26,723)	71,403	(255,946)	(244,057,486)
	$ (33,471,302)	$ (228,870,854)	$ 1,810,403	$ (3,819,917)	$ 72,134	$ 783,637	$ (263,495,899)

Virginia Resources Authority

Combining Schedule of Net Assets
Virginia Revolving Loan Fund Accounts - Water Supply
June 30, 2010

	Construction Accounts	Supply Accounts	Administrative Accounts	Administrative Fee Accounts	Total
Assets					
Current assets					
Cash	$ 2,234,865	$ 67,663	$ -	$ 153,640	$ 2,456,168
Cash equivalents	24,929,961	121,066	-	-	25,051,027
Investments	4,923,392	-	-	-	4,923,392
Loans receivable - current portion	4,618,082	33,118	-	-	4,651,200
Receivables:					
Investment interest	4,989	-	-	-	4,989
Loan interest	186,881	568	-	-	187,449
Loan administrative fees	-	-	-	14,758	14,758
Federal funds	-	-	159,438	-	159,438
Total current assets	36,898,170	222,415	159,438	168,398	37,448,421
Noncurrent assets					
Loans receivable - less current - net	108,698,492	137,954	-	-	108,836,446
Furniture and fixtures - at cost - less accumulated depreciation	-	-	2,097	-	2,097
Total noncurrent assets	108,698,492	137,954	2,097	-	108,838,543
Total assets	145,596,662	360,369	161,535	168,398	146,286,964
Liabilities					
Current liabilities					
Due to other accounts	938	-	159,438	-	160,376
Accounts payable and other liabilities	97,045	-	-	-	97,045
Total current liabilities	97,983	-	159,438	-	257,421
Total liabilities	97,983	-	159,438	-	257,421
Net assets					
Invested in capital assets	-	-	2,097	-	2,097
Restricted:					
Loan Programs	145,498,679	360,369	-	168,398	146,027,446
Total net assets	$ 145,498,679	$ 360,369	$ 2,097	$ 168,398	$ 146,029,543

Virginia Resources Authority

Combining Schedule of Revenues, Expenses, and Changes in Net Assets
Virginia Revolving Loan Fund Accounts - Water Supply
Year Ended June 30, 2010

	Construction Accounts	Supply Accounts	Administrative Accounts	Administrative Fee Accounts	Total
Operating revenues					
Interest on loans	$ 741,648	$ 3,536	$ -	$ -	$ 745,184
Investment income	102,247	479	-	-	102,726
Loan administrative fees	-	-	-	64,702	64,702
Administrative reimbursement	-	-	189,254	-	189,254
Administrative reimbursement - ARRA	-	-	170,000	-	170,000
Total operating revenues	843,895	4,015	359,254	64,702	1,271,866
Operating expenses					
Grants to local governments	2,687,223	-	-	-	2,687,223
Principal forgiveness loans	6,046,006	-	-	-	6,046,006
Personnel services	-	-	209,769	-	209,769
General operating	21,761	246	39,871	-	61,878
Contractual services	-	-	109,887	-	109,887
Total operating expenses	8,754,990	246	359,527	-	9,114,763
Operating income (loss)	(7,911,095)	3,769	(273)	64,702	(7,842,897)
Nonoperating revenue					
Contributions from other governments	8,820,328	-	-	-	8,820,328
Contributions from other governments - ARRA	8,266,470	-	-	-	8,266,470
Income (loss) before transfers	9,175,703	3,769	(273)	64,702	9,243,901
Operating transfers	(13,019)	(412)	2,133	170	(11,128)
Change in net assets	9,162,684	3,357	1,860	64,872	9,232,773
Total net assets - beginning	136,335,995	357,012	237	103,526	136,796,770
Total net assets - ending	$ 145,498,679	$ 360,369	$ 2,097	$ 168,398	$ 146,029,543

Virginia Resources Authority

Combining Schedule of Cash Flows
Virginia Revolving Loan Fund Accounts - Water Supply
Year Ended June 30, 2010

	Construction Accounts	Supply Accounts	Administrative Accounts	Administrative Fee Accounts	Total
Cash flows from operating activities					
Cash payments to localities for loans	$ (8,371,904)	$ -	$ -	$ -	$ (8,371,904)
Principal repayments from localities on loans	4,267,279	32,340	-	-	4,299,619
Interest received on loans	745,028	3,684	-	-	748,712
Loan administration fees received	-	-	-	66,517	66,517
Federal administrative reimbursement funds received	-	-	138,104	-	138,104
Federal administrative reimbursement funds received - ARRA	-	-	66,024	-	66,024
Cash payments for salaries and related benefits	-	-	(209,770)	-	(209,770)
Cash payments for contractual services	-	-	(109,887)	-	(109,887)
Cash payments for general operating expenses	(17,194)	(246)	(39,598)	-	(57,038)
Cash payments for operating grants	(2,687,223)	-	-	-	(2,687,223)
Cash payments for principal forgiveness loans	(6,046,006)	-	-	-	(6,046,006)
Interfund activity	(51,809)	-	155,127	-	103,318
Net cash provided by (used in) operating activities	(12,161,829)	35,778	-	66,517	(12,059,534)
Cash flows from noncapital financing activities					
Contributions from other governments	8,800,261	-	-	-	8,800,261
Contributions from other governments - ARRA	8,337,617	-	-	-	8,337,617
Cash received (paid) from other accounts	(13,019)	(412)	2,133	170	(11,128)
Net cash provided by (used in) noncapital financing activities	17,124,859	(412)	2,133	170	17,126,750
Cash flows from capital and financing related activities					
Purchase of office equipment	-	-	(2,133)	-	(2,133)
Net cash used in noncapital financing activities	-	-	(2,133)	-	(2,133)
Cash flows from investing activities					
Purchase of investments	(8,970,491)	-	-	-	(8,970,491)
Proceeds from sales or maturities of investments	9,121,547	-	-	-	9,121,547
Interest received on investments - net	113,276	479	-	-	113,755
Net cash provided by investing activities	264,332	479	-	-	264,811
Net increase in cash and cash equivalents	5,227,362	35,845	-	66,687	5,329,894
Cash and cash equivalents					
Beginning of year	21,937,464	152,884	-	86,953	22,177,301
End of year	$ 27,164,826	$ 188,729	$ -	$ 153,640	$ 27,507,195
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	$ (7,911,095)	$ 3,769	$ (273)	$ 64,702	$ (7,842,897)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	273	-	273
Interest on investments	(102,247)	(479)	-	-	(102,726)
Change in operating assets and liabilities					
Loans receivables	(4,104,626)	32,340	-	-	(4,072,286)
Loan interest receivable	3,550	148	-	-	3,698
Loan administrative fee receivable	-	-	-	1,815	1,815
Other receivables	-	-	(141,787)	-	(141,787)
Accounts payable and other liabilities	4,398	-	(13,340)	-	(8,942)
Due to (from) other funds	(51,809)	-	155,127	-	103,318
Total adjustments	(4,250,734)	32,009	273	1,815	(4,216,637)
Net cash provided by (used in) operating activities	$ (12,161,829)	$ 35,778	$ -	$ 66,517	$ (12,059,534)

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; unless otherwise stated, these tables include information beginning in that year.

Table 1

Virginia Resources Authority

Net Assets by Component

Last Nine Fiscal Years

	Fiscal Year								
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Invested in capital assets, net of related debt	$ 68,023	$ 71,117	$ 80,470	$ 68,003	$ 45,721	$ 9,996	$ 5,516	$ 1,812	$ 17,478
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	1,217,722,201	1,260,918,981
Unrestricted	6,811,927	7,295,735	2,762,252	3,502,408	4,099,446	4,379,283	4,471,442	5,456,623	6,345,180
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	$ 1,223,180,636	$ 1,267,281,639

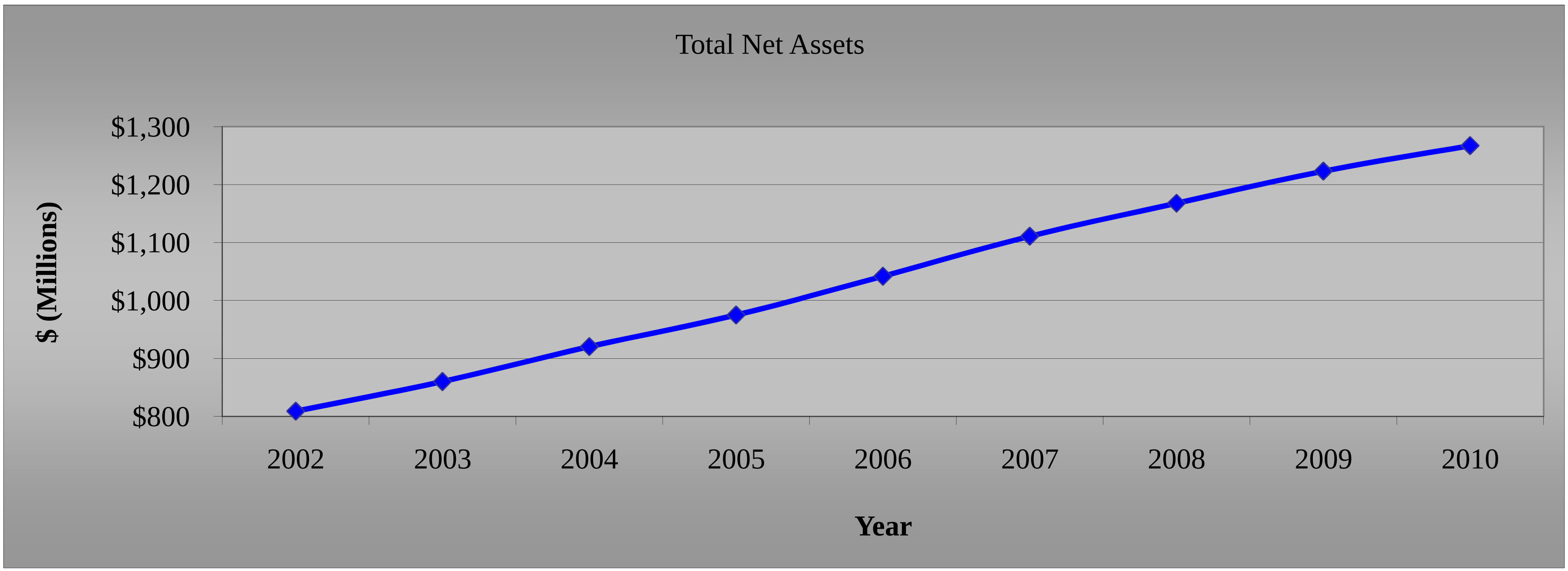


Table 2

Virginia Resources Authority

Changes in Net Assets

Last Nine Fiscal Years

Fiscal Year	Operating Revenue	Operating Expenses	Operating Income	Total Nonoperating Revenues & Expenses / Contributions from other Governments	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
2009	116,343,661	105,593,576	10,750,085	44,493,349	55,243,434
2010	139,357,187	165,279,708	(25,922,521)	70,023,524	44,101,003

Table 3

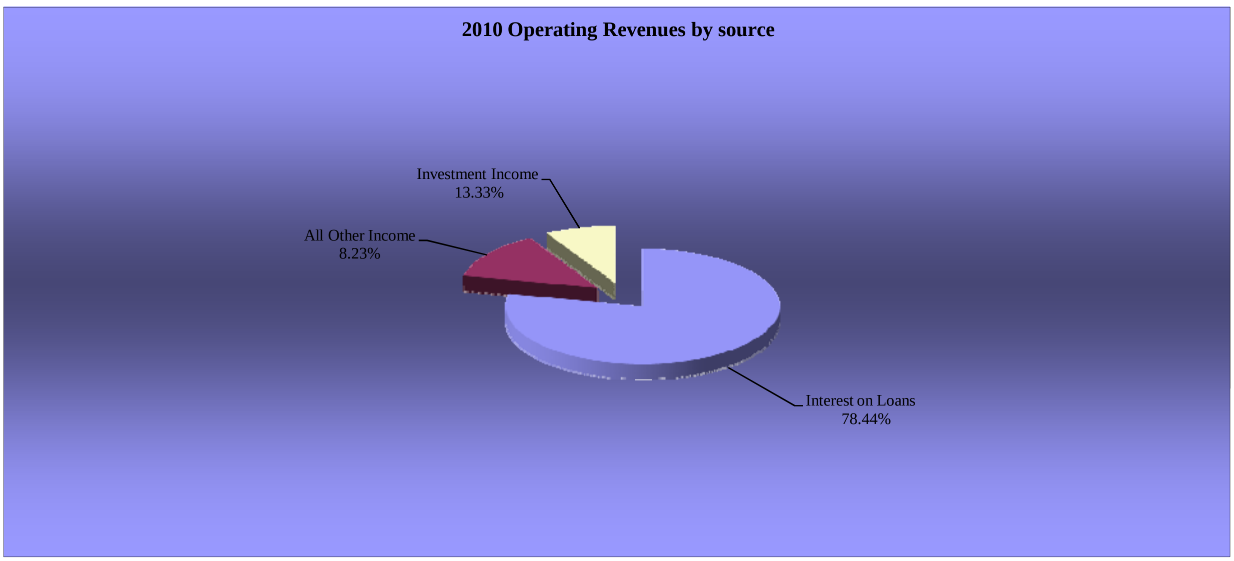
Virginia Resources Authority

Operating Revenues by Source

Last Nine Fiscal Years

Fiscal Year	Interest on Loans	Investment Income	Administrative Reimbursement	Bond Administrative Fees (1)	Loan Administrative Fees (2)	Other Income/Gain on early extinguishment of loans	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
2009	91,638,638	22,322,006	214,261	1,345,192	777,827	45,737	116,343,661
2010	109,314,607	18,570,060	365,282	2,254,887	1,186,438	7,665,913	139,357,187

(1) Beginning in 2005, Bond Administrative Fees were collected.
(2) Beginning in 2007, Loan Administrative Fees were collected.



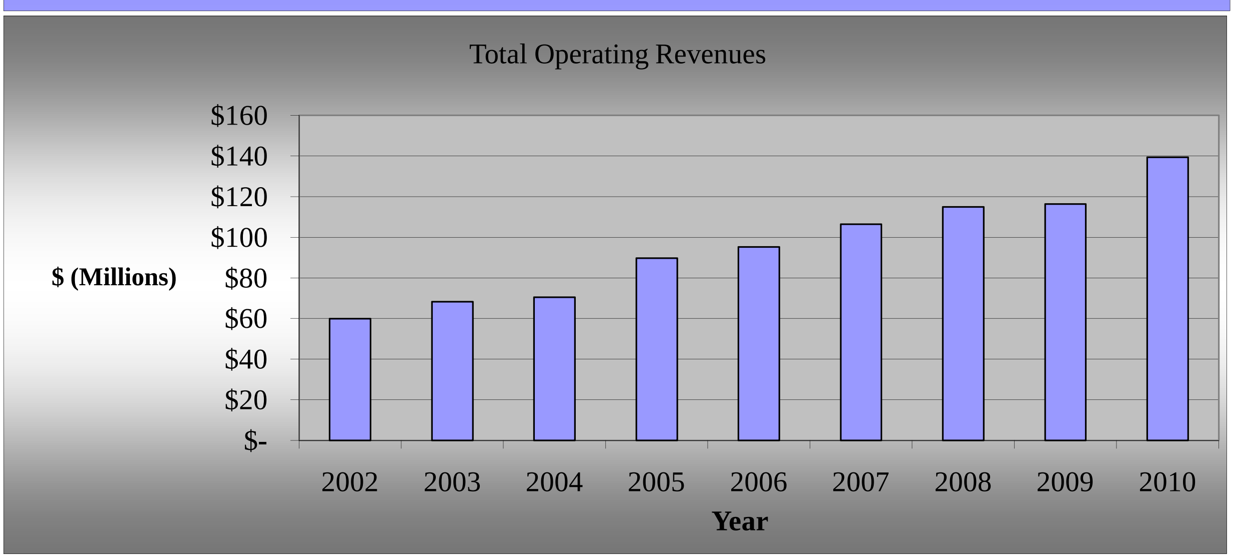


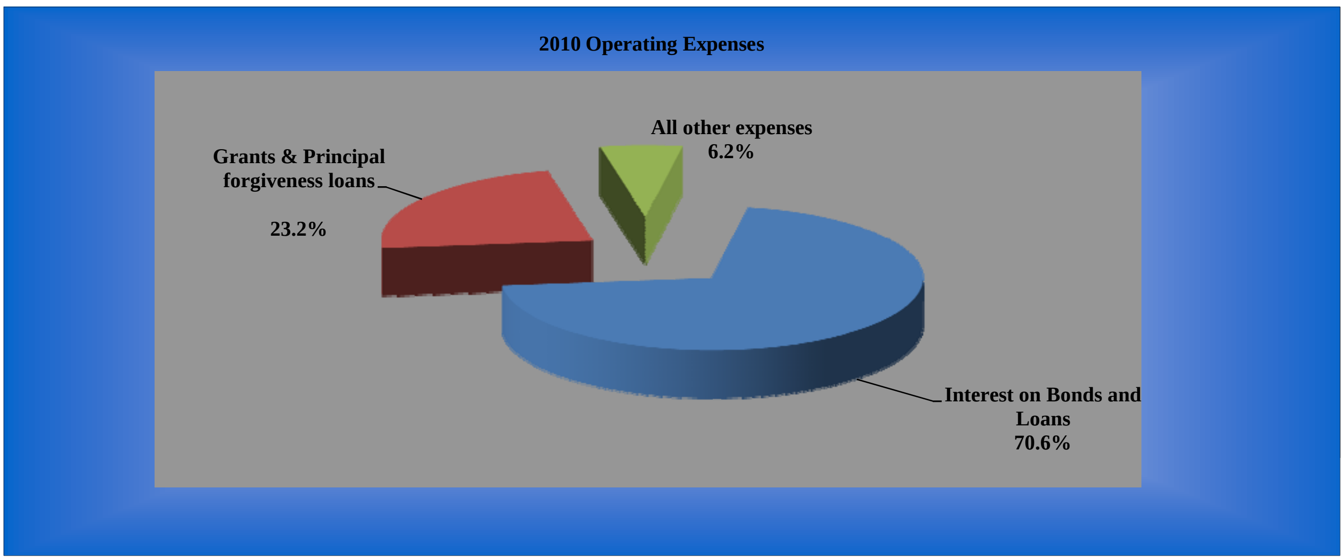
Table 4

Virginia Resources Authority

Operating Expenses

Last Nine Fiscal Years

Fiscal Year	Interest on Bonds and Loans	Grants & Principal forgivness loans to Local Governments	Loss on early extinguishment of bond	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
2009	96,992,504	6,040,386	-	1,058,371	727,776	774,539	105,593,576
2010	116,611,122	38,412,286	7,304,297	1,199,904	746,282	1,005,817	165,279,708



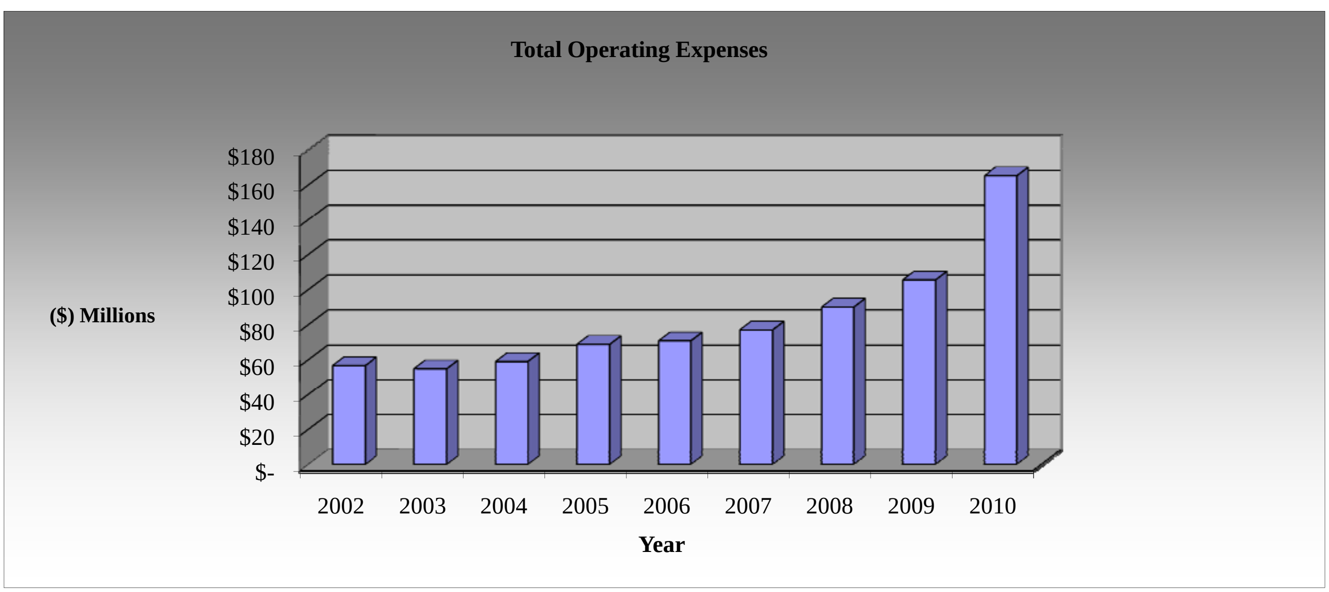


Table 5

Virginia Resources Authority

Schedule of Outstanding Loans Receivable

Last Nine Fiscal Years

Loans Receivable Related to Bond Issues

Fiscal Year	Revenue Bonds	VARF	Petroleum Storage Tank Fund	Unamortized discount / premium and cost of issuance - net	Total	Loans Receivable Related to Equipment Term Financing Total
2002	$ 482,891,541	$ 34,186,772	$ 6,000,000	$ (7,772,094)	$ 515,306,219	
2003	648,847,949	51,759,731	-	(8,306,670)	692,301,010	-
2004	782,815,669	68,594,416	-	217,383	851,627,468	-
2005	828,294,418	70,262,749	-	1,731,144	900,288,311	-
2006	933,276,834	68,320,183	-	4,543,143	1,006,140,160	-
2007	998,051,095	70,707,181	-	7,339,682	1,076,097,958	-
2008	1,073,592,203	67,836,728	-	13,366,101	1,154,795,032	4,258,830
2009	1,370,006,149	64,788,405	-	8,494,710	1,443,289,264	28,847,600
2010	1,413,962,642	61,290,594	-	18,831,358	1,494,084,594	7,220,216

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
2009	654,863,805	602,992,744	10,624,746	109,415,361	1,377,896,656
2010	676,622,675	805,685,000	9,056,810	113,487,646	1,604,852,131

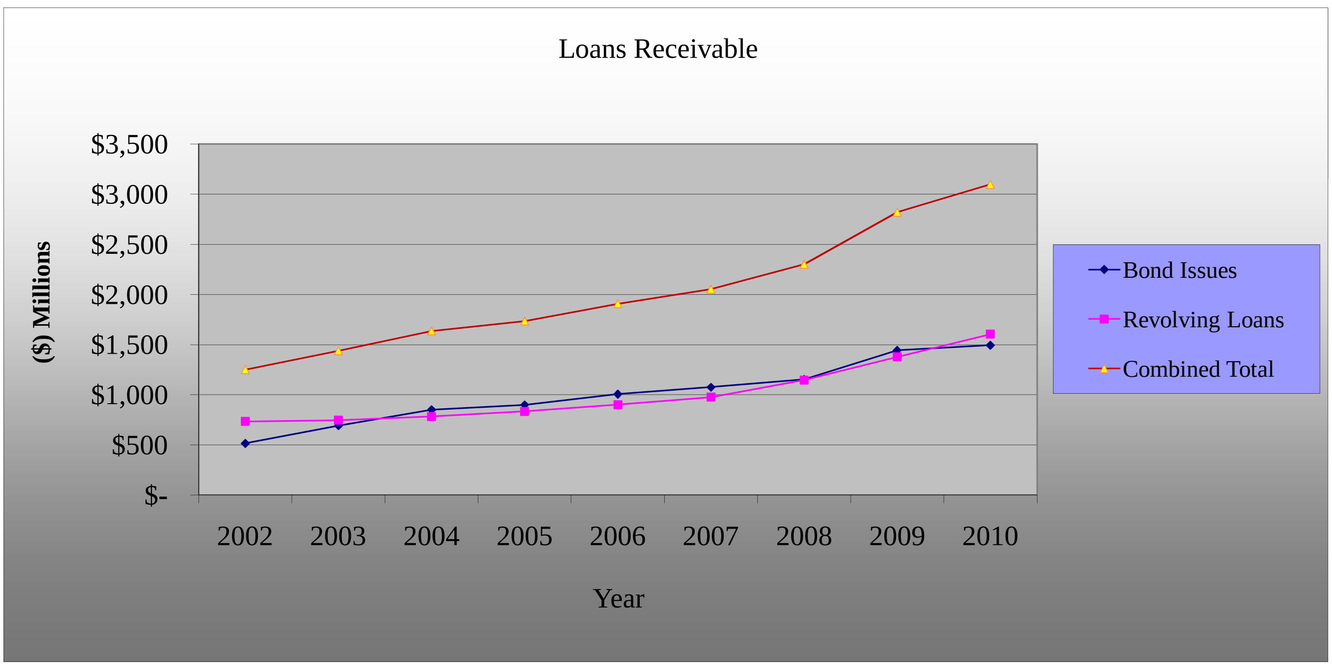


Table 6

Virginia Resources Authority

Schedule of Outstanding Debt

Last Nine 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 (2)	Remaining capacity for Moral Obligation Debt	Total Outstanding Revenue Bonds Per Capita (3)
2002	$ 769,466,542	$ (10,893,520)	$ 758,573,022	$ 543,336,542	$ 900,000,000	$ 356,663,458	$ 107.01
2003	931,597,949	(11,474,431)	920,123,518	704,692,949	900,000,000	195,307,051	127.94
2004	1,238,920,671	2,298,328	1,241,218,999	724,795,670	900,000,000	175,204,330	168.09
2005	1,273,394,419	12,900,830	1,286,295,249	659,099,419	900,000,000	240,900,581	170.60
2006	1,367,326,834	14,532,036	1,381,858,870	704,476,834	900,000,000	195,523,166	180.92
2007	1,670,621,095	25,967,386	1,696,588,481	678,600,371	900,000,000	221,399,629	218.66
2008	1,731,739,685	51,201,706	1,782,941,391	681,886,365	900,000,000	218,113,635	224.55
2009	2,388,011,149	78,414,411	2,466,425,560	726,416,149	900,000,000	173,583,851	307.37
2010	2,481,612,642	103,943,520	2,585,556,162	669,831,192	1,500,000,000	830,168,808	314.82

(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.
(2) Effective July 1, 2009 VRA's Commonwealth Limit on Moral Obligation Debt increased to $1,500,000,000.
(3) Population for preceding calendar year.

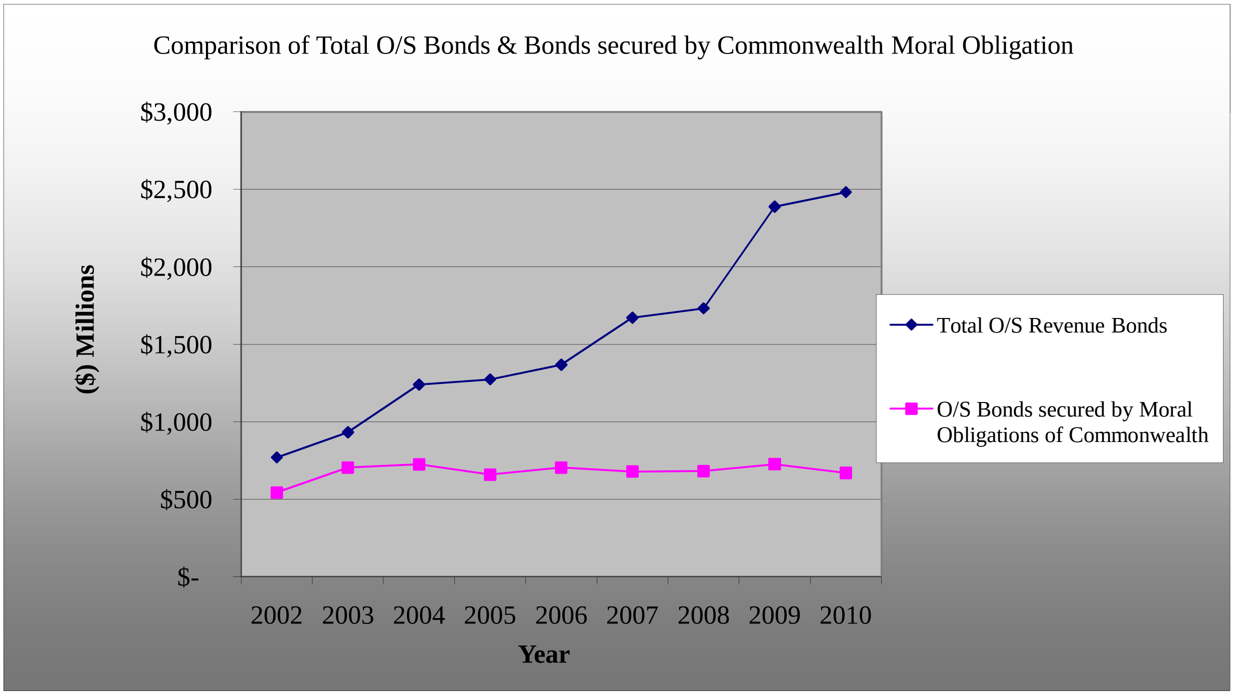


Table 7

Virginia Resources Authority

Virginia Principal Employers

Current and Nine Years Ago

Employer (1)	Fiscal Year 2010 (1) Rank	Fiscal Year 2001 (1) Rank
U.S. Department of Defense	1	1
Wal Mart	2	2
Fairfax County Public Schools	3	3
Newport News Shipbuilding	4	6
Postal Service	5	5
Sentara Healthcare	6	9
Food Lion	7	4
County of Fairfax	8	7
City of Virginia Beach Schools	9	8
Booz, Allen, and Hamilton	10	50
Capital One Bank	26	10

(1) Final quarter data for most recent calendar year (2009 and 2001).

(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)	Personal Income (2)	Per Capita Income (3)	Public Primary and Secondary School Enrollment	Unemployment Rate
2010	7,882,590	$ 345,840,751	$ 43,874	1,230,857	7.0%
2009	7,795,424	343,580,294	44,075	1,236,546	7.1%
2008	7,719,749	333,166,957	43,158	1,232,436	4.0%
2007	7,646,996	315,565,438	41,267	1,221,939	3.0%
2006	7,563,887	294,173,306	38,892	1,214,737	3.0%
2005	7,468,914	275,167,155	36,842	1,185,612	3.7%
2004	7,373,694	257,927,369	34,979	1,165,905	3.8%
2003	7,283,541	245,781,542	33,745	1,156,471	4.2%
2002	7,191,304	239,102,604	33,249	1,143,018	4.2%
2001	7,104,533	224,787,655	31,640	1,130,446	3.2%

(1) Population for preceding calendar year.
(2) Personal income for preceding calendar year.
(3) Per captia 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

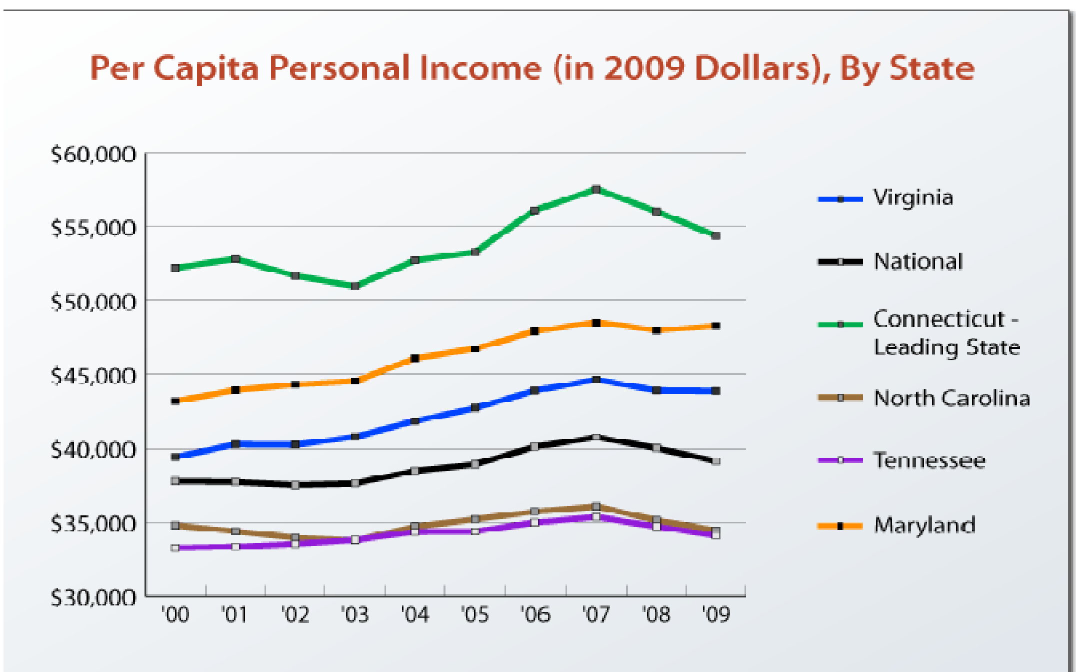


Table 9

Virginia Resources Authority

Operating Indicators

Last Six Fiscal Years

	2005	2006	2007	2008	2009	2010	Total
Virginia Pooled Financing Program							
Projects	21	15	15	16	32	35	134
Lending	$ 115,815,000	$ 150,500,000	$ 134,000,000	$ 135,865,000	$ 451,100,000	$ 253,165,000	$ 1,240,445,000
Clean Water Revolving Loan Fund							
Projects	13	18	15	22	22	62	152
Closed Loans	$ 54,130,696	$ 82,929,575	$ 227,171,982	$ 193,543,988	$ 346,190,376	$ 353,015,563	$ 1,256,982,180
Virginia Drinking Water State Revolving Fund							
Projects	17	20	16	13	19	34	119
Closed Loans and Grants	$ 10,654,508	$ 16,855,288	$ 10,513,007	$ 6,143,549	$ 13,708,679	$ 33,641,260	$ 91,516,291
Virginia Airports Revolving Fund							
Projects	5	2	5	1	1	-	14
Closed Loans	$ 4,068,874	$ 733,000	$ 5,248,000	$ 140,000	$ 633,000	$ -	$ 10,822,874
Equipment and Term Financing (1)							
Projects	-	-	-	4	6	-	10
Closed Loans	$ -	$ -	$ -	$ 4,349,438	$ 25,687,400	$ -	$ 30,036,838
Dam Safety and Flood Prevention							
Projects	-	-	-	-	-	2	2
Closed Grants	$ -	$ -	$ -	$ -	$ -	$ 1,002,330	$ 1,002,330
Total Projects	56	55	51	56	80	133	431
Total Localities Served	67	55	51	50	61	96	380
Total Lending	$ 184,669,078	$ 251,017,863	$ 376,932,989	$ 340,041,975	$ 837,319,455	$ 640,824,153	$ 2,630,805,513

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

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

Source: VRA Annual Reports

Table 10

Virginia Resources Authority

Full Time Employees by Identifiable Activity

Last Seven Fiscal Years

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Executive	1	1	1	1	1	2	2
Financial Services/Debt Management	4	5	4	5	5	-	-
Finance and Administration	6	4	2	4	3	4	2
Program Management	-	-	-	-	-	2	2
Policy and Intergovernmental Relations						1	1
Total Full Time Employees:	11	10	7	10	9	9	7

* Data starts in FY 2004, as data becomes available the table will represent ten years.
* Data represents permanent full-time employees.
* The Program Management division was created in FY 2009
* The Policy and Intergovernmental Relations division was created in FY 2009

COMPLIANCE SECTION

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's 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 basic financial statements of the Virginia Resources Authority (the Authority) as of and for the year ended June 30, 2010 and have issued our report thereon dated September 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 *deficiency in internal control* 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 *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, 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, and 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.

Clifton Gunderson LLP

Richmond, Virginia
September 3, 2010

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Honorable Board Members
Virginia Resources Authority
Richmond, Virginia

Compliance

We have audited the compliance of Virginia Resources Authority (the Authority) with the types of compliance requirements described in the 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 could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2010. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs 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; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 management, the Board of Directors, the Auditor of Public Accounts, 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.

Clifton Gunderson LLP

Richmond, Virginia
September 3, 2010

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	$ 23,074,490
American Recovery and Reinvestment Act Clean Water State Revolving Funds (VWFRF)	66.458 ARRA	25,867,152
Department of Health		
Capitalization Grants for Drinking Water State Revolving Funds (VWSRF)	66.468	7,059,232
American Recovery and Reinvestment Act Drinking Water State Revolving Funds (VWSRF)	66.468 ARRA	8,436,470
Total expenses of federal awards		$ 64,437,344

See notes to the Schedule of Expenses of Federal Awards.

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 $101,400,975 from the VWFRF and $9,093,542 from the VWSRF as of June 30, 2010.

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	-	189,254		189,254
Contributions from other Governments	25,857,990	8,820,328	1,200,000	35,878,318
Total Governmental Revenue	25,857,990	9,009,582	1,200,000	36,067,572
Less amounts not related to federal financial assistance	(2,783,500)	(1,950,350)	(1,200,000)	(5,933,850)
Total Capitalization Grant Revenue	23,074,490	7,059,232	-	30,133,722
Revenue Per Financial Statements:				
Administrative Reimbursement - ARRA	$ 6,028	$ 170,000	$ -	$ 176,028
Contributions from other Governments - ARRA	25,861,124	8,266,470	-	34,127,594
Total ARRA Revenue	25,867,152	8,436,470	-	34,303,622
Federal Schedule of Expenses	$ 48,941,642	$ 15,495,702	$ -	$ 64,437,344

VIRGINIA RESOURCE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

Section I - Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses	____	Yes	X	None reported
Noncompliance material to financial statements noted?	____	Yes	X	No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____	Yes	X	None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	____	Yes	X	No

Identification of Major Programs

Name of Federal Program	CFDA Number
Capitalization Grants for Clean Water State Revolving Funds (VWSRF)	66.458
American Recovery and Reinvestment Act Clean Water State Revolving Funds (VWFRF)	66.458 ARRA
Capitalization Grants for Drinking Water State Revolving Funds (VWSRF)	66.468
American Recovery and Reinvestment Act Drinking Water State Revolving Funds (VWSRF)	66.468 ARRA

Dollar threshold used to distinguish between type A and type B programs: $1,933,123

Auditee qualified as low-risk auditee?	X	Yes	____	No

VIRGINIA RESOURCE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.