



Richmond, Virginia

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

Year Ended June 30, 2012

**VIRGINIA RESOURCES AUTHORITY**



# Financial Statements for the Year Ended June 30, 2012

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**VIRGINIA RESOURCES AUTHORITY**

**Financial Statements for the Year Ended June 30, 2012**

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Prepared by the Virginia Resources Authority, Accounting Department

## **INTRODUCTORY SECTION**



September 1, 2012

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

Dear Board Member:

I am pleased to present the Virginia Resources Authority (VRA, Authority) FY2012 Financial Statements. Section 62.1-222 of the Code of Virginia, as amended, 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 FY2012, the Authority was audited by Clifton Larson Allen, 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 Larson Allen has issued an unqualified opinion on the Authority's financial statements for the year ended June 30, 2012.

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

**VRA Profile**

VRA was established in 1984 as a public body corporate and 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, as amended). VRA is governed by an eleven member Board of Directors, appointed by the Governor. Members include state agency representatives whose agencies, along with VRA, co-manage specific loan funds with VRA. VRA's Executive Director, also appointed by the Governor, administers, manages, and directs the affairs of VRA, subject to the policies, control and direction of the VRA Board of Directors.

VRA was established to provide an additional source of funding for local infrastructure projects. Initially providing financing for local water and wastewater projects, projects now eligible for VRA financing have expanded to 18 distinct and varied project areas. These project areas reflect the capital improvement priorities of local governments and the intent of the Administration and the Legislature to assist communities with cost-effective and low-cost financing.

### **VRA Financing Programs**

VRA's Virginia Pooled Financing Program (VPFP) is available to Virginia counties, cities, towns, and other political subdivisions requiring financing for any one of the 18 designated project areas eligible for VRA financing. They include water, sewer, transportation, public safety, energy, local government buildings, parks and recreational facilities, administrative systems, and a variety of other capital improvement projects.

VPFP borrowers realize savings from VRA's unique state credit enhancements based in part on the Commonwealth's moral obligation, the sharing of expenses, and a straightforward and customer-friendly process. VRA's high credit rating, natural "AAA" for the senior bonds and "AA" for the subordinate bonds, result in favorable access for Virginia localities to the capital markets, without the need for additional credit enhancements.

In addition to the VPFP, the Authority currently serves as co-manager of five capitalized loan/grant funds: 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 Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund (VBAF).

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. The VARF, VDSFPF, and VBAF are solely funded by the Commonwealth. The four revolving loan funds, the initial grant monies are invested and, along with the investment earnings and loan repayments, are then loaned to local governments for eligible projects. The VBAF solely issues grants for eligible projects.

In continuing efforts to provide local governments with financing options to meet their needs, VRA staff worked with Wells Fargo in the development of a short-term financing program that provides VRA with a credit facility to provide interim financing to Virginia local governments. The program, still very much in its infancy stages, is available to localities as a bridge financing program or merely as a financing tool providing shorter terms options.

The Virginia Transportation Infrastructure Bank (VTIB) was created during the 2010 General Assembly Session to finance the design and construction of roads and highways, including toll facilities, mass transit, freight, passenger and commuter rail, including rolling stock, port, airport and other transportation facilities. VRA is the manager of VTIB and performs certain duties under an agreement with the Commonwealth Transportation Board and the Secretary of Finance. VTIB received its initial capitalization with an appropriation from the General Assembly during the 2011 Session of the General Assembly

### **Economic Information**

Each year, in August and in December, the Secretary of Finance presents the fiscal year revenues and economic assumptions to the General Assembly joint money committees. General conditions for the Commonwealth of Virginia, which is served by the Authority's operation, are taken from Secretary of Finance Ric Brown's presentation to the Senate Finance, House Appropriations, and House Finance Committees on August 15, 2012 and include:

- Virginia ranked ninth among the states in 2011 with a 6.2 percent unemployment rate.
- Within Virginia, the unemployment rate in 2011 varied from a high of 10.2 percent in the Southside region to a low of 4.6 percent in the Northern region. The central tier of the state (Central and West Central regions) had rates between 6.7 to 6.8 percent. The Southwest region was second highest with 8.0 percent unemployment.

- In July 2012, the adjusted unemployment rate increased to 5.9 percent, still well below the national average of 8.3 percent.

### **FY2012 Accomplishments**

An accomplished staff, state agency partners, internal operations' improvements, including technology improvements, low interest rates and improved economic conditions worked together to make it an exciting and successful year for the Virginia Resources Authority. The Authority performed extraordinarily well and delivered value and cost-savings for critical infrastructure projects to communities across Virginia.

FY2012 accomplishments of the Authority support the Strategic Goals and Key Initiatives adopted by the Board of Directors and outlined in the Authority's FY2012 Budget. In addition, the Authority's accomplishments align well with priorities and objectives of the Governor and the General Assembly. A few of the accomplishments are listed below:

- Maintained VRA's outstanding credit rating thereby continuing to provide cost-effective financing to localities for critical infrastructure projects.
- On November 2, 2011, VRA successfully priced the Virginia Pooled Financing Program, Series 2011B. The total par amount of the bond, \$225,980,000, supported 22 loans on behalf of 17 local government borrowers. The bonds achieved an all-in true interest cost of 3.938%. The VPPF Series 2011B included new money and refunding projects representing seven of VRA's authorized project areas, including: water, wastewater, local government buildings, transportation, solid waste, public safety, and parks and recreation. Of the VPPF Series 2011B borrowers, 12 localities refunded prior debt obligations for net present value cash flow savings in excess of \$8.1 million.
- On June 13, 2013, VRA successfully closed the Virginia Pooled Financing Program, Series 2012A and Series 2012A-1 bond transaction. The total par amounts of the bonds were \$298,140,000 and \$46,070,000, respectively. The bonds supported 18 loans on behalf of 15 local government borrowers. The bonds achieved an all-in true interest cost of 3.57% and 3.83%, respectively. The VPPF Series 2012A included new money and refunding projects. Of the VPPF Series 2012A borrowers, 9 localities refunded prior debt obligations for net present value cash flow savings in excess of \$21.8 million. The VPPF Series 2012A was the largest offering by VRA to date. The VPPF Series 2012A-1 was a new money project issued for the financing of a regional jail authority.
- VRA successfully sold \$33.15 million in Virginia Airports Revolving Fund (VARF) bonds to refund the existing Series 2001 A & B VARF bonds for the Capital Region Airport Commission (CRAC), the Dinwiddie Airport & Industrial Authority, and the Norfolk Airport Authority, thereby resulting in a 1.25% reduction in local loan rates and approximately \$3.69 million in gross interest savings.
- VRA leveraged the Clean Water State Revolving Fund to provide \$35.4 million in funding for six wastewater projects including the Alexandria Sanitation Authority, Botetourt County, the Upper Occoquan Service Authority, and the Western Virginia Water Authority.
- VRA successfully issued \$3 million in State Match Bonds to support the \$6 million state match requirement necessary to secure a \$30 million capitalization grant from the Environmental Protection Agency's Clean Water program for local clean water projects.



- Prepared grant agreement awards totaling \$855,000 to 73 grant recipients approved by the Virginia Soil and Water Conservation Board for the Department of Conservation and Recreation's Dam Safety, Flood Prevention and Protection Assistance Fund. For FY2012, \$234,000 was disbursed to 25 grant recipients in the program.
- Formalized new partnerships with the Commonwealth Transportation Board and the Virginia Department of Transportation for the administration and management of the Virginia Transportation Infrastructure Bank; with the Virginia Tourism Corporation for the Tourism Gap Funding initiative; and with the Virginia Economic Development Partnership for the Virginia Brownfields Assistance Fund.

VRA also achieved success in its continued efforts to sustain its ability to meet the needs of local governments for cost-effective infrastructure financing. Fittingly the following accomplishments in the areas within the administrative and financial services were realized:

- Awarded the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for the fourth consecutive year.
- Enhanced loan monitoring and compliance review process and outreach efforts:
  - Completed the pilot year for Loan Monitoring and Compliance Database (LMCD).
  - Reformulated variables in the LMCD from the beta test to provide greater efficiency for utilization of the database.
  - Improved compliance review reports by segmenting financial performance and documenting compliance submission statuses.
  - Integrated a standardized table into Portfolio Risk Management Committee reports that summarizes the compliance status of reviewed borrowers.
  - Conducted a series of workshops to focus on compliance-related topics.
- Reviewed and updated existing contracts with outside vendors and consultants to secure improved services, reduce costs, and improve efficiency.
- Issued Requests for Proposals for the following services: Information Technology Services, Financial Advisory Services and Investment Management Services.
- Established within VRA a records retention initiative in accordance with the regulations set forth by the Library of Virginia and the Code of Virginia.

### **Fiscal Year 2012 Financial Results**

VRA had a strong year in fiscal year 2012. The Authority surpassed \$1.357 billion in net assets, an increase of \$48 million, or 3.7% from the prior year. Total assets increased by \$583 million (14.3%) and total liabilities increased by \$535 million (19.2%) in comparison to the June 30, 2011 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. The Authority's operating revenue increased \$9.6 million and operating expenses decreased \$45.7 million in comparison to the prior fiscal year. The increase in operating revenue is mostly due additional loan interest from greater lending activity. The current interest rate environment has presented significant refunding opportunities and VRA has experienced an influx of applications for the refinancing of non-VRA debt in the VPFP program. The significant decrease in operating

expenses is the result of a decline in Principal Forgiveness loans to local governments of \$53.3 million from the final phases of previously in progress construction projects related to funding provided under the American Recovery and Reinvestment Act (ARRA) of 2009.

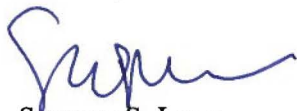
**Long-term Financial Planning**

VRA works with our agency partners to project to project program demand. For the Water Facilities Revolving Fund, VRA utilizes a 20-year financial model to determine lending capacity under given scenarios. The model is updated at least annually.

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.

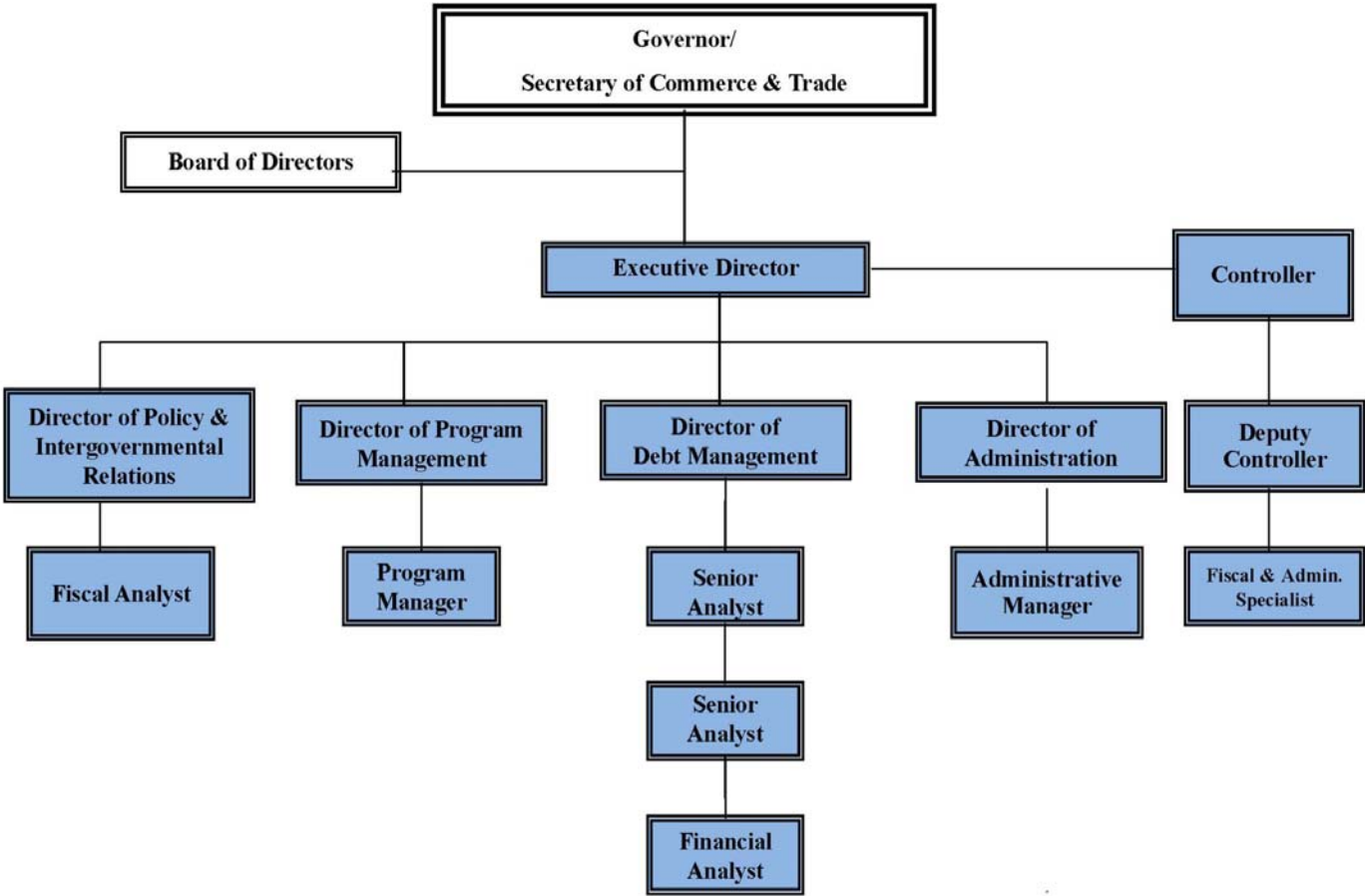
Completion of the Authority's FY2012 financial statements would not have been possible without the Authority's knowledgeable and dedicated team of professionals. A special note of gratitude goes to the Authority's personnel who assisted in this effort. We would also like to extend our thanks to the Authority's Board of Directors for their continuing support in planning and conducting the financial operations of the Virginia Resources Authority in a responsible manner.

Sincerely,



Suzanne S. Long  
Executive Director

*Virginia Resources Authority*  
Organizational Structure  
June 30, 2012



*Virginia Resources Authority*  
Directory of Principal Officials  
June 30, 2012

**Board of Directors**

William G. O'Brien, Chairman

James H. Spencer, III, Vice Chairman

Barbara McCarthy Donnellan

David Branscome

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**

Suzanne S. Long; Executive Director

Jean Bass; Director of Policy and Intergovernmental Relations

Peter D'Alema; Director of Program Management

Shawn Crumlish; Director of Debt Management

Michael Cooper; Director of Administration

Jon McCubbin; Controller

# 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, 2011

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.



*Linda C. Danison*

President

*Jeffrey R. Emer*

Executive Director

## **FINANCIAL SECTION**

## 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, 2012, 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. 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, 2012, 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 August 29, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress on pages 12 through 16 and page 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting

Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The combining schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of 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. The combining schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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.

*CliftonLarsonAllen LLP*

Richmond, Virginia  
August 29, 2012



## Virginia Resources Authority

### Management's Discussion and Analysis

Year Ended June 30, 2012

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, 2012. 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 \$1.357 billion (net assets), an increase of 3.7%.
- Total assets of \$4.7 billion increased by \$583 million or 14.3% (See FINANCIAL ANALYSIS Table 1 summary).
- Total liabilities of \$3.3 billion increased by \$535 million or 19.2%. (See FINANCIAL ANALYSIS Table 1 summary).
- Change in net assets of \$48.0 million, increased by \$6.5 million or 15.6% over the prior year. (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, investment earnings, fees, and contributions from other governments. The **Statement of Cash Flows** provides information on the Authority's cash receipts, payments, and net changes in cash. It also provides insight on the source, use, and change in cash for the reporting period.

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

This report also includes **other information**, in addition to the basic financial statements and accompanying Notes to the financial statements. *Required supplementary information* concerning the Authority's progress in funding its obligation to provide pension benefits to employees is separately presented. *Other supplementary information* that further explains and supports information in the basic financial statements immediately follows the notes. *Combining schedules* provide information for the separate Authority programs. The *Schedule of Expenses of Federal Awards* provides detail of Federal Assistance, followed by explanatory notes. The *compliance section* is

required under provisions of the Single Audit Act and the U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-profit Organizations; and includes auditors' reports on compliance and internal controls.

## FINANCIAL ANALYSIS

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 \$1.357 billion (net assets). The largest portion of net assets is restricted net assets (98.8%) which are restricted primarily for the purpose of making loans under the various programs the Authority administers. Restricted net assets also include a \$7.4 million operating reserve fund described further in note 7.

*See Table 1.* Total assets of \$4.7 billion increased by \$583 million or 14.3%. The increase in assets is primarily the result of increased lending (17% increase in loans receivable) in the Clean Water Revolving Loan Fund (CWRLF), and the Virginia Pooled Financing Program (VPPF), net of payments, payoffs, and refundings. Assets primarily consist of loans receivable (84.7%) from participating localities and other governmental entities in the Commonwealth of Virginia. The Authority's source for providing loans is a combination of bond issues and contributions from the State and Federal governments. See note 4 for additional information for loans receivable. Total liabilities of \$3.3 billion increased by \$535 million or 19.2%, mostly as a result of issuing two new bonds in the VPPF and issuing one new bond in the CWRLF. Liabilities primarily consist of bonds payable (98.9%). See Note 6 for additional information on bonds payable.

*See Table 2.*

- Operating revenue of \$137.9 million increased by \$9.6 million or 7.5%.
- Operating expenses of \$140.1 million decreased by \$45.7 million or 24.6%.
- Operating loss of \$2.2 million decreased by \$55.4 or 96.2%.

At the end of fiscal year 2012, net assets increased \$48 million or 3.7% to \$1.357 billion. Operating revenues of \$137.9 million increased \$9.6 million (7.5%). This change was mostly driven by an increase in loan interest (\$6.8 million) from greater lending activity; an increase in investment earnings (\$0.9 million) due to larger cash and investment balances; and an increase in gains from early extinguish of loan payoffs by local borrowers (\$1.1 million) as a result of refinancing opportunities in a low-interest rate environment. Operating expenses of \$140.1 million decreased \$45.7 million (-24.6%). This decrease was mostly the result of a decline of \$53.3 million in Principal Forgiveness loans to local governments from the final phases of previously in progress construction projects related to funding provided under the American Recovery and Reinvestment Act (ARRA) of 2009. The decrease in operating expenses was offset by an increase of \$7 million in interest incurred on outstanding debt obligations as result of added borrowing to purchase or acquire local bonds and financing leases issued or entered into by certain local governments to finance or refinance the costs of certain capital projects and facilities. The Operating Loss of \$2.2 million is the result of further use of principal forgiveness loans and grants in concurrence with loans to fund projects in the Drinking Water State Revolving Fund (DWSRF). The DWSRF is designed to assist distressed localities finance water supply facilities and certain non-construction activities under the EPA's Capitalization Grants for State Revolving Funds. Operating loss decreased by \$55.4 million compared with that of the prior fiscal year as a result of the aforementioned principal forgiveness loans related to ARRA funding. Nonoperating revenue decreased \$48.9 (-49.3%) also as a result of reduced funding for the final construction stages of ARRA funded projects.

**Table 1**  
**Virginia Resources Authority**  
**Statement of Net Assets**  
*(In thousands of dollars)*

	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>	<u>\$</u> <u>Change</u> <u>2012 - 2011</u>	<u>%</u> <u>Change</u> <u>2012 - 2011</u>
<b>Assets</b>				
Current assets:				
Cash	\$ 27,847	\$ 22,252	\$ 5,595	25.1%
Cash equivalents	313,115	248,527	64,588	26.0%
Investments	7,532	69,916	(62,384)	-89.2%
Loans receivable - current portion (Note 4)	191,377	169,956	21,421	12.6%
Receivables:				
Investment interest	2,560	2,670	(110)	-4.1%
Loan interest	27,167	28,660	(1,493)	-5.2%
Loan administrative fees	1,012	1,103	(91)	-8.3%
Federal funds	3,125	1,214	1,911	157.4%
Other	129	12	117	975.0%
Deferred charges	8,040	5,402	2,638	48.8%
Other	26	6	20	333.3%
Total current assets	<u>581,930</u>	<u>549,718</u>	<u>32,212</u>	<u>5.9%</u>
Noncurrent assets:				
Investments	280,585	281,177	(592)	-0.2%
Loans receivable - less current - net (Note 4)	3,767,589	3,213,828	553,761	17.2%
Deferred charges	42,761	45,040	(2,279)	-5.1%
Capital assets - at cost - less accumulated depreciation	<u>206</u>	<u>129</u>	<u>77</u>	<u>59.7%</u>
Total noncurrent assets	<u>4,091,141</u>	<u>3,540,174</u>	<u>550,967</u>	<u>15.6%</u>
Total assets	<u>4,673,071</u>	<u>4,089,892</u>	<u>583,179</u>	<u>14.3%</u>
<b>Liabilities</b>				
Current liabilities:				
Loans payable - current portion	1,593	1,564	29	1.9%
Bonds payable - current portion (Note 6)	125,341	107,801	17,540	16.3%
Accrued interest on bonds payable	26,372	24,573	1,799	7.3%
Arbitrage rebate liability	-	3,455	(3,455)	-100.0%
Unearned revenue	210	177	33	18.6%
Accounts payable and other liabilities	391	460	(69)	-15.0%
Total current liabilities	<u>153,907</u>	<u>138,030</u>	<u>15,877</u>	<u>11.5%</u>
Noncurrent liabilities:				
Loans payable - less current - net	2,502	4,100	(1,598)	-39.0%
Bonds payable - less current - net (Note 6)	3,154,285	2,636,602	517,683	19.6%
Unearned revenue	2,454	2,205	249	11.3%
Arbitrage rebate liability	3,081	131	2,950	2251.9%
Total noncurrent liabilities	<u>3,162,322</u>	<u>2,643,038</u>	<u>519,284</u>	<u>19.6%</u>
Total liabilities	<u>3,316,229</u>	<u>2,781,068</u>	<u>535,161</u>	<u>19.2%</u>
<b>Net assets</b>				
Invested in capital assets	206	129	77	59.7%
Restricted (Note 7):				
Loan Programs	1,340,655	1,294,066	46,589	3.6%
Operating Reserve	7,449	7,373	76	1.0%
Unrestricted	8,532	7,257	1,275	17.6%
Total net assets	<u>\$ 1,356,842</u>	<u>\$ 1,308,825</u>	<u>\$ 48,017</u>	<u>3.7%</u>

**Table 2**  
**Virginia Resources Authority**

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

	Year Ended		\$	%
	June 30, 2012	June 30, 2011	Change 2012 - 2011	Change 2012 - 2011
<b>Operating revenues</b>				
Interest on loans	\$ 118,796	\$ 112,019	\$ 6,777	6.0%
Investment income	13,190	12,292	898	7.3%
Bond administration fees	2,401	2,017	384	19.0%
Loan administration fees	1,674	1,538	136	8.8%
Administrative reimbursement	400	289	111	38.4%
Administrative reimbursement - ARRA	-	20	(20)	-100.0%
Gain on early extinguishment of loans	1,133	76	1,057	1390.8%
Other Income	350	51	299	586.3%
Total operating revenues	<u>137,944</u>	<u>128,302</u>	<u>9,642</u>	<u>7.5%</u>
<b>Operating expenses</b>				
Interest on bonds and loans	123,917	116,916	7,001	6.0%
Grants to local governments	5,600	6,971	(1,371)	-19.7%
Principal Forgiveness loans to local governments	6,073	59,394	(53,321)	-89.8%
Loss on early extinguishment of bonds	1,941	99	1,842	1860.6%
Personnel services	1,441	1,448	(7)	-0.5%
General operating	619	514	105	20.4%
Contractual services	548	527	21	4.0%
Total operating expenses	<u>140,139</u>	<u>185,869</u>	<u>(45,730)</u>	<u>-24.6%</u>
Operating income (loss)	<u>(2,195)</u>	<u>(57,567)</u>	<u>55,372</u>	<u>-96.2%</u>
<b>Nonoperating revenue</b>				
Contributions from other governments	47,126	38,006	9,120	24.0%
Contributions from other governments - ARRA	3,005	61,042	(58,037)	-95.1%
Interest subsidy - Build America Bonds	2,879	2,250	629	28.0%
<b>Nonoperating expense</b>				
Interest subsidy passthrough - Build America	<u>(2,797)</u>	<u>(2,189)</u>	<u>(608)</u>	<u>27.8%</u>
<b>Change in net assets</b>	48,018	41,542	6,476	15.6%
<b>Total net assets - beginning</b>	<u>1,308,824</u>	<u>1,267,282</u>	<u>41,542</u>	<u>3.3%</u>
<b>Total net assets - ending</b>	<u>1,356,842</u>	<u>1,308,824</u>	<u>48,018</u>	<u>3.7%</u>

## **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, 2012 the Authority issued three bond series for the VPPF, Series 2011B, Series 2012A, and Series 2012A-1 for cumulative par amounts of \$570,190,000; two bond series for the CWSRF, series 2011A and 2011B; and on refunding series for the VARF, series 2011A&B . See Note 6 for additional information on bonds payable.

## **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 Controller, Virginia Resources Authority, 1111 E. Main Street, Suite 1920, Richmond, VA 23219, or telephone (804) 644-3100, or visit the Authority's website at [www.virginiaresources.org](http://www.virginiaresources.org).

## Virginia Resources Authority

### Statement of Net Assets

June 30, 2012

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#### Assets

##### Current assets:

Cash	\$	27,846,575
Cash equivalents		313,114,545
Investments		7,531,643
Loans receivable, net of allowance (Note 4)		191,377,427
Receivables:		
Investment interest		2,560,166
Loan interest		27,166,676
Loan administrative fees		1,012,399
Federal funds		3,125,451
Other		128,868
Deferred charges - current portion		8,039,517
Other		26,459
Total current assets		<u>581,929,726</u>

##### Noncurrent assets:

Investments		280,585,318
Loans receivable - less current - net (Note 4)		3,767,589,252
Deferred charges - less current - net		42,761,148
Capital assets - at cost -		
less accumulated depreciation of \$49,576 (Note 5)		206,202
Total noncurrent assets		<u>4,091,141,920</u>
Total assets		<u>4,673,071,646</u>

#### Liabilities

##### Current liabilities:

Loans payable - current portion		1,592,801
Bonds payable - current portion (Note 6)		125,341,200
Accrued interest on bonds payable		26,371,753
Unearned revenue - current portion		210,295
Accounts payable and other liabilities		390,330
Total current liabilities		<u>153,906,379</u>

##### Noncurrent liabilities:

Loans payable - less current - net		2,502,148
Bonds payable - less current - net (Note 6)		3,154,285,351
Unearned revenue - less current - net		2,453,936
Arbitrage rebate liability		3,081,444
Total noncurrent liabilities		<u>3,162,322,879</u>
Total liabilities		<u>3,316,229,258</u>

#### Net assets

Invested in capital assets		206,202
Restricted (Note 7):		
Loan Programs		1,340,654,907
Operating Reserve		7,449,141
Unrestricted		8,532,138
Total net assets	\$	<u>1,356,842,388</u>

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

**Virginia Resources Authority**

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

**Year Ended June 30, 2012**

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<b>Operating revenues</b>	
Interest on loans	\$ 118,796,383
Investment income	13,189,773
Bond administrative fees	2,400,775
Loan administrative fees	1,674,125
Administrative reimbursement	400,234
Gain on early extinguishment of loans	1,132,662
Other income	349,687
Total operating revenues	<u>137,943,639</u>
<b>Operating expenses</b>	
Interest on bonds and loans	123,917,412
Grants to local governments	5,600,232
Principal forgiveness loans	6,073,003
Loss on early extinguishment of bonds	1,941,069
Personnel services	1,440,715
General operating	618,621
Contractual services	547,687
Total operating expenses	<u>140,138,739</u>
<b>Operating loss</b>	(2,195,100)
<b>Nonoperating revenues</b>	
Contributions from other governments (Note 9)	47,125,511
Contributions from other governments - ARRA (Note 9)	3,004,983
Interest subsidy - Build America Bonds	2,879,058
Total nonoperating revenues	<u>53,009,552</u>
<b>Nonoperating expense</b>	
Interest subsidy passthrough - Build America Bonds	<u>(2,796,451)</u>
<b>Change in net assets</b>	48,018,001
<b>Total net assets - beginning</b>	<u>1,308,824,387</u>
<b>Total net assets - ending</b>	<u>\$ 1,356,842,388</u>

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

# Virginia Resources Authority

## Statement of Cash Flows Year Ended June 30, 2012

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<b>Cash flows from operating activities</b>	
Cash payments to localities for loans	\$ (788,257,159)
Principal repayments from localities on loans	210,808,304
Interest received on loans	120,984,168
Bond administrative fees received	2,122,495
Loan administrative fees received	1,854,535
Federal administrative reimbursement funds received	421,956
Cash received from other income	349,824
Cash payments for salaries and related benefits	(1,455,338)
Cash payments for contractual services	(567,315)
Cash payments for general operating expenses	(635,279)
Cash payments for operating grants	(5,600,232)
Cash payments for principal forgiveness loans	(6,073,003)
Interest paid on loans	(139,594)
Interest paid on bonds	(124,607,204)
<b>Net cash used in operating activities</b>	<u>(590,793,842)</u>
<b>Cash flows from noncapital financing activities</b>	
Proceeds from sale of bonds	724,113,615
Bond issuance costs	(4,821,629)
Principal paid on loans	(1,568,944)
Principal paid on bonds	(134,688,450)
Cash paid to escrow for defeased bonds	(45,911,823)
Arbitrage rebate	(3,170,565)
Proceeds from interest subsidy - Build America Bonds	2,879,058
Cash payments to localities for interest subsidy	(2,796,451)
Contributions from other governments	45,075,349
Contributions from other governments - ARRA	3,004,983
<b>Net cash provided by noncapital financing activities</b>	<u>582,115,143</u>
<b>Cash flows from capital and financing related activities</b>	
Purchase of office equipment	(81,000)
<b>Net cash used in noncapital financing activities</b>	<u>(81,000)</u>
<b>Cash flows from investing activities</b>	
Purchase of investments	(53,093,196)
Proceeds from sales or maturities of investments	120,370,593
Interest received on investments - net	11,663,661
<b>Net cash provided by investing activities</b>	<u>78,941,058</u>
<b>Net increase in cash and cash equivalents</b>	70,181,359
<b>Cash and cash equivalents</b>	
<b>Beginning of year</b>	<u>270,779,761</u>
<b>End of year</b>	<u>\$ 340,961,120</u>

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, 2012**

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<b>Reconciliation of operating income</b>	
<b>to net cash used in operating activities</b>	
Operating loss	\$ (2,195,100)
Adjustments to reconcile operating loss	
to net cash used in operating activities:	
Depreciation	3,555
Interest on investments	(13,189,773)
Gain on early extinguishment of loans	(1,132,662)
Loss on early extinguishment of bonds	1,941,069
Interest on loans	(7,529)
Interest on bonds, amortization and accretion - net	(8,638,368)
Effect of changes in operating assets and liabilities:	
Loans receivables	(577,390,861)
Loan interest receivable	4,412,835
Loan administrative fee receivable	90,811
Other receivables	21,860
Deferred charges	5,592,031
Other current assets	(20,533)
Accounts payable and other liabilities	(92,495)
Unearned revenue	(188,682)
Total adjustments	<u>(588,598,742)</u>
<b>Net cash used in operating activities</b>	<u>\$ (590,793,842)</u>

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

**1. Organization and Nature of Activities**

The *Virginia Resources Authority* (Authority) was created in 1984 by an Act of the General Assembly of the Commonwealth of Virginia. The Authority encourages the investment of both public and private funds and is authorized to make loans and grants available to local governments to finance such projects as: water, sewer, storm drainage, solid waste disposal, federal facilities, public safety, aviation, brownfield 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 (VDSFPPF), the Equipment and Term Financing program (ETF), the Virginia Transportation Infrastructure Bank (VTIB), and the Virginia Brownfield Restoration and Economic Development Assistance Fund (VBAF) 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 updated to align 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. Local governments 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.

The Virginia Transportation Infrastructure Bank (VTIB) was created during the 2010 General Assembly Session to finance the design and construction of roads and highways, including toll facilities, mass transit, freight, passenger and commuter rail, including rolling stock, port, airport and other transportation facilities. The Authority is the manager of VTIB and performs certain duties under an agreement with the Commonwealth Transportation Board and the Secretary of Finance. VTIB is capitalized with appropriations by the General Assembly. VTIB is a subfund of the Transportation Trust Fund and only reimbursement and expenses incurred are reflected in the Authority's financial statements.

The Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund (VBAF) was created in 2002 for the purposes of promoting the restoration and redevelopment of brownfield sites and to address environmental problems or obstacles to reuse so that these sites can be effectively marketed to new economic development

prospects. Funds were generally not available in the VBAF until 2012. The Virginia Economic Development Partnership, DEQ, and the Authority jointly administer the VBAF.

## **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 three years ended June 30, 2012 and there was no reduction in insurance coverage during fiscal year 2012.

### **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, net of an allowance for loan losses, if any. 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 unearned 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**

The allowance for loan losses is maintained to cover possible losses inherent in the loan portfolio based on management's evaluation of the loan portfolio, giving consideration to various factors, including collateral value, past loan loss experience, current facts, and economic conditions. The allowance is based on management's estimates, and ultimate losses may vary from current estimates.

For loans underwritten by the Authority an annual review is performed on a risk-based sample of 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, 2012, all loan payments were current and there were no loans in payment default. In addition, there were no loans that were determined to have repayment issues based on the annual review.

The AgBMP loans, included with the VWFRF accounts and discussed in Footnote 1, were determined to have a loan loss. The allowance for loan losses in relation to the AgBMP loans was \$30,000 as of June 30, 2012.

### **Capital Assets**

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000. 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, 2012, 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, 2012.

### **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

**Virginia Resources Authority**

**Notes to Financial Statements**

**June 30, 2012**

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, 2012, the Authority had the following cash equivalents and investments and maturities:

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Commercial Paper	\$ 59,305,716	\$ 59,305,716	\$ -	\$ -	\$ -
Corporate Bonds and Notes	560,544	65,434	495,110	-	-
Guaranteed Investment Contracts	69,860,672	1,970,519	14,355,191	12,466,754	41,068,208
Local Government Investment Pool	211,242,134	211,242,134	-	-	-
Money Market Funds	20,523	20,523	-	-	-
Money Market Funds-Gov't Securities	42,435,939	42,435,939	-	-	-
U.S. Agency Securities	2,118,810	555,614	1,513,127	37,079	12,990
U.S. Treasury Securities	215,687,168	5,050,309	9,515,375	18,389,391	182,732,093
Totals	\$ 601,231,506	\$ 320,646,188	\$ 25,878,803	\$ 30,893,224	\$ 223,813,291

**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.

**Virginia Resources Authority**  
**Notes to Financial Statements**  
**June 30, 2012**

At June 30, 2012, the Authority had the following cash equivalents and investments and ratings:

<b>Investment</b>	<b>Fair Value</b>	<b>Standard &amp; Poor's Rating</b>	<b>Percent of Portfolio</b>
Prime Quality Commercial Paper	59,305,716	A-1+	9.86%
Corporate Bonds and Notes	66,014	AA+	0.01%
Corporate Bonds and Notes	99,079	AA	0.02%
Corporate Bonds and Notes	395,451	AA-	0.07%
Guaranteed Investment Contracts	69,860,672	See below	11.62%
Local Government Investment Pool	211,242,134	AAAm	35.13%
Money Market Funds	20,523	AAAm	0.00%
Money Market Funds - Government Securities	42,435,939	AAAm	7.06%
U.S. Agency Securities	2,118,810	AA+	0.35%
U.S. Treasury Securities	215,687,168	AA+	35.88%
Totals	<u>\$ 601,231,506</u>		<u>100.00%</u>

The Guaranteed Investment Contracts (GICs) that comprise 11.62% of the investment portfolio were entered into based upon the credit rating of the GIC provider. The Moody's ratings of the GIC providers are as follows:

<b>Provider</b>	<b>Fair Value</b>	<b>Moody's Rating</b>	<b>Percent of Portfolio</b>
Salomon Smith Barney (Citigroup)	4,783,303	A3**	0.80%
FSA / Assured Guaranty	<u>65,077,369</u>	Aa3	<u>10.82%</u>
Totals	<u>\$ 69,860,672</u>		<u>11.62%</u>

\*\* 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. The maximum percentage of the portfolio permitted in each security (by fund type) is as follows:



**Disbursement Funds**

<b>Investment Type</b>	<b>Fair Value</b>	<b>Percent of Portfolio</b>	<b>Maximum</b>
Prime Quality Commercial Paper	-	0%	25%
Corporate Bonds and Notes	-	0%	25%
Local Government Investment Pool	198,535,814	100%	100%
Money Market Funds	-	0%	10%
Money Market Funds-Gov't Securities	-	0%	100%
U.S. Agency Securities	-	0%	100%
U.S. Treasury Securities	-	0%	100%
Totals			
	\$ 198,535,814	100%	

**Appropriated Funds**

<b>Investment Type</b>	<b>Fair Value</b>	<b>Percent of Portfolio</b>	<b>Maximum</b>
Prime Quality Commercial Paper	-	0%	25%
Corporate Bonds and Notes	-	0%	25%
Local Government Investment Pool	12,696,450	100%	100%
Money Market Funds	-	0%	10%
Money Market Funds-Gov't Securities	-	0%	100%
U.S. Agency Securities	-	0%	100%
U.S. Treasury Securities	-	0%	100%
Totals			
	\$ 12,696,450	100%	

**General Fund**

<b>Investment Type</b>	<b>Fair Value</b>	<b>Percent of Portfolio</b>	<b>Maximum</b>
Prime Quality Commercial Paper	2,098,575	18%	25%
Corporate Bonds and Notes	560,544	5%	25%
Local Government Investment Pool	9,870	0%	100%
Money Market Funds	-	0%	10%
Money Market Funds-Gov't Securities	5,409,430	46%	100%
U.S. Agency Securities	2,118,810	18%	100%
U.S. Treasury Securities	1,679,828	14%	100%
Totals			
	\$ 11,877,057	100%	

As of June 30, 2012, bond fund investments totaled \$378,122,185. 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, 2012, excluding U.S. Government guaranteed obligations, the Virginia Local Government Investment Pool, money market funds, prime quality commercial paper, 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, 2012, the Authority had the following investments and maturities:

**Virginia Resources Authority**  
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**Disbursement Funds**

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Local Government Investment Pool	\$ 198,535,814	\$ 198,535,814	\$ -	\$ -	\$ -
	\$ 198,535,814	\$ 198,535,814	\$ -	\$ -	\$ -
Average maturity of all investments					1 Day

**Appropriated Funds**

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Local Government Investment Pool	\$ 12,696,450	\$ 12,696,450	\$ -	\$ -	\$ -
	\$ 12,696,450	\$ 12,696,450	\$ -	\$ -	\$ -
Average maturity of all investments					1 Day

**General Fund**

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Prime Commercial Paper	\$ 2,098,575	\$ 2,098,575	\$ -	\$ -	\$ -
Corporate Bonds and Notes	560,544	65,434	495,110	-	-
Local Government Investment Pool	9,870	9,870	-	-	-
Money Market Funds-Gov't Securities:	5,409,430	5,409,430	-	-	-
U.S. Agency Securities	2,118,810	555,614	1,513,127	37,079	12,990
U.S. Treasury Securities	1,679,828	498,547	1,181,281	-	-
Totals	\$ 11,877,057	\$ 8,637,470	\$ 3,189,518	\$ 37,079	\$ 12,990
Average maturity of all investments					73 Days

**Bond Fund**

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Prime Commercial Paper	\$ 57,207,141	\$ 57,207,141	\$ -	\$ -	\$ -
Guaranteed Investment Contracts	69,860,672	1,970,519	14,355,191	12,466,754	41,068,208
Money Market Funds	20,523	20,523	-	-	-
Money Market Funds-Gov't Securities:	37,026,509	37,026,509	-	-	-
U.S. Treasury Securities	214,007,340	4,551,762	8,334,094	18,389,391	182,732,093
	\$ 378,122,185	\$ 100,776,454	\$ 22,689,285	\$ 30,856,145	\$ 223,800,301
Average maturity of all investments					4,034 Days

The General Fund includes \$50,069 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, 2012, all of the Authority's deposits and investments are held and insured by a qualified public depository in the Authority's name.

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*Notes to Financial Statements*  
**June 30, 2012**

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**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, 2012:

Loans receivable related to bond issues:	
Revenue Bonds	\$ 2,058,638,456
Airport Revolving Fund Revenue Bonds	56,455,812
Unamortized discount/premium and cost of issuance – net	99,850,641
<b>Subtotal – loans receivable related to bond issues</b>	<u>2,214,944,909</u>
Loans receivable related to revolving loan funds:	
VWFRF	694,033,376
VWFRF – Leveraged	912,046,985
VWFRF – AgBMP	7,099,516
VWSRF	126,771,814
<b>Subtotal – loans receivable related to revolving loan funds</b>	<u>1,739,951,691</u>
Loans receivable related to ETF loans:	<u>4,100,079</u>
<b>Subtotal – loans receivable</b>	3,958,996,679
Less: Allowance for loan losses - AgBMP	<u>(30,000)</u>
<b>Total loans receivable</b>	<u><u>\$ 3,958,966,679</u></u>
Loans receivable – current	\$ 191,377,427
Loans receivable – noncurrent	3,767,589,252
	<u><u>\$ 3,958,966,679</u></u>

VFPF and other bonds secured by the Commonwealth’s moral obligation all have bond indentures that require either the Authority or the borrower to deposit with the trustee an amount of funds relating to the annual principal and interest payments required on the bonds. These capital reserve funds are available for use by the Authority to pay debt service on the bonds if the borrower defaults on any interest or principal payment on the loans. Capital reserve funds are included as investments in the accompanying statement of net assets with the offsetting liability reflected as a reduction of loans receivable.

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.

**Virginia Resources Authority**

**Notes to Financial Statements**

**June 30, 2012**

Loans that are outstanding related to bond issuances have rates that range from 1.25% - 6.29% and final maturities that range from fiscal years 2012 to 2043.

The Authority also has outstanding loans to various localities and other governmental entities in the Commonwealth of Virginia from the VWFRF, VWSRF, VARF, and the ETF. These loans range in final maturity from fiscal years 2012 to 2043 and accrue interest at various rates of interest ranging from 0% to 5.79%. As of June 30, 2012, the Authority is also obligated under outstanding commitment letters and undisbursed loans and grants to disburse approximately:

<u>Type</u>	<u>VWFRF</u>	<u>VWSRF</u>	<u>VARF</u>	<u>Total</u>
Committed, to be disbursed:				
Revolving fund	\$ 84,550,869	\$ 7,620,214	\$ 192,913	\$ 92,363,996
Leveraged bonds	49,705,719	-	-	49,705,719
Commitment letter only (loan or grant not closed)	44,362,901	8,157,200	753,000	53,273,101

There were no loan commitments related the Equipment and Term Financing Leases at June 30, 2012.

At June 30, 2012, there were no loan receivables that were in payment default. Loan loss expense in relation to the AgBMP program totaled \$58,556 for the year ended June 30, 2012.

**5. Capital Assets**

Capital asset activity for the year ended June 30, 2012 was as follows:

	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2011</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2012</b>
Capital assets, not being depreciated:				
Software Development (CIP)	\$ 114,833	\$ 81,000	\$ -	\$ 195,833
Capital assets, being depreciated				
Office Equipment	59,945	-	-	59,945
Less accumulated depreciation	46,021	3,555	-	49,576
Total capital assets being depreciated, net	13,924	(3,555)	-	10,369
Capital assets, net	<u>\$ 128,757</u>	<u>\$ 77,445</u>	<u>\$ -</u>	<u>\$ 206,202</u>

Depreciation expense was \$3,555 for the year ended June 30, 2012.

**Virginia Resources Authority**  
**Notes to Financial Statements**  
**June 30, 2012**

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**6. Bonds Payable**

The authority had the following bonds payable outstanding as of June 30, 2012:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
<i>Revenue Bonds:</i>		
Series 1999A, dated October 15, 1999, interest rates ranging from 4.00% to 5.80%, final due date October 1, 2024	\$ 4,500,000	\$ 3,055,000
Series 2000A, dated March 1, 2000, interest rates ranging from 4.10% to 5.80%, final due date May 1, 2030; \$1,765,000 of the bonds defeased in 2010	36,535,000	195,000
Series 2000C, dated October 1, 2000, interest rates ranging from 4.70% to 5.00%, final due date October 1, 2021	4,640,000	2,910,000
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; \$915,000 of the bonds defeased in 2011	29,140,000	1,420,000
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 \$17,541,739 accretion for capital appreciation bonds.	27,537,167	45,078,906
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	32,440,000
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	11,230,000
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; \$985,000 of the bonds defeased in 2011	42,845,000	965,000

*Virginia Resources Authority*

*Notes to Financial Statements*

June 30, 2012

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<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
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	\$ 8,620,000
Series 2002C (Non-AMT), dated December 5, 2002, interest rates ranging from 2.00% to 5.00%, final due date April 1, 2033; \$15,900,000 of the bonds defeased in 2010; \$2,030,000 of the bonds defeased in 2011	23,510,000	275,000
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	410,000
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; \$2,215,000 of the bonds defeased in 2010; \$1,150,000 of the bonds defeased in 2011	53,790,000	37,410,000
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; \$530,000 of the bonds defeased in 2011	32,415,000	25,810,000
Series 2003A (Non-AMT), dated May 21, 2003, interest rates ranging from 3.00% to 4.60%, final due date May 1, 2028; \$22,255,000 of the bonds defeased in 2010	38,915,000	2,375,000
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	7,290,000
Series 2004A 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; \$5,780,000 of the bonds defeased in 2011	60,630,000	20,065,000
Series 2004A 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; \$2,500,000 of the bonds defeased in 2011	32,515,000	8,675,000
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	400,000



*Virginia Resources Authority*

*Notes to Financial Statements*

June 30, 2012

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<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
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	\$ 21,335,000
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	10,360,000
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	9,575,000
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	4,350,000
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	15,605,000
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	6,750,000
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	4,710,000
Series 2005C Senior (Non-AMT), dated December 7, 2005, interest rates ranging from 4.63% to 5.00%, final due date November 1, 2035; \$1,275,000 of the bonds defeased in 2011	36,710,000	28,535,000
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	2,030,000
Series 2005C Subordinate (Non-AMT), dated December 7, 2005, interest rates ranging from 4.00% to 4.75%, final due date November 1, 2035; \$595,000 of the bonds defeased in 2011	16,365,000	12,560,000
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	1,415,000
Series 2006A Senior (Non-AMT), dated June 8, 2006, interest rates ranging from 3.50% to 5.00%, final due date November 1, 2036	49,145,000	41,425,000

*Virginia Resources Authority*

*Notes to Financial Statements*

June 30, 2012

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<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
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	\$ 450,000	\$ 290,000
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	22,280,000
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	15,750,000
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	7,320,000
Series 2006C Senior (Non-AMT), dated December 14, 2006, interest rates ranging from 4.00% to 5.00%, final due date November 1, 2036; \$2,815,000 of the bonds defeased in 2011	45,935,000	35,190,000
Series 2006C Subordinate (Non-AMT), dated December 14, 2006, interest rates ranging from 3.50% to 4.375%, final due date November 1, 2036; \$1,025,000 of the bonds defeased in 2011	22,860,000	17,590,000
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	22,230,000
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	11,055,000
Series 2007B Senior (AMT), dated December 13, 2007, interest rates ranging from 3.60% to 5.00%, final due date November 1, 2027	7,530,000	6,495,000
Series 2007B Senior (Non-AMT), dated December 13, 2007, interest rates ranging from 3.30% to 5.00%, final due date November 1, 2037; \$1,740,000 of the bonds defeased in 2011	38,470,000	33,455,000
Series 2007B Subordinate (AMT), dated December 13, 2007, interest rates ranging from 3.60% to 5.00%, final due date November 1, 2027;	3,245,000	2,800,000

*Virginia Resources Authority*

*Notes to Financial Statements*

June 30, 2012

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<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
Series 2007B Subordinate (Non-AMT), dated December 13, 2007 interest rates ranging from 3.30% to 5.00%, final due date November 1, 2037; \$1,350,000 of the bonds defeased in 2011	\$ 18,410,000	\$ 15,580,000
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	42,490,000
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	19,730,000
Series 2008B Senior (Non-AMT), dated December 10, 2008, interest rates ranging from 3.00% to 5.125%, final due date November 1, 2038; \$878,900 of the bonds defeased in 2009; \$3,695,000 of the bonds defeased in 2011	147,495,000	134,024,550
Series 2008B Subordinate (Non-AMT), dated December 10, 2008, interest rates ranging from 3.00% to 5.25%, final due date November 1, 2038; \$1,580,000 of the bonds defeased in 2011	67,945,000	62,415,000
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	38,455,000
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	67,780,000
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	17,285,000
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	39,370,000
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

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
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	\$ 77,300,000
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	36,115,000
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	48,290,000
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	22,235,000
Series 2010B Infrastructure Revenue Bonds, dated August 18, 2010, interest rates ranging from 1.25 to 5.00%, final due date November 1, 2040.	28,320,000	28,320,000
Series 2010B State Moral Obligation, dated August 18, 2010, interest rates ranging from 2.00 to 5.00%, final due date November 1, 2040.	12,910,000	12,910,000
Series 2010C Infrastructure Revenue Bonds (Tax-Exempt), dated November 23, 2010, interest rates ranging from 2.00 to 5.00%, final due date November 1, 2033.	59,635,000	57,860,000
Series 2010C Infrastructure Revenue Bonds (Taxable - Build America Bonds), dated November 23, 2010, interest rates ranging from 3.83 to 5.79%, final due date November 1, 2040.	54,740,000	54,740,000
Series 2010C State Moral Obligation (Tax-Exempt), dated November 23, 2010, interest rates ranging from 2.50 to 5.00%, final due date November 1, 2033.	26,395,000	25,625,000
Series 2010C State Moral Obligation Bonds (Taxable - Build America Bonds), dated November 23, 2010, interest rates ranging from 6.19 to 6.29%, final due date November 1, 2040.	25,920,000	25,920,000

*Virginia Resources Authority*

*Notes to Financial Statements*

June 30, 2012

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<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
Series 2011A Infrastructure Revenue Bonds (Tax-Exempt), dated June 2, 2011, interest rates ranging from 2.00 to 5.00%, final due date November 1, 2041.	\$ 50,795,000	\$ 50,635,000
Series 2011A Infrastructure Revenue Bonds (Taxable), dated June 2, 2011, interest rates ranging from 3.80 to 5.10%, final due date November 1, 2031.	6,455,000	6,455,000
Series 2011A State Moral Obligation (Tax-Exempt), dated June 2, 2011, interest rates ranging from 2.00 to 5.00%, final due date November 1, 2041.	21,475,000	21,415,000
Series 2011A State Moral Obligation Bonds (Taxable), dated June 2, 2011, interest rates ranging from 3.95 to 5.25%, final due date November 1, 2031.	2,790,000	2,790,000
Series 2011B Infrastructure Revenue Bonds (Tax-Exempt), dated November 16, 2011, interest rates ranging from 2.00 to 5.00%, final due date November 1, 2041.	129,660,000	129,660,000
Series 2011B Infrastructure Revenue Bonds (Taxable), dated November 16, 2011, interest rates ranging from 4.05 to 4.65%, final due date November 1, 2041.	27,750,000	27,750,000
Series 2011B State Moral Obligation (Tax-Exempt), dated November 16, 2011, interest rates ranging from 2.00 to 5.00%, final due date November 1, 2041.	55,635,000	55,635,000
Series 2011B State Moral Obligation Bonds (Taxable), dated November 16, 2011, interest rates ranging from 4.50 to 5.05%, final due date November 1, 2041.	12,935,000	12,935,000
Series 2012A Infrastructure Revenue Bonds, dated June 13, 2012, interest rates ranging from 2.00 to 5.00%, final due date November 1, 2042.	205,405,000	205,405,000
Series 2012A State Moral Obligation, dated June 13, 2012, interest rates ranging from 2.00 to 5.00%, final due date November 1, 2042.	92,735,000	92,735,000
Series 2012A-1 Infrastructure Revenue Bonds, dated June 13, 2012, interest rates ranging from 2.00 to 5.00%, final due date November 1, 2042.	31,705,000	31,705,000
Series 2012A-1 State Moral Obligation, dated June 13, 2012, interest rates ranging from 2.00 to 5.00%, final due date November 1, 2042.	14,365,000	14,365,000

*Virginia Resources Authority*

*Notes to Financial Statements*

June 30, 2012

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<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
<i>Airport Revolving Fund Revenue Bonds:</i>		
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	\$ 3,025,000
Series 2002B (AMT), dated July 3, 2002, interest rates ranging from 3.00% to 5.125%, final due date August 1, 2027	2,590,000	1,875,000
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	1,550,000
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	6,455,000
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	2,790,000
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	4,760,000
Series 2011A (Non-AMT) (Refunding), dated August 23, 2011, interest rates ranging from 2.00% to 5.00%, final due date August 1, 2027	16,425,000	16,425,000
Series 2011B (AMT) (Refunding), dated August 23, 2011, interest rates ranging from 2.00% to 5.00%, final due date August 1, 2026	16,725,000	16,725,000
<i>Virginia Water Facilities Revolving Fund Leveraged:</i>		
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	124,410,000
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	225,090,000
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	175,215,000
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	83,450,000

*Virginia Resources Authority*  
*Notes to Financial Statements*  
**June 30, 2012**

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
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 2011B CWSRF, dated September 28, 2011, interest rates ranging from 2.00% to 5.00%, final due date October 1, 2034	34,655,000	34,655,000
		<hr/>
<b>Total bonds at June 30</b>		3,090,678,456
Unamortized discounts/premiums		188,948,095
<b>Total bonds – net</b>		<u><u>\$ 3,279,626,551</u></u>
Total bonds outstanding as of June 30:		\$ 3,090,678,456
Unaccreted Capital Appreciation Bonds as of June 30		39,276,094
<b>Total outstanding maturities</b>		<u><u>\$ 3,129,954,550</u></u>
Bonds payable – current		\$ 125,341,200
Bonds payable – noncurrent		3,154,285,351
		<u><u>\$ 3,279,626,551</u></u>

Activity in the bonds payable and related accounts for fiscal year 2012 was as follows:

<u>Description</u>	<u>Balance at June 30, 2011</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at June 30, 2012</u>	<u>Amount Due Within One Year</u>
Total bonds outstanding	\$ 2,626,917,427	\$ 641,010,000	\$ (177,248,971)	\$ 3,090,678,456	\$113,711,100
Unamortized discounts / premiums	117,485,263	82,610,609	(11,147,777)	188,948,095	11,630,100
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 2,744,402,690	\$ 723,620,609	\$(188,396,748)	\$ 3,279,626,551	\$ 125,341,200

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.

**Virginia Resources Authority**

**Notes to Financial Statements**

**June 30, 2012**

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At June 30, 2012, \$801,383,906 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 includes Capital Appreciation Bonds with unaccreted values of \$39,276,094 as of June 30, 2012.

**Advance Refundings**

During the current year, the Authority issued Airport Revolving Fund Revenue Bonds, Series 2011A and 2011B and Virginia Pooled Financing Program Revenue Bonds, Series 2011B, 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:

<u>Issue</u>	<u>Principal Defeased</u>	<u>Difference between Previous and New Debt Service</u>	<u>Economic Gain as a Result of the Refunding</u>
VARF 2001A Series - Non-AMT	\$ 20,070,000	\$ 6,479,545	\$ 2,815,721
VARF 2001B Series - AMT	17,775,000	2,339,490	1,771,222
2001A Series	915,000	118,670	108,182
2002A Series	985,000	151,860	128,528
2002C Series	2,030,000	213,992	159,509
2004A Series	8,280,000	375,795	313,174
	<u>\$ 50,055,000</u>	<u>\$ 9,679,352</u>	<u>\$ 5,296,336</u>

The amount outstanding at June 30, 2012 for bonds which have been in-substance defeased or refunded was \$190,905,450. In addition to the refundings noted above, this includes bonds that were in-substance defeased during the current and prior years: Series 2002D, Series 2002E, Series 2003, Series 2004A, Series 2004B, CWSRF Series 2004, Series 2005C, Series 2006A, Series 2006C, Series 2007B, and Series 2008B.



*Virginia Resources Authority*

*Notes to Financial Statements*

June 30, 2012

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

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	113,711,100	141,892,119	255,603,219
2014	126,923,450	139,057,487	265,980,937
2015	134,475,000	133,784,088	268,259,088
2016	140,415,000	127,906,117	268,321,117
2017	154,405,000	121,446,747	275,851,747
2018-2022	754,830,000	501,663,009	1,256,493,009
2023-2027	713,105,000	329,971,357	1,043,076,357
2028-2032	588,515,000	166,100,268	754,615,268
2033-2037	281,375,000	59,876,341	341,251,341
2038-2042	112,330,000	14,535,534	126,865,534
2043	9,870,000	223,425	10,093,425
<b>Total</b>	<b>\$ 3,129,954,550</b>	<b>\$ 1,736,456,492</b>	<b>\$ 4,866,411,042</b>

**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 capital assets), 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, 2012 the cash, cash equivalents, and investments restricted for use related to the Operating Reserve Fund amounted to \$7,449,141.

**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 2013 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.

Unearned 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 \$2,664,231 at June 30, 2012 (\$210,295 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 up to 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, 2012 an accrual for employee compensated absences in the amount of \$95,966 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 2012:

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012	Due Within one year
Loans Payable	\$ 5,663,892	\$ -	\$ 1,568,943	\$ 4,094,949	\$ 1,592,801
Arbitrage Rebate Liability	3,586,703	2,665,306	3,170,565	3,081,444	-
Unearned revenue	2,381,648	493,006	210,423	2,664,231	210,295
Accrued leave	100,029	-	4,063	95,966	95,966

**9. Contributions from Other Governments**

During the year the Authority received \$42,560,830 from the EPA under the Capitalization Grants for State Revolving Funds and \$3,004,983 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 \$4,064,681 from the Commonwealth as part of the required state match of federal funds, plus another \$500,000 from the Commonwealth for the VBAF.

**10. Employee Benefit Plans**

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.

**A. Plan Descriptions**

All full-time, salaried permanent (professional) employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for members is 1.70%. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

The Authority's Board of Directors has elected to continue contributing the 5% employee contribution amount for all eligible Plan 1 and Plan 2 employees.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. 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 General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information VRS. A copy of the report may be obtained from the VRS web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or obtained by writing to the System's Chief Financial Officer 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, 2012 was 14.42% of the annual covered payroll.

**C. Annual Pension Cost**

For fiscal year 2012, the Authority’s annual pension cost of \$161,044 was equal to the Authority’s required and actual contributions.

Trend information for the Authority is as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$ 161,044	100%	-
June 30, 2011	\$ 117,133	100%	-
June 30, 2010	\$ 98,593	100%	-

The FY12 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) 7.0% 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.

**D. Funded Status and Funding Progress**

As of June 30, 2011, the most recent actuarial valuation date, the plan was 115.31% funded. The actuarial accrued liability for benefits was \$488,037 and the actuarial value of assets was \$562,749, resulting in a funding excess of \$74,712. The covered payroll (annual payroll of active employees covered by the plan) was \$906,923 and the ratio of the funding excess to the covered payroll was 8.24%.

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, 2012, 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 \$114,054 for the year ended June 30, 2012. The future minimum rental payments are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2013	\$ 116,218
2014	119,123
2015	122,102
2016	125,154
2017	117,348
	<u>\$ 599,945</u>

**13. Subsequent Events**

Subsequent to June 30, 2012, a complaint was filed on July 2, 2012 in the Circuit Court of Shenandoah County, seeking to declare the prior purchase by the Virginia Resources Authority (“VRA”) of certain bonds of the RSW Regional Jail Authority from the proceeds of VRA’s Infrastructure and State Moral Obligation Revenue Bonds (Virginia Pooled Financing Program), Series 2012A-1 (the “2012A-1 VRA Bonds”), to be null and void. The lawsuit alleges that certain contractual obligations between the RSW Regional Jail Authority and Shenandoah County create a debt of Shenandoah County for which a referendum must be held under Virginia law, and a ruling in favor of the plaintiff with respect to that allegation could adversely impact the financing structure of the obligations of certain of the Local Government participants in the VRA Virginia Pooled Financing Program. Based upon the Virginia Supreme Court’s decision in *Dykes v. Northern Virginia Transp. Dist. Com’n.*, 411 S.E. 2d 1, 242 Va. 357 (Va. 1991) and other current law and court decisions, VRA believes that the case has no legal merit.

Subsequent to June 30, 2012, the Authority issued bonds in the amount of \$79,055,000, dated August 2, 2012. The interest rates range from 2% to 5% with a final due date of November 1, 2041.

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*Virginia Resources Authority*

*Required Supplementary Information*

June 30, 2012

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**Schedule of Funding Progress (unaudited):**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded Actuarial Accrued Liability (Funding Excess) (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
June 30, 2011	\$ 562,749	\$ 488,037	\$ (74,712)	115.31%	\$ 906,923	-8.24%
June 30, 2010	431,544	484,645	53,101	89.04%	760,085	6.99%
June 30, 2009	337,753	363,969	26,216	92.80%	745,129	3.52%

**Virginia Resources Authority**  
**Combining Schedule of Net Assets**  
**June 30, 2012**

	General Accounts	Virginia Revolving Loan Fund Accounts		Airport Accounts	Bond Accounts	Transportation Infrastructure Bank	Dam Safety Accounts	Equipment & Term Financing	Brownfields Accounts	Total
		Water Facilities	Water Supply							
<b>Assets</b>										
<b>Current assets</b>										
Cash	\$ 3,880,000	\$ 20,378,563	\$ 3,287,885	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 300,127	\$ 27,846,575
Cash equivalents	7,517,875	253,432,676	31,770,141	12,659,071	2,503,124	-	5,231,658	-	-	313,114,545
Investments	1,119,595	5,303,851	-	635,008	473,189	-	-	-	-	7,531,643
Loans receivable, net of allowance	-	101,356,819	5,275,338	4,119,767	79,027,572	-	-	1,597,931	-	191,377,427
<b>Receivables:</b>										
Investment interest	18,213	1,979,342	-	206,167	356,444	-	-	-	-	2,560,166
Loan interest	-	12,752,902	263,207	247,575	13,863,950	-	-	39,042	-	27,166,676
Loan administrative fees	-	558,677	33,895	-	416,396	-	-	3,431	-	1,012,399
Federal funds	-	3,036,255	89,196	-	-	-	-	-	-	3,125,451
Other	11,982	-	-	-	-	116,886	-	-	-	128,868
Deferred charges - current portion	-	2,760,171	-	117,333	5,162,013	-	-	-	-	8,039,517
Other	26,459	-	-	-	-	-	-	-	-	26,459
Total current assets	12,574,124	401,559,256	40,719,662	17,984,921	101,802,688	116,886	5,231,658	1,640,404	300,127	581,929,726
<b>Noncurrent assets</b>										
Investments	3,239,587	195,726,850	-	17,262,611	64,356,270	-	-	-	-	280,585,318
Loans receivable - less current - net	-	1,511,793,058	121,496,476	52,336,045	2,079,461,525	-	-	2,502,148	-	3,767,589,252
Deferred charges - less current - net	-	18,132,867	-	1,077,587	23,550,694	-	-	-	-	42,761,148
Capital assets - at cost -										
less accumulated depreciation	201,536	3,422	1,244	-	-	-	-	-	-	206,202
Total noncurrent assets	3,441,123	1,725,656,197	121,497,720	70,676,243	2,167,368,489	-	-	2,502,148	-	4,091,141,920
Total assets	16,015,247	2,127,215,453	162,217,382	88,661,164	2,269,171,177	116,886	5,231,658	4,142,552	300,127	4,673,071,646
<b>Liabilities</b>										
<b>Current liabilities</b>										
Loans payable - current portion	-	-	-	-	-	-	-	1,592,801	-	1,592,801
Bonds payable - current portion	-	42,052,845	-	3,930,884	79,357,471	-	-	-	-	125,341,200
Accrued interest on bonds payable	-	11,018,768	-	1,021,574	14,287,239	-	-	44,172	-	26,371,753
Due to (from) other accounts	(386,815)	118,973	117,400	21,217	-	116,886	8,908	3,431	-	-
Unearned revenue - current portion	-	95,128	-	4,176	110,991	-	-	-	-	210,295
Accounts payable and other liabilities	219,247	14,892	25,991	130,200	-	-	-	-	-	390,330
Total current liabilities	(167,568)	53,300,606	143,391	5,108,051	93,755,701	116,886	8,908	1,640,404	-	153,906,379
<b>Noncurrent liabilities</b>										
Loans payable - less current - net	-	-	-	-	-	-	-	2,502,148	-	2,502,148
Bonds payable - less current - net	-	926,900,356	-	52,785,061	2,174,599,934	-	-	-	-	3,154,285,351
Unearned revenue - less current - net	-	773,177	-	41,372	1,639,387	-	-	-	-	2,453,936
Arbitrage rebate liability	-	803,149	-	-	2,278,295	-	-	-	-	3,081,444
Total noncurrent liabilities	-	928,476,682	-	52,826,433	2,178,517,616	-	-	2,502,148	-	3,162,322,879
Total liabilities	(167,568)	981,777,288	143,391	57,934,484	2,272,273,317	116,886	8,908	4,142,552	-	3,316,229,258
<b>Net assets</b>										
Invested in capital assets	201,536	3,422	1,244	-	-	-	-	-	-	206,202
<b>Restricted:</b>										
Loan Programs	-	1,145,434,743	162,072,747	30,726,680	(3,102,140)	-	5,222,750	-	300,127	1,340,654,907
Operating Reserve	7,449,141	-	-	-	-	-	-	-	-	7,449,141
Unrestricted	8,532,138	-	-	-	-	-	-	-	-	8,532,138
Total net assets	\$ 16,182,815	\$ 1,145,438,165	\$ 162,073,991	\$ 30,726,680	\$ (3,102,140)	\$ -	\$ 5,222,750	\$ -	\$ 300,127	\$ 1,356,842,388

Virginia Resources Authority

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

Year Ended June 30, 2012

	General	Virginia Revolving Loan Fund Accounts		Airport	Bond	Transportation	Dam	Equipment &	Brownfields	Total
	Accounts	Water Facilities	Water Supply	Accounts	Accounts	Infrastructure	Safety	Term	Accounts	
						Bank	Accounts	Financing		
<b>Operating revenues</b>										
Interest on loans	\$ -	\$ 39,359,042	\$ 816,591	\$ 2,140,482	\$ 76,348,203	\$ -	\$ -	\$ 132,065	\$ -	\$ 118,796,383
Investment income	76,659	7,819,709	66,970	1,251,382	3,964,830	-	10,223	-	-	13,189,773
Bond administrative fees	-	90,982	-	3,906	2,305,887	-	-	-	-	2,400,775
Loan administrative fees	-	1,515,117	92,887	54,213	-	-	-	11,908	-	1,674,125
Administrative reimbursement	-	-	283,348	-	-	116,886	-	-	-	400,234
Gain on early extinguishment of loans	-	-	-	-	1,132,662	-	-	-	-	1,132,662
Other income	2,945	346,742	-	-	-	-	-	-	-	349,687
Total operating revenues	79,604	49,131,592	1,259,796	3,449,983	83,751,582	116,886	10,223	143,973	-	137,943,639
<b>Operating expenses</b>										
Interest on bonds and loans	-	41,604,631	-	2,453,282	79,727,434	-	-	132,065	-	123,917,412
Grants to local governments	-	884,351	4,282,489	-	-	-	233,519	-	199,873	5,600,232
Principal forgiveness loans	-	5,049,459	1,023,544	-	-	-	-	-	-	6,073,003
Loss on early extinguishment of bonds	-	-	-	-	1,941,069	-	-	-	-	1,941,069
Personnel services	742,535	360,717	184,831	64,336	-	70,325	17,971	-	-	1,440,715
General operating	272,722	246,865	52,447	38,210	-	4,084	4,293	-	-	618,621
Contractual services	213,442	161,972	70,026	58,298	-	42,477	1,472	-	-	547,687
Total operating expenses	1,228,699	48,307,995	5,613,337	2,614,126	81,668,503	116,886	257,255	132,065	199,873	140,138,739
<b>Operating income (loss)</b>	(1,149,095)	823,597	(4,353,541)	835,857	2,083,079	-	(247,032)	11,908	(199,873)	(2,195,100)
<b>Nonoperating revenue</b>										
Contributions from other governments	-	37,548,606	9,076,905	-	-	-	-	-	500,000	47,125,511
Contributions from other governments - ARRA	-	1,440,353	1,564,630	-	-	-	-	-	-	3,004,983
Interest subsidy - Build America Bonds	-	-	-	-	2,879,058	-	-	-	-	2,879,058
Total nonoperating revenues	-	38,988,959	10,641,535	-	2,879,058	-	-	-	500,000	53,009,552
<b>Nonoperating expense</b>										
Interest subsidy pass-through - Build America Bonds	-	-	-	-	(2,796,451)	-	-	-	-	(2,796,451)
<b>Income (loss) before transfers</b>	(1,149,095)	39,812,556	6,287,994	835,857	2,165,686	-	(247,032)	11,908	300,127	48,018,001
<b>Transfers</b>	2,579,365	-	-	-	(2,567,457)	-	-	(11,908)	-	-
<b>Change in net assets</b>	1,430,270	39,812,556	6,287,994	835,857	(401,771)	-	(247,032)	-	300,127	48,018,001
<b>Total net assets - beginning</b>	14,752,545	1,105,625,609	155,785,997	29,890,823	(2,700,369)	-	5,469,782	-	-	1,308,824,387
<b>Total net assets - ending</b>	\$ 16,182,815	\$ 1,145,438,165	\$ 162,073,991	\$ 30,726,680	\$ (3,102,140)	\$ -	\$ 5,222,750	\$ -	\$ 300,127	\$ 1,356,842,388



Virginia Resources Authority

Combining Schedule of Cash Flows  
Year Ended June 30, 2012

	General Accounts	Virginia Revolving Loan Fund Accounts		Airport Accounts	Bond Accounts	Transportation Infrastructure Bank	Dam Safety Accounts	Equipment & Term Financing	Brownfields Accounts	Total
		Water Facilities	Water Supply							
<b>Cash flows from operating activities</b>										
Cash payments to localities for loans	\$ -	\$ (142,429,893)	\$ (11,490,713)	\$ (2,046,087)	\$ (632,290,466)	\$ -	\$ -	\$ -	\$ -	\$ (788,257,159)
Principal repayments from localities on loans	-	103,653,527	5,049,827	3,977,686	96,563,450	-	-	1,563,814	-	210,808,304
Interest received on loans	-	42,991,639	745,609	2,180,161	74,922,035	-	-	144,724	-	120,984,168
Bond administrative fees received	-	-	-	-	2,122,495	-	-	-	-	2,122,495
Loan administrative fees received	-	1,709,972	77,211	54,213	-	-	-	13,139	-	1,854,535
Federal administrative reimbursement funds received	-	-	421,956	-	-	-	-	-	-	421,956
Cash received from other income	3,082	346,742	-	-	-	-	-	-	-	349,824
Cash payments for salaries and related benefits	(757,155)	(360,717)	(184,831)	(64,339)	-	(70,325)	(17,971)	-	-	(1,455,338)
Cash payments for contractual services	(233,070)	(161,972)	(70,026)	(58,298)	-	(42,477)	(1,472)	-	-	(567,315)
Cash payments for general operating expenses	(349,580)	(187,131)	(51,981)	(38,210)	-	(4,084)	(4,293)	-	-	(635,279)
Cash payments for operating grants	-	(884,351)	(4,282,489)	-	-	-	(233,519)	-	(199,873)	(5,600,232)
Cash payments for principal forgiveness loans	-	(5,049,459)	(1,023,544)	-	-	-	-	-	-	(6,073,003)
Interest paid on loans	-	-	-	-	-	-	-	(139,594)	-	(139,594)
Interest paid on bonds	-	(44,082,351)	-	(2,692,477)	(77,832,376)	-	-	-	-	(124,607,204)
Interfund activity	213,370	(131,488)	(163,151)	(6,851)	-	116,886	(27,535)	(1,231)	-	-
<b>Net cash provided by (used in) operating activities</b>	<b>(1,123,353)</b>	<b>(44,585,482)</b>	<b>(10,972,132)</b>	<b>1,305,798</b>	<b>(536,514,862)</b>	<b>-</b>	<b>(284,790)</b>	<b>1,580,852</b>	<b>(199,873)</b>	<b>(590,793,842)</b>
<b>Cash flows from noncapital financing activities</b>										
Proceeds from sale of bonds	-	40,054,774	-	36,501,629	647,557,212	-	-	-	-	724,113,615
Bond issuance costs	-	(545,795)	-	(393,439)	(3,882,395)	-	-	-	-	(4,821,629)
Principal paid on loans	-	-	-	-	-	-	-	(1,568,944)	-	(1,568,944)
Principal paid on bonds	-	(32,720,000)	-	(3,550,000)	(98,418,450)	-	-	-	-	(134,688,450)
Cash paid to escrow for defeased bonds	-	-	-	(38,139,542)	(7,772,281)	-	-	-	-	(45,911,823)
Arbitrage rebate	-	(3,170,565)	-	-	-	-	-	-	-	(3,170,565)
Proceeds from interest subsidy - Build America Bonds	-	-	-	-	2,879,058	-	-	-	-	2,879,058
Cash payments to localities for interest subsidy	-	-	-	-	(2,796,451)	-	-	-	-	(2,796,451)
Contributions from other governments	-	35,498,444	9,076,905	-	-	-	-	-	500,000	45,075,349
Contributions from other governments - ARRA	-	1,440,353	1,564,630	-	-	-	-	-	-	3,004,983
Cash received (paid) from other accounts	2,579,365	-	-	-	(2,567,457)	-	-	(11,908)	-	-
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>2,579,365</b>	<b>40,557,211</b>	<b>10,641,535</b>	<b>(5,581,352)</b>	<b>534,999,236</b>	<b>-</b>	<b>-</b>	<b>(1,580,852)</b>	<b>500,000</b>	<b>582,115,143</b>
<b>Cash flows from capital and financing related activities</b>										
Purchase of office equipment	(81,000)	-	-	-	-	-	-	-	-	(81,000)
<b>Net cash used in noncapital financing activities</b>	<b>(81,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(81,000)</b>
<b>Cash flows from investing activities</b>										
Purchase of investments	(3,133,622)	(22,795,671)	(1,274,553)	(11,624,882)	(14,264,468)	-	-	-	-	(53,093,196)
Proceeds from sales or maturities of investments	6,159,469	74,028,645	7,044,833	17,689,047	15,448,599	-	-	-	-	120,370,593
Interest received on investments - net	159,603	8,249,572	68,385	622,087	2,553,791	-	10,223	-	-	11,663,661
<b>Net cash provided by (used in) investing activities</b>	<b>3,185,450</b>	<b>59,482,546</b>	<b>5,838,665</b>	<b>6,686,252</b>	<b>3,737,922</b>	<b>-</b>	<b>10,223</b>	<b>-</b>	<b>-</b>	<b>78,941,058</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>4,560,462</b>	<b>55,454,275</b>	<b>5,508,068</b>	<b>2,410,698</b>	<b>2,222,296</b>	<b>-</b>	<b>(274,567)</b>	<b>-</b>	<b>300,127</b>	<b>70,181,359</b>
<b>Cash and cash equivalents</b>										
<b>Beginning of year</b>	<b>6,837,413</b>	<b>218,356,964</b>	<b>29,549,958</b>	<b>10,248,373</b>	<b>280,828</b>	<b>-</b>	<b>5,506,225</b>	<b>-</b>	<b>-</b>	<b>270,779,761</b>
<b>End of year</b>	<b>\$ 11,397,875</b>	<b>\$ 273,811,239</b>	<b>\$ 35,058,026</b>	<b>\$ 12,659,071</b>	<b>\$ 2,503,124</b>	<b>\$ -</b>	<b>\$ 5,231,658</b>	<b>\$ -</b>	<b>\$ 300,127</b>	<b>\$ 340,961,120</b>

Virginia Resources Authority

Combining Schedule of Cash Flows (Continued)  
Year Ended June 30, 2012

	General	Virginia Revolving Loan Fund Accounts		Airport	Bond	Transportation	Dam	Equipment &	Brownfields	Total
	Accounts	Water Facilities	Water Supply	Accounts	Accounts	Infrastructure Bank	Safety Accounts	Term Financing	Accounts	
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>										
Operating income (loss)	\$ (1,149,095)	\$ 823,597	\$ (4,353,541)	\$ 835,857	\$ 2,083,079	\$ -	\$ (247,032)	\$ 11,908	\$ (199,873)	\$ (2,195,100)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:										
Depreciation	1,955	1,173	427	-	-	-	-	-	-	3,555
Interest on investments	(76,659)	(7,819,709)	(66,970)	(1,251,382)	(3,964,830)	-	(10,223)	-	-	(13,189,773)
Gain on early extinguishment of loans	-	-	-	-	(1,132,662)	-	-	-	-	(1,132,662)
Loss on early extinguishment of bonds	-	-	-	-	1,941,069	-	-	-	-	1,941,069
Interest on loans	-	-	-	-	-	-	-	(7,529)	-	(7,529)
Interest on bonds, amortization and accretion - net	-	(5,231,951)	-	(349,982)	(3,056,435)	-	-	-	-	(8,638,368)
Effect of changes in operating assets and liabilities										
Loans receivables	-	(38,718,371)	(6,440,885)	1,931,599	(535,727,018)	-	-	1,563,814	-	(577,390,861)
Loan interest receivable	-	3,633,164	(70,978)	39,679	798,311	-	-	12,659	-	4,412,835
Loan administrative fee receivable	-	194,855	(15,676)	-	(89,599)	-	-	1,231	-	90,811
Other receivables	138	-	138,608	-	-	(116,886)	-	-	-	21,860
Deferred charges	-	2,754,230	-	110,784	2,727,017	-	-	-	-	5,592,031
Other current assets	(20,533)	-	-	-	-	-	-	-	-	(20,533)
Accounts payable and other liabilities	(92,529)	-	34	-	-	-	-	-	-	(92,495)
Unearned revenue	-	(90,982)	-	(3,906)	(93,794)	-	-	-	-	(188,682)
Due to (from) other funds	213,370	(131,488)	(163,151)	(6,851)	-	116,886	(27,535)	(1,231)	-	-
Total adjustments	25,742	(45,409,079)	(6,618,591)	469,941	(538,597,941)	-	(37,758)	1,568,944	-	(588,598,742)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (1,123,353)</b>	<b>\$ (44,585,482)</b>	<b>\$ (10,972,132)</b>	<b>\$ 1,305,798</b>	<b>\$ (536,514,862)</b>	<b>\$ -</b>	<b>\$ (284,790)</b>	<b>\$ 1,580,852</b>	<b>\$ (199,873)</b>	<b>\$ (590,793,842)</b>

Virginia Resources Authority

Combining Schedule of Net Assets

Virginia Revolving Loan Fund Accounts - Water Facilities

June 30, 2012

	Direct Loan Accounts	Leveraged Loan Accounts	Agricultural Best Management Practices Account	Combined Sewer Overflow Fund Account	Investment Fund Accounts	Administrative Fee Accounts	Total
<b>Assets</b>							
Current assets							
Cash	\$ 14,084,878	\$ -	\$ 2,519,460	\$ -	\$ 159,027	\$ 3,615,198	\$ 20,378,563
Cash equivalents	153,470,807	86,665,312	9,121,906	2,530,014	1,644,637	-	253,432,676
Investments	-	5,303,851	-	-	-	-	5,303,851
Loans receivable, net of allowance	54,212,336	44,390,376	2,754,107	-	-	-	101,356,819
Receivables:							
Investment interest	-	1,979,342	-	-	-	-	1,979,342
Loan interest	3,156,048	9,553,582	43,272	-	-	-	12,752,902
Loan administrative fees	-	-	-	-	-	558,677	558,677
Federal funds	3,036,255	-	-	-	-	-	3,036,255
Deferred charges - current portion	-	2,760,171	-	-	-	-	2,760,171
Total current assets	227,960,324	150,652,634	14,438,745	2,530,014	1,803,664	4,173,875	401,559,256
Noncurrent assets							
Investments	-	195,726,850	-	-	-	-	195,726,850
Loans receivable - less current - net	639,821,040	867,656,609	4,315,409	-	-	-	1,511,793,058
Deferred charges - less current - net	-	18,132,867	-	-	-	-	18,132,867
Capital assets - at cost -							
less accumulated depreciation	3,422	-	-	-	-	-	3,422
Total noncurrent assets	639,824,462	1,081,516,326	4,315,409	-	-	-	1,725,656,197
Total assets	867,784,786	1,232,168,960	18,754,154	2,530,014	1,803,664	4,173,875	2,127,215,453
<b>Liabilities</b>							
Current liabilities							
Bonds payable - current portion	-	42,052,845	-	-	-	-	42,052,845
Accrued interest on bonds payable	-	11,018,768	-	-	-	-	11,018,768
Due to other accounts	2,155,153	-	-	-	(2,135,780)	99,600	118,973
Unearned revenue - current portion	-	95,128	-	-	-	-	95,128
Accounts payable and other liabilities	-	14,892	-	-	-	-	14,892
Total current liabilities	2,155,153	53,181,633	-	-	(2,135,780)	99,600	53,300,606
Noncurrent liabilities							
Bonds payable - less current - net	-	926,900,356	-	-	-	-	926,900,356
Unearned revenue - less current - net	-	773,177	-	-	-	-	773,177
Arbitrage rebate liability	-	803,149	-	-	-	-	803,149
Total noncurrent liabilities	-	928,476,682	-	-	-	-	928,476,682
Total liabilities	2,155,153	981,658,315	-	-	(2,135,780)	99,600	981,777,288
<b>Net assets</b>							
Invested in capital assets	3,422	-	-	-	-	-	3,422
Restricted:							
Loan Programs	865,626,211	250,510,645	18,754,154	2,530,014	3,939,444	4,074,275	1,145,434,743
Total net assets	\$ 865,629,633	\$ 250,510,645	\$ 18,754,154	\$ 2,530,014	\$ 3,939,444	\$ 4,074,275	\$ 1,145,438,165

Virginia Resources Authority

Combining Schedule of Revenues, Expenses, and Changes in Net Assets  
Virginia Revolving Loan Fund Accounts - Water Facilities  
Year Ended June 30, 2012

	Direct Loan Accounts	Leveraged Loan Accounts	Agricultural Best Management Practices Account	Combined Sewer Overflow Fund Account	Investment Fund Accounts	Administrative Fee Accounts	Total
<b>Operating revenues</b>							
Interest on loans	\$ 12,370,184	\$ 26,802,044	\$ 186,814	\$ -	\$ -	\$ -	\$ 39,359,042
Investment income	246,908	7,536,803	15,718	5,960	6,514	7,806	7,819,709
Bond administrative fees	-	87,213	-	-	3,769	-	90,982
Loan administrative fees	-	-	-	-	-	1,515,117	1,515,117
Other income	108,955	236,918	869	-	-	-	346,742
Total operating revenues	12,726,047	34,662,978	203,401	5,960	10,283	1,522,923	49,131,592
<b>Operating expenses</b>							
Interest on bonds	-	41,574,305	-	-	30,326	-	41,604,631
Grants to local governments	-	-	-	884,351	-	-	884,351
Principal forgiveness loans	5,049,459	-	-	-	-	-	5,049,459
Personnel services	360,717	-	-	-	-	-	360,717
General operating	177,943	-	66,881	1,204	837	-	246,865
Contractual services	161,972	-	-	-	-	-	161,972
Total operating expenses	5,750,091	41,574,305	66,881	885,555	31,163	-	48,307,995
<b>Operating income (loss)</b>	6,975,956	(6,911,327)	136,520	(879,595)	(20,880)	1,522,923	823,597
<b>Nonoperating revenue</b>							
Contributions from other governments	35,412,826	-	-	-	2,135,780	-	37,548,606
Contributions from other governments - ARRA	1,440,353	-	-	-	-	-	1,440,353
<b>Income (loss) before transfers</b>	43,829,135	(6,911,327)	136,520	(879,595)	2,114,900	1,522,923	39,812,556
<b>Transfers</b>	11,048,555	653,596	-	-	(10,504,251)	(1,197,900)	-
<b>Change in net assets</b>	54,877,690	(6,257,731)	136,520	(879,595)	(8,389,351)	325,023	39,812,556
<b>Total net assets - beginning</b>	810,751,943	256,768,376	18,617,634	3,409,609	12,328,795	3,749,252	1,105,625,609
<b>Total net assets - ending</b>	\$ 865,629,633	\$ 250,510,645	\$ 18,754,154	\$ 2,530,014	\$ 3,939,444	\$ 4,074,275	\$ 1,145,438,165

Virginia Resources Authority

Combining Schedule of Cash Flows

Virginia Revolving Loan Fund Accounts - Water Facilities  
Year Ended June 30, 2012

	Direct Loan Accounts	Leveraged Loan Accounts	Agricultural Best Management Practices Account	Combined Sewer Overflow Fund Account	Investment Fund Accounts	Administrative Fee Accounts	Total
<b>Cash flows from operating activities</b>							
Cash payments to localities for loans	\$ (76,483,752)	\$ (62,773,660)	\$ (3,172,481)	\$ -	\$ -	\$ -	\$ (142,429,893)
Principal repayments from localities on loans	57,064,997	43,052,950	3,525,367	-	10,213	-	103,653,527
Interest received on loans	12,650,983	30,141,781	198,875	-	-	-	42,991,639
Loan administrative fees received	-	-	-	-	-	1,709,972	1,709,972
Cash received from other income	108,955	236,918	869	-	-	-	346,742
Cash payments for salaries and related benefits	(360,717)	-	-	-	-	-	(360,717)
Cash payments for contractual services	(161,972)	-	-	-	-	-	(161,972)
Cash payments for general operating expenses	(176,765)	-	(8,325)	(1,204)	(837)	-	(187,131)
Cash payments for operating grants	-	-	-	(884,351)	-	-	(884,351)
Cash payments for principal forgiveness loans	(5,049,459)	-	-	-	-	-	(5,049,459)
Interest paid on bonds	-	(44,067,025)	-	-	(15,326)	-	(44,082,351)
Interfund activity	1,904,693	(4,933)	-	-	(2,135,780)	104,532	(131,488)
<b>Net cash provided by (used in) operating activities</b>	<b>(10,503,037)</b>	<b>(33,413,969)</b>	<b>544,305</b>	<b>(885,555)</b>	<b>(2,141,730)</b>	<b>1,814,504</b>	<b>(44,585,482)</b>
<b>Cash flows from noncapital financing activities</b>							
Proceeds from sale of bonds	-	37,023,463	-	-	3,031,311	-	40,054,774
Bond issuance costs	-	(518,253)	-	-	(27,542)	-	(545,795)
Principal paid on bonds	-	(29,705,000)	-	-	(3,015,000)	-	(32,720,000)
Arbitrage rebate	-	(3,170,565)	-	-	-	-	(3,170,565)
Contributions from other governments	33,362,664	-	-	-	2,135,780	-	35,498,444
Contributions from other governments - ARRA	1,440,353	-	-	-	-	-	1,440,353
Cash received (paid) from other accounts	11,048,555	653,596	-	-	(10,504,251)	(1,197,900)	-
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>45,851,572</b>	<b>4,283,241</b>	<b>-</b>	<b>-</b>	<b>(8,379,702)</b>	<b>(1,197,900)</b>	<b>40,557,211</b>
<b>Cash flows from investing activities</b>							
Purchase of investments	(12,595,751)	(10,000,000)	(199,920)	-	-	-	(22,795,671)
Proceeds from sales or maturities of investments	53,169,688	18,860,493	1,998,464	-	-	-	74,028,645
Interest received on investments - net	296,444	7,915,822	16,323	5,960	7,216	7,807	8,249,572
<b>Net cash provided by investing activities</b>	<b>40,870,381</b>	<b>16,776,315</b>	<b>1,814,867</b>	<b>5,960</b>	<b>7,216</b>	<b>7,807</b>	<b>59,482,546</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>76,218,916</b>	<b>(12,354,413)</b>	<b>2,359,172</b>	<b>(879,595)</b>	<b>(10,514,216)</b>	<b>624,411</b>	<b>55,454,275</b>
<b>Cash and cash equivalents</b>							
<b>Beginning of year</b>	<b>91,336,769</b>	<b>99,019,725</b>	<b>9,282,194</b>	<b>3,409,609</b>	<b>12,317,880</b>	<b>2,990,787</b>	<b>218,356,964</b>
<b>End of year</b>	<b>\$ 167,555,685</b>	<b>\$ 86,665,312</b>	<b>\$ 11,641,366</b>	<b>\$ 2,530,014</b>	<b>\$ 1,803,664</b>	<b>\$ 3,615,198</b>	<b>\$ 273,811,239</b>

Virginia Resources Authority

Combining Schedule of Cash Flows (Continued)  
 Virginia Revolving Loan Fund Accounts - Water Facilities  
 Year Ended June 30, 2012

	Direct Loan Accounts	Leveraged Loan Accounts	Agricultural Best Management Practices Account	Combined Sewer Overflow Fund Account	Investment Fund Accounts	Administrative Fee Accounts	Total
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>							
Operating income (loss)	\$ 6,975,956	\$ (6,911,327)	\$ 136,520	\$ (879,595)	\$ (20,880)	\$ 1,522,923	\$ 823,597
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	1,173	-	-	-	-	-	1,173
Interest on investments	(246,908)	(7,536,803)	(15,718)	(5,960)	(6,514)	(7,806)	(7,819,709)
Interest on bonds, amortization and accretion - net	-	(5,219,409)	-	-	(12,542)	-	(5,231,951)
Change in assets and liabilities							
Loans receivables	(19,418,750)	(19,720,709)	410,875	-	10,213	-	(38,718,371)
Loan interest receivable	280,799	3,339,737	12,628	-	-	-	3,633,164
Loan administrative fee receivable	-	-	-	-	-	194,855	194,855
Deferred charges	-	2,726,688	-	-	27,542	-	2,754,230
Unearned revenue	-	(87,213)	-	-	(3,769)	-	(90,982)
Due to (from) other funds	1,904,693	(4,933)	-	-	(2,135,780)	104,532	(131,488)
Total adjustments	(17,478,993)	(26,502,642)	407,785	(5,960)	(2,120,850)	291,581	(45,409,079)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (10,503,037)</b>	<b>\$ (33,413,969)</b>	<b>\$ 544,305</b>	<b>\$ (885,555)</b>	<b>\$ (2,141,730)</b>	<b>\$ 1,814,504</b>	<b>\$ (44,585,482)</b>

Virginia Resources Authority

Combining Schedule of Net Assets

Virginia Revolving Loan Fund Accounts - Water Supply

June 30, 2012

	Construction Accounts	Supply Accounts	Administrative Accounts	Administrative Fee Accounts	Total
<b>Assets</b>					
Current assets					
Cash	\$ 3,009,455	\$ 170,374	\$ -	\$ 108,056	\$ 3,287,885
Cash equivalents	31,455,766	121,502	-	192,873	31,770,141
Loans receivable, net of allowance	5,262,589	12,749	-	-	5,275,338
Receivables:					
Loan interest	263,161	46	-	-	263,207
Loan administrative fees	-	-	-	33,895	33,895
Federal funds	-	-	89,196	-	89,196
Total current assets	<u>39,990,971</u>	<u>304,671</u>	<u>89,196</u>	<u>334,824</u>	<u>40,719,662</u>
Noncurrent assets					
Loans receivable - less current - net	121,447,782	48,694	-	-	121,496,476
Capital assets - at cost -					
less accumulated depreciation	-	-	1,244	-	1,244
Total noncurrent assets	<u>121,447,782</u>	<u>48,694</u>	<u>1,244</u>	<u>-</u>	<u>121,497,720</u>
Total assets	<u>161,438,753</u>	<u>353,365</u>	<u>90,440</u>	<u>334,824</u>	<u>162,217,382</u>
<b>Liabilities</b>					
Current liabilities					
Due to other accounts	(27,756)	-	145,156	-	117,400
Accounts payable and other liabilities	25,991	-	-	-	25,991
Total current liabilities	<u>(1,765)</u>	<u>-</u>	<u>145,156</u>	<u>-</u>	<u>143,391</u>
Total liabilities	<u>(1,765)</u>	<u>-</u>	<u>145,156</u>	<u>-</u>	<u>143,391</u>
<b>Net assets</b>					
Invested in capital assets	-	-	1,244	-	1,244
Restricted:					
Loan Programs	161,440,518	353,365	(55,960)	334,824	162,072,747
Total net assets	<u>\$ 161,440,518</u>	<u>\$ 353,365</u>	<u>\$ (54,716)</u>	<u>\$ 334,824</u>	<u>\$ 162,073,991</u>

Virginia Resources Authority

Combining Schedule of Revenues, Expenses, and Changes in Net Assets  
 Virginia Revolving Loan Fund Accounts - Water Supply  
 Year Ended June 30, 2012

	Construction Accounts	Supply Accounts	Administrative Accounts	Administrative Fee Accounts	Total
<b>Operating revenues</b>					
Interest on loans	\$ 815,394	\$ 1,197	\$ -	\$ -	\$ 816,591
Investment income	66,181	258	-	531	66,970
Loan administrative fees	-	-	-	92,887	92,887
Administrative reimbursement	-	-	283,348	-	283,348
<b>Total operating revenues</b>	<u>881,575</u>	<u>1,455</u>	<u>283,348</u>	<u>93,418</u>	<u>1,259,796</u>
<b>Operating expenses</b>					
Grants to local governments	4,282,489	-	-	-	4,282,489
Principal forgiveness loans	1,023,544	-	-	-	1,023,544
Personnel services	-	-	184,831	-	184,831
General operating	23,017	438	28,918	74	52,447
Contractual services	-	-	70,026	-	70,026
<b>Total operating expenses</b>	<u>5,329,050</u>	<u>438</u>	<u>283,775</u>	<u>74</u>	<u>5,613,337</u>
<b>Operating income (loss)</b>	<u>(4,447,475)</u>	<u>1,017</u>	<u>(427)</u>	<u>93,344</u>	<u>(4,353,541)</u>
<b>Nonoperating revenue</b>					
Contributions from other governments	9,076,905	-	-	-	9,076,905
Contributions from other governments - ARRA	1,564,630	-	-	-	1,564,630
<b>Income (loss) before transfers</b>	6,194,060	1,017	(427)	93,344	6,287,994
<b>Operating transfers</b>	55,960	-	(55,960)	-	-
<b>Change in net assets</b>	6,250,020	1,017	(56,387)	93,344	6,287,994
<b>Total net assets - beginning</b>	155,190,498	352,348	1,671	241,480	155,785,997
<b>Total net assets - ending</b>	<u>\$ 161,440,518</u>	<u>\$ 353,365</u>	<u>\$ (54,716)</u>	<u>\$ 334,824</u>	<u>\$ 162,073,991</u>



## Virginia Resources Authority

**Combining Schedule of Cash Flows**  
**Virginia Revolving Loan Fund Accounts - Water Supply**  
**Year Ended June 30, 2012**

	Construction Accounts	Supply Accounts	Administrative Accounts	Administrative Fee Accounts	Total
<b>Cash flows from operating activities</b>					
Cash payments to localities for loans	\$ (11,490,713)	\$ -	\$ -	\$ -	\$ (11,490,713)
Principal repayments from localities on loans	4,973,316	76,511	-	-	5,049,827
Interest received on loans	744,042	1,567	-	-	745,609
Loan administration fees received	-	-	-	77,211	77,211
Federal administrative reimbursement funds received	-	-	421,956	-	421,956
Cash payments for salaries and related benefits	-	-	(184,831)	-	(184,831)
Cash payments for contractual services	-	-	(70,026)	-	(70,026)
Cash payments for general operating expenses	(22,977)	(439)	(28,491)	(74)	(51,981)
Cash payments for operating grants	(4,282,489)	-	-	-	(4,282,489)
Cash payments for principal forgiveness loans	(1,023,544)	-	-	-	(1,023,544)
Interfund activity	(60,958)	(19,545)	(82,648)	-	(163,151)
<b>Net cash provided by (used in) operating activities</b>	<b>(11,163,323)</b>	<b>58,094</b>	<b>55,960</b>	<b>77,137</b>	<b>(10,972,132)</b>
<b>Cash flows from noncapital financing activities</b>					
Contributions from other governments	9,076,905	-	-	-	9,076,905
Contributions from other governments - ARRA	1,564,630	-	-	-	1,564,630
Cash received (paid) from other accounts	55,960	-	(55,960)	-	-
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>10,697,495</b>	<b>-</b>	<b>(55,960)</b>	<b>-</b>	<b>10,641,535</b>
<b>Cash flows from investing activities</b>					
Purchase of investments	(1,274,553)	-	-	-	(1,274,553)
Proceeds from sales or maturities of investments	7,044,833	-	-	-	7,044,833
Interest received on investments - net	67,596	258	-	531	68,385
<b>Net cash provided by investing activities</b>	<b>5,837,876</b>	<b>258</b>	<b>-</b>	<b>531</b>	<b>5,838,665</b>
<b>Net increase in cash and cash equivalents</b>	<b>5,372,048</b>	<b>58,352</b>	<b>-</b>	<b>77,668</b>	<b>5,508,068</b>
<b>Cash and cash equivalents</b>					
<b>Beginning of year</b>	<b>29,093,173</b>	<b>233,524</b>	<b>-</b>	<b>223,261</b>	<b>29,549,958</b>
<b>End of year</b>	<b>\$ 34,465,221</b>	<b>\$ 291,876</b>	<b>\$ -</b>	<b>\$ 300,929</b>	<b>\$ 35,058,026</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>					
Operating income (loss)	\$ (4,447,475)	\$ 1,017	\$ (427)	\$ 93,344	\$ (4,353,541)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	427	-	427
Interest on investments	(66,181)	(258)	-	(531)	(66,970)
Change in assets and liabilities					
Loans receivables	(6,517,396)	76,511	-	-	(6,440,885)
Loan interest receivable	(71,347)	369	-	-	(70,978)
Loan administrative fee receivable	-	-	-	(15,676)	(15,676)
Other receivables	-	-	138,608	-	138,608
Accounts payable and other liabilities	34	-	-	-	34
Due to (from) other funds	(60,958)	(19,545)	(82,648)	-	(163,151)
Total adjustments	(6,715,848)	57,077	56,387	(16,207)	(6,618,591)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (11,163,323)</b>	<b>\$ 58,094</b>	<b>\$ 55,960</b>	<b>\$ 77,137</b>	<b>\$ (10,972,132)</b>

## 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 Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Invested in capital assets, net of related debt	\$ 71,117	\$ 80,470	\$ 68,003	\$ 45,721	\$ 9,996	\$ 5,516	\$ 1,812	\$ 17,478	\$ 128,757	\$ 206,202
Restricted	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	1,301,438,188	1,348,104,048
Unrestricted	7,295,735	2,762,252	3,502,408	4,099,446	4,379,283	4,471,442	5,456,623	6,345,180	7,257,442	8,532,138
<b>Total net assets</b>	<b>\$ 860,173,937</b>	<b>\$ 920,441,244</b>	<b>\$ 974,947,865</b>	<b>\$ 1,041,878,338</b>	<b>\$ 1,110,863,591</b>	<b>\$ 1,167,937,202</b>	<b>\$ 1,223,180,636</b>	<b>\$ 1,267,281,639</b>	<b>\$ 1,308,824,387</b>	<b>\$ 1,356,842,388</b>

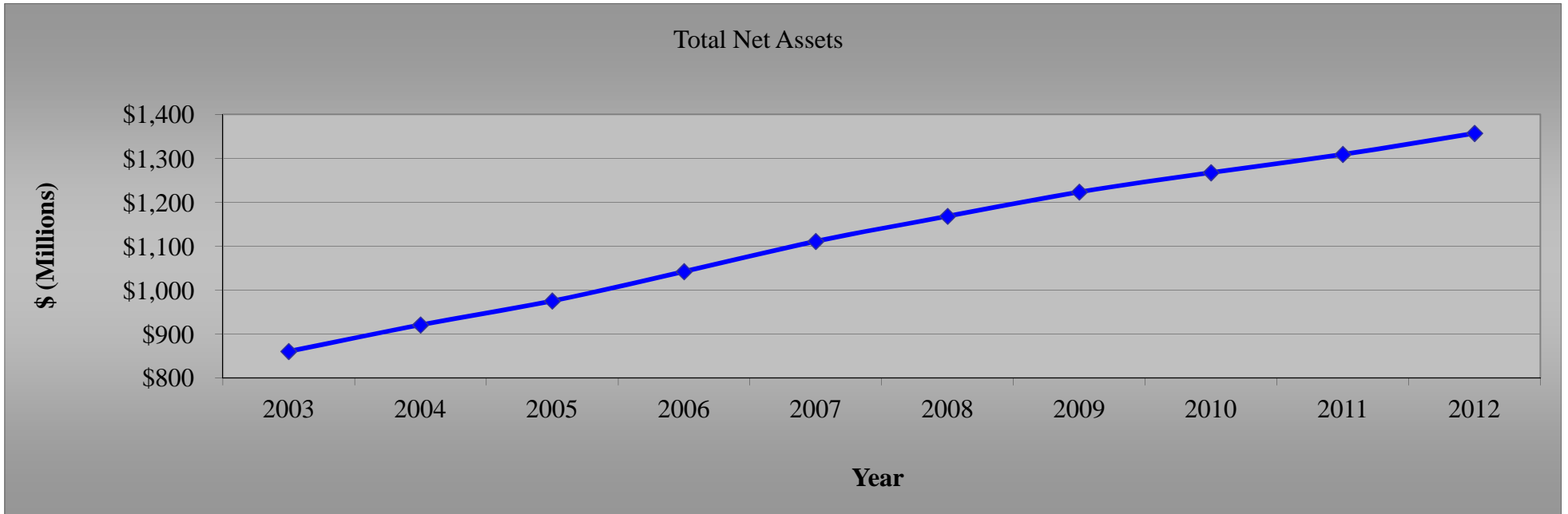


Table 2

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

Last Ten Fiscal Years

Fiscal Year	Operating Revenue	Operating Expenses	Operating Income	Total Nonoperating Revenues & Expenses / Contributions from other Governments	Change in Net Assets
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
2011	128,302,561	185,869,445	(57,566,884)	99,109,632	41,542,748
2012	137,943,639	140,138,739	(2,195,100)	50,213,101	48,018,001

Table 3

**Virginia Resources Authority**  
**Operating Revenues by Source**  
 Last Ten 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
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
2011	112,018,532	12,291,706	309,386	2,017,221	1,538,438	127,278	128,302,561
2012	118,796,383	13,189,773	400,234	2,400,775	1,674,125	1,482,349	137,943,639

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

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

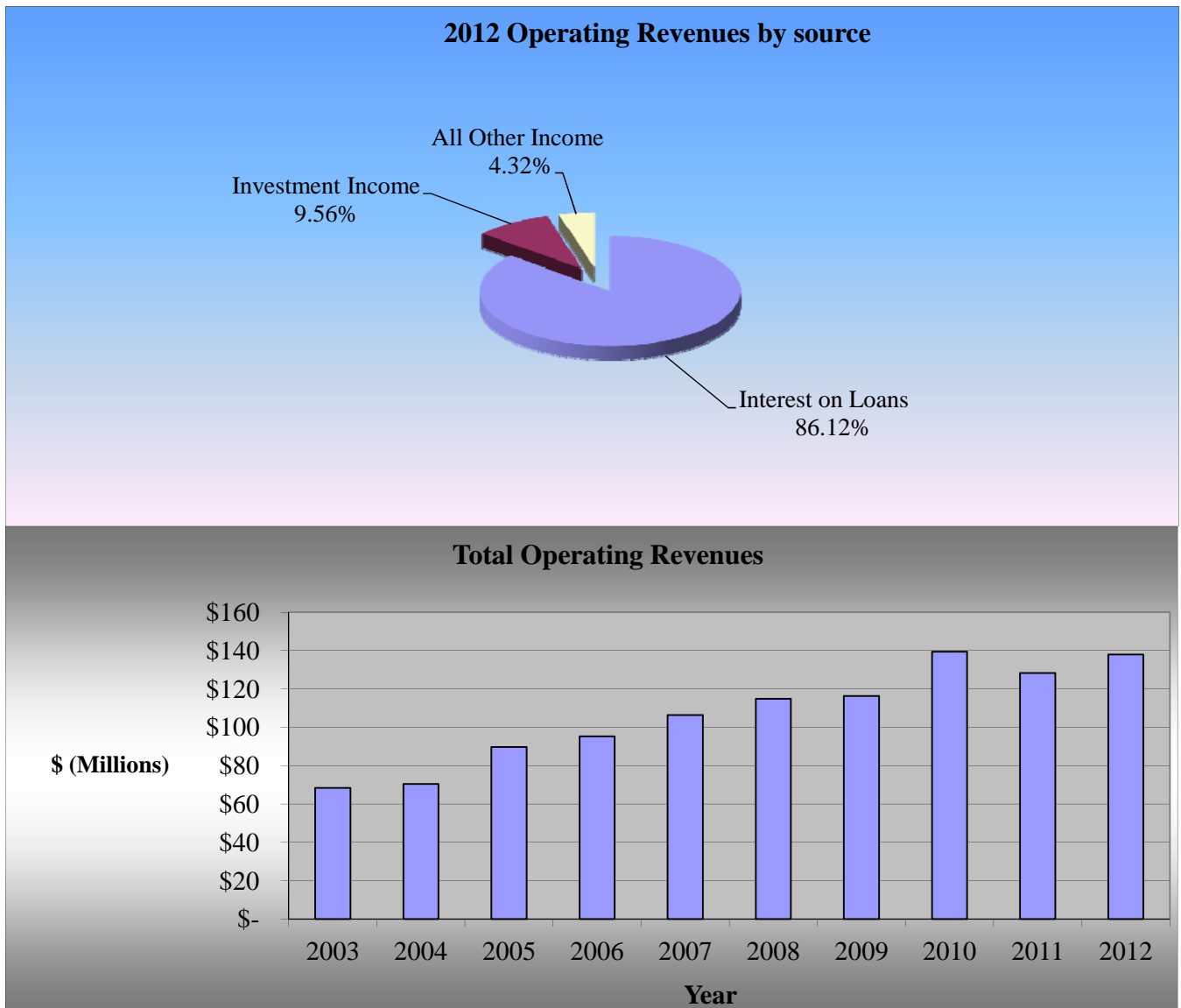


Table 4

**Virginia Resources Authority**  
**Operating Expenses**  
 Last Ten Fiscal Years

Fiscal Year	Interest on Bonds and Loans	Grants & Principal forgiveness loans to Local Governments	Loss on early extinguishment of bond	Personnel Services	General Operating	Contractual Services	Total
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
2011	116,916,498	66,365,392	98,553	1,448,242	513,357	527,403	185,869,445
2012	123,917,412	11,673,235	1,941,069	1,440,715	618,621	547,687	140,138,739

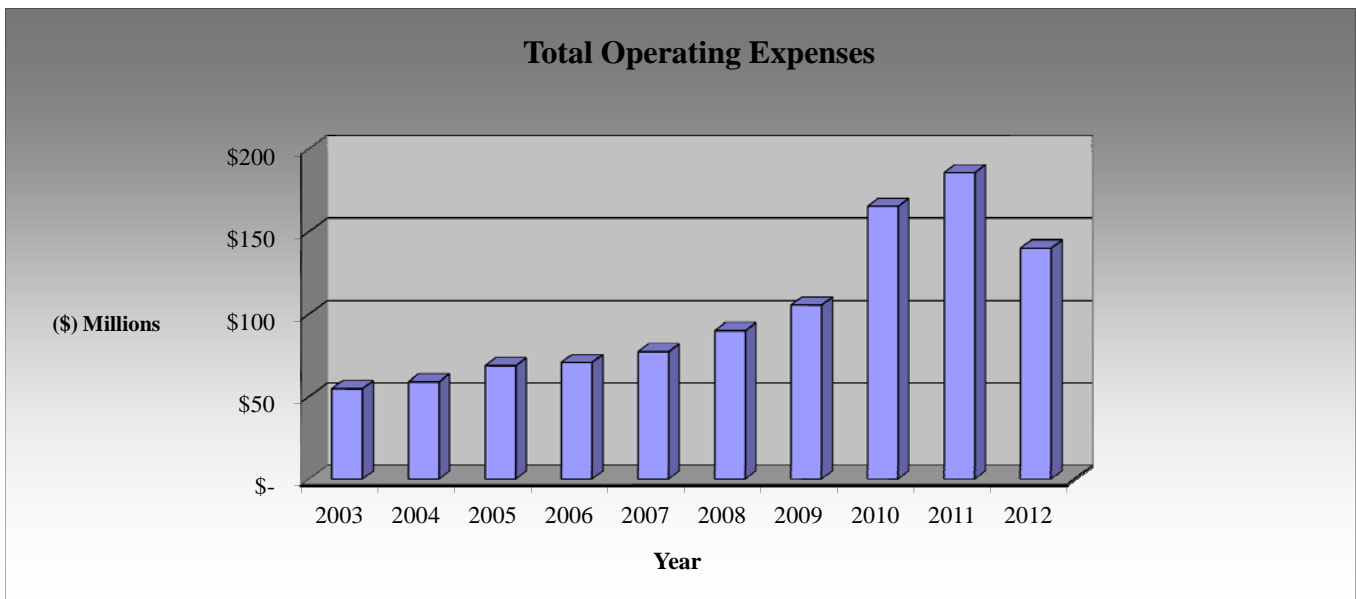
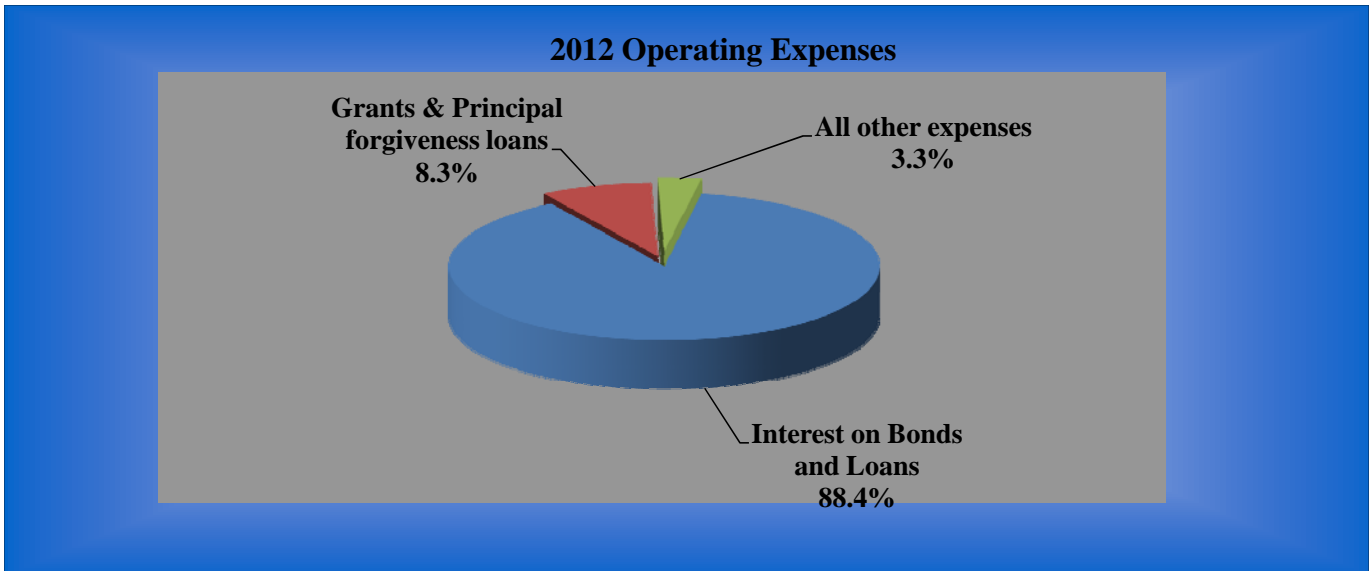


Table 5

*Virginia Resources Authority*  
**Schedule of Outstanding Loans Receivable**  
 Last Ten Fiscal Years

<b>Loans Receivable Related to Bond Issues</b>							Loans Receivable Related to Equipment Term Financing Total
Fiscal Year	Revenue Bonds	VARF	Petroleum Storage Tank Fund	Unamortized discount / premium and cost of issuance - net	Total		
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	-	
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	
2011	1,591,117,427	58,387,411	-	33,853,485	1,683,358,323	5,663,892	
2012	2,058,638,456	56,455,812	-	99,850,641	2,214,944,909	4,100,079	

<b>Loans Receivable Related to Revolving Loans</b>					
Fiscal Year	VWFRF	VWFRF - leveraged	VWFRF AgBMP	VWSRF	Total
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
2011	674,624,834	892,326,275	7,480,392	120,330,927	1,694,762,428
2012	694,033,376	912,046,985	7,099,516	126,771,814	1,739,951,691

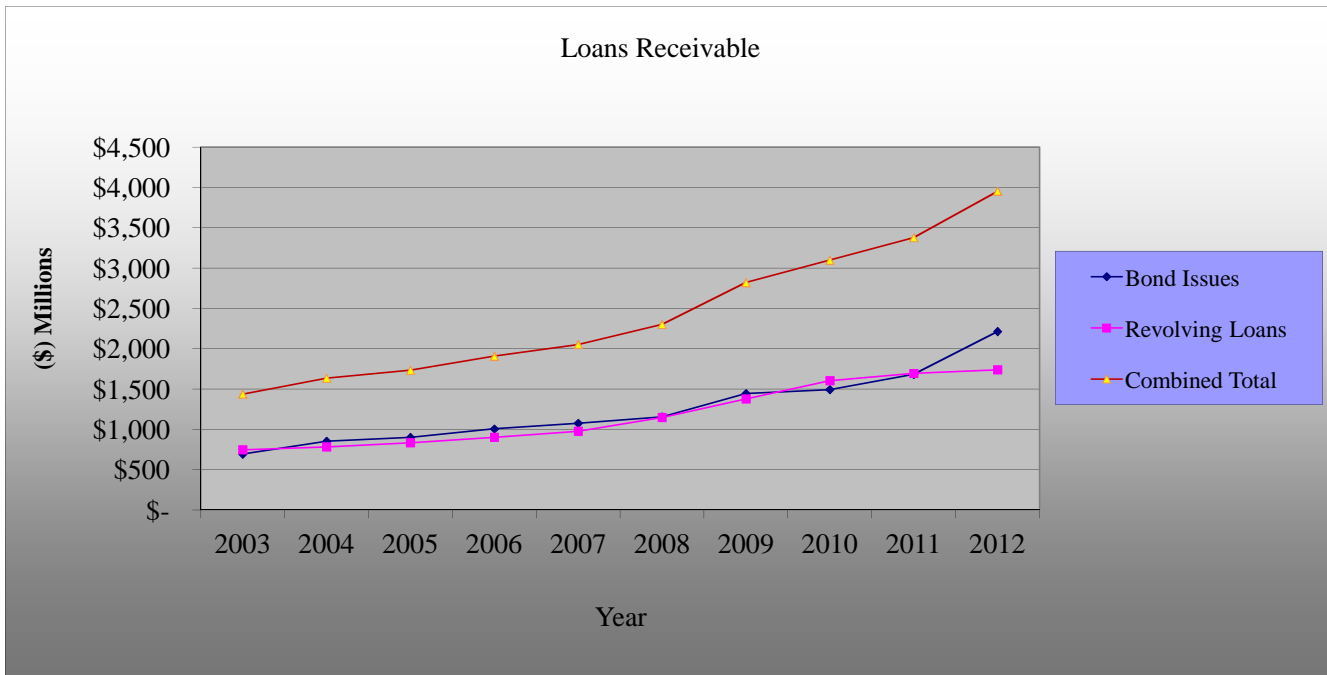


Table 6

**Virginia Resources Authority**  
**Schedule of Outstanding Debt**  
 Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>Total Outstanding Revenue Bonds</b>	<b>Unamortized discounts / premiums (1)</b>	<b>Net Bonds Payable</b>	<b>Outstanding bonds secured by Moral Obligations of Commonwealth</b>	<b>Commonwealth Limit on Moral Obligation Debt (2)</b>	<b>Remaining capacity for Moral Obligation Debt</b>	<b>Total Outstanding Revenue Bonds Per Capita (3)</b>
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
2011	2,626,917,427	117,485,263	2,744,402,690	684,004,427	1,500,000,000	815,995,573	328.32
2012	3,090,678,456	188,948,095	3,279,626,551	801,383,906	1,500,000,000	698,616,094	381.73

(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.

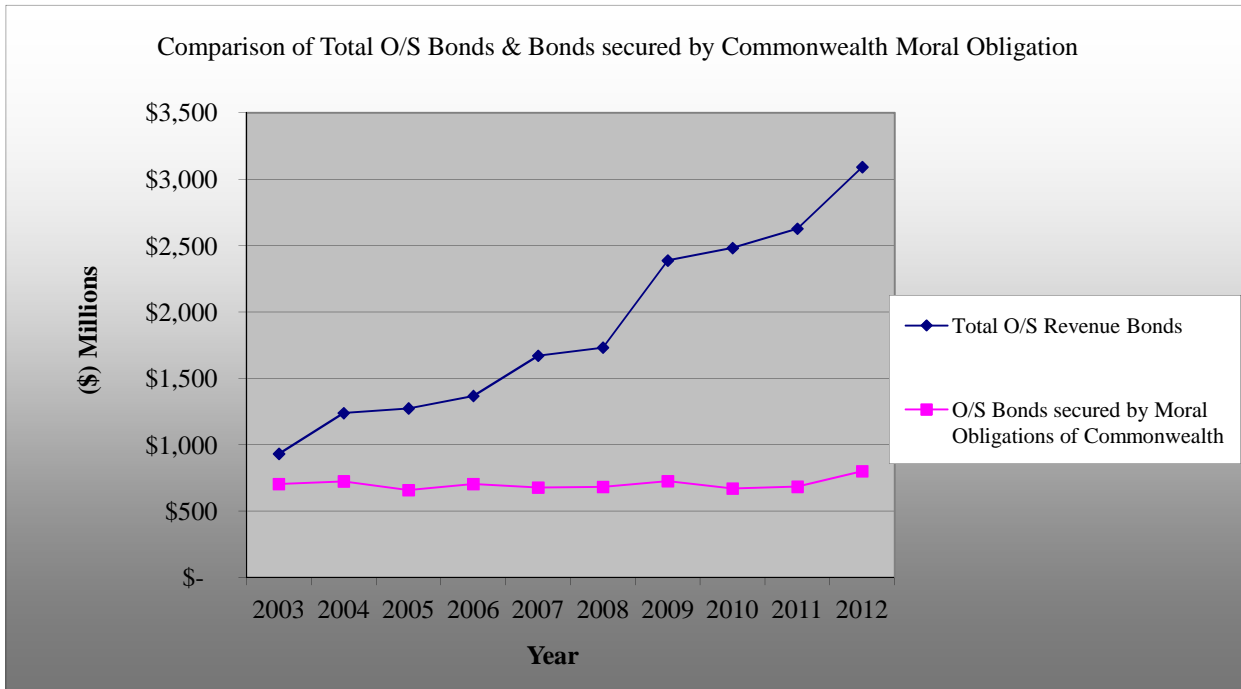




Table 7

*Virginia Resources Authority***Virginia Principal Employers**

Current and Ten Years Ago

Employer (1)	Fiscal Year 2012 (1)	Fiscal Year 2003 (1)
	Rank	Rank
U.S. Department of Defense	1	1
Wal Mart	2	2
Fairfax County Public Schools	3	3
Huntington Ingalls Industries, Inc.	4	4
Sentara Healthcare	5	9
Postal Service	6	6
Food Lion	7	5
County of Fairfax	8	7
University of Virginia / Blue Ridge Hospital	9	14
City of Virginia Beach Schools	10	8
Capital One Bank	18	10

(1) Final quarter data for most recent calendar year (2011 and 2003).

(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
2012	8,096,604	\$ 371,796,308	\$ 45,920	1,258,521	5.7%
2011	8,001,024	358,140,177	44,762	1,245,340	6.3%
2010	7,882,590	345,840,751	43,874	1,230,857	6.9%
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	3.8%
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	3.1%
2005	7,468,914	275,167,155	36,842	1,185,612	3.6%
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	4.3%

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

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

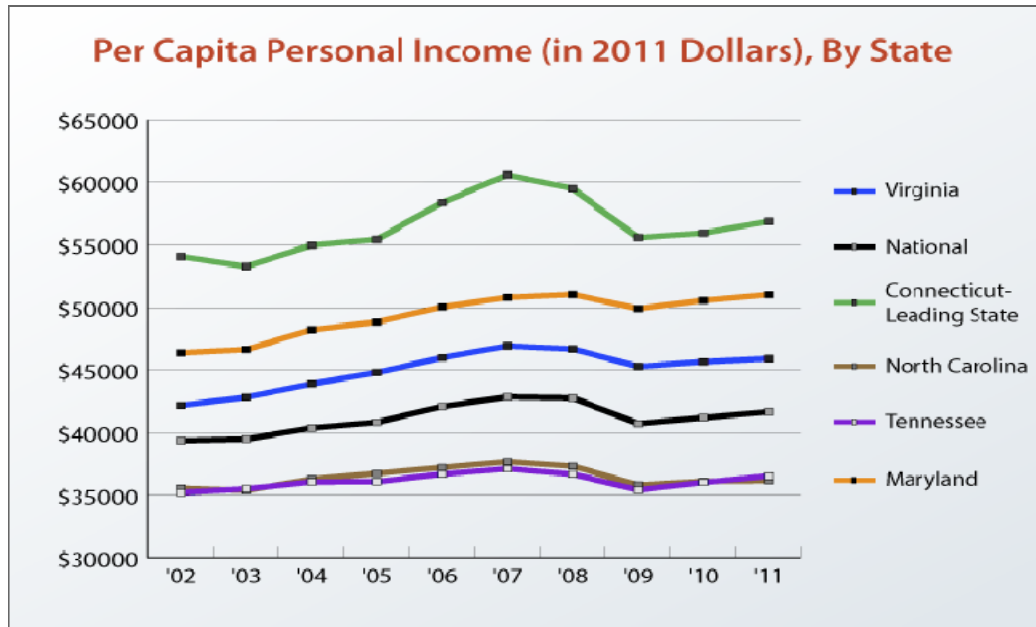


Table 9

*Virginia Resources Authority*  
**Operating Indicators**  
**Last Eight Fiscal Years**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Virginia Pooled Financing Program									
Projects	21	15	15	16	32	35	30	40	204
Lending	\$ 115,815,000	\$ 150,500,000	\$ 134,000,000	\$ 135,865,000	\$ 451,100,000	\$ 253,165,000	\$ 284,180,000	\$ 561,860,000	\$ 2,086,485,000
Clean Water Revolving Loan Fund									
Projects	13	18	15	22	22	62	18	22	192
Closed Loans	\$ 54,130,696	\$ 82,929,575	\$ 227,171,982	\$ 193,543,988	\$ 346,190,376	\$ 353,015,563	\$ 72,689,048	\$ 103,970,305	\$ 1,433,641,533
Virginia Drinking Water State Revolving Fund									
Projects	17	20	16	13	19	34	16	15	150
Closed Loans and Grants	\$ 10,654,508	\$ 16,855,288	\$ 10,513,007	\$ 6,143,549	\$ 13,708,679	\$ 33,641,260	\$ 15,496,872	\$ 18,281,172	\$ 125,294,335
Virginia Airports Revolving Fund									
Projects	5	2	5	1	1	-	1	3	18
Closed Loans	\$ 4,068,874	\$ 733,000	\$ 5,248,000	\$ 140,000	\$ 633,000	\$ -	\$ 654,184	\$ 2,239,000	\$ 13,716,058
Equipment and Term Financing									
Projects	-	-	-	4	6	-	-	-	10
Closed Loans	\$ -	\$ -	\$ -	\$ 4,349,438	\$ 25,687,400	\$ -	\$ -	\$ -	\$ 30,036,838
Dam Safety and Flood Prevention									
Projects	-	-	-	-	-	2	1	25	28
Closed Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,002,330	\$ 1,000	\$ 233,519	\$ 1,236,849
Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund									
Projects	-	-	-	-	-	-	-	10	10
Closed Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 199,873	\$ 199,873
Total Projects	56	55	51	56	80	133	66	115	612
Total Localities Served	67	55	51	50	61	96	53	71	504
Total Lending	\$ 184,669,078	\$ 251,017,863	\$ 376,932,989	\$ 340,041,975	\$ 837,319,455	\$ 640,824,153	\$ 373,021,104	\$ 686,783,869	\$ 3,690,610,486

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

Source: VRA Annual Reports

Table 10

*Virginia Resources Authority*  
**Full Time Employees by Identifiable Activity**  
**Last Nine Fiscal Years**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Executive	1	1	1	1	1	2	2	1	1
Financial Services/Debt Management	4	5	4	5	5	-	-	4	4
Finance and Administration	6	4	2	4	3	4	2	5	5
Program Management	-	-	-	-	-	2	2	2	2
Policy and Intergovernmental Relations	-	-	-	-	-	1	1	2	2
<b>Total Full Time Employees:</b>	<b>11</b>	<b>10</b>	<b>7</b>	<b>10</b>	<b>9</b>	<b>9</b>	<b>7</b>	<b>14</b>	<b>14</b>

- \* 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**



**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***

Honorable Board Members  
Virginia Resources Authority

We have audited the financial statements of Virginia Resources Authority (the Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated August 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Authority is responsible for establishing and maintaining effective 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 and correct 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 was not designed to 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 management, Board Members, others within the Authority, the Auditor of Public Accountants, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

Richmond, Virginia  
August 29, 2012



**Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Award in Accordance with OMB Circular A-133**

Honorable Board Members  
Virginia Resources Authority

**Compliance**

We have audited the compliance of the Virginia Resources Authority (the Authority), a component unit of the Commonwealth of Virginia, with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2012.

**Internal Control Over Compliance**

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated August 29, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

*CliftonLarsonAllen LLP*

Richmond, Virginia  
August 29, 2012

*Virginia Resources Authority*  
*Schedule of Expenses of Federal Awards*  
 June 30, 2012

<b>Federal Granting Agency / Recipient State Agency / Grant Program</b>	<b>Catalog of Federal Domestic Assistance (CFDA) Number</b>	<b>Pass-through Identifying Number</b>	<b>Expenses</b>
<b>Environmental Protection Agency</b>			
Pass through payments from Commonwealth of Virginia:			
Department of Environmental Quality			
Capitalization Grants for Clean Water State Revolving Funds (VWFRF)	66.458	90310, 90311	\$ 35,412,826
American Recovery and Reinvestment Act Clean Water State Revolving Funds (VWFRF)	66.458 ARRA	90301	1,440,353
Total Clean Water State Revolving Funds (VWFRF)			36,853,179
Department of Health			
Capitalization Grants for Drinking Water State Revolving Funds (VWSRF)	66.468	66105, 66109, 66089, 66119	7,431,352
American Recovery and Reinvestment Act Drinking Water State Revolving Funds (VWSRF)	66.468 ARRA	67095	1,564,630
Total Drinking Water State Revolving Funds (VWSRF)			8,995,982
Total expenses of federal awards			\$ 45,849,161

See notes to the Schedule of Expenses of Federal Awards.

**Virginia Resources Authority**

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

**June 30, 2012**

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1. General

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

2. Basis of Accounting

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

3. Loan and Grant Commitments

The Authority is obligated under outstanding commitments for undisbursed loans and grants to disburse approximately \$87,393,989 from the VWFRF and \$ 12,332,320 from the VWSRF as of June 30, 2012.

4. Relationship to Federal Financial Reports

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

5. Relationship to the Authority's Basic Financial Statements

The federal awards in the accompanying schedule are reported as revenue (administrative reimbursement and contributions from other governments) in the Authority's basic financial statements as follows:

	<b>VWFRF</b>	<b>VWSRF</b>	<b>VTIB</b>	<b>VBAF</b>
Revenue Per Financial Statements:				
Administrative Reimbursement	-	283,348	116,886	
Contributions from other Governments	37,548,606	9,076,905	-	500,000
Total Governmental Revenue	<u>37,548,606</u>	<u>9,360,253</u>	<u>116,886</u>	<u>500,000</u>
Less amounts not related to federal financial assistance	<u>(2,135,780)</u>	<u>(1,928,901)</u>	<u>(116,886)</u>	<u>(500,000)</u>
Total Capitalization Grant Revenue	<u>35,412,826</u>	<u>7,431,352</u>	-	-
Revenue Per Financial Statements:				
Contributions from other Governments - ARRA	<u>1,440,353</u>	<u>1,564,630</u>	-	-
Total ARRA Revenue	<u>1,440,353</u>	<u>1,564,630</u>	-	-
Federal Schedule of Expenses	<u>\$ 36,853,179</u>	<u>\$ 8,995,982</u>	<u>\$ -</u>	<u>\$ -</u>

**VIRGINIA RESOURCES AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012**

**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**

<b>Name of Federal Program</b>	<b>CFDA Number</b>
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
Dollar threshold used to distinguish between type A and type B programs:	<u>  1,375,475  </u>
Auditee qualified as low-risk auditee?	<u>  X  </u> Yes <span style="margin-left: 100px;">_____ No</span>

**VIRGINIA RESOURCES AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012**

**Section II - Financial Statement Findings**

None noted.

**Section III - Federal Award Findings and Questioned Costs**

None noted.

**VIRGINIA RESOURCES AUTHORITY  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 20122**

No prior year audit findings.