NEW ISSUE **RATINGS:** **(See "RATINGS" herein)**
BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein interest on,(i) the Series 2006 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) the Series 2006 Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. (See the section "TAX MATTERS" herein for a description of certain other provisions of law which may affect the federal tax treatment of interest on the Series 2006 Bonds.) In addition in the opinion of Bond Counsel, under the existing laws of the Commonwealth of Virginia, such interest is not includable in computing the Virginia income tax.

HENRICO COUNTY, VIRGINIA

$81,470,000 Water and Sewer System Revenue Bonds, Series 2006A, and $4,795,000 Water and Sewer System Refunding Revenue Bonds, Series 2006B

Dated: Date of Issuance **Due: May 1, as shown on the inside corner**

The Series 2006A Bonds will be issued to finance improvements, additions and extensions to the Water and Sewer System of Henrico County, Virginia (the "County"). The Series 2006B Bonds will be issued to current refund $4,835,000 Water and Sewer System Revenue and Refunding Revenue Bonds, Series 1994 of the County. The Series 2006A Bonds and Series 2006B Bonds are sometimes referred to herein collectively as the "Series 2006 Bonds". THE PRINCIPAL OF AND INTEREST ON THE SERIES 2006 BONDS WILL BE PAYABLE SOLELY FROM, AND SECURED EQUALLY AND RATABLY SOLELY BY A LIEN AND CHARGE ON, THE REVENUES DERIVED FROM THE OPERATION OF THE WATER AND SEWER SYSTEM OF THE COUNTY, SUBJECT, HOWEVER, TO THE PRIOR PAYMENT FROM SUCH REVENUES OF THE EXPENSES OF OPERATION AND MAINTENANCE OF THE WATER AND SEWER SYSTEM, AND ARE PAYABLE ON A PARITY WITH THE PAYMENT OF PRINCIPAL OF AND INTEREST ON CERTAIN OTHER BONDS AS DESCRIBED HEREIN. THE SERIES 2006 BONDS ARE NOT A DEBT OF THE COUNTY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON THE CREATION OF GENERAL OBLIGATION INDEBTEDNESS OF THE COUNTY, AND THE COUNTY SHALL NOT BE LIABLE FOR THE PAYMENT THEREOF OUT OF ANY FUNDS OF THE COUNTY EXCEPT THE REVENUES OF THE WATER AND SEWER SYSTEM OF THE COUNTY.

The Series 2006 Bonds will bear interest payable semiannually, on May 1 and November 1, commencing November 1, 2006. The Series 2006 Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2006 Bonds. The Series 2006 Bonds will be available to purchasers in the denomination of $5,000, or any integral multiple thereof under the book-entry only system maintained by DTC through brokers and dealers who are, or act through, DTC participants. PURCHASERS WILL NOT RECEIVE DELIVERY OF THE SERIES 2006 BONDS. FOR AS LONG AS ANY PURCHASER IS THE BENEFICIAL OWNER OF A SERIES 2006 BOND, SUCH PURCHASERS MUST MAINTAIN AN ACCOUNT WITH A BROKER OR DEALER WHO IS, OR ACTS THROUGH, A DTC PARTICIPANT TO RECEIVE PAYMENT OF PRINCIPAL OF AND INTEREST ON SUCH SERIES 2006 BOND. See the section "DESCRIPTION OF THE SERIES 2006 BONDS -Book-Entry Only System".

The Series 2006 Bonds are subject to redemption prior to maturity as provided herein.

The Series 2006 Bonds are offered for delivery when, as, and if issued, subject to the approval of their validity by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the County, as described herein, and to certain other conditions referred to herein. Certain legal matters will be passed upon for the County by Joseph P. Rapisarda, Jr., County Attorney. It is expected that the Series 2006 Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about July 6, 2006.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement, together with attached appendices, to obtain information essential to the making of an informed investment decision.

Dated: June 20, 2006

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS

Series 2006A Serial Bonds

Maturity (May 1)	Principal Amount	Interest Rate	Yield	CUSIP Numbers
2007	$ 1,065,000	4.50 %	3.71 %	426170 GC4
2008	1,345,000	4.25	3.73	426170 GD2
2009	1,405,000	4.25	3.76	426170 GE0
2010	1,465,000	4.25	3.81	426170 GF7
2011	1,525,000	4.25	3.86	426170 GG5
2012†	1,590,000	4.50	3.96	426170 GH3
2013†	1,660,000	4.50	4.03	426170 GJ9
2014†	1,735,000	5.00	4.11	426170 GK6
2015†	1,820,000	5.00	4.15	426170 GL4
2016	1,915,000	5.00	4.18	426170 GM2
2017	2,010,000	5.00	4.23*	426170 GN0
2018†	2,110,000	4.50	4.40*	426170 GP5
2019	2,205,000	5.00	4.33*	426170 GQ3
2020†	2,315,000	4.625	4.52*	426170 GR1
2021	2,420,000	5.00	4.38*	426170 GS9
2022	2,545,000	5.00	4.41*	426170 GT7
2023	2,670,000	5.00	4.44*	426170 GU4
2024	2,805,000	5.00	4.46*	426170 GV2
2025	2,945,000	5.00	4.48*	426170 GW0
2026	3,090,000	5.00	4.51*	426170GX8

Series 2006A Term Bonds

$17,940,000 5.00% Term Bond due May 1, 2031† - Yield 4.585%* (CUSIP Number 426170 GY6)
$22,890,000 5.00% Term Bond due May 1, 2036 - Yield 4.65%* (CUSIP Number 426170 GZ3)

Series 2006B Bonds

Maturity (May 1)	Principal Amount	Interest Rate	Yield	CUSIP Numbers
2007	$ 875,000	4.50 %	3.71 %	426170 HA7
2008	495,000	4.25	3.73	426170 HB5
2009	515,000	4.25	3.76	426170 HC3
2010	535,000	4.25	3.81	426170 HD1
2011	555,000	4.25	3.86	426170 HE9
2012†	580,000	4.50	3.96	426170 HF6
2013†	610,000	4.50	4.03	426170 HG4
2014†	630,000	5.00	4.11	426170 HH2

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*Priced to par call on May 1, 2016.
†Payments of principal of and interest on these maturities of the Series 2006 Bonds will be insured under a new issue municipal bond insurance policy by MBIA Insurance Company ("MBIA") purchased by the Underwriters.

MBIA

HENRICO COUNTY, VIRGINIA

BOARD OF SUPERVISORS

RICHARD W. GLOVER, Chairman
JAMES B. DONATI, JR., Vice Chairman
DAVID A. KAECHELE
PATRICIA S. O'BANNON
FRANK J. THORNTON

COUNTY OFFICIALS

VIRGIL R. HAZELETT, P.E., County Manager
LEON T. JOHNSON, Deputy County Manager for Administration
HARVEY L. HINSON, Deputy County Manager for Community Development
ROBERT K. PINKERTON, P.E., Deputy County Manager for Community Operations
GEORGE T. DRUMWRIGHT, JR., Deputy County Manager for Community Services
ANGELA N. HARPER, Deputy County Manager for Special Services
JOSEPH P. RAPISARDA, JR., County Attorney
ARTHUR D. PETRINI, Director of Public Utilities
RETA R. BUSHER, Director of Finance

BOND COUNSEL

HAWKINS DELAFIELD & WOOD LLP
One Chase Manhattan Plaza
New York, New York 10005
(212) 820-9300

FINANCIAL ADVISOR

BB&T CAPITAL MARKETS,
a division of Scott & Stringfellow, Inc.
909 East Main Street
Richmond, Virginia 23219
(804) 649-3900

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IN CONNECTION WITH THE OFFERING OF THE SERIES 2006 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2006 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesman or other person has been authorized by the County to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the County. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2006 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth in this Official Statement has been obtained from the County and other sources that are deemed reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the underwriters. The information in this Official Statement speaks as of its date except where specifically noted otherwise and is subject to change without notice. The delivery of this Official Statement, any sale made under it or any filing or other use of it will not, under any circumstances, create any implication that there has been no change in the affairs of the County since the date of this Official Statement or imply that any information in this Official Statement is accurate or complete as of any later date. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or owners of any of the Series 2006 Bonds.

The Series 2006 Bonds will be exempt from registration under the Securities Act of 1933, as obligations of a political subdivision of the Commonwealth of Virginia. The Series 2006 Bonds also will be exempt from registration under the securities laws of Virginia.

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OFFICIAL STATEMENT

of

HENRICO COUNTY, VIRGINIA

relating to its

$81,740,000 Water and Sewer System
Revenue Bonds, Series 2006A,
and
$4,795,000 Water and Sewer System Refunding
Revenue Bonds, Series 2006B

INTRODUCTION

The purpose of this Official Statement, including the cover page and attached appendices, is to set forth certain information in connection with the issuance by Henrico County, Virginia (the "County'), of its $81,740,000 Water and Sewer System Revenue Bonds, Series 2006A and its $4,795,000 Water and Sewer System Refunding Revenue Bonds, Series 2006B (collectively the "Series 2006 Bonds").

The Series 2006 Bonds will be issued and secured in accordance with the Public Finance Act of 1991, being Chapter 26, Title 15.2 of the Code of Virginia of 1950, as amended (the "Act"), and pursuant to the provisions of a resolution adopted by the Board of Supervisors (the "Board of Supervisors") on November 23, 1977, as amended and supplemented (the "Bond Resolution"), and pursuant to a resolution adopted by the Board of Supervisors on June 13, 2006 (the "Supplemental Resolution", and together with the Bond Resolution, the "Resolutions").

The Series 2006A Bonds are being issued to provide the funds needed to finance improvements, additions and extensions to the Water and Sewer System (the "System") of the County. The Series 2006B Bonds are being issued to current refund $4,835,000 Water and Sewer System Revenue and Refunding Revenue Bonds, Series 1994 of the County. The County has issued and there are presently outstanding $105,655,000 Water and Sewer System Revenue and Revenue Refunding Bonds (the "Outstanding Parity Bonds"). The Series 2006 Bonds, the Outstanding Parity Bonds and any additional bonds that hereafter may be issued on a parity therewith pursuant to the Bond Resolution (the "Additional Bonds") are referred to herein as the "Bonds". Also outstanding is $28,350,000 (as of June 30, 2005) of the County's Water and Sewer System Revenue Note, Subordinate Series 1997 (the "Subordinate Note"), issued to the Virginia Resources Authority as security for its Variable Rate Demand/Fixed Rate Water and Sewer System Revenue Bonds, Series 1997 (Henrico County Project). See the sections "SECURITY FOR THE SERIES 2006 BONDS" and "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS".

ESTIMATED SOURCES AND USES OF FUNDS

The following table summarizes the anticipated application of the proceeds of the Series 2006 Bonds and other moneys to the purposes of issuance described above:

Sources:	
Principal Amount of Series 2006 Bonds	$86,265,000.00
Net Original Issue Premium	2,816,073.40
Total Sources	$89,081,073.40
Uses:	
Deposit to Construction Fund	$80,000,000.00
Deposit to Refunding Trust Fund	4,889,808.21
Deposit to Reserve Account	3,784,407.25
Underwriter's Discount[1]	152,228.39
Other Issuance Expenses	254,629.55
Total Uses	$89,081,073.40

[1]See the section "UNDERWRITING".

DESCRIPTION OF THE SERIES 2006 BONDS

General

The Series 2006 Bonds are dated as of their date of issuance, bear interest from their date payable on May 1 and November 1 in each year, commencing November 1, 2006, at the rates and will mature on the dates and in the amounts set forth on the inside cover of this Official Statement

Book-Entry-Only System

The book-entry-only system of registration of the Series 2006 Bonds is more fully described in Appendix D to this Official Statement.

Redemption of the Series 2006 Bonds

The Series 2006 Bonds maturing on or before May 1, 2016 will not be subject to optional redemption before their respective maturity dates.

The Series 2006 Bonds maturing on or after May 1, 2017 may be redeemed prior to their respective maturity dates, on or after May 1, 2016 at the option of the County, as a whole or in part at any time at the price of par together with the interest accrued thereon to the date fixed for redemption.

Notice of any redemption specifying the designation, date and maturity of the Series 2006 Bonds to be redeemed and the date and place fixed for redemption shall be given by first class mail, postage prepaid, not less than 30 days prior to the redemption date, to the registered holder of the Series 2006 Bonds at such holder's address as shown on the books of registration kept by the registrar therefore; *provided, however,* that any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of such Series 2006 Bonds. If such notice is given and payment of the Series 2006 Bond is duly made or provided for, interest thereon shall cease from and after the date so specified for the redemption thereof. Notice of such redemption shall also state that if less than the entire principal amount of a Series 2006 Bond called for redemption is to be redeemed, such Series 2006 Bond must be surrendered in exchange for payment of the principal amount thereof to be redeemed and the issuance of a new Series 2006 Bond or Bonds equalling in principal amount that portion of the principal amount of the surrendered bond not to be redeemed. **During any period that a securities depository, including DTC, is the registered owner of the Series 2006 Bonds, the County will not be responsible for mailing notices of redemption to Beneficial Owners.** See "Appendix D - Book-Entry-Only System".

Mandatory Sinking Fund Redemption

The Series 2006A Bonds maturing on May 1, 2031 are subject to mandatory sinking fund redemption on May 1, 2027 and on each May 1 thereafter and to payment at maturity on May 1, 2031 in the principal amounts in each year set forth below, in the case of redemption with the particular Bond or Bonds or portions thereof to be redeemed to be selected by lot, upon payment of the principal amount of the Bonds to be redeemed, together with the interest accrued on the principal amount to be redeemed to the date fixed for the redemption thereof:

Year (May 1)	Principal Amount
2027	$ 3,245,000
2028	3,410,000
2029	3,580,000
2030	3,760,000
2031†	3,945,000
	$17,940,000

† Maturity

The County, at its option, may credit against such mandatory sinking fund redemption requirement the principal amount of any Series 2006A Bonds maturing on May 1, 2031 which have been purchased and cancelled by the County or which have been redeemed and not theretofore applied as a credit against such mandatory sinking fund redemption requirement.

The Bonds maturing on May 1, 2036 are subject to mandatory sinking fund redemption on May 1, 2032 and on each May 1 thereafter and to payment at maturity on May 1, 2036 in the principal amounts in each year set forth below, in the case of redemption with the particular Bond or Bonds or portions thereof to be redeemed to be selected by lot, upon payment of the principal amount of the Bonds to be redeemed, together with the interest accrued on the principal amount to be redeemed to the date fixed for the redemption thereof:

Year (May 1)	Principal Amount
2032	$ 4,145,000
2033	4,350,000
2034	4,565,000
2035	4,795,000
2036†	5,035,000
	$22,890,000

† Maturity

The County, at its option, may credit against such mandatory sinking fund redemption requirement the principal amount of any Series 2006A Bonds maturing on May 1, 2036 which have been purchased and cancelled by the County or which have been redeemed and not theretofore applied as a credit against such mandatory sinking fund redemption requirement.

PLAN OF REFUNDING

The 2006B Bonds are being issued to refund of the County's outstanding Water and Sewer System Revenue and Refunding Revenue Bonds, Series 1994 Bonds (the "Refunded Bonds"), described in the table below:

1994 REFUNDED BONDS

Date of Maturity (May 1)	Amount	Interest Rate	Redemption Date	Redemption Price
2007	$ 810,000	5.65 %	August 10, 2006	100%
2008	485,000	5.70	August 10, 2006	100
2009	510,000	5.75	August 10, 2006	100
2014	3,030,000	5.875	August 10, 2006	100
	$ 4,835,000			

Upon delivery of the Series 2006B Bonds, the County will enter into a refunding trust agreement (the "Refunding Trust Agreement"). The Refunding Trust Agreement creates an irrevocable escrow fund (the "Refunding Trust Fund"), which is to be held by the Trustee and is to be applied to the payment of the principal and interest on the Refunded Bonds to their redemption date. The County will deposit proceeds of the Bonds in the Refunding Trust Fund which together with earnings thereon represents the total escrow defeasance requirements of the Refunded Bonds and which will be invested in securities which will be direct obligations of the United States (the "Securities"), maturing in amounts and bearing interest at rates sufficient (i) to pay the interest on the Refunded Bonds to their redemption date, and (ii) to redeem the Refunded Bonds on such redemption date at their redemption price. The Refunded Bonds will be irrevocably designated for redemption, and provision has been made in the Refunding Trust Agreement for the giving of notice of such redemption. The Refunded Bonds may not be redeemed other than as described above. The Securities will be purchased in the open market at interest rates which will cause the yield thereon, computed in accordance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended and applicable regulations, not to exceed the yield permitted by the Code. The Refunding Trust Fund, including the interest earnings on the Securities, in the amount needed to pay principal and interest on the Refunded Bonds is pledged solely for the benefit of the holders of the Refunded Bonds.

SECURITY FOR THE SERIES 2006 BONDS

The Series 2006 Bonds will be payable on a parity with the Outstanding Parity Bonds, Additional Bonds and interest on bond anticipation notes hereafter issued pursuant to the Resolutions. For a more complete discussion of the County's power to issue additional debt, see the section "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS - Issuance of Additional Obligations". The Series 2006 Bonds are payable as to principal and interest from, and secured by a pledge of, income, revenues, fees and moneys derived by the County from the ownership, possession, operation, management or control of the System, including, but not limited to, charges for current services, fees charged for connection to the System and earnings of the investment of certain funds (the "Revenues"), subject to the prior payment from the Revenues of the expenses of operation and maintenance of the System. Additionally, the Subordinate Note is secured by a subordinate pledge of the revenues of the System.

The Series 2006 Bonds will not be a debt of the County within the meaning of any constitutional or statutory limitation on the creation of general obligation indebtedness of the County, nor will they impose any general liability upon the County. The full faith and credit of the County are not pledged to the payment of the Series 2006 Bonds, and the County shall not be liable for the payment thereof out of any funds of the County other than the Revenues pledged therefor, in the manner provided in the Bond Resolution.

Rate Covenant

The County covenants in the Resolutions to establish, maintain, revise and collect rates and charges with respect to the System sufficient to provide Net Operating Revenues, as defined herein (the calculation of which excludes connection fees, income from investments and certain other nonrecurring revenues), equal to not less than 1.25 times the aggregate of the Debt Service Requirement during such year on all Bonds outstanding under the Bond Resolution and the interest during such year on outstanding bond anticipation notes, if any, payable on a parity with the Bonds. See the section "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS - Covenant as to Rates and Charges".

Reserve Account

The Series 2006 Bonds, together with the Outstanding Parity Bonds, Additional Bonds and interest on bond anticipation notes, will be additionally secured by a Reserve Account established and maintained by the County pursuant to the terms of the Resolutions. As described in the section "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS - Collection and Disposition of Revenues - *Reserve Account*", the Resolutions require the County to maintain on deposit in the Reserve Account an amount, or a surety bond, insurance policy or letter of credit, equal to the maximum annual Debt Service Requirement, in order to provide a reserve for the payment of the principal of and interest and premium, if any, on the Series 2006 Bonds, Outstanding Parity Bonds and Additional Bonds and for the payment of interest on bond anticipation notes.

Bondholders' Remedies in Event of Default

In case of an Event of Default under the Resolutions (see the section "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS - Events of Default, Bondholder Remedies"), the holders of not less than 25% in aggregate principal amount of the Series 2006 Bonds may proceed to protect and enforce their rights by declaring the entire unpaid principal of and interest on the Series 2006 Bonds due and payable or by instituting a mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Resolutions. The mandamus remedy, however, may be impracticable and difficult to enforce. Furthermore, the right to enforce payment of the Series 2006 Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws and equitable principles, which may limit the specific enforcement of certain remedies.

THE COUNTY AND THE SYSTEM

The Series 2006 Bonds are secured by a pledge of the revenues of the County's System. For additional information on the System, see Appendix A hereto. Audited financial statements of the System for fiscal years ended June 30, 2004 and 2005 are attached hereto as Appendix B. For additional demographic and financial information on the County, see Appendix C hereto.

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following statements are brief summaries of certain provisions of the Bond Resolution and the Supplemental Resolution. Such statements do not purport to be complete, and reference is made to the Bond Resolution and the Supplemental Resolution, copies of which are on file and available at the office of the Clerk of the Board of Supervisors.

Construction Fund

The proceeds of the Series 2006 Bonds and the proceeds of any Additional Bonds and Bond Anticipation Notes issued for the purpose of financing the acquiring, constructing, reconstructing, improving, extending or enlarging of the System are to be deposited into the Water and Sewer System Construction Fund (the "Construction Fund").

Moneys in the Construction Fund shall be used only in carrying out the acquiring, constructing, reconstructing, improving, extending or enlarging of the System and shall be so applied by the County, including the reimbursement of any advances made by the County from its General Fund for such purposes. If, after payment of all such costs, any moneys remain in the Construction Fund, the balance shall be applied to other improvements, extensions and enlargements of the System. All earnings derived from investments made from moneys in the Construction Fund shall be credited to that fund and shall be applied as are other moneys to the credit of such fund.

Collection and Disposition of Revenues

The Bonds, together with the interest thereon, shall be payable solely from the Revenues of the System, which are pledged to the payment of the principal of and interest on the Bonds and to the security thereof in accordance with the Bond Resolution. The County has covenanted that it will pay into the Water and Sewer Revenue Fund (the "Revenue Fund") all Revenues of the System and that all Revenues shall be trust funds in the hands of the County and shall be applied only as provided in the Bond Resolution.

The Revenues shall be applied and expended for the following purposes and in the following order of priority (except as otherwise permitted by the Bond Resolution and as provided for in the Supplemental Resolution) to the following accounts, heretofore created, in the Revenue Fund:

1. *Operation and Maintenance Account:* On the first business day of each month there shall be credited to the Operation and Maintenance Account in the Revenue Fund such moneys as are determined to be necessary to pay the expenses of operating and maintaining the System during such month. Such expenses of operation and maintenance shall include (a) salaries, wages, employee benefits, costs of materials and supplies, costs of water, costs of power, costs of routine repairs, renewals, replacements and alterations occurring in the usual course of business, costs of billings and collections, costs of insurance, costs of audits, taxes, if any, a properly allocable share of County administrative and overhead expenses, and any other costs with respect to any services, facilities or commodities which are required for operating and maintaining the System and (b) payments for water, water supply, water treatment and water transmission for water distributed by the System or for the transmission, treatment and disposal of sewage collected by the System (i) made to other governmental bodies or (ii) made for the use, services and facilities of or commodities supplied by plants and properties of the County which are acquired, constructed or operated as separate utility systems. The moneys credited to the Operation and Maintenance Account shall be applied to the payment of the expenses of operating and maintaining the System

2. *Interest Account, Principal Account and Sinking Fund Account:* For the purpose of providing for the payment of the interest on the Series 2006 Bonds, not later than November 1, 2006 and on or before each May 1 and November 1 thereafter, there shall be credited to the Interest Account an amount such that, if the same amount were so paid and credited to the Interest Account on each May 1 and November 1 thereafter and prior to the next date upon which an installment of interest falls due on the Series 2006 Bonds, the aggregate of the amounts so credited to the Interest Account, would on such date be equal to the installment of interest then falling due on the Series 2006 Bonds. The County has provided or shall provide in the Supplemental Resolution authorizing the Bonds or Bond Anticipation Notes for such credits to be made in such amounts and at such times sufficient to pay when due each such installment of interest. The Supplemental Resolution providing for the Series 2006 Bonds provides for such credits in such amounts and at such time sufficient to pay when due each such installment

For the purpose of providing for the payment of the principal of the Series 2006 Bonds issued as Serial Bonds, not later than May 1, 2007 and on or before May 1 thereafter, so long as any Series 2006 Bonds issued as Serial Bonds are Outstanding, there shall be credited to the Principal Account an amount such that, if the same amount were so credited to the Principal Account on May 1 of each succeeding year thereafter and prior to the next date upon which an installment of principal falls due on the Series 2006 Bonds issued as Serial Bonds, the aggregate of the amounts so credited to the Principal Account, together with any other moneys theretofore credited to the Principal Account, would on such date be equal to the installment of principal of such Bonds then falling due. For the purpose of providing moneys to retire any Series 2006 Term Bonds, not later than May 1 in the year of the first redemption date of Series 2006 Term Bonds, and on and before May 1 in each year thereafter, so long as any Series 2006 Term Bonds are Outstanding, there shall be credited to the Sinking Fund Account for the purpose of retiring the Series 2006 Term Bonds an amount such that, if the same amount were so paid and credited to the Sinking Fund Account to provide for the retirement of the Series 2006 Term Bonds on May 1 of each year thereafter and prior to the next date upon which a Sinking Fund Account installment falls due, the aggregate of the amounts so credited to such account would on such date be sufficient to redeem the Series 2006 Term Bonds in the principal amount as provided herein. The County has provided or shall provide in the Supplemental Resolution authorizing the Bonds for such credits to be made in such amounts and at such times sufficient to pay when due each such installment of principal or sinking fund payment. The Supplemental Resolution providing for the Series 2006 Bonds provides for such credits in such amounts and at such time sufficient to pay when due each such installment.

With respect to the Bonds issued in term form, moneys shall be credited monthly to the Sinking Fund Account in such amounts and at such times sufficient to redeem such term Bonds in the principal amounts and at the times specified in the supplemental resolution authorizing such term Bonds. The moneys credited to the Sinking Fund Account to provide for the retirement of any Bonds issued in term form shall be applied by the County's Director of Finance, without further authorization or direction, to the redemption of such Bonds on each date on which a Sinking Fund Account installment for such Bonds is due, in the respective principal amounts required to be credited to such account on such dates, or, if so directed by the County, semiannually on both such due date and the day six months prior to such date (exclusive of the day which is six (6) months prior to the first of such due dates), in the respective principal amounts on credit to such account on such days so that the aggregate amount so applied in each calendar year will equal the respective principal amount required to be credited to such account on such Sinking Fund Account installment dates; *provided* that amounts to be applied on the stated maturity date of any such Bonds shall be applied to the payment on that date of such Bonds of that maturity without calling such Bonds for redemption on that date. The County's Director of Finance may apply the moneys credited to the Sinking Fund Account for the retirement of Bonds issued in term form to the purchase of such Bonds, in which event the principal amount of such Bonds required to be redeemed on the next respective ensuing Sinking Fund Account installment date shall be reduced by the principal amount of said Bonds so purchased. Any purchase of Bonds pursuant to the foregoing may be made with or without tenders of Bonds and at either public or private sale, but in any event at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the then applicable redemption price of such Bonds, plus accrued interest. The Supplemental Resolution providing for the Series 2006 Bonds provides for such credits in such amounts and at such time sufficient to pay when due each such installment.

In the event of the issuance of Additional Bonds or Bond Anticipation Notes (as defined herein), the foregoing credits are required to be increased as may be necessary to provide for the payment of principal of and interest on such Additional Bonds and interest on such Bond Anticipation Notes.

The moneys credited to such accounts shall be transferred by the County's Director of Finance to the paying agents in such amounts and at such times as shall be necessary to pay the principal of and premium, if any, and interest on the Bonds and interest on the Bond Anticipation Notes as the same become due and payable.

3. *Reserve Account:* In order to provide a reserve for the payment of interest on the Bonds and Bond Anticipation Notes and the principal of and premium, if any, on the Bonds, there shall be maintained on deposit in the Revenue Fund for credit to the Reserve Account an amount equal to the maximum annual Debt Service Requirement (as defined in the Bond Resolution) for the Bonds. Subject to the provisions of the Bond Resolution with respect to the credits to the Reserve Account upon the issuance of Additional Bonds, the moneys on deposit in the Revenue Fund for credit to the Reserve Account shall always be maintained at an amount at least equal to the maximum annual Debt Service Requirement for any year for all Bonds at the time outstanding and if at any time the moneys in the Revenue Fund credited to the Reserve Account are less than such amount, there shall be credited to this account from the first moneys available therefor in the Revenue Fund, after all credits referred to in paragraphs (1) and (2) above have been met, such amounts as shall be

necessary until there is again on credit to the Reserve Account an amount equal to the maximum annual Debt Service Requirement. In the event of the issuance of Additional Bonds, unless upon the delivery of such Additional Bonds there shall already be on deposit in the Revenue Fund for credit to the Reserve Account an amount equal to the maximum annual Debt Service Requirement to be in effect after the issuance of such Additional Bonds, (1) there shall be paid into the Revenue Fund for credit to the Reserve Account such amount, if any, of the proceeds of the sale of such Additional Bonds as the County may determine, so that there shall then be on deposit in the Revenue Fund for credit to the Reserve Account an amount equal to the maximum annual Debt Service Requirement to be m effect immediately after the issuance of such Additional Bonds, or (2) if there shall not be paid into the Revenue Fund for credit to the Reserve Account proceeds of such Additional Bonds in an amount so there shall then be on credit to the Reserve Account an amount equal to the maximum annual Debt Service Requirement to be in effect immediately after the issuance of such Additional Bonds, there shall be credited to the Reserve Account from time to time such amounts as the County may determine, of the moneys available therefor after all credits referred to in paragraphs (1) and (2) above have been met, so that no later than five years from the date of such Additional Bonds there shall be on deposit in the Revenue Fund for credit to the Reserve Account an amount equal to the maximum annual Debt Service Requirement to be in effect after the issuance of such Additional Bonds. The moneys in the Revenue Fund to the credit of the Reserve Account shall be applied solely for the purpose of paying the interest on Bonds and Bond Anticipation Notes and the principal of and premium, if any, on the Bonds when due, whether at their maturity or upon the redemption or purchase thereof, and shall be so used and applied whenever there are insufficient moneys in the Revenue Fund on credit to the Interest Account, Principal Account and Sinking Fund Account for such purposes.

In lieu of the deposit of moneys into the Reserve Account, or in substitution therefor or any part thereof from time to time, the County may cause to be so credited a surety bond or an insurance policy, payable to the County for the benefit of the holders of the Bonds, or a letter of credit in an amount equal to the difference between the maximum Debt Service Requirement for such Bonds and the amounts then on deposit in the Reserve Account. The surety bond, insurance policy or letter of credit shall be payable (upon the giving of notice as required thereunder) on any interest payment due on which moneys will be required to be withdrawn from the Reserve Account, and applied to the payment of the principal or interest on any Bonds and such withdrawals cannot be made by amounts credited to the Reserve Account The insurer providing such surety bond or insurance policy shall be an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in the highest rating category by any of Fitch Investors Service, L.P., Standard & Poor's Corporation or Moody's Investors Service, Inc., or their successors, or any insurer who holds the highest policyholder rating accorded insurers by A.M. Best & Co. or any comparable service. If Fitch Investors Service, L.P., Moody's Investors Service or Standard & Poor's Corporation then rates the Bonds, the insurer shall be one whose municipal bond insurance policies are rated in the highest rating category by the respective rating agency rating the Bonds. The letter of credit issuer shall be a bank or trust company which is rated not lower than the second highest rating category by Fitch Investors Service, L.P., Standard & Poor's Corporation or Moody's Investors Service, Inc., or their successors, and the letter of credit itself shall be rated in the highest category of either such rating agency; *provided* that if any of Fitch Investor's Service, L.P., Moody's Investors Service or Standard & Poor's Corporation then rates the Bonds the letter of credit issuer and the letter of credit itself shall both be rated in the aforementioned categories of the respective agency rating the Bonds. If a disbursement is made pursuant to a surety bond, an insurance policy or a letter of credit provided pursuant to this paragraph, the County shall be obligated either (i) to reinstate the maximum limits of such surety bond, insurance policy or letter of credit or (ii) to deposit into the Revenue Fund for credit to the Reserve Account, funds in the amount of the disbursement trade under such surety bond, insurance policy or letter of credit, or a combination of such alternatives, as shall provide that the amount credited to the Reserve Account, equals the maximum Debt Service Requirement, such amounts to be provided from the first available moneys after payments to the Interest Account, Principal Account and Sinking Fund Account in the Revenue Fund. Any interest or fees shall be paid from available moneys after payment to the Interest Account, Principal Account and Sinking Fund Account in the Revenue Fund.

Any surety bond insurance policy or letter of credit must be unconditional and irrevocable. To the extent such surety bond, insurance policy or letter of credit expires prior to the final maturity of the Bonds, the County shall provide prior to termination of such bond policy or letter of credit a substitute surety bond, insurance policy or letter of credit complying with the provisions hereof or shall provide from Revenues, an amount such that there will be deposit on the Reserve Account, an amount equal to the maximum Debt Service Requirement.

If the issuer of a surety bond, insurance policy or letter of credit on deposit in the Reserve Account, shall cease to have a rating as described above, the County shall use reasonable efforts to replace such surety bond, insurance policy or letter of credit with one issued by an insurer having a rating so described, but shall not be obligated to pay, or commit to pay, increased fees, expenses or interest in connection with such replacement or to deposit Revenues in the Account, in lieu of replacing such surety bond, insurance policy or letter of credit with another.

4. *Accounts which may be created:* In the event any payments on hedge agreements, support agreements or other financial agreements, other than payments constituting principal of, premium, if any, and interest on, Bonds, shall be secured by a lien on and pledge of Revenues on a parity with the lien on and pledge of the Revenues created for the payment and security of the Bonds, a separate account shall be established in the Revenue Fund for the payment thereof and payments to such account shall be made from Revenues at the time and after Revenues are disbursed to the Interest, Principal and Sinking Fund Accounts in the Revenue Fund.

5. *Other purposes:* Money on deposit in the Revenue Fund not required to make the payments or credits referred to in paragraphs (1), (2), (3) and (4) above shall constitute surplus funds and may be used to make all renovations, replacements, renewals and repairs to the System as are necessary to maintain the System in good condition. Such moneys may, however, also be used for making up insufficiencies in any account in the Revenue Fund; for paying the costs of acquisition or construction of plants and properties to comprise part of the System; for paying the cost of reconstructions, improvements, enlargements or extensions to the System; for redeeming or purchasing Bonds; for accelerating the payments required to be made into the Reserve Account; for the making of advances, in anticipation of repayment from evidences of indebtedness or other moneys, for the purpose of acquiring and constructing plants and properties for the storage, supply and treatment of water or the treatment and disposal of sewage, including associated transmission facilities, which the County has elected to acquire, construct and operate as separate utility systems; for the carrying out of any other provisions of the Bond Resolution; for the payment of the principal of and premium, if any, and interest on Bond Anticipation Notes; for the payment of bonds, notes, certificates of indebtedness or other evidences of indebtedness secured by a lien on and pledge of the Revenues of the System junior to the payment and security of the Bonds; for the payment of taxes, assessments or other governmental charges; or for any other lawful purpose of the County with respect to the System.

Covenant as to Rates and Charges

The County covenants to establish, maintain, revise and collect rates and charges for the services, facilities and commodities sold, furnished, or supplied through the facilities of the System sufficient to provide the following:

A. Revenues to pay all costs and expenses in connection with the proper operation and maintenance of the System, to pay the principal of and premium, if any, and interest on the Bonds and interest on any Bond Anticipation Notes, to pay all costs and expenses in connection with all necessary repairs, replacements or renewals of the System and all taxes, assessments, or other governmental charges lawfully imposed on the System or on the Revenues therefrom or payments in lieu thereof, to make all credits to the Interest Account, Principal Account, Sinking Fund Account and Reserve Account required by the Bond Resolution, and to pay all other amounts which the County may now or hereafter become obligated to pay from the Revenues of the System; and

B. Net Operating Revenues (as defined below) in each year to be at least equal to 1.25 times the aggregate of (a) the Debt Service Requirement during such year on all Bonds at the time outstanding and (b) the interest during such year on all Bond Anticipation Notes at the time outstanding.

"Net Operating Revenues" as used in the Bond Resolution means the Revenues of the System after deduction of the ordinary expenses of operation and maintenance of the System, but excluding from Revenues in such calculation any income, revenues or moneys derived from (i) rates, charges, fees and rentals for the privilege of connecting to the System, (ii) earnings on investments and the proceeds of the sale of investments, (iii) the proceeds of the sale or other disposition of all or any part of the System and (iv) the proceeds of insurance and condemnation awards received with respect to the System.

Issuance of Additional Obligations

The County shall not issue any bonds, notes, certificates of indebtedness or other evidences of indebtedness having in any way a lien and charge on the Revenues prior to the lien and charge created by the Bond Resolution for the payment and security for the Bonds.

Additional Bonds. The County may issue Additional Bonds payable and secured equally and ratably with the Bonds then outstanding for any purpose connected with or pertaining to the System, now or hereafter authorized by law, upon compliance with the following conditions:

1. The County shall not be in default of any provision of the Bond Resolution;

2. There shall not be any deficiency in any of the accounts in the Revenue Fund, including the Interest Account, the Principal Account, the Sinking Fund Account or the Reserve Account in the Revenue Fund; and

3. One-half of the Net Operating Revenues during any 24 consecutive months (the "Base Period") out of the 30 months immediately preceding the issuance of the Additional Bonds, shall have been not less than 1.25 times the maximum Debt Service Requirement to accrue during any year on the Bonds then outstanding and such Additional Bonds.

If any changes have been made and are in effect at the time of the issuance of the Additional Bonds in the rates and charges for the services, facilities and commodities of the System (exclusive of changes in the rates and charges for the privilege of connecting to the System) which were not in effect during all or any part of the Base Period, the Net Operating Revenues for the Base Period shall be adjusted by the Consulting Engineer to reflect the results which would have occurred in the Net Operating Revenues if such changes in the rates and charges had been in effect during all the Base Period; *provided, however,* that (i) unless the changes in the rates and charges shall result in a decrease in Net Operating Revenues or (ii) unless the changes in the rates and charges shall have been in effect at least six (6) months prior to the issuance of the Additional Bonds, the adjustment in the Net Operating Revenues for any part of the Base Period in which the changes in the rates and charges were not in effect, shall reflect not in excess of seventy-five percent (75%) of the changes in the Operating Revenues resulting from the changes in the rates and charges.

In the event the expenses of operation and maintenance of the System during the Base Period include payments to the City of Richmond, Virginia, for the treatment and disposal of sewage of the County, the acquisition and construction of facilities for the treatment and disposal of which the Additional Bonds are being issued (or for which Bond Anticipation Notes to be paid from the Additional Bonds have been issued), then the Net Operating Revenues during the Base Period may be increased by an amount equal to forty percent (40%) of such payments.

Bond Anticipation Notes. The County may issue bonds, notes, certificates of indebtedness or other evidences of indebtedness payable as to interest ("Bond Anticipation Notes") on a parity with the principal of and interest on Bonds issued under the Bond Resolution, upon compliance with the Bond Resolution, including the following conditions:

1. The County shall not be in default of any provision of the Bond Resolution;

2. There shall not be any deficiency in any of the accounts in the Revenue Fund, including the Interest Account, the Principal Account, the Sinking Fund Account or the Reserve Account in the Revenue Fund; and

3. Unless the proposed Bond Anticipation Notes are being issued solely for the purpose of extending or renewing other Bond Anticipation Notes, one-half of the Net Operating Revenues (as defined hereinbefore) during any consecutive twenty-four (24) months (the "Base Period") out of the thirty (30) months immediately preceding the issuance of the Bond Anticipation Notes shall have been not less than one and one-quarter (1.25) times the maximum aggregate in any year of (a) the Debt Service Requirement on the Bonds then outstanding and (b) that amount which would be required to pay the principal of and interest (unless capitalized) on any Bond Anticipation Notes then outstanding (if any) and the proposed Bond Anticipation Notes, on the assumptions that (i) the principal of all the Bond Anticipation Notes matured annually over thirty (30) years from the date of the proposed Bond Anticipation Notes, commencing with the first anniversary of the date of the proposed Notes, (ii) all the Bond Anticipation Notes bore interest at the rate on the Bond Anticipation Notes to be issued, with such interest being payable annually on each anniversary of the date of the proposed Bond Anticipation Notes and (iii) the totals in each year of the principal of and interest payable on all the Bond Anticipation Notes and the Debt Service Requirement on the Bonds then outstanding shall be substantially equal.

The County may issue Additional Bonds without compliance with any other conditions for the purpose of refunding at any time within one year prior to maturity thereof any of the Bonds for the payment of which the County does not have sufficient funds. Any Additional Bonds issued for such purpose shall mature, and any sinking fund credit therefor shall commence, in a year later than the last stated maturity of any Bond then outstanding which is not so refunded.

The County may also issue Additional Bonds without compliance with any other conditions for the purpose of refunding prior to maturity any of the Bonds, *provided* that the Debt Service Requirement on account of the Refunding Bonds and the Bonds which are not refunded shall not be greater in any year in which the Bonds not refunded are to be outstanding than the Debt Service Requirement in such year if the Bonds to be refunded were not so refunded.

The Bond Resolution provides that nothing therein shall prohibit the County from issuing other bonds, notes, certificates of indebtedness or other evidences of indebtedness having a lien on the Revenues which is junior and subordinate to the lien on such Revenues created by the Bond Resolution for the payment and security of the Bonds.

The Bond Resolution provides that nothing contained therein shall prohibit the County from issuing bonds to acquire or construct water or sewer facilities, which the County has elected to acquire, construct or operate as utility systems separate from the System, and which bonds are payable solely from the revenues or other income derived from the ownership or operation of such separate utility system; *provided, however,* that the consulting engineer shall certify that the acquisition or construction or operation of such separate utility system will not result in a reduction of the Revenues or Net Operating Revenues below the amounts covenanted by the County in the Bond Resolution to be produced.

The Bond Resolution provides that nothing shall prohibit or prevent, or be deemed or construed to prohibit or prevent, (1) the County from entering into hedge agreements, support agreements or other financial agreements under which payments (including but not limited to, fees, charges, expenses but excluding any termination, indemnification or other payments intended to pay any person for loss of benefits under such agreement) are payable from Revenues and secured by a lien on and pledge of Revenues on a parity with the lien on and pledge of the Revenues created for payment and security of the Bonds; *provided* such payments shall meet the requirements of the Resolutions and (2) the County from issuing variable rate bonds.

Annual Budget

Prior to the commencement of each fiscal year there shall be filed with the Clerk of the Board of Supervisors a proposed budget of contemplated expenditures and estimated revenues of the System during such ensuing fiscal year (the "Budget"). The Budget shall contain an itemized plan of all such expenditures and revenues and such other information as may be required by law. Not later than seven (7) days prior to the commencement of such fiscal year, the Board of Supervisors shall hold a public hearing on the Budget at which any Bondholder or his representative may appear and present objections to the Budget. Notice of such hearing together with a copy of the Budget shall be mailed, at least seven days prior to the hearing, to each Bondholder who has filed with the Board of Supervisors a written request therefor.

Investments of Moneys

Moneys in the Revenue Fund on credit to the Interest Account, the Principal Account and the Sinking Fund Account shall be invested in Investment Securities (as defined below) so as to mature in amounts and at times (as permitted by law) so that the principal of and interest and premium, if any, on the Bonds can be paid when due, whether at maturity thereof or upon the redemption or the purchase thereof.

Moneys in the Revenue Fund on credit to the Reserve Account shall be invested in Investment Securities of the types described in items (i) through (iv) of the definition of Investment Securities below so as to mature or be subject to redemption within such period as permitted by law but not to exceed twelve (12) years from the date of investment, and in any event not later than the final maturity date of any Bonds then outstanding.

Income derived from investments made pursuant to the preceding two paragraphs shall be treated as Revenues of the System and used and applied as are all other Revenues.

"Investment Securities" shall mean any of the following which are legal investments under the laws of the Commonwealth of Virginia: (i) direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America, (ii) obligations of the Federal Land Banks, Federal Home Loan Banks, Federal National Mortgage Association, Federal Intermediate Credit Banks, Federal Banks for Cooperatives, International Bank for Reconstruction and Development, Asian Development Bank and direct and general obligations of any agencies of the United States of America not included in the foregoing listing, (iii) direct and general full faith and credit obligations of the Commonwealth of Virginia, (iv) unlimited tax direct and general obligations of any political unit in the Commonwealth of Virginia, to the payment of which the full faith and credit of such political unit is pledged; *provided* that such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency, and (v) certificates of deposit secured as provided by law of national banking associations located in Virginia and banks and trust companies organized under Virginia law.

Reports and Audits

The County shall keep, separate from all other records and accounts, proper books and accounts showing correct and complete entries of all financial transactions pertaining to the System. The holders of any of the Bonds shall have the right to inspect such books, records and accounts and to inspect the System. Within 180 days following the close of each fiscal year the County shall cause an audit of such books and accounts of the System to be made by an independent firm of certified public accountants, showing the receipts and disbursements for and on account of the System. Each such audit shall include, *inter alia,* (i) a statement of revenues, expenses and retained earnings of the System for such fiscal year, including operating and maintenance expenses in reasonable detail and a statement of cash flow, and (ii) a balance sheet as of the end of such fiscal year, showing separately the cash and investments credited to the funds and accounts required by the Bond Resolution.

A copy of each such audit report shall be sent to the nationally recognized bond rating agencies, and to any Bondholder requesting in writing a copy thereof.

Insurance

The County shall carry insurance on the facilities comprising the System of the kinds which are usually carried upon similar water and sewer systems, including fire, extended coverage and general liability, and additional insurance as shall be determined by the County; *provided, however,* that the County may self-insure to the extent customary with utilities operating similar properties. The proceeds of any policies for general liability shall be paid into the Revenue Fund for credit to the Operation and Maintenance Account and be used in paying the claims on account of which they were received. All moneys received for other losses shall be paid into the Revenue Fund and used for making good the damage in respect to which they were paid; *provided, however,* that the County shall not be required to make good such damage, if in the judgment of the County, the property involved is no longer useful or profitable in the operation of the System or necessary to produce or maintain the Revenues thereof, or which is to be or has been replaced by other property so as not to impair the operation of the System

Additional Covenants of the County

The County (i) shall proceed with all reasonable dispatch with any acquisition, construction, reconstruction, improvement, extension or enlargement to be financed from the proceeds of any Additional Bonds or otherwise financed from the Revenues of the System, (ii) shall maintain all franchises, licenses and permits necessary to the operation of the System or as may be required by law, (iii) shall operate the System as a revenue-producing facility, (iv) shall maintain the System in good repair and working order, (v) shall retain management of, and control over, the System, including the rates, fees and charges and revenues thereof, (vi) shall fulfill all of its agreements, covenants and obligations contained in certain agreements between the County and the City of Richmond, Virginia, regarding wastewater facilities (see the section "THE SYSTEM - Agreements with the City of Richmond" in Appendix A), (vii) shall fulfill all of its agreements, covenants and obligations contained in the Unification Agreement (as defined in the section "THE SYSTEM - History and Development" in Appendix A), and shall not amend the same in any manner adverse to the interest of any Bondholder, (viii) shall not acquire and construct and operate plants and properties used for or pertaining to the storage, supply and treatment of water or the treatment and disposal of sewage, including associated transmission facilities, as separate utility systems, unless in the opinion of a consulting engineer such acquisition and construction and operation will not result in a reduction of the Revenues or Net Operating Revenues below the amounts covenanted in the Bond Resolution by the County to be produced, (ix) shall comply with the requirements of Section 103 and Sections 141 through 150 of the Internal Revenue Code of 1996, as amended, throughout the term of the Bonds, (x) shall not permit bonds to be issued by any sanitary district, if such bonds (a) shall be payable in any way from the Revenues prior to or on a parity with the payments to be made to the Operation and Maintenance Account, the Interest Account, the Principal Account, the Sinking Fund Account and the Reserve Account or (b) shall be secured by a lien on the Revenues equal or superior to the lien thereon of the Bonds, and (xi) shall not dispose of or encumber the System or property thereof or interest therein; *provided, however,* that nothing in the Bond Resolution shall prohibit the County from disposing of any property which in its judgment is no longer useful in the operation of the System, or necessary to produce the Revenues thereof, or which is to be replaced by other property so as not to impair the operations of the System Any moneys received from such disposition may be used to acquire or construct new properties to replace the properties disposed of or to acquire or construct new properties to constitute part of the System.

Events of Default, Bondholder Remedies

The Bond Resolution provides that each of the following shall constitute an Event of Default:

1. Failure to pay the principal of and premium, if any, on the Bonds when due;

2. Failure to pay interest on any Bond or Bond Anticipation Note, or any sinking fund installment, when due;

3. Failure to perform any other covenant or agreement contained in the Bond Resolution, which failure shall have continued for sixty (60) days after notice thereof from the holders of not less than 20% of the outstanding Bonds; *provided, however*, that if any such failure shall be such that it cannot be cured or corrected within a 60-day period, it shall not constitute an Event of Default if curative or corrective action is instituted within said period and diligently pursued until the failure or performance is cured or corrected;

4. Except as permitted by the Bond Resolution, the sale or transfer of any properties constituting a part of the System, or the voluntary forfeiture of any of its licenses, franchises, permits, privileges, easements or rights of way necessary in the operation of the System;

5. The instituting of any proceeding with the consent of the County for the purpose of effecting a composition between the County and its creditors, the claim of such creditors being payable from the Revenues of the System or for the purpose of adjusting the claims of such creditors pursuant to any federal or State statute;

6. The entering of an order or decree appointing a receiver of the System or any of the properties thereof or interests therein;

7. The assumption of control by a court, under the provision of any applicable bankruptcy laws of the System or any of the properties thereof, and such control shall not be terminated within 90 days from the date of such assumption, or the approval by a court of a petition for the reorganization of the System or rearrangement of the obligations of the County under the Bond Resolution; or

8. If the County shall for any reason be rendered incapable of fulfilling its obligations under the Bond Resolution.

Upon the occurrence of an Event of Default, the holders of not less than 25% in principal amount of the Bonds then outstanding may declare the principal of all the outstanding Bonds, and all accrued and unpaid interest thereon, to be due and payable immediately. That provision is subject to the condition that, if at any time after such declaration and before any further action has been taken, all arrears of interest on the Bonds and Bond Anticipation Notes and principal of the Bonds shall be paid and all other Events of Default, if any, which shall have occurred shall have been remedied, then the holders of a majority in principal amount of the outstanding Bonds may waive such default and annul such declaration.

If an Event of Default shall have occurred and be continuing, the holders of not less than 25% in principal amount of the outstanding Bonds may call a meeting of the holders of Bonds for the purpose of electing a bondholders' committee (the "Bondholders' Committee"). At such meeting the holders of not less than a majority in principal amount of the outstanding Bonds must be present in person or by proxy in order to constitute a quorum for the transaction of business. A quorum being present at such meeting, the Bondholders present may, by a majority of the votes cast, elect one or more persons, who may or may not be Bondholders, to the Committee. The Bondholders' Committee is empowered to exercise, as trustee for the Bondholders, all the rights and powers conferred on any bondholder in the Bond Resolution.

Upon the occurrence of an Event of Default the holders of not less than 25% in principal amount of the Bonds then outstanding or any committee or trustee therefor shall be entitled to the appointment of a receiver by any court of competent jurisdiction. Any such receiver may be appointed upon the application to the Circuit Court of the Fourteenth Judicial Circuit of the Commonwealth of Virginia, or to any other court of competent jurisdiction in the Commonwealth of Virginia. Any receiver so appointed may enter and take possession of the System, operate, maintain and repair the same, impose and prescribe rates, rentals, fees or charges and receive and apply all Revenues thereafter arising therefrom and in the same manner as the County itself might do.

In case an Event of Default shall occur, subject to the provisions referred to in the three next preceding paragraphs, the holder of any outstanding Bond shall have the right, for the equal benefit of all holders of the Bonds, to protect the rights vested in such holders by the Bond Resolution by such appropriate judicial proceeding as such holder shall determine, either by suit in equity or by action at law.

Modification of Bond Resolution

The County may without consent of any Bondholder make any modification of or amendment to the Bond Resolution required to cure any ambiguity or error contained therein, make any amendments thereto to grant to the Bondholders additional rights, or make an amendment thereto for the purpose of providing for the issuance. of Additional Bonds or Bond Anticipation Notes.

The holders of two-thirds in principal amount of the outstanding Bonds shall have power to authorize any modifications proposed by the County of the Bond Resolution, provided that without the consent of the holder of each Bond affected thereby, no modification shall be made which will (a) extend the time of payment of the principal of or the interest on any Bond or reduce the principal amount thereof or the rate of interest thereon or the premium payable upon the redemption thereof, (b) give to any Bond any preference over any other Bond secured equally and ratably therewith, (c) create any pledge prior to or on a parity with the pledge afforded by the Bond Resolution, (d) deprive any Bondholder of the security afforded by the pledge of the Bond Resolution or (e) reduce the percentage in principal amount of the Bonds required to authorize any modification to the Bond Resolution.

If payment of debt service on a series of Additional Bonds is insured or otherwise credit enhanced, the issuer of the policy or credit enhancement may, at the option of the County, be considered as the Bondholder of such series for purposes of consenting to amendments.

Defeasance

The obligations of the County under the Bond Resolution and liens, pledges and covenants of the County therein provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be outstanding thereunder when such Bond shall have been purchased by the County and canceled or destroyed, or when principal of such Bond and redemption premium, if any, plus interest on such principal to the due date thereof, either (a) shall have been made or (b) shall have been provided for by irrevocably depositing with a paying agent for such Bond moneys sufficient to make such payment or direct and general obligations of, or obligations the principal of and interest on which are guaranteed by, the United States of America maturing in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, as is more fully set forth in the Bond Resolution.

TAX EXEMPTION

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the County, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Series 2006 Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond

Counsel will rely on certain representations, certifications of fact, and statements of reasonable expectations made by the County in connection with the Series 2006 Bonds, and Bond Counsel has assumed compliance by the County with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2006 Bonds from gross income under Section 103 of the Code.

Bond Counsel is also of the opinion that, under existing laws of the Commonwealth of Virginia, interest on the Series 2006 Bonds is not includable in computing the Virginia income tax.

Bond Counsel expresses no opinion regarding any other federal or state tax consequences with respect to the Series 2006 Bonds. Bond Counsel will render its opinion under existing statutes and court decisions as of the issue date and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2006 Bonds, or under state and local tax law.

The proposed forms of opinions of Bond Counsel to the County are set forth as Appendix F to this Official Statement.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2006 Bonds in order that interest on the Series 2006 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2006 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 2006 Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The County has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2006 Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters, with respect to the Series 2006 Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Series 2006 Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2006 Bonds.

Prospective owners of the Series 2006 Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for federal income tax purposes. Interest on the Series 2006 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" (OID) is the excess of the sum of all amounts payable at the stated maturity of a Series 2006 Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Series 2006 Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of the Series 2006 Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Series 2006 Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludible from gross income for federal income tax purposes to the same extent as other interest on the Series 2006 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Original Issue Premium

In general, if an owner acquires a Series 2006 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2006 Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that Series 2006 Bond (a "Premium Bond") will have bond premium. In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined on the basis of constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period, under the owner's regular method of accounting, against the bond premium allocable to that period. In the case of a tax-exempt bond, such as a Series 2006 Bond, that is a Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost.

The owner of any Premium Bond should consult its own tax advisors with respect to the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, and disposition of such Premium Bond.

Legislation

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the 2006 Bonds will not have an adverse effect on the tax-exempt status or market price of the Series 2006 Bonds.

UNDERWRITING

The Series 2006 Bonds were awarded pursuant to electronic competitive bidding via i-Deal LLC's PARITY Electronic Bid Submission System on June 20, 2006 to a group of underwriters led by J.P. Morgan Securities Inc. at a price to the County that results in an underwriter's discount of $152,228.39 from the initial public offering prices derived from the yields show on the inside cover page. The underwriters have supplied the information as to the initial public offering yields and prices shown on the inside cover page and may offer to sell the Series 2006 Bonds to certain dealers and others at prices lower than the initial offering prices, or prices derived from the yields, shown on the inside cover page.

The underwriters have advised the County that the underwriters have obtained a commitment for municipal bond insurance for the Series 2006A Bonds maturing on May 1 in the years 2012 through 2015, 2018, 2020 and 2031 and for the Series 2006B Bonds maturing on May 1 in the years 2012 through 2014 from MBIA, and that as a result of such municipal bond insurance, the Series 2006A Bonds maturing on May 1 in the years 2012 through 2015, 2018, 2020 and 2031 and the Series 2006B Bonds maturing on May 1 in the years 2012 through 2014 will be assigned ratings by Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services of "AAA", "Aaa" and "AAA", respectively. The premium for this insurance is paid by the underwriters.

RATINGS

Fitch Ratings, One Street Plaza, New York, New York, Moody's Investors Service, 99 Church Street, New York, New York, and Standard & Poor's Corporation, 55 Water Street, New York, New York, have assigned ratings of "AA+", "Aa2" and "AAA", respectively, to the Series 2006 Bonds. Based on the new issue municipal bond insurance policy insuring the payment of principal of and interest on certain maturities of the Series 2006 Bonds issued by MBIA concurrently with the delivery of the Series 2006 Bonds, Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services are expected to assign ratings of "AAA", "Aaa" and "AAA", respectively, to the Series 2006A Bonds maturing on May 1 in the years 2012 through 2015, 2018, 2020 and 2031 and to the Series 2006B Bonds maturing on May 1 in the years 2012 through 2014. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The County furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the County. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies, and assumptions of the rating agencies. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by any such rating agencies if, in the judgment of such agency, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the County. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Series 2006 Bonds.

CERTIFICATE CONCERNING OFFICIAL STATEMENT

The County will furnish to the underwriters a certificate dated the date of delivery of the Series 2006 Bonds, signed by the County Manager and the County's Director of Finance, and stating that, both as of the date of this Official Statement and the date of delivery of the Series 2006 Bonds, the information of or pertaining to the County contained in this Official Statement does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make such statements, in the light of the circumstances under which they were made, not misleading and that no material adverse change has occurred in the financial condition of the County between the date of this Official Statement and the date of delivery other than as contemplated in this Official Statement. Such certificate will state, however, that the County Manager and the Director of Finance did not independently verify the information in this Official Statement indicated as having been obtained or derived from sources other than the County and its officers but that they have no reason to believe that such information is not accurate.

CONTINUING DISCLOSURE

The County has undertaken in its Continuing Disclosure Certificate, the form of which is attached as Appendix E to this Official Statement, to comply with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule"), by providing certain annual financial information and operating data and event notices required by the Rule. Such information is to be filed with all nationally recognized municipal securities information repositories ("NRMSIRs") and with any Virginia qualifying state information depository that may be created.

No state information depository ("SID") has been created for the Commonwealth. If, however, a SID is hereafter created for such state, the County is obligated to make filings and provide notices to the SID as required by the Rule. Investors and other interested parties may contact any NRMSIR for additional information concerning its services. The County makes no representations as to the scope of the services provided to the secondary market by any NRMSIR or as to the costs for the provision of such services by any NRMSIR.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters relating to the authorization and validity of the Series 2006 Bonds are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the County, whose opinion with respect to the Series 2006 Bonds will be furnished at the expense of the County upon delivery of the Series 2006 Bonds. Bond Counsel has not prepared this Official Statement and has not verified its accuracy, completeness, or fairness. Accordingly, Bond Counsel will express no opinion of any kind as to the Official Statement, and the opinions of Bond Counsel will be limited to matters relating to the authorization and validity of the Series 2006 Bonds and the exemption of interest on the Series 2006 Bonds under present federal and Virginia income tax laws.

INDEPENDENT AUDITORS

The financial statements of Henrico County, Virginia Water and Sewer Revenue Fund, as of and for the years ended June 30, 2004 and 2005, included in this Official Statement as Appendix B have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore Inc., Certified Public Accountants, Denver Colorado, will verify certain mathematical computations as to the sufficiency of the moneys and investments deposited under the Refunding Trust Agreement (i) to pay, when due, the interest on the Refunded Bonds from the date the Series 2006B Bonds are issued to the date fixed for the redemption of the Refunded Bonds and (ii) to pay the redemption prices of the Refunded Bonds on the date fixed for the redemption of the Refunded Bonds. See "PLAN OF REFUNDING" above.

FINANCIAL ADVISOR

BB&T Capital Markets, a division of Scott & Stringfellow, Inc., 909 East Main Street, Richmond, Virginia 23219, serves as financial advisor to the County on debt management and capital financing matters and has assisted the County in the issuance and sale of the Series 2006 Bonds.

LITIGATION

The County Attorney advises that there is no litigation pending or, to the best of his knowledge, threatened, in any way questioning or affecting the validity of the Series 2006 Bonds, or the power and authority of the County to fix and collect rates and charges for the services, facilities and commodities sold, furnished or supplied through the System or the power and authority of the County to pledge the Revenues therefrom to the payment of the principal of and interest on the Series 2006 Bonds.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to prospective buyers of the Series 2006 Bonds. All quotations from and summaries and explanations of laws contained in this Official Statement do not purport to be complete and reference is made to said laws for full and complete statements of their provisions. Any questions concerning the contents of this Official Statement should be directed to the following: Reta R. Busher, Director of Finance, (804) 501-5200; John J. Conrad, Senior Vice President, BB&T

Capital Markets, A Division of Scott & Stringfellow, Inc., (804) 649-3935; or Donald G. Gurney, Hawkins Delafield & Wood LLP, (212) 820-9438.

The execution of this Official Statement and its delivery have been duly authorized by the Board of Supervisors.

HENRICO COUNTY, VIRGINIA

/s/ VIRGIL R. HAZELETT, P.E.
County Manager

/s/ RETA R. BUSHER
Director of Finance

APPENDIX A

THE SYSTEM

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Henrico County, Virginia (the "County"), is situated in central Virginia and surrounds the City of Richmond (the "City" or "Richmond") on the north side of the James River. Although much of the County's approximately 244 square miles consists of highly developed urban and suburban areas, there is also a considerable amount of undeveloped agricultural and forest land. In Virginia, cities and counties are distinct units of government and do not overlap. Thus, the County is responsible for providing local government services to its residents. For a more, detailed description of the County, see Appendix C.

THE SYSTEM

History and Development

Prior to October 1968, water and sewer services in the more densely populated areas of the County were provided by sanitary districts. As the County developed and its population increased, the Board of Supervisors determined that water and sewer services could be provided more economically on a County-wide basis and that extension of and improvements to public water and sewer facilities needed to be made without regard to sanitary district boundaries. In October 1968, the County entered into an agreement with the sanitary districts in the County, which was supplemented in 1975 (together, the "Unification Agreement"), to provide a unified County-wide system. Under the Unification Agreement, the County consolidated the water and sewer facilities of the sanitary districts into a single County-wide system (the "System") and also consolidated the revenues derived from such water and sewer facilities.

Organization and Administration

The County Department of Public Utilities (the "Department") is responsible for the operation and maintenance of the System and for the construction of additions and improvements thereto. The Department is under the direction of Arthur D. Petrini, P.E., Director of Public Utilities, who reports through the Deputy County Manager for Community Operations to the County Manager. For resumes of key officials, see the section "COUNTY GOVERNMENT - Certain County Staff Members" in Appendix C. As of June 30, 2005, there were 310 positions in the Department for activities directly relating to providing water and sewer services. The County is prohibited by law from recognizing a labor union as a bargaining agent for any County employees, and is prohibited from collectively bargaining with any such union or its agents concerning any matter relating to those employees or their employment with the County.

In addition to providing water and sewer service within the County, the Department is responsible for County-operated refuse collection and disposal, the operation of one County-owned sanitary landfill and the administration of street lighting service provided to five sanitary districts. As of June 30, 2005, there were 78 positions in the Department for activities directly related to solid waste services. The Department accounts for the receipts and disbursements related to providing these other services separately from revenues and expenses of the System. Funds for these other services are segregated from funds of the System. A portion of the administrative costs of the Department which, as discussed below, are paid from the Water and Sewer System Revenue Fund is charged to funds established to account for these other services.

In providing water and sewer services in the County, the Department receives support from other County departments. The Department (and, therefore, the System) is charged by the County for the actual cost incurred by it, on a pro rata basis, for data processing services, services provided by other departments and rent for County-owned office space occupied by the Department. Since fiscal year 1982, the System has made a payment in lieu of taxes to the County General Fund. The amounts paid to the General Fund in lieu of taxes for the five fiscal years ended June 30, 2005 are as follows:

Fiscal Year	Amount
2001	$3,768,197
2002	3,973,305
2003	4,309,552
2004	4,493,332
2005	4,903,961

Starting in 1996, the value of treatment facilities was excluded from the calculation of payment in lieu of taxes. Also in 1996, the Water and Sewer Fund began paying the General Fund for indirect allocated costs incurred in utilizing the offices of the County Manager, County Attorney, Purchasing, and Finance. The amount of the payment is based on the County's Annual Cost Allocation Plan. The payment for fiscal year 2005 was $1,647,691 and the payment for fiscal year 2004 was $1,624,917.

The Department does not provide any free water or sewer service within the County and all customers, including the County government, are subject to the same schedule of rates and charges. The General Fund of the County is billed for fire hydrant services. The current fee is $8.06 per month per fire hydrant and transfers to the Department from the General Fund were $978,033 in fiscal year 2005 and $945,631 in fiscal year 2004.

Properties and Services

The primary functions of the System are water supply, storage and distribution and wastewater collection, transmission, treatment and disposal. The System provides service to approximately 50% of the geographical area of the County.

The County provides water service to approximately 88,200 residential, commercial, and industrial customers. The County also has service agreements to supply limited amounts of water to Hanover County and Goochland County. Currently about one-half of the County's water supply is purchased from the City of Richmond. The remainder is supplied by the County's 55 MGD Water Treatment Plant which was completed in April, 2004.

The County provides wastewater service to approximately 86,600 residential, commercial, and industrial customers. The County also has service agreements to treat a limited quantity of wastewater from Hanover County, Goochland County, and the City of Richmond. The County operates a 75 MGD state of the art wastewater treatment facility. The upgrade and expansion of this facility from 45 MGD to 75 MGD was completed in August, 2005.

The County purchases about one-half of its current water requirements from the City at 40 metering locations around the boundary with the City. The System's water facilities consist of approximately 1,403 miles of water distribution mains, 27 pump stations and storage facilities having a capacity of more than 31 million gallons.

Wastewater is transmitted to the County Wastewater Treatment Facility where it is treated and disposed of pursuant to a Virginia Pollutant Discharge Elimination System Permit. Limited volumes of wastewater from the County continue to be treated at Richmond's wastewater treatment facility, and limited volumes of wastewater from Richmond are treated at the County Wastewater Treatment Facility under a wastewater agreement that became effective November 1, 1989. Wastewater from Hanover County and Goochland County are treated at the County Wastewater Treatment Facility under agreements between the County and Hanover and Goochland Counties.

Operations and Maintenance Procedures

The County has implemented modern operation and maintenance procedures with respect to the System and has undertaken several studies and programs to upgrade System performance. Although the City tests the water it sells to the County, the County maintains its own laboratory to conduct daily tests of water quality. The County maintains ongoing educational programs to keep employees of the System aware of new developments in water and wastewater technology. In addition, all treatment plant operators are required to attend technical schools and to obtain proper certification.

Mechanical equipment is maintained in County-owned shops, and operating facilities are regularly inspected and maintained by System employees. The County has a process for meter testing and maintenance as well as replacement. Employees of the System throughout the County are linked together by a County-owned radio communication system which is interlinked with the County police and fire departments. Maintenance of County sewer lines is enhanced by the use of trucks equipped with high velocity water jets and vans equipped with closed circuit television cameras which can be maneuvered through the sewer mains to inspect the sewer system. Operation of the water distribution and sewage collection and pumping systems is enhanced by use of a modern supervisory distribution control and data acquisition (SCADA) system.

Two major multi-million dollar projects are underway that will increase the efficiency and effectiveness of the Public Utilities Department. The $15 million Automated Meter Reading (AMR) project will replace approximately 90,000 meters and enable meter reading via radio transmission to a van traveling along the County neighborhoods. This project will eliminate meter reading errors, reduce the number of estimated bills and enable the Department to serve additional customers without adding staff. The $3 million Customer Information System will replace the current billing system and integrate with various other systems such as AMR, the County cashiering system, Operations computerized maintenance system and allow direct debit and on-line billing capabilities.

Rates and Charges

The most recent rate increase, effective July 1, 2006, was approximately a 3% increase in water rates and approximately a 3% increase in sewer rates. The Board of Supervisors also increased connection fees by approximately 3% effective October 1, 2006. Water and sewer rates are based on a forecast model compiled annually by the County. Revenue estimates are based on 7% rate increases over the next six years beginning in FY 2008 and a 2% growth in the customer base. A schedule of rates, fees, and charges effective as of the date of this Official Statement is included in the following tables.

WATER AND SEWER RATES
(Effective July 1, 2006)

SINGLE-FAMILY RESIDENTIAL CUSTOMERS

Water and sewer customers are billed every two months and pay both a *service* charge and a *volume* charge for water and sewer services.

Bi-Monthly Service Charge	**Water**	**Sewer**
Service Charge for Residences (5/8" meter)	$ 9.00	$ 18.30
(If water is not metered there is a flat charge of $47.90 for sewer service)		

Volume Charge	**Water**	**Sewer**
The charge for each hundred cubic feet CCF[1] of water used	$ 2.08	$ 2.20
If 6 CCF or less	1.29	1.35

COMMERCIAL AND INDUSTRIAL CUSTOMERS

Bi-Monthly Service Charge	**Water**	**Sewer**
5/8" Meter	$ 9.00	$ 18.30
1" Meter	21.40	30.20
1½" Meter	39.30	44.30
2" Meter	60.40	63.90
3" Meter	99.60	108.10
4" Meter	160.00	171.00
6" Meter	315.60	340.50
8" or 10" Meter	605.00	582.80

Volume Charge Per CCF	**Water**	**Sewer**
First 10,000 CCF	$ 2.08	$ 2.20
Next 70,000 CCF	1.42	1.57
Over 80,000 CCF	1.02	1.42

(1) Hundred cubic feet. One hundred cubic feet is approximately 748 gallons.
(2) Industrial customers are subject to surcharges for discharge of strong wastes in addition to sewer service and volume charges listed above.

HENRICO COUNTY WATER AND SEWER CONNECTION FEES
(Effective October 1, 2006)

	Water		Sewer	
	Connection Fees	Local Facilities Fees[(A)]	Connection Fees	Local Facilities Fees[(B)]
Single Family Residential with existing well and/or septic system	$ 835+	$1,315	$1,670+	$1,965
Single Family Residential including semi-detached dwellings	$1,670+	$1,315	$3,365+	$1,965
Multi-Family Residential Apts., Townhouses, Condos, & Cluster Homes; Duplexes	$2,300 (per unit)	(A)	$5,075 (per unit)	(B)
Motel and Hotel	$ 790 (per room)	(A)	$1,670 (per room)	(B)
Hospital	$2,450 (per bed)	(A)	$6,735 (per bed)	(B)
Nursing Homes and Dormitories	$1,050 (per bed)	(A)	$2,570 (per bed)	(B)
Facilities providing permanent housing for elderly or handicapped persons and operated by charitable, non-stock, non-profit organizations which are exempted by § 501(c)(3) of the Internal Revenue Code	$595 (per unit)	(A)	$1,245 (per unit)	(B)
All other business, industrial & public buildings based on meter size as follows:				
5/8”	$ 1,670	(A)	$ 3,365	(B)
1”	5,975	(A)	13,120	(B)
1-1/2”	11,920	(A)	26,260	(B)
2”	23,665	(A)	52,085	(B)
3”	47,340	(A)	104,595	(B)
4”	82,470	(A)	182,505	(B)
6”	177,150	(A)	390,200	(B)
8”	442,880	(A)	975,125	(B)
10”	710,120	(A)	1,565,345	(B)

(A) Local facilities fee will be due where local facilities are available to connector’s property and the costs have not been previously assessed against the property. This fee is to be $1,315 for 5/8” meter, $1,515 for 1” meter, $2,370 for 1½” meter and $2,650 for 2” meter. The Director of Public Utilities will determine this fee for meter size in excess of 2”. Local facilities are those portions of the County’s water and sewer systems which are used to, respectively, deliver water to or collect wastewater from individual users in local areas, subdivisions and developments. Included are local water distribution mains and valves, local wastewater collection mains, water service lines, meter setters, meter boxes, wastewater lateral lines to the user’s premises and fire hydrants.

(B) Local facilities fee is $1,965 for sewer when applicable.

INSTALLATION CHARGES
(Effective October 1, 2006)

WATER INSTALLATION CHARGE TABLE
(Not including cost of meter)

METER SIZE	SERVICE SIZE	INSTALLATION CHARGE
5/8”	¾”	$1,315
5/8”	1”	1,315
5/8”	1-1/2”	1,440
1”	1”	1,315
1”	1-1/2”	1,515
1”	2”	1,650
1-112”	1-1/2”	2,370
1-1/2”	2”	2,650
2”	2”	2,650

SEWER INSTALLATION CHARGE TABLE

1) 4” or 6” sewer lateral installation charge = $1,965

2) COUNTY SEWER & WATER MAIN EXTENSION COSTS:

Sewer. $50 per foot for vacant lot or $25 per foot for existing single family residence, plus sewer installation charge for each connection, plus basic connection fee.

Water: $30 per foot for vacant lot or $15 per foot for existing single family residence, plus water installation charge for each connection, plus basic connection fee.

Billing and Collection Procedures

The County renders a monthly bill to certain industrial accounts for water and sewer services and to Hanover County and Goochland County for water and sewer service. All other customers of the System are billed once every two months. If an account remains unpaid 30 days after the billing date, a notice is mailed to the customer whose account is delinquent and a late payment fee is imposed on the account. Ten days thereafter, if the account still has not been paid, service may be discontinued by the County. The County is authorized to enforce the collection of delinquent accounts by judicial proceedings, if necessary. For the five fiscal years ended June 30, 2005, the Department estimates that collection of water and sewer service charges averaged 1% of total billings during such period.

Largest Accounts

The following table lists the 10 largest accounts of the System (excluding Hanover County and Goochland County, which purchase water and sewer service from the County on a wholesale basis, and excluding the County government) during the fiscal year ended June 30, 2005.

Customer	Fiscal Year 2005 Billings	% of Total System Operating Revenue(1)
Qimonda Richmond, LLC	$2,441,171	3.5%
Mid-Atlantic Coca Cola	593,990	0.9
Parham Road Apartment Assoc.	340,586	0.5
Forest City Development	294,321	0.5
The Wella Corp.	262,135	0.4
Crofton Square Assoc.	259,916	0.4
Nabisco Brands Inc.	242,135	0.4
St. Mary's Hospital	240,785	0.3
Wyeth	240,093	0.3
Capitol Region Airport	223,203	0.3
Total	$5,138,335	7.5%

(1) System operating revenue does not include other revenue.

Agreements with the City of Richmond

As mentioned above, the County purchases some of the System's water requirements from the City of Richmond. Approximately one-half of the County's demand is met by the County's 55 MGD water treatment facility which opened in April 2004. In FY 2005 the County purchased 8,360,462 ccfs from the City of Richmond and treated 8,302,608 ccfs at the County's plant. The City treats a limited quantity of wastewater originating from the System. Both water supply and wastewater treatment are provided by the City pursuant to agreements with the County described below.

Water Supply

On September 28, 1994 (effective as of September 29, 1994), the Board of Supervisors approved a water supply contract (the "Contract") under which the City supplies the County with treated water, which replaced a contract which was effective July 1, 1985, between the City and the County. The Contract provides that the City will supply the County with water from the City's distribution system at various points around the City, and that the County will distribute the water to the customers of its System. The Contract also provides that the County may resell the water to customers of the System located outside the County (*e.g.,* Hanover County and Goochland County). The Contract requires the County to purchase substantially all of its water requirements from the City until the Henrico water treatment plant opened, which occurred contractually on July 1, 2004. The Contract allowed the County to construct a water treatment facility to begin operation on or after January 1, 2003 to meet increased County demands. The County has exercised its option under the Contract requesting that, after January 1, 2007, the City provide the County up to 35 MGD of capacity. Pursuant to the Contract, the County must provide the City with an annual projection of its water requirements for the next 10 years and the City must advise the County within 90 days of any modifications or improvements to its water system necessary to supply the County's projected requirements. The County must concur in the making of any modifications or improvements if the costs of such modifications or improvements are to be borne by the County. The Contract provides that the County shall be responsible for providing water distribution facilities within the County and that the County will maintain water storage and pumping facilities adequate to provide service in the County under the Contract.

The volume of water supplied by the City to the County is measured by meters and the City renders a monthly bill to the County. Charges payable by the County are determined as set forth in the Contract, based on a mutually agreed upon cost of service study which is updated each year. The Contract is for a term until July 1, 2040 and, thereafter, until cancelled upon five years' notice by either party. See also the section "WATER AND SEWER SYSTEM CAPITAL IMPROVEMENT PLAN".

Wastewater Disposal

Prior to July 1, 1976, wastewater originating in the County was accepted, treated and disposed of by the City pursuant to an agreement dated July 1, 1968, between the County and the City. Such agreement was to have been effective for a term of 20 years.

Between 1976 and November 1989, the County undertook the development of the Wastewater Treatment Facility in the County which opened in November 1989. Since then, the County and the City have operated under the terms of an agreement effective November 1, 1989. This agreement provides for the City to treat limited flows from the County and for the County to treat limited flows from the City. See also the subsection above "Properties and Services".

System Statistics

	Fiscal Years Ended June 30				
	2001	**2002**	**2003**	**2004**	**2005**
Water:					
Number of Customers	81,397	83,168	84,519	86,352	88,212
Miles of Water Mains	1,277.74	1,314.77	1,337.28	1,370.04	1,403.45
Hydrants in Service	9,177	9,565	9,829	10,115	10,412
Average daily flow (mgd)[1]	30.1	32.5	30.2	28.8	29.4
Wastewater:					
Number of Customers	77,976	79,627	83,060	84,845	86,624
Miles of Sewer Mains	1,257.63	1,285.63	1,304.06	1,324.39	1,345.06
Average daily flow (mgd)[1]	25.9	25.8	26.8	27.3	28.0

[1] (mgd) million gallons/day. Average daily flow is based on metered consumption as billed. Wastewater flow is based on metered water consumption and calculated as provided by the County ordinance for billing. Calculation of residential sewer billing is based on a fixed charge, plus a volume charge. Additional allowance is made for increased consumption of water in the summer, which is not related to sewer service.

SUMMARY OF REVENUES AND EXPENSES OF THE SYSTEM

The following schedule sets forth the revenues and expenses (excluding depreciation and interest expenses) of the System for the five fiscal years ended June 30, 2005. The financial data for the fiscal years ended June 30, 2001 through June 30, 2005 have been derived from the audited financial statements of the System. The financial data set forth below should be read in conjunction with the financial statements for the fiscal years ended June 30, 2004 and 2005 and notes thereto and the report on the 2005 financial statements of independent auditors, which are included as Appendix B.

	Fiscal Year Ended June 30				
	2001	2002	2003	2004	2005
Operating Revenues:					
Water System	$30,517,748	$32,599,962	$29,720,164	$30,914,044	$32,284,332
Sewer System	32,898,511	33,331,230	33,638,822	35,204,568	36,654,354
Other	1,660,947	1,397,074	1,430,870	1,450,616	1,500,248
Total Operating Revenue	$65,077,206	$67,328,266	$64,789,856	$67,569,228	$70,438,934
Operating Expenses					
Water System					
Sources of Supply	$11,666,998	$12,415,652	$10,581,475	$11,621,089	$ 9,898,877
Pumping and Treatment	936,983	1,088,607	2,277,139	3,687,245	5,338,784
Transmission and Distribution	2,261,812	2,357,962	2,919,795	3,015,796	3,461,252
Customer Billing and Services	774,929	794,312	846,060	866,069	931,755
General and Administrative	4,523,068	5,032,687	5,362,915	6,325,987	6,902,677
Total Water System	$20,163,790	$21,689,220	$21,987,384	$25,516,186	$26,533,345
Sewer System					
Treatment and Disposal	$ 5,559,078	$ 5,843,069	$ 7,226,052	$ 6,174,923	$ 5,502,797
Collection	1,392,545	1,464,614	2,077,463	2,324,887	2,789,032
Pumping	2,639,443	2,722,461	2,944,115	3,507,582	3,566,924
Customer Billing and Services	742,360	760,492	831,641	850,955	914,983
General and Administrative	5,005,365	5,364,690	6,261,249	6,556,371	7,004,721
Total Sewer System	$15,338,791	$16,155,326	$19,340,520	$19,414,718	$19,778,457
Total Operating Expenses	$35,502,581	$37,844,546	$41,327,904	$44,930,904	$46,311,802
Net Operating Revenues	$29,574,625	$29,483,720	$23,461,952	$22,638,324	$24,127,132
Non-Operating Income					
Investment Income	$ 3,970,608	$ 2,138,407	$ 1,804,401	$ 691,699	$ 787,816
Connection Fees [1]	12,104,805	14,897,347	10,906,473	12,637,681	11,299,505
Miscellaneous	(161,474)	3,101,557	(47,404)	1,118,882	206,812
Total Other Income	$15,913,939	$20,137,311	$12,663,470	$14,448,262	$12,294,133
Total Amounts Available for Debt Service	$45,488,564	$49,621,031	$36,125,422	$37,086,586	$36,421,265

(1) Connection Fees are not included as "Net Operating Revenues" for the purposes of calculating debt service coverage. See the section "HISTORICAL DEBT SERVICE COVERAGE".

HISTORICAL DEBT SERVICE COVERAGE

As shown on the System's financial statements, the System's net operating revenues were 2.22 and 2.34 times the System's annual debt service requirement for the fiscal years ended June 30, 2004 and 2005. See Note 3 in the financial statements attached in Appendix B. There can be no assurances that the System will maintain similar debt service coverage ratios in the future.

ANNUAL DEBT SERVICE REQUIREMENTS[1]

The following table sets forth for each fiscal year ending June 30 the approximate amounts payable from the revenues of the System as principal of and interest on (a) its Outstanding Parity Bonds and (b) its Subordinate Note.

Fiscal Year Ending June 30	Debt Service on Outstanding Parity Bonds			Debt Service on Subordinate Note[3]			Series 2006 Bonds			Total Debt Service
	Principal	Interest	Total[2]	Principal	Interest	Total	Principal	Interest	Total	
2006	$ 6,425,000	$ 5,045,079	$ 11,470,079	$ 645,000	$ 1,771,237	$ 2,416,237	-	-	-	$ 13,886,316
2007	5,850,000	4,512,642	10,362,642	680,000	1,732,646	2,412,646	$ 1,940,000	$ 3,444,386	$ 5,384,386	18,159,674
2008	5,650,000	4,278,642	9,928,642	715,000	1,692,017	2,407,017	1,840,000	4,116,019	5,956,019	18,291,677
2009	5,690,000	4,050,773	9,740,773	755,000	1,649,203	2,404,203	1,920,000	4,037,819	5,957,819	18,102,794
2010	5,735,000	3,815,316	9,550,316	795,000	1,604,059	2,399,059	2,000,000	3,956,219	5,956,219	17,905,593
2011	5,785,000	3,570,276	9,355,276	840,000	1,556,440	2,396,440	2,080,000	3,871,219	5,951,219	17,702,934
2012	5,900,000	3,276,575	9,176,575	885,000	1,506,199	2,391,199	2,170,000	3,782,819	5,952,819	17,520,593
2013	6,010,000	2,976,463	8,986,463	935,000	1,453,192	2,388,192	2,270,000	3,685,169	5,955,169	17,329,824
2014	4,040,000	2,668,625	6,708,625	985,000	1,397,272	2,382,272	2,365,000	3,583,019	5,948,019	15,038,916
2015	2,565,000	2,456,525	5,021,525	1,040,000	1,338,294	2,378,294	1,820,000	3,464,769	5,284,769	12,684,588
2016	2,685,000	2,337,894	5,022,894	1,100,000	1,275,966	2,375,966	1,915,000	3,373,769	5,288,769	12,687,629
2017	2,810,000	2,213,711	5,023,711	1,160,000	1,210,144	2,370,144	2,010,000	3,278,019	5,288,019	12,681,874
2018	2,935,000	2,083,750	5,018,750	1,220,000	1,140,826	2,360,826	2,110,000	3,177,519	5,287,519	12,667,095
2019	3,085,000	1,937,000	5,022,000	1,290,000	1,067,723	2,357,723	2,205,000	3,082,569	5,287,569	12,667,292
2020	3,240,000	1,782,750	5,022,750	1,360,000	990,541	2,350,541	2,315,000	2,972,319	5,287,319	12,660,610
2021	3,395,000	1,620,750	5,015,750	1,435,000	909,137	2,344,137	2,420,000	2,865,250	5,285,250	12,645,137
2022	3,565,000	1,451,000	5,016,000	1,515,000	823,218	2,338,218	2,545,000	2,744,250	5,289,250	12,643,468
2023	3,740,000	1,272,750	5,012,750	1,595,000	732,639	2,327,639	2,670,000	2,617,000	5,287,000	12,627,389
2024	3,925,000	1,085,750	5,010,750	1,685,000	637,109	2,322,109	2,805,000	2,483,500	5,288,500	12,621,359
2025	4,125,000	889,500	5,014,500	1,775,000	536,337	2,311,337	2,945,000	2,343,250	5,288,250	12,614,087
2026	4,335,000	683,250	5,018,250	1,875,000	430,031	2,305,031	3,090,000	2,196,000	5,286,000	12,609,281
2027	4,550,000	466,500	5,016,500	1,980,000	317,754	2,297,754	3,245,000	2,041,500	5,286,500	12,600,754
2028	4,780,000	239,000	5,019,000	2,085,000	199,361	2,284,361	3,410,000	1,879,250	5,289,250	12,592,611
2029	-	-	-	-	-	-	3,580,000	1,708,750	5,288,750	5,288,750
2030	-	-	-	-	-	-	3,760,000	1,529,750	5,289,750	5,289,750
2031	-	-	-	-	-	-	3,945,000	1,341,750	5,286,750	5,286,750
2032	-		-		-	-	4,145,000	1,144,500	5,289,500	5,289,500
2033	-	-	-	-	-	-	4,350,000	937,250	5,287,250	5,287,250
2034	-	-	-	-	-	-	4,565,000	719,750	5,284,750	5,284,750
2035	-	-	-	-	-	-	4,795,000	491,500	5,286,500	5,286,500
2036	-	-	-	-	-	-	5,035,000	251,750	5,286,750	5,286,750
Totals[3]	**$100,820,000**	**$54,714,519**	**$155,534,519**	**$28,350,000**	**$25,971,345**	**$54,321,345**	**$86,265,000**	**$77,120,630**	**$163,385,630**	**$373,241,494**

(1) Totals may not add due to rounding.
(2) 2002 WSF Ref, 1999 WSF Rev & Ref, 1994 WSF Ref (not including the Refunded Bonds).
(3) 1997 VRA Bonds.
(4) Agrees to June 30, 2005 CAFR Principal + Interest.

In 1997, the Virginia Resources Authority (VRA) issued $34,380,000 in Variable Rate Demand/Fixed Rate Water and Sewer Revenue Bonds, Series 1997. VRA used a portion of the bond proceeds to purchase the County of Henrico, $32,000,000 Water and Sewer System Revenue Notes, Subordinate Series 1997. The interest on this note is variable, the initial rate was 3.55% and the maximum rate is 12%. An assumed interest rate of 5.825% (which includes the Liquid Facility Fee and Remarketing Fee) is used for future interest as actual rates are recalculated weekly.

WATER AND SEWER SYSTEM CAPITAL IMPROVEMENT PLAN

The Board of Supervisors annually adopts a Five Year Capital Improvement Plan for the System (the "CIP"), approving the first year of the CIP for implementation and the remaining four years for planning purposes. The projects set forth in the CIP provide for extensions of service by the System and improvements to the System to upgrade existing service. The 2005-2006 through 2009-2010 CIP anticipates the following expenditures:

Fiscal Year Ending June 30	Projected CIP Amount
2006	$39,055,976
2007	25,304,320
2008	41,079,688
2009	25,279,224
2010	42,418,456
Total	$173,137,664

Sewer System

In January 1977, the County completed a comprehensive study of the County's wastewater treatment system (the "Wastewater Treatment Study") to evaluate existing facilities and to provide a specific plan of development for wastewater transportation and treatment needs for the County. The study explored various alternatives and recommended that the County design and build a regional wastewater transport and treatment system. In response to that study, the County constructed the County Wastewater Treatment Facility which was placed in service in November 1989. As County wastewater collection and pumping systems were connected to the County Wastewater Treatment Facility, wet-weather flows increased significantly due to infiltration and inflow ("I&I"). The increased I&I resulted in the County entering into a consent agreement in June 1993 with the State Water Control Board that requires the County to take certain actions to identify and mitigate I&I. To meet its obligations under the consent agreement, the Board of Supervisors awarded a contract in February 1994 to M.A. Mortenson Company for expansion of the County Wastewater Treatment Facility from 30 mgd to 45 mgd and to construct nutrient removal facilities to meet new permit limits for phosphorus and ammonia nitrogen. In addition, a contract was awarded for replacement and expansion of effluent filters. The filter replacement and expansion was substantially completed August 19, 1996 and the expansion and nutrient removal project was substantially completed March 14, 1997.

The Water and Wastewater Facilities Plans completed in July 1997 by Montgomery Watson recommended expansion of the Wastewater Treatment Facility (now the Water Reclamation Facility) to 75 MGD. On January 28, 1998, the Board of Supervisors authorized a contract with Hazen & Sawyer to design improvements and expansion of the Water Reclamation Facility to 75 MGD. The project was designed and constructed in six phases. The expansion to 75 MGD was complete in August 2005 at a cost of approximately $101,000,000. As part of the expansion project the Water Reclamation Facility will meet the current nutrient requirements of the Chesapeake Bay Act. The next major facility construction project scheduled for fiscal years 2007 and 2008 for $8 million will allow the facility to meet the future requirements of the Chesapeake Bay Act.

The County entered into a second consent order in January 2003 with the State Water Control Board that required the County to submit certain manuals and reports relating to the operation of the wastewater collection and treatment systems as well as setting a completion schedule for 30 Infiltration and Inflow removal projects. All manuals and reports have been submitted and all projects are on schedule.

In March 2005, the consent order was amended to set the completion of the Water Reclamation Facility expansion to 75 MGD on or by August 15, 2005 and to set a schedule for the completion of the Fourmile Creek Trunk Sewer Rehabilitation Project. The Project schedule has been set from April 1, 2007 to August 1, 2015.

Water System

The County's decision to build the Water Treatment Facility began in August 1987, when a comprehensive study of the County's water system (the "Comprehensive Water Study") was completed by Wiley & Wilson, consulting engineers for the County. The Comprehensive Water Study evaluated existing facilities for water supply, storage and distribution, including an updating of a model for use in evaluating the County's existing facilities and projecting the need for future improvements.

The Comprehensive Water Study recommended that the County construct a water treatment facility to meet the long-term needs of the County. In 1988, the Board of Supervisors approved inclusion of the Water Treatment Facility in the CIP and in June 1988, the County submitted an application for the required permits from the U.S. Army Corps of Engineers (the "Corps of Engineers") and State Water Control Board to construct a water supply intake structure and to withdraw water from the James River for treatment at the Water Treatment Facility. The Board of Supervisors approved a contract with Camp, Dresser & McKee, consulting engineers, to perform studies and design the Water Treatment Facility and to conduct an Instream Flow, Incremental Methodology Study of the James River as part of the Corps of Engineers' permit review process. That study was completed in September 1991 and an environmental report was completed in January 1994. The Corps of Engineers prepared an environmental impact statement and issued the required permit for the water supply intake structure in the James River on October 18, 1996.

The Water Treatment Facility was completed in April 2004. The total cost of the plant was $125,400,000. Annual operating and maintenance costs are approximately $6,300,000. Since the plant startup, the facility has met all State and Federal requirements.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE COUNTY OF HENRICO, VIRGINIA, WATER AND SEWER REVENUE FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005

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COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER
REVENUE FUND
(An Enterprise Fund of the County of Henrico, Virginia)

Component Unit Financial Report for the Year Ended June 30, 2004 and Independent Auditors' Report

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COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND

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INDEPENDENT AUDITORS' REPORT

The Honorable Members
Board of Supervisors
County of Henrico, Virginia

We have audited the accompanying balance sheet of the County of Henrico, Virginia, Water and Sewer Revenue Fund (the "Fund") as of June 30, 2004, and the related statement of revenues, expenses, and changes in fund net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Fund'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. 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, such financial statements present fairly, in all material respects, the financial position of the Fund as of June 30, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 2 through 8 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Fund's management. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

November 30, 2004

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of the County of Henrico's Water and Sewer Revenue Fund's (the "Fund") financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Fund's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FY 2004

The Water and Sewer Revenue Fund, on a current financial resource basis, reported net income of $37.5 million compared to net income of $32.6 million in 2003 (statement of revenues, expenses and changes in fund net assets).

The Fund's total net capital assets totaled $865.6 million at June 30, 2004, compared to $816.1 million at June 30, 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements are comprised of three statements and the notes to the financial statements: (1) balance sheet; (2) statement of revenues, expenses, and changes in fund net assets; and (3) statement of cash flows.

The balance sheet presents information on all of the Fund's assets and liabilities, with the difference between the two reported as net assets. The Fund's net assets are one way to measure the Fund's financial health, or financial position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating. Nonfinancial factors also need to be considered when evaluating the Fund's financial condition, such as the condition of the Fund's infrastructure, potential for growth of the customer base, and the stability of the local economy.

The statement of revenues, expenses, and changes in fund net assets presents information on revenues, expenses, and how the Fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods. The increase or decrease in net assets may serve as an indicator of the effect of the Fund's current-year operations on its financial position.

The statement of cash flows summarizes all of the Fund's cash flows into four categories: cash flows from operating activities; cash flows from capital and related financing activities; cash flows from noncapital financing activities; and cash flows from investing activities. The statement of cash flows, along with related notes and information on other financial statements, can be useful in assessing the following:

- The Fund's ability to generate future cash flows,
- The Fund's ability to pay its debt as the debt matures,
- Reasons for the difference between the Fund's operating cash flows and operating income, and
- The effect on the Fund's financial position of cash and noncash transactions from investing, capital, and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the balance sheet; statement of revenues, expenses, and changes in fund net assets; and statement of cash flows.

FINANCIAL ANALYSIS OF THE WATER AND SEWER FUND

The following table reflects the condensed balance sheet for the Fund as of June 30, 2004 and 2003 (in millions):

Balance Sheet

	2004	**2003**
Current assets	$ 81.2	$ 103.5
Restricted assets	24.8	24.1
Capital assets	865.6	816.1
Other assets	0.6	0.5
Total assets	$ 972.2	$ 944.2
Current liabilities	$ 17.2	$ 18.9
Deferred revenues	18.1	19.1
Long-term debt	132.6	139.4
Total liabilities	$ 167.9	$ 177.4
Net assets:		
Invested capital assets—Net of related debt	$ 723.1	$ 667.9
Restricted	11.6	11.6
Unrestricted	69.6	87.3
Total net assets	$ 804.3	$ 766.8

The Fund's total net assets increased to $804.3 million from $766.8 as a result of net income of $37.5 million, which is mainly comprised of the following: $8.3 million from operations, $12.6 million from connection fees, and $14.1 million from donated infrastructure assets. The remainder is from investment income, debt service contributions, and grants.

The following chart shows the revenues and expenses of the Fund's activities (in millions).

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

	2004	2003
Revenues:		
Operating revenues:		
Water system	$ 30.9	$ 29.7
Sewer system	35.2	33.6
Other	1.4	1.4
Nonoperating income:		
Connection fees	12.6	10.9
Donated assets	14.1	9.2
Debt service contributions	0.7	0.8
Investment income	0.7	1.8
Other	1.1	0.0
Total revenue	96.7	87.4
Expenses:		
Water system operating expenses	25.5	22.0
Sewer system operating expenses	19.4	19.3
Depreciation expense	14.3	13.5
Interest expense, net of capitalized interest	0.0	0.0
Total expenses	59.2	54.8
Net income	37.5	32.6
Fund net assets at July 1	766.8	734.2
Fund net assets at June 30	$ 804.3	$ 766.8

REVENUES

For the fiscal year ended June 30, 2004, operating revenues from the sale of water and sewer services totaled $67.5 million. This is an increase of $2.8 million, or 4.3%, from the prior year. Volumes purchased from the City of Richmond (the "City") have decreased 7.2% due to excessive rain during the entire year. This change in rainfall for the second year reduced the irrigation usage from residential and commercial customers. This decline was partially offset by the increase in the number of customers and a 3% rate increase. Growth in water customers was 2.2% from 2003 to 2004, from 84,492 to 86,352, respectively. The number of sewer customers also grew from 83,052 to 84,845, a 2.2% increase.

Nonoperating revenues were $29.2 million, an increase of $6.5 million, or 29%, from 2003. This increase is mainly due to a $1.7 million increase in connection fees and a $4.9 million increase in donated infrastructure assets due to changes in the type and timing of development projects in the County.

EXPENSES

For the fiscal year ended June 30, 2004, expenses totaled $59.2 million, a $4.4 million or 8.0% increase from the prior year. The majority of this increase is due to an $800,000 increase in personnel costs due to a combined merit pay increase and wage adjustment of 4% for all eligible employees effective the first payday in July 2003, and increases in costs for group insurance. In addition, payment in lieu of taxes increased $200,000 due to the assets added this year; electric services increased $200,000 due to the assets added this year. The water treatment plant was in full operation for two months and staffing was an expense the entire year. The Fund spent $1.3 million more at the water treatment plant in 2004 than in 2003. The cost of data processing increased $200,000 due to the projects being done for the Department of Public Utilities, direct debit of customer accounts, and Oracle interfaces.

Other contractual services increased $419,000, mainly due to replacements of a screw pump at the Strawberry Hill Pump Station which cost $220,000, a new O&M manual which cost $65,000, and $150,000 for tank demolition. Engineering services increased $470,000, mainly due to $280,000 for project management on ETMP projects. Insurance payments for claims and damage increased $300,000 due to damages from a sewer backup.

FINANCIAL ANALYSIS OF THE WATER AND SEWER ENTERPRISE FUND

For the fiscal year ended June 30, 2004, the enterprise fund reflects a total fund net asset balance of $804.3 million (balance sheet). Included in the Fund Balance of $804.3 million are $37.5 million of revenues in excess of expenditures. The primary reason for the Fund's increase in fund balance mirrors those highlighted in the financial analysis:

Water and Sewer Revenue Fund Budget
(In millions)

	Original*	Revised	Actual
Revenues:			
Water system operating revenue	$ 34.8	$ 34.8	$ 30.9
Sewer system operating revenue	33.9	33.9	35.2
Other operating revenue	1.4	1.4	1.4
Nonoperating income	10.7	10.7	29.2
Total revenues	80.8	80.8	96.7
Expenses:			
Operating expenses	45.7	47.1	44.9
Depreciation	0.0	0.0	14.3
Interest expense	17.9	17.9	0.0
Total expenses	63.6	65.0	59.2
Change in fund balance	$ 17.2	$ 15.8	$ 37.5

* Donated assets are not budgeted in revenues, however, they are included in actual revenues. The entire debt service payment including principal is budgeted in expenses, however, only interest expense less capitalized interest is included in the actual expenses. Also, the Fund does not budget for depreciation but it is included in the actual expenses.

WATER AND SEWER REVENUE FUND BUDGETARY HIGHLIGHTS

Revenue and other income exceeded expenditures by $37.5 million for 2004. Actual Fund revenues exceeded original budgeted revenues by $15.9 million during 2004. This increase is attributable in part to development, resulting in $14.1 million in donated assets. The Fund does not budget for donated assets as they are noncash transactions. In addition, connection fees were $4.5 million more than budgeted. The Fund budgets connection fees conservatively, thus allowing for changes in growth and development that may occur as a result of economic changes. These increases were offset by a $2.6 million decrease in water and sewer operating revenues as compared to the budget. This decrease was the result of the decline in demand due to the second consecutive wet year in the area in which the Fund operates. Actual expenses were less than the original budget by $4.4 million, which was due in part to the fact that the Fund does not budget depreciation and budgets debt service for the entire principal and interest payments, not just interest expense. Also, the Fund does not budget for capitalized interest (see the notes to the financial statements for actual amounts). The other reason for the decrease is that operating expenses were $800,000 less than the original budget. This was due in part to $500,000 in payroll and benefits that was not spent due to vacancies.

During 2004, the County Board of Supervisors amended the budget three times. These budget amendments were primarily to appropriate grant funds received and to appropriate funds for expenses from Hurricane Isabel.

CAPITAL ASSETS

At the end of fiscal year 2004, the Fund had net capital assets totaling $865.6 million, which represents a net increase of $49.5 million, or 6.1% over the previous fiscal year-end balance. The majority of this increase is due to increased spending on projects that were classified as construction in progress, some of which were completed during the year. The 2004 net additions/deletions to capital assets, including capitalized interest, totaled $49.5 million, and included improvements and construction of assets, mainly for the building of the new water treatment plant, transmission mains, and major renovations to the water reclamation facility. The water treatment plant was completed at the end of April 2004, and the renovations to the water reclamation facility are scheduled for completion in December 2005. Included as part of net additions, the Fund added $14.1 million in donated infrastructure. Developers building in the County donate these assets. The increase in accumulated depreciation is a result of depreciation expense offset by retirements. For more detailed information on the Fund's capital assets, see the notes to the financial statements.

The following chart shows a summary of the changes in capital assets during 2004.

Revenue Fund Activities – Change in Capital Assets
(In millions)

	Balance, FY 2003	Net Additions/ Deletions	Balance, FY 2004
Nondepreciable Assets:			
Land	$ 11.8	$ 4.2	$ 16.0
Construction in progress	269.2	(151.1)	118.1
Depreciable Capital Assets:			
Building	131.9	116.1	248.0
Infrastructure	593.6	82.5	676.1
Equipment	29.5	10.7	40.2
Improvements other than buildings	0.6	0.8	1.4
Accumulated depreciation on other capital assets	(220.5)	(13.7)	(234.2)
Total	$ 816.1	$ 49.5	$ 865.6

LONG-TERM DEBT AND RESTRICTION ON RESOURCES

At the end of 2004, the Fund had total revenue bonds payable outstanding of $140.9 million. The only activity related to the bonds during 2004 was for principal-and-interest payments.

The Fund's revenue is pledged as collateral for components of its long-term debt, including the 2002 Refunding Issue, the 1999 Revenue and Refunding Issue, the 1997 Revenue Issue, and the 1994 Refunding Issue (collectively, the "Bonds").

The covenants of the Bonds require that in each year the net operating revenues of the Fund be at least equal to 1.25 times the debt service requirement for the year. In addition, the covenants prohibit the County from issuing any bonds, notes, certificates of indebtedness, or other evidence of indebtedness having in any way a lien and charge on the revenues of the Water and Sewer System prior to the lien and charge created by the covenants for the payment of and collateral for the outstanding Bonds.

Also, the interest due on the Bonds as of July 1, 2004, has been accrued as of June 30, 2004, as required by the related covenants. Cash has been restricted for these accruals. In addition, net assets have been restricted, and equity in cash and cash equivalents has been restricted in an amount equal to the maximum annual debt service requirements for the Bonds. See Note 3 to the financial statements for more information concerning the Fund's long-term debt.

ECONOMIC FACTORS

In the last five years, the Fund has added approximately 8,700 water and 10,200 sewer customers with the total water and sewer customers being just under 86,400 and 84,900, respectively, as of June 2004. Most of this gain is attributable to residential customers. Growth in customers continues to be strong, approximately 2% annually, which is a result of the continued residential and commercial growth and development in the County that is further reflected in the increases in connection fee revenue and donated assets.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the revenues it collects. Questions concerning this report or requests for additional financial information should be directed to the Director of Public Utilities, P.O. Box 27032, Richmond, VA 23273-7032.

COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND

BALANCE SHEET
JUNE 30, 2004

ASSETS

CURRENT ASSETS:	
Equity in cash and cash equivalents	$ 58,078,833
Accounts and notes receivable:	
Water and sewer	13,352,670
Due from other funds	7,374,558
Other	1,713,372
Less allowance for doubtful accounts and notes	(283,900)
Net accounts and notes receivable	22,156,700
Inventory—materials and supplies	914,668
Prepaids	20,000
Total current assets	81,170,201
RESTRICTED ASSETS:	
Equity in cash and cash equivalents restricted for:	
Maximum annual debt service	11,589,999
Principal—current portion	6,300,000
Interest due currently	182,413
Cash held by custodian	5,657,035
Cash held by trustee	1,074,167
Total restricted assets	24,803,614
CAPITAL ASSETS (See Note 2):	
Depreciable capital assets:	
Buildings	248,056,460
Improvements other than buildings	1,426,652
Infrastructure	676,093,054
Equipment	40,159,448
Less accumulated depreciation	(234,245,290)
Net depreciable capital assets	731,490,324
Construction in progress	118,101,295
Land	16,014,805
Total capital assets	865,606,424
OTHER ASSETS	595,874
TOTAL ASSETS	$ 972,176,113

(Continued)

COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND

BALANCE SHEET
JUNE 30, 2004

LIABILITIES AND FUND NET ASSETS

CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS:	
Accounts payable and accrued liabilities	$ 8,534,137
Pension liability	241,863
Deposits payable	485,085
Accrued compensated absences	795,176
Total current liabilities payable from current assets	10,056,261
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:	
Long-term debt—current portion	6,910,000
Accrued interest payable	182,413
Total current liabilities payable from restricted assets	7,092,413
DEFERRED REVENUES	18,135,187
LONG-TERM DEBT—NONCURRENT PORTION	134,005,000
Less unamortized bond discount	(1,430,278)
Net long-term debt	132,574,722
Total liabilities	167,858,583
FUND NET ASSETS:	
Invested in capital assets, net of related debt	723,156,172
Restricted	11,589,999
Unrestricted	69,571,359
Total fund net assets	804,317,530
TOTAL LIABILITIES AND FUND NET ASSETS	$ 972,176,113

(Concluded)

See notes to financial statements.

COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2004

OPERATING REVENUES:	
Water system	$ 30,914,044
Sewer system	35,204,568
Other	1,450,616
Total operating revenues	67,569,228
OPERATING EXPENSES:	
Water System:	
Source of supply	11,621,089
Pumping and treatment	3,687,245
Transmission and distribution	3,015,796
Customer billings and services	866,069
General and administrative	6,325,987
Total water system operating expenses	25,516,186
Sewer system:	
Treatment and disposal	6,174,923
Collection	2,324,887
Pumping	3,507,582
Customer billings and services	850,955
General and administrative	6,556,371
Total sewer system operating expenses	19,414,718
Operating income before depreciation expense	22,638,324
Depreciation expense	14,343,707
OPERATING INCOME	8,294,617
NONOPERATING INCOME:	
Connection fees	12,637,681
Donated assets	14,082,071
Debt service contribution	717,401
Investment income	691,699
Other income	1,118,882
Total nonoperating income	29,247,734
INCOME BEFORE INTEREST EXPENSE	37,542,351
INTEREST EXPENSE, NET OF CAPITALIZED INTEREST	
NET INCOME	37,542,351
FUND NET ASSETS—JULY 1, 2003	766,775,179
FUND NET ASSETS—JUNE 30, 2004	$ 804,317,530

See notes to financial statements.

COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004

OPERATING ACTIVITIES:	
Receipts from customers	$ 64,777,521
Payments to suppliers	(26,474,518)
Payments to employees	(14,998,810)
Payment in lieu of taxes	(4,493,332)
Net cash provided by operating activities	18,810,861
CAPITAL AND RELATED FINANCING ACTIVITIES:	
Interest payments	(5,929,398)
Principal payments	(6,630,000)
Debt service payments by general fund	717,401
Grant funds	992,273
Contractors—connection fees	12,637,681
Arbitrage Payments	(900,660)
Purchase of property, plant, and equipment	(43,714,867)
Proceeds from sale of property, plant, and equipment	34,418
Net cash used by capital & related financing activities	(42,793,152)
INVESTING ACTIVITIES:	
Investment income	691,699
Net cash provided by investing activities	691,699
NET CHANGE IN CASH	(23,290,592)
EQUITY IN CASH AND CASH EQUIVALENTS, Beginning of year	106,173,039
EQUITY IN CASH AND CASH EQUIVALENTS, End of year	$ 82,882,447

(Continued)

COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004

RECONCILIATION TO CASH AND CASH EQUIVALENTS ON THE BALANCE SHEET:	
Equity in cash and cash equivalents	$58,078,833
Total restricted equity in cash and cash equivalents	24,803,614
Total cash and cash equivalents	$82,882,447
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 8,294,617
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	14,343,707
Increase in accounts and notes receivable	(1,830,432)
Decrease in inventory	130,985
Decrease in accounts payable and accrued liabilities	(1,217,247)
Increase in deposits payable	21,145
Increase in accrued compensated absences	50,506
Decrease in deferred revenues	(982,420)
	$18,810,861

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

The Water and Sewer Revenue Fund received donated assets in the form of water and sewer infrastructure provided by developers of new subdivisions throughout the County. The value of these assets and others received for the year ended June 30, 2004, was $14,082,071.

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Structure and Purpose—The Water and Sewer Revenue Fund (the "Fund") of the County of Henrico, Virginia (the "County") is accounted for as an enterprise fund. The accrual basis of accounting is used for the enterprise fund. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred. The purpose of this fund is to account for the construction, operations, and maintenance of the County-owned water and wastewater utility, which is considered a component unit for financial reporting purposes.

Capital Assets and Depreciation—Capital assets are recorded at cost or estimated historical cost, net of accumulated depreciation. Cost of capital assets was determined during the 1979 fiscal year by an appraisal firm based on original documents when such documents were available, and an appraised value adjusted for price levels at the date of purchase of the particular asset involved, when original documents were not available. Capital asset additions since that date have been recorded at original cost. Capital asset additions received through gifts or contributions are recorded at their fair value at date of receipt. When capital assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts, and the gains or losses are currently reflected in the statement of revenues, expenses, and changes in fund net assets. Depreciation expense was determined using the straight-line method over the estimated useful lives of the assets (4 to 65 years). The Fund's capitalization threshold is $2,500 for land and equipment and $25,000 for buildings, improvements, and infrastructure.

Inventory – Materials and Supplies—Materials and supplies inventory consists mainly of supplies held for consumption which are costed by methods that approximate average cost.

Equity in Cash and Cash Equivalents—Certain cash balances of the Fund are pooled and invested with other County funds. Substantially all cash and cash equivalents represent investments in securities guaranteed by a United States government agency, bankers' acceptances, certificates of deposit, commercial paper, and repurchase agreements, which have maturities of one year or less, which in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* are stated at amortized cost, which approximates market. Disclosures in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,* are included in the Comprehensive Annual Financial Report for the County.

In accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* a statement of cash flows has been presented for the Fund. For purposes of this statement, restricted cash, which meets the definition of cash and cash equivalents as noted above, has been included.

Interest—In accordance with Financial Accounting Standards Board ("FASB") Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants,* the cost of properties for the Fund includes net interest costs on funds borrowed to finance the acquisition or construction of major facilities. These costs were capitalized during the period of construction only. The Fund incurred interest expense and amortization expense of $6,096,428 in 2004, all of which was capitalized.

Unamortized Bond Discounts/Issuance Costs—Bond discounts and certain issuance costs are deferred and amortized using the interest method over the terms of the related issues.

Accrued Compensated Absences—Annual leave is granted to all permanent County employees. County employees can earn annual leave at the rate of 4 hours for every 80 standard hours worked up to a maximum of 7 hours for every 80 standard hours after 20 years of service. While there is no requirement that annual leave be taken, the maximum permissible accumulation is 364 hours for County employees. Accumulated annual leave vests, and the County is obligated to make payment even if the employee terminates. The liability for unused and unpaid annual leave attributable to the Fund is charged to expense and the corresponding liability established in the Fund.

County employees can earn sick leave at the rate of 4 hours for every 80 standard hours worked. Sick leave is nonvesting, with the exception of employees retiring from County service. Retiring employees are vested at a rate of $2.50 for every hour of sick leave earned with a maximum payment of $5,000. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences,* the liability has been estimated using the termination payment method.

Deferred Revenue—This represents advance payments from current customers for future capacity to be used of the water reclamation facility and the water treatment plant.

Connection Fees—All new customers connecting to the Fund's water and wastewater system are required by code to pay connection fees and local facilities fees before being connected to the system. These fees cover the cost of water and wastewater facilities to serve new customers, as well as future repairs and maintenance on these facilities. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* these fees were recorded as non-operating income.

GASB Statement No. 20 Election—GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* requires proprietary activities to apply all applicable GASB pronouncements as well as FASB pronouncements, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 20, management has elected not to apply FASB pronouncements issued after November 30, 1989.

Inspection and Engineering Costs—Certain inspection and engineering costs related to private development have been capitalized by the Fund in order to account for these costs in the same manner as the private development assets contributed to the County. The costs are capitalized based on an hourly rate for time spent by County employees on these projects. For the year ended June 30, 2004, the amount capitalized was $1,752,774.

Revenues—The Fund's operating revenues include charges for water and sewer services. All revenues not meeting this definition are reported as nonoperating income.

Expenses—The Fund's operating expenses include all expenditures for providing water and sewer services to its customers. Examples of nonoperating expenses are depreciation, amortization, interest and any losses on the sale of fixed assets.

2. CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
Non-Depreciable Capital Assets:				
Land	$ 11,784,367	$ 4,230,438	$ -	$ 16,014,805
Construction in progress	269,153,038	51,684,810	(202,736,553)	118,101,295
Depreciable Capital Assets:				
Buildings	131,983,309	116,073,151		248,056,460
Equipment	29,440,516	11,340,234	(621,302)	40,159,448
Improvements	664,132	762,520		1,426,652
Infrastructure	593,554,289	82,538,765		676,093,054
Total Capital Assets	1,036,579,651	266,629,918	(203,357,855)	1,099,851,714
Accumulated Depreciation	(220,509,035)	(14,343,707)	607,452	(234,245,290)
Total—Net of Depreciation	$ 816,070,616	$ 252,286,211	$ (202,750,403)	$ 865,606,424

3. LONG TERM DEBT

A summary of changes in long-term debt for fiscal 2004 and the individual components of long-term debt at June 30, 2004 follows:

	Balance June 30, 2003	Additions	Retirements/ Refundings	Balance June 30, 2004
Water and Sewer Revenue Bonds:				
1994 Refunding Issue, $41,345,000, 3.50% to 5.875%	$ 8,835,000	$ -	$(2,490,000)	$ 6,345,000
1997 Revenue Issue, $32,000,000, Variable Rate	29,540,000		(580,000)	28,960,000
1999 Revenue Issue, Refunding New Money $101,000,000, 3.1% to 5.25%	93,565,000		(1,750,000)	91,815,000
2002 Refunding Issue, $17,345,000, 3.0% to 4.625%	15,605,000		(1,810,000)	13,795,000
Total bonds	147,545,000	$ -	$(6,630,000)	140,915,000
Current portion of long-term debt payable from restricted assets	(6,630,000)			(6,910,000)
	$140,915,000			$134,005,000

The Fund issued debt to refund existing issues and for construction of capital assets. The 1994 and 2003 bonds were refunding issues. The 1997 and 1999 Revenue Issues were for the construction of a new water treatment plant, including the raw water pump station and intake and transmission mains leading from the plant to the distribution system. The funds were also used to fund the project to expand the capacity of the water reclamation facility and to construct the facilities to provide water and wastewater service to an industrial development site in the eastern part of the County.

Defeased Debt—In prior years, the County defeased certain Water and Sewer Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. At June 30, 2004, $73,510,000 of Water and Sewer System Revenue and Refunding Bonds, which were considered defeased in prior years, remained outstanding.

Variable Rate Debt—The variable rate on the 1997 Bonds shall be determined by the Remarketing Agent. The Variable Rate will be equal to the minimum rate that, in the judgment of the Remarketing Agent, taking into account prevailing market conditions, would enable the Remarketing Agent to sell all of the 1997 Bonds on the Adjustment Date at a price equal to the principal amount thereof, plus accrued interest, if any, thereon. The Variable Rate shall be determined by the Remarketing Agent in its sole discretion based on prevailing market conditions and may, but need not, be established by reference to one or more recognized financial indices. As of June 30, 2004, the rate in effect on these Bonds was 1.08%.

Debt Service and Covenants—The Fund's revenue is pledged as collateral for the 2002 Refunding Issue, the 1999 Revenue and Refunding Issue, the 1997 Revenue Issue, and the 1994 Refunding Issue, (collectively, the "Bonds").

The General Fund of the County has assumed responsibility of certain project costs and is obligated to pay debt service in the amount of $23,101,314 or 72.19% of the $32 million revenue bond issue. The General Fund transferred $717,401 to the Fund during the fiscal year ended June 30, 2004, to cover its portion of the debt service requirements. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* these transfers were recorded as other non-operating income by the enterprise fund and as an expenditure in the general fund.

The covenants of the Bonds require that in each year the net operating revenues of the Fund, as defined by the covenants, which in the opinion of Bond Counsel do not include depreciation or payments in lieu of taxes as an expense, be at least equal to 1.25 times the debt service requirements for the year (principal and interest on the Bonds and interest on any outstanding Bond Anticipation Notes). In addition, the covenants prohibit the County from issuing any bonds, notes, certificates of indebtedness, or other evidences of indebtedness having in any way a lien and charge on the revenues of the Water and Sewer System prior to the lien and charge created by the covenants for the payment of and collateral for the outstanding Bonds.

The Fund may issue additional bonds payable which may be collateralized equally with the outstanding Bonds for any purpose connected with or pertaining to the Fund, upon compliance with the following conditions, among others:

One-half of the net operating revenues of the Fund, as defined during any 24 consecutive months out of the 30 months immediately preceding the issuance of the additional bonds, shall have been not less than 1.25 times the maximum annual debt service requirement on all bonds then outstanding and the proposed additional bonds; and

The net operating revenues of the Fund, as defined during the first full fiscal year following the date upon which the project or undertaking for which the proposed additional bonds are being issued is anticipated to be completed, shall be estimated by a nationally recognized consulting engineer to be not less than 1.25 times the maximum annual debt service requirement on account of all bonds then outstanding and the proposed additional bonds.

Net operating revenues were 2.22 times the annual debt service requirement for the year ended June 30, 2004.

Also, the interest due on the Bonds as of July 1, 2004, has been accrued as of June 30, 2004, as required by the related covenants. Cash has been restricted for these accruals. In addition, net assets have been restricted, and equity in cash and cash equivalents has been restricted in an amount equal to the maximum annual debt service requirements for the Bonds.

Arbitrage—The 1999 Revenue Issue is subject to a possible rebate under the federal arbitrage rebate regulations. The bond proceeds were on deposit with the Virginia State Non-Arbitrage Program and an annual estimate of the arbitrage liability is performed at the end of each fiscal year. The estimate of the arbitrage liability owed by the Fund as of June 30, 2004 was $0.

Principal and interest payments on the Bonds for the five fiscal years subsequent to June 30, 2004, and thereafter are as follows:

Years	Principal	Interest
2005	$ 6,910,000	$ 7,097,787
2006	7,070,000	6,816,316
2007	7,340,000	6,526,035
2008	6,850,000	6,205,641
2009	6,955,000	5,907,313
2010-2014	34,940,000	24,378,427
2015-2019	19,890,000	17,061,834
2020-2024	25,455,000	11,305,645
2025-2029	25,505,000	3,761,732
Total	$ 140,915,000	$ 89,060,730

4. NONMONETARY CONTRIBUTIONS

Nonmonetary contributions consist of contributions from developers for water and sewer infrastructure constructed by the developer and donated to the County. The value is calculated based on an average cost per foot of pipe donated. The County Inspector determines the footage of pipe. Cost of pipe is determined as the cost that the County would incur if the County had constructed the asset. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* the value of these assets is included in nonoperating income.

5. DEFINED BENEFIT PENSION PLAN – AGENT MULTIPLE-EMPLOYER

Plan Description—The Fund contributes to the Virginia Retirement System ("VRS"), an agent multiple-employer defined benefit pension plan administered by the Virginia Retirement System ("System"). All full-time, salaried permanent employees must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final salary ("AFS") for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to five percent per year beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. 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 that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P. O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy—Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute five percent of their annual salary to the VRS. The employer may assume this five percent member contribution. In addition, the County and School Board Non-Professional Group are 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 County and School Board Non-Professional Group's contribution rates for the fiscal year ended 2004 were 5 percent and 13.75 percent, respectively, of annual covered payroll.

Annual Pension Cost—For 2004, the Fund's annual pension cost ("APC") of $505,181 was less than the required and actual contributions. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4.25% to 6.10% per year, and (c) 3.0% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the Fund's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. Unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

NET PENSION OBLIGATION (NPO)

Annual Required Contribution (ARC)	$ 513,677
Interest on NPO	20,030
Adjustment to the ARC	(28,526)
Annual Pension Cost	505,181
Contributions made	(513,677)
Decrease in NPO	(8,496)
NPO—Beginning of year	250,357
NPO—End of year	$ 241,861

TREND INFORMATION FOR THE FUND

Fiscal Year Ending	Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2002	$ 672,541	100.00 %	$ 273,301
June 30, 2003	458,222	105.00	250,357
June 30, 2004	505,181	101.68	241,861

SCHEDULE OF FUNDING PROGRESS FOR THE FUND

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Ratio Funded Obligation	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2001	$ 29,621,720	$ 28,713,390	$ (908,340)	103.16 %	$ 8,434,585	(10.77)%
June 30, 2002	31,314,463	31,856,891	542,428	98.30	9,158,014	5.92
June 30, 2003	32,723,278	34,893,430	2,170,153	93.78	9,217,193	23.54

6. RELATED-PARTY TRANSACTIONS

The Fund is furnished data processing services, accounting services, vehicle maintenance services, risk management, office space, and the use of certain County-owned vehicles by the County. For these services the Fund expensed approximately $3,869,946 in fiscal 2004. These amounts were determined based on the County's cost allocation plan.

The County charges the Fund a payment in lieu of taxes for which the rate is determined each year by the County. The payment made by the Fund was $4,493,332 in fiscal 2004.

The Fund charges the County for rental of fire hydrants for which the County paid $945,631 in fiscal 2004.

The Fund received $1,077,273 in fiscal 2004 from the County for water and sewer services provided at established billing rates.

The Fund loaned the County $9,618,989 to be repaid over a 30-year term with interest equal to the average rate paid on the Bonds to mature on June 30, 2027. The County will pay 1/30 of the loan principal annually with interest applied to the remaining principal balance. At June 30, 2004, the principal balance was $7,374,558. The County recognized the principal and interest as an expenditure, and the Fund recognized the principal and interest received as notes receivable and interest income, respectively.

7. COMMITMENTS

At June 30, 2004, the Fund had contractual commitments for the construction of the Wastewater Treatment Plant and Water Plant Projects in the amounts of $12,044,746 and $4,448,793, respectively.

* * * * * *

County of Henrico, Virginia Water and Sewer Revenue Fund

(An Enterprise Fund of the County of Henrico, Virginia)

Component Unit Financial Report as of and for the Year Ended June 30, 2005, and Independent Auditors' Report

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COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND
(An Enterprise Fund of the County of Henrico, Virginia)

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INDEPENDENT AUDITORS' REPORT

To the Honorable Members of the
Board of Supervisors
County of Henrico, Virginia

We have audited the accompanying balance sheet of the County of Henrico, Virginia, Water, and Sewer Revenue Fund (the "Fund") as of June 30, 2005, and the related statement of revenues, expenses, and changes in fund net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Fund'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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such financial statements present fairly, in all material respects, the financial position of the Fund as of June 30, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 2 through 7 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Fund's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

November 17, 2005

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of the County of Henrico's Water and Sewer Revenue Fund's (the "Fund") financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Fund's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FY 2005

The Water and Sewer Revenue Fund, on a current financial resource basis, reported net income of $30.4 million compared to net income of $37.5 million in 2004 (Statement of Revenues, Expenses and Changes in Fund Net Assets).

The Fund's total net capital assets were $906.8 million at June 30, 2005, compared to $865.6 million at June 30, 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements are comprised of three statements and the notes to the financial statements: (1) balance sheet; (2) statement of revenues, expenses, and changes in fund net assets; and (3) statement of cash flows.

The balance sheet presents information on all of the Fund's assets and liabilities, with the difference between the two reported as net assets. The Fund's net assets are one way to measure the Fund's financial health, or financial position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating. Nonfinancial factors also need to be considered when evaluating the Fund's financial condition, such as the condition of the Fund's infrastructure, potential for growth of the customer base, and the stability of the local economy.

The statement of revenues, expenses, and changes in fund net assets presents information on revenues, expenses, and how the Fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods. The increase or decrease in net assets may serve as an indicator of the effect of the Fund's current-year operations on its financial position.

The statement of cash flows summarizes all of the Fund's cash flows into four categories: cash flows from operating activities; cash flows from capital and related financing activities; cash flows from noncapital financing activities; and cash flows from investing activities. The statement of cash flows, along with related notes and information on other financial statements, can be useful in assessing the following:

- The Fund's ability to generate future cash flows,
- The Fund's ability to pay its debt as the debt matures,
- Reasons for the difference between the Fund's operating cash flows and operating income, and
- The effect on the Fund's financial position from cash and noncash transactions from investing, capital, and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the balance sheet; statement of revenues, expenses, and changes in fund net assets; and statement of cash flows.

FINANCIAL ANALYSIS OF THE WATER AND SEWER FUND

The following table reflects the condensed balance sheet for the Fund as of June 30, 2005 and 2004 (in millions):

	2005	2004
Current assets	$ 65.1	$ 81.2
Restricted assets	24.5	24.8
Capital assets	906.8	865.6
Other assets	0.6	0.6
Total assets	$ 997.0	$ 972.2
Current liabilities	$ 18.7	$ 17.2
Deferred revenues	17.7	18.1
Long-term liabilities	125.9	132.6
Total liabilities	$ 162.3	$ 167.9
Net assets:		
Invested capital assets—Net of related debt	$ 771.1	$ 723.1
Restricted	11.5	11.6
Unrestricted	52.1	69.6
Total net assets	$ 834.7	$ 804.3

The Fund's total net assets increased to $834.7 million from $804.3 as a result of net income of $30.4 million, which is mainly comprised of the following: $6.0 million from operations, $11.3 million from connection fees, and $12.4 million from donated infrastructure assets. The remainder is from investment income, debt service contributions, and grants.

The following chart shows the revenues and expenses of the Fund's activities (in millions).

	2005	2004
Revenues:		
Operating revenues:		
Water system	$ 32.3	$ 30.9
Sewer system	36.6	35.2
Other	1.5	1.4
Nonoperating income:		
Connection fees	11.3	12.6
Donated assets	12.4	14.1
Debt service contributions	0.9	0.7
Investment income	0.8	0.7
Other	0.2	1.1
Total revenue	96.0	96.7
Expenses:		
Water system operating expenses	26.5	25.5
Sewer system operating expenses	19.8	19.4
Depreciation expense	18.1	14.3
Interest expense, net of capitalized interest	1.2	0.0
Total expenses	65.6	59.2
Net income	30.4	37.5
Fund net assets at July 1	804.3	766.8
Fund net assets at June 30	$ 834.7	$ 804.3

REVENUES

For the fiscal year ended June 30, 2005, operating revenues from the sale of water and sewer services totaled $70.4 million. This is an increase of $2.9 million, or 4.3%, from the prior year. This increase in revenue is a direct result of growth and a 3% rate increase. Growth in water customers was 2.2% from 2004 to 2005, from 86,352 to 88,212. The number of sewer customers also grew from 84,845 to 86,624, a 2.1% increase.

Nonoperating revenues were $25.6 million, a decrease of $3.6 million, or 12.3%, from 2004. This decrease is mainly due to a $1.3 million decrease in connection fees and a $1.7 million decrease in donated infrastructure assets due to changes in the type and timing of development projects in the County. Also, other income decreased $900,000, or 81.8%, from 2004 since a portion of the Commonwealth of Virginia grant for Bio-Nutrient Removal at the Water Reclamation Facility was received during 2004.

EXPENSES

For the fiscal year ended June 30, 2005, expenses totaled $65.6 million, a $6.4 million, or 10.8%, increase from the prior year. The majority of this increase is due to a $500,000 increase in personnel costs mainly due to the Virginia Retirement System ("VRS") contribution. In addition, payment in lieu of taxes increased $400,000 due to the assets added this year.

Engineering services increased $300,000, mainly due to an odor and corrosion control study. Depreciation increased $3.8 million due to the first full year of depreciation on the Water Treatment Plant and the corresponding pipe. Interest expense was $1.2 million more for 2005 because the offsetting capitalized interest was $1.2 million less than 2004 since the Water Treatment Plant was placed in service in 2004.

BUDGETARY ANALYSIS OF THE WATER AND SEWER REVENUE FUND

For the fiscal year ended June 30, 2005, the Fund reflects a total fund net asset balance of $834.7 million (Balance Sheet). Included in the fund balance of $834.7 million are $30.4 million of revenues in excess of expenditures. The primary reason for the Fund's increase in fund balance mirrors those highlighted in the financial analysis:

Water and Sewer Revenue Fund Budget
(In millions)

	Original*	Revised	Actual
Revenues:			
Water system operating revenue	$ 32.0	$ 32.0	$ 32.3
Sewer system operating revenue	35.3	35.3	36.6
Other operating revenue	1.2	1.2	1.5
Nonoperating income	11.8	11.8	25.6
Total revenues	80.3	80.3	96.0
Expenses:			
Operating expenses	45.9	48.9	46.3
Depreciation	0.0	0.0	18.1
Interest expense	17.4	17.1	1.2
Total expenses	63.3	66.0	65.6
Change in fund balance	$ 17.0	$ 14.3	$ 30.4

* Donated assets are not budgeted in revenues, however, they are included in actual revenues. The entire debt service payment including principal is budgeted in expenses, however, only interest expense less capitalized interest is included in the actual expenses. Also, the Fund does not budget for depreciation but it is included in the actual expenses.

WATER AND SEWER REVENUE FUND BUDGETARY HIGHLIGHTS

Revenue and other income exceeded expenditures by $30.4 million for 2005. Actual Fund revenues exceeded original budgeted revenues by $15.7 million during 2005. This increase is attributable in part to development, resulting in $12.4 million in donated assets. The Fund does not budget for donated assets as they are noncash transactions. In addition, connection fees were $0.5 million more than budgeted. The Fund budgets connection fees conservatively, thus allowing for changes in growth and development that may occur as a result of economic change. Actual operating expenses were only slightly more than the original budget by $400,000, which was due in part to the fact that the Fund does not budget depreciation and budgets debt service for the entire principal and interest payments, not just interest expense. Also, the Fund does not budget for capitalized interest (see the notes to the financial statements for actual amounts).

During 2005, the County Board of Supervisors amended the budget five times. These budget amendments were primarily to appropriate grant funds received from the Virginia Department of Transportation for the Old Cannon Estates project, appropriate grant funds received for the Water Reclamation Facility, to appropriate funds for expenses related to Tropical Storm Gaston, and to reestablish available funds carried forward from the prior year.

CAPITAL ASSETS

At the end of fiscal year 2005, the Fund had net capital assets totaling $906.8 million, which represents a net increase of $41.2 million, or 4.8% over the previous fiscal year-end balance. The majority of this increase is due to increased spending on projects that were classified as construction in progress, some of which were completed during the year. The 2005 net additions/deletions to capital assets, including capitalized interest, totaled $41.2 million, and included improvements, construction of assets, and water and sewer rehabilitation. The Fund added $12.4 million in donated infrastructure. Developers building in the County donate these assets. The increase in accumulated depreciation is a result of depreciation expense offset by retirements. For more detailed information on the Fund's capital assets, see the notes to the financial statements.

The following chart shows a summary of the changes in capital assets during 2005 (dollar amounts in millions):

	Balance, FY 2004	Net Additions/ Deletions	Balance, FY 2005
Nondepreciable Assets:			
Land	$ 16.0	$ 0.1	$ 16.1
Construction in progress	118.1	14.4	132.5
Depreciable Capital Assets:			
Building	248.0	11.5	259.5
Infrastructure	676.1	31.0	707.1
Equipment	40.2	1.7	41.9
Improvements other than buildings	1.4	0.0	1.4
Accumulated depreciation on other capital assets	(234.2)	(17.5)	(251.7)
Total	$ 865.6	$ 41.2	$ 906.8

LONG-TERM DEBT AND RESTRICTION ON RESOURCES

At the end of 2005, the Fund had total revenue bonds payable outstanding of $134.0 million. The only activity related to the bonds during 2005 was for principal and interest payments.

The Fund's revenue is pledged as collateral for components of its long-term debt, including the 2002 Refunding Issue, the 1999 Revenue and Refunding Issue, the 1997 Revenue Issue, and the 1994 Refunding Issue (collectively, the "Bonds").

The covenants of the Bonds require that in each year the net operating revenues of the Fund be at least equal to 1.25 times the debt service requirement for the year. In addition, the covenants prohibit the County from issuing any bonds, notes, certificates of indebtedness, or other evidence of indebtedness having in any way a lien and charge on the revenues of the Water and Sewer System prior to the lien and charge created by the covenants for the payment of and collateral for the outstanding Bonds.

Also, the interest due on the Bonds as of July 1, 2005, has been accrued as of June 30, 2005, as required by the related covenants. Cash has been restricted for these accruals. In addition, net assets have been restricted, and equity in cash and cash equivalents has been restricted in an amount equal to the maximum annual debt service requirements for the Bonds. See Note 3 to the financial statements for more information concerning the Fund's long-term debt.

ECONOMIC FACTORS

In the last five years, the Fund has added approximately 8,400 water and 10,100 sewer customers with the total water and sewer customers being just over 88,200 and 86,600, respectively, as of June 2005. Most of this gain is attributable to residential customers. Growth in customers continues to be strong, approximately 2.5% annually, which is a result of the continued residential and commercial growth and development in the County that is further reflected in the increases in connection fee revenue and donated assets.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the revenues it collects. Questions concerning this report or requests for additional financial information should be directed to the Director of Public Utilities, P.O. Box 27032, Richmond, VA 23273-7032.

COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND
(An Enterprise Fund of the County of Henrico, Virginia)

BALANCE SHEET
AS OF JUNE 30, 2005

ASSETS

CURRENT ASSETS:	
Equity in cash and cash equivalents	$ 42,639,411
Accounts and notes receivable:	
Water and sewer	14,351,925
Due from other funds	7,053,925
Other	468,039
Less allowance for doubtful accounts and notes	(283,900)
Net accounts and notes receivable	21,589,989
Inventory—materials and supplies	824,547
Prepaids	34,097
Total current assets	65,088,044
RESTRICTED ASSETS:	
Equity in cash and cash equivalents restricted for:	
Maximum annual debt service	11,470,079
Principal—current portion	6,425,000
Interest due currently	199,174
Cash held by custodian	5,348,767
Cash held by trustee	1,117,918
Total restricted assets	24,560,938
CAPITAL ASSETS (See Note 2):	
Depreciable capital assets:	
Buildings	259,536,934
Improvements other than buildings	1,426,652
Infrastructure	707,112,313
Equipment	41,835,912
Less accumulated depreciation	(251,667,310)
Net depreciable capital assets	758,244,501
Construction in progress	132,492,652
Land	16,055,697
Total capital assets	906,792,850
OTHER ASSETS	572,157
TOTAL	$997,013,989

(Continued)

COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND
(An Enterprise Fund of the County of Henrico, Virginia)

BALANCE SHEET
AS OF JUNE 30, 2005

LIABILITIES AND FUND NET ASSETS

CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS:	
Accounts payable and accrued liabilities	$ 10,009,677
Pension liability—current portion	9,872
Deposits payable	525,306
Arbitrage liability	103,000
Accrued compensated absences—current portion	817,546
Total current liabilities payable from current assets	11,465,401
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:	
Long-term debt—current portion	7,070,000
Accrued interest payable	199,174
Total current liabilities payable from restricted assets	7,269,174
DEFERRED REVENUES	17,666,230
OTHER LONG-TERM LIABILITIES:	
Pension liability—noncurrent portion	221,677
Accrued compensated absences—noncurrent portion	11,904
Total other long-term liabilities	233,581
LONG-TERM DEBT—NONCURRENT PORTION:	126,935,000
Less unamortized bond discount	(1,286,635)
Net long-term debt	125,648,365
Total liabilities	162,282,751
FUND NET ASSETS:	
Invested in capital assets—net of related debt	771,151,223
Restricted	11,470,079
Unrestricted	52,109,936
Total fund net assets	834,731,238
TOTAL	$997,013,989

See notes to financial statements. (Concluded)

COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND
(An Enterprise Fund of the County of Henrico, Virginia)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS FOR THE YEAR ENDED JUNE 30, 2005

OPERATING REVENUES:	
Water system	$ 32,284,332
Sewer system	36,654,354
Other	1,500,248
Total operating revenues	70,438,934
OPERATING EXPENSES:	
Water System:	
Source of supply	9,898,877
Pumping and treatment	5,338,784
Transmission and distribution	3,461,252
Customer billings and services	931,755
General and administrative	6,902,677
Total water system operating expenses	26,533,345
Sewer system:	
Treatment and disposal	5,502,797
Collection	2,789,032
Pumping	3,566,924
Customer billings and services	914,983
General and administrative	7,004,721
Total sewer system operating expenses	19,778,457
Operating income before depreciation expense	24,127,132
Depreciation expense	18,122,782
OPERATING INCOME	6,004,350
NONOPERATING INCOME:	
Connection fees	11,299,505
Donated assets	12,366,940
Debt service contribution	917,301
Investment income	787,816
Other income	206,812
Total nonoperating income	25,578,374
INCOME BEFORE INTEREST EXPENSE	31,582,724
INTEREST EXPENSE—NET OF CAPITALIZED INTEREST	1,169,016
NET INCOME	30,413,708
FUND NET ASSETS—JULY 1, 2004	804,317,530
FUND NET ASSETS—JUNE 30, 2005	$834,731,238

See notes to financial statements.

COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND
(An Enterprise Fund of the County of Henrico, Virginia)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

OPERATING ACTIVITIES:	
Receipts from customers	$ 70,063,443
Payments to suppliers	(24,185,282)
Payments to employees	(15,647,035)
Payment in lieu of taxes	(4,903,961)
Net cash provided by operating activities	25,327,165
CAPITAL AND RELATED FINANCING ACTIVITIES:	
Interest payments	(5,873,962)
Principal payments	(6,910,000)
Debt service payments by general fund	917,301
Grant funds	615,523
Contractors—connection fees	11,812,970
Purchase of property, plant, and equipment	(42,509,411)
Proceeds from sale of property, plant, and equipment	47,500
Net cash used by capital & related financing activities	(41,900,079)
INVESTING ACTIVITIES—Investment income	890,816
Net cash provided by investing activities	890,816
NET CHANGE IN CASH	(15,682,098)
EQUITY IN CASH AND CASH EQUIVALENTS—Beginning of year	82,882,447
EQUITY IN CASH AND CASH EQUIVALENTS—End of year	$ 67,200,349

(Continued)

COUNTY OF HENRICO, VIRGINIA
WATER AND SEWER REVENUE FUND
(An Enterprise Fund of the County of Henrico, Virginia)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

RECONCILIATION TO CASH AND CASH EQUIVALENTS ON THE BALANCE SHEET:	
Equity in cash and cash equivalents	$42,639,411
Total restricted equity in cash and cash equivalents	24,560,938
Total cash and cash equivalents	$67,200,349
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 6,004,350
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	18,122,782
Decrease in accounts and notes receivable	566,711
Decrease in inventory	90,121
Increase in other assets	(14,097)
Increase in accounts payable and accrued liabilities	1,465,224
Increase in deposits payable	40,221
Increase in accrued compensated absences	34,273
Decrease in deferred revenues	(982,420)
	$25,327,165

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

The Water and Sewer Revenue Fund received donated assets in the form of water and sewer infrastructure provided by developers of new subdivisions throughout the County. The value of these assets and others received for the year ended June 30, 2005, was $ 12,366,940.

See notes to financial statements. (Concluded)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Structure and Purpose—The Water and Sewer Revenue Fund (the "Fund") of the County of Henrico, Virginia (the "County") is accounted for as an enterprise fund. The accrual basis of accounting is used for the enterprise fund. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred. The purpose of this fund is to account for the construction, operations, and maintenance of the County-owned water and wastewater utility, which is considered a component unit for financial reporting purposes.

Capital Assets and Depreciation—Capital assets are recorded at cost or estimated historical cost, net of accumulated depreciation. Cost of capital assets was determined during the 1979 fiscal year by an appraisal firm based on original documents when such documents were available, and an appraised value adjusted for price levels at the date of purchase of the particular asset involved, when original documents were not available. Capital asset additions since that date have been recorded at original cost. Capital asset additions received through gifts or contributions are recorded at their fair value at date of receipt. When capital assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts, and the gains or losses are currently reflected in the statement of revenues, expenses, and changes in fund net assets. Depreciation expense was determined using the straight-line method over the estimated useful lives of the assets (4 to 65 years). The Fund's capitalization threshold is $2,500 for land and equipment and $25,000 for buildings, improvements, and infrastructure.

Inventory—Materials and Supplies—Materials and supplies inventory consists mainly of supplies held for consumption which are costed by methods that approximate average cost.

Equity in Cash and Cash Equivalents—Certain cash balances of the Fund are pooled and invested with other County funds. Substantially all cash and cash equivalents represent investments in securities guaranteed by a United States government agency, bankers' acceptances, certificates of deposit, commercial paper, and repurchase agreements, which have maturities of one year or less, which in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, are stated at amortized cost, which approximates market. Disclosures in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosurse – an amendment of GASB Statement No. 14* are included in the Comprehensive Annual Financial Report for the County.

In accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, a statement of cash flows has been presented for the Fund. For purposes of this statement, restricted cash, which meets the definition of cash and cash equivalents as noted above, has been included.

Interest—In accordance with Financial Accounting Standards Board ("FASB") Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants,* the cost of properties for the Fund includes net interest costs on funds borrowed to finance the acquisition or construction of major facilities. These costs were capitalized during the period of construction only. The Fund incurred interest expense and amortization expense of $5,890,723 in 2005, of which $4,721,707 was capitalized.

Unamortized Bond Discounts/Issuance Costs—Bond discounts and certain issuance costs are deferred and amortized using the interest method over the terms of the related issues.

Accrued Compensated Absences—Annual leave is granted to all permanent County employees. County employees can earn annual leave at the rate of 4 hours for every 80 standard hours worked up to a maximum of 7 hours for every 80 standard hours after 20 years of service. While there is no requirement that annual leave be taken, the maximum permissible accumulation is 364 hours for County employees. Accumulated annual leave vests, and the County is obligated to make payment even if the employee terminates. The liability for unused and unpaid annual leave attributable to the Fund is charged to expense and the corresponding liability established in the Fund.

County employees can earn sick leave at the rate of 4 hours for every 80 standard hours worked. Sick leave is nonvesting, with the exception of employees retiring from County service. Retiring employees are vested at a rate of $2.50 for every hour of sick leave earned with a maximum payment of $5,000. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences,* the liability has been estimated using the termination payment method.

Deferred Revenue—This represents advance payments from current customers for future capacity to be used of the water reclamation facility and the water treatment plant.

Connection Fees—All new customers connecting to the Fund's water and wastewater system are required by code to pay connection fees and local facilities fees before being connected to the system. These fees cover the cost of water and wastewater facilities to serve new customers, as well as future repairs and maintenance on these facilities. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* these fees were recorded as non-operating income.

GASB Statement No. 20 Election—GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* requires proprietary activities to apply all applicable GASB pronouncements as well as FASB pronouncements, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 20, management has elected not to apply FASB pronouncements issued after November 30, 1989.

Inspection and Engineering Costs—Certain inspection and engineering costs related to private development have been capitalized by the Fund in order to account for these costs in the same manner as the private development assets contributed to the County. The costs are capitalized based on an hourly rate for time spent by County employees on these projects. For the year ended June 30, 2005, the amount capitalized was $ 1,649,326.

Revenues—The Fund's operating revenues include charges for water and sewer services. All revenues not meeting this definition are reported as nonoperating income.

Expenses—The Fund's operating expenses include all expenditures for providing water and sewer services to its customers. Examples of nonoperating expenses are depreciation, amortization, interest and any losses on the sale of fixed assets.

2. CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
Non-Depreciable Capital Assets:				
Land	$ 16,014,805	$ 40,892	$ -	$ 16,055,697
Construction in progress	118,101,295	49,304,347	(34,912,990)	132,492,652
Depreciable Capital Assets:				
Buildings	248,056,460	12,115,688	(635,214)	259,536,934
Equipment	40,159,448	1,976,539	(300,075)	41,835,912
Improvements	1,426,652	-	-	1,426,652
Infrastructure	676,093,054	31,073,584	(54,325)	707,112,313
Total Capital Assets	1,099,851,714	94,511,050	(35,902,604)	1,158,460,160
Accumulated Depreciation	(234,245,290)	(18,122,782)	700,762	(251,667,310)
Total—Net of Depreciation	$ 865,606,424	$ 76,388,268	$ (35,201,842)	$ 906,792,850

3. LONG TERM DEBT

A summary of changes in long-term debt for fiscal 2005 and the individual components of long-term debt at June 30, 2005, follows:

	Balance June 30, 2004	Additions	Retirements/ Refundings	Balance June 30, 2005
Water and Sewer Revenue Bonds:				
1994 Refunding Issue, $41,345,000, 3.50% to 5.875%	$ 6,345,000	$ -	$ (740,000)	$ 5,605,000
1994 Revenue Issue, $32,000,000, Variable Rate	28,960,000	-	(610,000)	28,350,000
1999 Revenue Issue, Refunding New Money $101,000,000, 3.1% to 5.25%	91,815,000	-	(3,700,000)	88,115,000
2002 Refunding Issue, $17,345,000, 3.0% to 4.625%	13,795,000	-	(1,860,000)	11,935,000
Total bonds	140,915,000	$ -	$ (6,910,000)	134,005,000
Current portion of long-term debt payable from restricted assets	(6,910,000)			(7,070,000)
	$ 134,005,000			$ 126,935,000

The Fund issued debt to refund existing issues and for construction of capital assets. The 1994 and 2003 bonds were refunding issues. The 1997 and 1999 Revenue Issues were for the construction of a new water treatment plant, including the raw water pump station and intake and transmission mains leading from the plant to the distribution system. The funds were also used to fund the project to expand the capacity of the water reclamation facility and to construct the facilities to provide water and wastewater service to an industrial development site in the eastern part of the County.

Defeased Debt—In prior years, the County defeased certain Water and Sewer Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. At June 30, 2005, $63,390,000 of Water and Sewer System Revenue and Refunding Bonds, which were considered defeased in prior years, remained outstanding.

Variable Rate Debt—The variable rate on the 1997 Bonds shall be determined by the Remarketing Agent. The Variable Rate will be equal to the minimum rate that, in the judgment of the Remarketing Agent, taking into account prevailing market conditions, would enable the Remarketing Agent to sell all of the 1997 Bonds on the Adjustment Date at a price equal to the principal amount thereof, plus accrued interest, if any, thereon. The Variable Rate shall be determined by the Remarketing Agent in its sole discretion based on prevailing market conditions and may, but need not, be established by reference to one or more recognized financial indices. As of June 30, 2005, the rate in effect on these Bonds was 2.45%.

Debt Service and Covenants—The Fund's revenue is pledged as collateral for the 2002 Refunding Issue, the 1999 Revenue and Refunding Issue, the 1997 Revenue Issue, and the 1994 Refunding Issue, (collectively, the "Bonds").

The General Fund of the County has assumed responsibility of certain project costs and is obligated to pay debt service in the amount of $23,101,314 or 72.19% of the $32 million revenue bond issue. The General Fund transferred $917,301 to the Fund during the fiscal year ended June 30, 2005, to cover its portion of the debt service requirements. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* these transfers were recorded as other non-operating income by the enterprise fund and as an expenditure in the general fund.

The covenants of the Bonds require that in each year the net operating revenues of the Fund, as defined by the covenants, which in the opinion of Bond Counsel do not include depreciation or payments in lieu of taxes as an expense, be at least equal to 1.25 times the debt service requirements for the year (principal and interest on the Bonds and interest on any outstanding Bond Anticipation Notes). In addition, the covenants prohibit the County from issuing any bonds, notes, certificates of indebtedness, or other evidences of indebtedness having in any way a lien and charge on the revenues of the Water and Sewer System prior to the lien and charge created by the covenants for the payment of and collateral for the outstanding Bonds.

The Fund may issue additional bonds payable which may be collateralized equally with the outstanding Bonds for any purpose connected with or pertaining to the Fund, upon compliance with the following conditions, among others:

- One-half of the net operating revenues of the Fund, as defined during any 24 consecutive months out of the 30 months immediately preceding the issuance of the additional bonds, shall have been not less than 1.25 times the maximum annual debt service requirement on all bonds then outstanding and the proposed additional bonds; and

- The net operating revenues of the Fund, as defined during the first full fiscal year following the date upon which the project or undertaking for which the proposed additional bonds are being issued is anticipated to be completed, shall be estimated by a nationally recognized consulting engineer to be not less than 1.25 times the maximum annual debt service requirement on account of all bonds then outstanding and the proposed additional bonds.

Net operating revenues were 2.34 times the annual debt service requirement for the year ended June 30, 2005.

Also, the interest due on the Bonds as of July 1, 2005 has been accrued as of June 30, 2005, as required by the related covenants. Cash has been restricted for these accruals. In addition, net assets have been restricted, and equity in cash and cash equivalents has been restricted in an amount equal to the maximum annual debt service requirements for the Bonds.

Arbitrage—The 1999 Revenue Issue is subject to a possible rebate under the federal arbitrage rebate regulations. The bond proceeds were on deposit with the Virginia State Non-Arbitrage Program and an annual estimate of the arbitrage liability is performed at the end of each fiscal year. The estimate of the arbitrage liability owed by the Fund as of June 30, 2005 was $103,000.

Principal and interest payments on the Bonds for the five fiscal years subsequent to June 30, 2005, and thereafter are as follows:

Years	Principal	Interest
2006	$ 7,070,000	$ 6,816,316
2007	7,340,000	6,526,035
2008	6,850,000	6,205,641
2009	6,955,000	5,907,313
2010	7,070,000	5,597,387
2011–2015	31,475,000	22,575,859
2016–2020	20,885,000	16,040,306
2021–2025	26,755,000	9,958,191
2026–2029	19,605,000	2,335,895
Total	$ 134,005,000	$ 81,962,943

4. NONMONETARY CONTRIBUTIONS

Nonmonetary contributions consist of contributions from developers for water and sewer infrastructure constructed by the developer and donated to the County. The value is calculated based on an average cost per foot of pipe donated. The County Inspector determines the footage of pipe. Cost of pipe is determined as the cost that the County would incur if the County had constructed the asset. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* the value of these assets is included in nonoperating income.

5. DEFINED BENEFIT PENSION PLAN—AGENT MULTIPLE-EMPLOYER

Plan Description—The Fund contributes to the Virginia Retirement System ("VRS"), an agent multiple-employer defined benefit pension plan administered by the Virginia Retirement System ("System"). All full-time, salaried permanent employees must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7% of their average final salary ("AFS") for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to five percent per year beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. 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 that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P. O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy—Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute five percent of their annual salary to the VRS. The employer may assume this five percent member contribution. In addition, the County and School Board Non-Professional Group are 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 County and School Board Non-Professional Group's contribution rates for the fiscal year ended 2004 were 5 percent and 13.75 percent, respectively, of annual covered payroll.

Annual Pension Cost—For 2005, the Fund's annual pension cost ("APC") of $958,967 was less than the required and actual contributions. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return, (b) projected salary increases ranging from 4.00% to 7.0% per year, and (c) 3.0% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the Fund's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. Unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

NET PENSION OBLIGATION (NPO)

Annual Required Contribution (ARC)	$ 969,279
Interest on NPO	19,350
Adjustment to the ARC	(29,662)
Annual Pension Cost	958,967
Contributions made	(969,279)
Decrease in NPO	(10,312)
NPO—Beginning of year	241,861
NPO—End of year	$ 231,549

TREND INFORMATION FOR THE FUND

Fiscal Year Ending	Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2003	$ 458,222	105.00 %	$ 250,357
June 30, 2004	$ 505,181	101.68 %	$ 241,861
June 30, 2005	$ 958,967	101.08 %	$ 231,549

SCHEDULE OF FUNDING PROGRESS FOR THE FUND

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Ratio Funded Obligation	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2002	$31,314,463	$31,856,891	$ 542,428	98.30%	$ 9,158,014	5.92%
June 30, 2003	32,723,278	34,893,430	2,170,153	93.78%	9,217,193	23.54%
June 30, 2004	32,559,204	37,307,293	4,748,088	87.27%	10,140,985	46.82%

6. RELATED-PARTY TRANSACTIONS

The Fund is furnished data processing services, accounting services, vehicle maintenance services, risk management, office space, and the use of certain County-owned vehicles by the County. For these services the Fund expensed approximately $4,084,319 in fiscal 2005. These amounts were determined based on the County's cost allocation plan.

The County charges the Fund a payment in lieu of taxes for which the rate is determined each year by the County. The payment made by the Fund was $4,903,961 in fiscal 2005.

The Fund charges the County for rental of fire hydrants for which the County paid $978,033 in fiscal 2005.

The Fund received $1,114,335 in fiscal 2005 from the County for water and sewer services provided at established billing rates.

The Fund loaned the County $9,618,989 to be repaid over a 30-year term with interest equal to the average rate paid on the Bonds to mature on June 30, 2027. The County will pay 1/30 of the loan principal annually with interest applied to the remaining principal balance. At June 30, 2005, the principal balance was $7,053,925. The County recognized the principal and interest as an expenditure, and the Fund recognized the principal and interest received as notes receivable and interest income, respectively.

7. COMMITMENTS

At June 30, 2005, the Fund had contractual commitments for the construction of the Wastewater Treatment Plant and Water Plant Projects in the amounts of $4,292,940 and $1,239,658, respectively.

* * * * * *

APPENDIX C

THE COUNTY

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Henrico County, Virginia (the "County") is situated in central Virginia and surrounds the City of Richmond (the "City" or "Richmond") on the north side of the James River. Although much of the County's 244.06 square miles consists of highly developed urban and suburban areas, there is also a considerable amount of undeveloped agricultural and forest land. In Virginia, cities and counties are distinct units of government and do not overlap. Thus, the County is responsible for providing all local government services to its residents. Population of the County was estimated to be 281,069 for 2004 and is expected to continue to grow in the foreseeable future.

COUNTY GOVERNMENT

Form of Government

The County is governed by a five-member Board of Supervisors which establishes policies for the administration of the County. Each member of the Board of Supervisors is elected by the voters of the magisterial district in which such member resides. The Chairman of the Board of Supervisors is elected annually by the members. Members of the Board of Supervisors serve four-year terms.

The County elected in 1934 to organize under the County Manager Form of Government (as defined under Virginia law). Under this form of government, the Board of Supervisors appoints a County Manager to serve as the chief executive officer of the County. The County Manager serves at the pleasure of the Board of Supervisors, implements its policies, appoints department heads, and directs business and administrative procedures. Also under the County Manager Form of Government, a County Code and modern zoning ordinances are administered and enforced.

Elected Officials

Richard W. Glover, Chairman was elected from the Brookland Magisterial District in November of 1987 and was re-elected in 1991, 1995, 1999 and 2003. Mr. Glover received his education from Virginia Commonwealth University and J. Sargent Reynolds Community College, and is a retired marketing consultant.

James B. Donati, Jr., Vice-Chairman was elected from the Varina Magisterial District in November of 1991 and re-elected in 1995, 1999 and 2003. Mr. Donati received his education from Virginia Commonwealth University and is the owner of a landscape contracting business.

David A. Kaechele was elected from the Three Chopt Magisterial District in November of 1979 and was re-elected in 1983, 1987, 1991, 1995, 1999 and 2003. Mr. Kaechele is a graduate of Michigan State University and was a Senior Development Engineer at Reynolds Metals Company prior to his retirement in April 1993.

Patricia S. O'Bannon was elected from the Tuckahoe Magisterial District in 1995 and re-elected in 1999 and 2003. Ms. O'Bannon is a graduate of Virginia Commonwealth University in Richmond. She was formerly an English teacher in the Henrico County school system and an editor of a local newspaper.

Frank J. Thornton, was elected to the Board of Supervisors in 1995 and re-elected in 1999 and 2003 to represent the Fairfield Magisterial District. Mr. Thornton is a graduate of Virginia Union University in Richmond and The American University, Washington, D.C. He is employed as a professor of French at Virginia Union University.

Certain County Staff Members

Virgil R. Hazelett, P.E., was appointed County Manager on January 14, 1992. He previously served the County as Deputy County Manager for Administration/Chief of Staff, Deputy County Manager for Community Development, County Engineer/Director of Public Works, Deputy Director of Public Works, and Traffic Engineer. Prior to coming to the County in 1972, he received a Bachelor's degree in Civil Engineering from West Virginia Institute of Technology and a Master's degree in Civil Engineering from West Virginia University, and held engineering positions in High Point, North Carolina, and West Virginia.

Leon T. Johnson was appointed Deputy County Manager for Administration in 1995. Prior to his appointment he was employed by the City of Suffolk, Virginia, where he served as Director of Finance and Assistant City Manager. Mr. Johnson's educational achievements include a Bachelor's degree in Business Administration and a Master's degree in Public Administration, both from Old Dominion University in Norfolk, Virginia.

Harvey L. Hinson, whose experience with Henrico County covers over 43 years, was appointed Deputy County Manager for Community Development in March 1992. Prior to his appointment, he served as the Assistant Director of Planning for two years and has held various positions in both the County's Planning Office and the Department of Public Works. Mr. Hinson holds a Bachelor's degree in Urban Studies, a Master's degree in Urban and Regional Planning, and a Certificate in Civil Engineering Technology, all from Virginia Commonwealth University.

Robert K. Pinkerton was appointed Deputy County Manager for Community Operations in December 1994. He previously served Henrico County in the Department of Public Works where he was Director from 1990 until his appointment as Deputy County Manager in 1994. Prior to his work in Henrico County, Mr. Pinkerton worked as an engineer in the City of Richmond, Department of Public Works. Mr. Pinkerton received a Bachelor's degree in Civil Engineering from the Virginia Military Institute and a Masters of Business Administration from Virginia Commonwealth University.

George T. Drumwright, Jr. was appointed Deputy County Manager for Community Services in 1995. He previously has served the County as the Deputy County Manager for Administration, as the Deputy County Manager for Human Services, and as an Administrative Assistant to the County Manager for Human Resources. Prior to coming to the County in 1977, Mr. Drumwright worked as an Administrative Analyst to the City Manager in the City of Norfolk. Mr. Drumwright holds a Bachelor's degree in Business Administration from Old Dominion University and a Master's degree in Public Administration from The American University.

Angela N. Harper, AICP, was appointed Deputy County Manager for Special Services in September 1997. She began her career with Henrico in 1971 in the Planning Office and was the Director from

1990 until her promotion. Ms. Harper holds a Bachelor of Arts degree in political science from Memphis State University and Masters of Planning and Urban Design from the University of Virginia. She is the past president of the Virginia Chapter of the American Planning association and a past at-large member of the national board of the American Planning Association. On January 5, 1999, she received the Local Official of the Year Award for Region A from the National Association of Home Builders.

Joseph P. Rapisarda, Jr., Esquire, County Attorney, was appointed in 1982. He served as an Assistant County Attorney for Henrico County for five years before being appointed County Attorney. Prior to his service with Henrico County, he served for two years as an associate attorney with May, Miller & Parsons. He is a graduate of the University of Virginia Law School. Mr. Rapisarda is a current member and past president of the Local Government Attorneys of Virginia and the Henrico County Bar Association. He is also a member of the Professionalism Faculty of the Virginia State Bar.

Reta R. Busher was appointed Director of Finance on April 10, 2002. She previously has served the County as the Deputy Director of Finance since 1999 and as Director of the Office of Management and Budget from 1993 to 1999. Prior to her work with Henrico County, Ms. Busher served Roanoke County, Virginia, as Director of the Office of Management and Budget and as Assistant Staff and Senior Accountant for Peat, Marwick, Mitchell & Company Ms. Busher holds a Bachelor's degree in Accounting from the College of William and Mary and is a Certified Public Accountant.

CERTAIN FINANCIAL PROCEDURES

Annual Financial Statements. The County's general purpose financial statements have been audited and reported on by independent certified public accountants for over 25 fiscal years. The financial statements of Henrico County, Virginia Water and Sewer Revenue Fund, as of and for the years ended June 30, 2004 and 2005, included in this Official Statement as Appendix B have been audited by independent auditors, as stated in their report appearing herein. The County has been awarded a Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada for its annual financial statements each year since the fiscal year ended June 30, 1981. The Certificate of Achievement is awarded annually for excellence, clarity and comprehensiveness in financial reporting.

The County's comprehensive annual financial report, which includes the County's general purpose financial statements as of and for the year ended June 30, 2005, audited by independent auditors, is available for inspection at the office of the Director of Finance, County of Henrico, Parham and Hungary Spring Roads, Post Office Box 27032, Richmond, Virginia 23273.

Description of Funds. The accounts of the County are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund balance, revenues and expenditures. The following is a description of the funds included in the financial records of the County.

General Fund. The General Fund accounts for all revenues and expenditures of the County, which are not accounted for in the other funds. Revenues are primarily derived from general property taxes, local sales taxes, license and permit fees and revenues received from the Commonwealth. A significant part of the General Fund's revenues is used to maintain and operate the general government, which is accounted for in the General Fund, or is transferred to other funds principally to fund debt service requirements and capital projects. Expenditures include, among other things, those for general government, education, public safety, highways and streets, welfare, culture and recreation.

Special Revenue Funds. Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds account for the resources obtained and used relating to State and Federal Grants, Mental Health and Mental Retardation programs, the Utility Department's Solid Waste and Street Lighting operations and School Cafeterias.

Enterprise Funds. Enterprise Funds account for operations that are financed in a manner similar to private business enterprises, where the intent of the County is that the cost of providing services to the general public be financed or recovered through charges to users of such services. These Funds account for the operation, maintenance and construction of the County-owned water and sewer system (considered a single segment for financial reporting purposes) and the operation of a County-owned golf course.

Debt Service Fund. This fund accounts for the accumulation of financial resources for the payment of interest and principal on all long-term debt other than that accounted for in Enterprise Funds. Debt Service Fund resources are derived from transfers from the General Fund and Special Revenue Funds.

Internal Service Fund. An Internal Service Fund accounts for the financing of goods or services provided by one department to other departments of the government on a cost-reimbursement basis. The Internal Service Fund accounts for the County's Central Automotive Maintenance operations and the Technology Replacement Fund. Resources for these funds come from interdepartmental charges.

Agency Funds. Agency Funds account for fiduciary funds administered by the County, are custodial in nature, and do not involve measurement of results of operations.

Capital Projects Fund. The Capital Projects Fund accounts for all capital projects other than those accounted for within Enterprise Funds.

Budgetary Procedure

Virginia law requires the County to maintain a balanced budget in each fiscal year. The County lacks legal authority to borrow in anticipation of future years' revenues, except by the issuance of bonds or bond anticipation notes.

Prior to the beginning of each fiscal year the Board of Supervisors adopts a fiscal plan consisting of contemplated expenditures and estimated revenues for such fiscal year. On the basis of the approved fiscal plan, the Board of Supervisors appropriates funds for expenditures and establishes tax rates sufficient to produce the revenues contemplated in the fiscal plan.

The annual budgeting process for a fiscal year begins early in the second quarter of the previous fiscal year with the issuance by the County Manager to all department heads and other key officials of the pertinent guidelines to be observed. Each department or division head will submit all desired personnel change requests and detailed budget requests.

The County Manager and his staff hold hearings with the various departments and after review submit a proposed fiscal plan to the Board of Supervisors. The Board of Supervisors also hold hearings with the departments and, after revisions, authorizes a final budget for publication and public hearing. After the public hearing, further changes may be made before final adoption, which generally occurs in the month of April, preceding the start of the fiscal year on July 1.

Appropriations are then made on an annual basis to the various departments, offices and agencies based on annual requests reviewed by the Department of Finance for conformity with the approved annual plan.

SELECTED FINANCIAL INFORMATION

General Fund Revenues and Disbursements. The General Fund is maintained by the County to account for revenue derived from County-wide *ad valorem* taxes, other local taxes, licenses, fees, permits, certain revenue from Federal and State governments, and interest earned on invested cash balances in the General Fund. General Fund disbursements include the costs of general County government, School Operations, and transfers to the Debt Service and Capital Projects Funds to pay debt service on the County's general obligation bonds and for certain capital improvement projects.

The following is a discussion of the General Fund revenue structure and major classifications of General Fund disbursements. Following this discussion is a five year summary of General Government revenues, expenditures and fund balances and a summary of the fiscal plan for fiscal year 2006. Please refer to the County's audited financial statements, included in this Official Statement as Appendix A, for a detailed review of General Fund revenues and expenditures for the fiscal year ended June 30, 2005.

Revenues

Property Taxes. An annual ad valorem tax is levied by the County on the assessed value of real and tangible personal property located within the County as of January 1. The ratio of the assessed value of property to its appraised value is 100% in the case of real property and varies for the several classes of personal property but generally is 100%. Both real and personal property taxes are collected on June 5 and December 5. There is no limit at the present time on the property tax rates, which may be established by the County. In the fiscal year ended June 30, 2005, property taxes (including penalties for late payment of prior years' taxes) represent approximately 39.8% of total General Fund and School Operating receipts. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied in April and are payable in two installments on June 5th and December 5th. The County bills and collects its own property taxes. Property taxes levied are recorded as receivables, net of allowance for estimated uncollectible accounts, to the extent that they are currently due.

In April 1998, the Virginia General Assembly passed the Personal Property Tax Relief Act of 1998. The Act provides for the Commonwealth to reimburse a portion of the tangible Personal Property Tax levied on personal use cars, motorcycles and trucks. Reimbursement rates are contingent upon the State meeting revenue projections. If projections are not met, the rates to localities will be frozen at the previous level. The reimbursement was 12.5% of the tax on the first $20,000 of the value of the qualifying vehicle in tax year 1998. The reimbursement rate was 27.5% for tax year 1999, and increased to 47.5% for tax year 2000 and 70% for tax years 2001 through 2005. The reimbursement rate for 2006 and thereafter will be determined by each locality based upon their share of the $950 million allocated by the Commonwealth for personal property tax relief on qualifying vehicles. For tax year 2004, the State reimbursement receivable is reflected as a due from other governments and is offset by deferred revenue. Revenue for the State reimbursement is recorded as non-categorical aid from the State. Localities will continue to assess and administer the Personal Property Tax program.

Other Local Taxes. The County levies various other local taxes including a 1% sales tax (collected by the State and remitted to the County), various business, professional and occupational license taxes, property transfer recordation taxes, motor vehicle and other vehicle taxes. These receipts represent approximately 16.6% of total General Fund and School Operating receipts in the fiscal year ended June 30, 2005.

Revenues from the Commonwealth of Virginia. The County is reimbursed by the Commonwealth of Virginia for a portion of shared expenses including certain expenditures for social services, the Sheriff's office, courts, the office of the Commonwealth Attorney and the Clerk of the Circuit Court. Additionally, the County receives a share of the net profits from the State Alcoholic Beverage Control Board's liquor sales. The County also receives a significant amount of State aid in support of public school operations.

Revenue from the Commonwealth of Virginia represents approximately 37.0% of total General Fund and School Operating receipts in the fiscal year ended June 30, 2005.

Other Revenue. Other sources of revenue account for approximately 6.6% of total General Fund Revenue for the fiscal year ended June 30, 2005.

Disbursements

Costs of Education. The County pays from the General Fund the costs of operating the public school system. Federal government and Commonwealth of Virginia funds are credited to the Schools' revenue accounts and used exclusively to finance Schools' operating expenditures. No debt service on School general obligation bonds is paid from funds from the Federal government or the Commonwealth of Virginia. This classification represents approximately 45.4% of the total General Fund and School Operating disbursements for fiscal year ending June 30, 2005.

Costs of General County Government. The County pays from the General Fund the costs of general County government. These costs include expenditures for public safety (police, fire, etc.), courts, administration and support, social services, libraries, health, recreation, and street and highway maintenance. This classification represents approximately 42.2% of total General Fund and School Operating disbursements in the fiscal year ended June 30, 2005. Included in the costs of general County government are the transfers to debt service and capital project funds discussed below.

Transfer to Debt Service Funds. The County transfers from the General Fund to the Debt Service Fund an amount sufficient to pay principal and interest on County general obligation bonds. Transfers to the Debt Service Fund represent approximately 5.4% of total General Fund and School Operating disbursements in the fiscal year ended June 30, 2005.

Transfer to Capital Projects Funds. The County transfers from the General Fund to the Capital Projects Fund moneys to pay the cost of certain capital improvements. The General Fund transfer to the Capital Projects Fund represents approximately 5.2% of total General Fund disbursements in the fiscal year ended June 30, 2005.

Summary of General Fund Revenues, Expenditures and Fund Balances

The financial data shown in the following table represents a summary for the five fiscal years ended June 30, 2005, of the County's General and School Operating Fund revenues, expenditures and fund balances. This summary has been derived from the audited financial statements of the County for the five fiscal years ended June 30, 2005 and should be read in connection with those financial statements and notes thereto.

	Fiscal Year Ended June 30				
	2001	**2002**	**2003**	**2004**	**2005**
Revenues:					
General Property Taxes	$217,144,579	$226,258,366	$240,664,997	$259,060,763	$284,217,911
Other Local Taxes	102,029,232	101,467,945	109,465,444	114,076,223	118,319,653
Permits, Privilege Fees & Regulatory Licenses	4,305,060	3,882,240	4,316,192	4,062,684	4,780,738
Fines & Forfeitures	1,836,373	1,875,895	1,798,554	1,817,655	2,150,209
Revenues from Use of Money & Property	17,389,364	9,330,829	7,210,022	2,005,269	6,400,350
Charges for Services	8,558,536	9,259,037	9,606,727	10,511,252	10,467,199
Miscellaneous	2,234,802	1,804,142	2,228,738	9,026,499	5,642,594
Recovered Costs	3,339,226	3,400,421	3,501,493	4,259,700	5,309,597
Intergovernmental	213,717,174	220,960,895	229,130,495	253,272,524	277,274,096
Total Revenues	$570,554,346	$578,239,770	$607,922,662	$658,092,569	$714,562,347
Expenditures:					
General Govt. Admin.	$ 45,164,227	$ 46,745,434	$ 50,862,445	$ 51,831,427	$ 56,183,872
Judicial Admin.	4,744,015	4,899,826	5,146,163	5,203,956	5,752,492
Public Safety	100,566,776	103,380,580	107,919,783	114,341,728	120,126,158
Public Works	29,622,698	28,957,949	29,330,893	44,314,789	33,239,392
Health & Welfare	15,659,444	16,596,536	17,629,828	18,883,464	20,231,080
Education	253,212,280	278,728,620	280,078,478	287,423,146	315,453,330
Parks, Recreation & Cultural	18,445,377	18,649,111	19,591,259	21,349,331	23,224,989
Community Development	12,848,134	13,813,452	14,105,996	15,984,169	17,154,317
Miscellaneous	6,020,503	5,882,900	6,666,906	8,752,110	9,387,359
Debt Service Principal Retirement	694,568	4,011,831	5,358,597	7,046,617	6,945,441
Debt Service Interest	190,970	297,628	1,067,955	952,458	680,809
Total Expenditures	$487,168,992	$521,963,867	$537,758,303	$576,083,195	$608,379,239
Excess of Revenue over Expenditures	$ 83,385,354	$ 56,275,903	$ 70,164,359	$ 82,009,374	$106,183,108
Other Financing Sources (Uses):					
Issuance of Cap. Lease Obligation	$ 627,846	$ 20,455,774	$ 5,951,526	$ 0	$ 1,564,860
Operating Transfers In:					
To Debt Service Fund	(29,283,848)	(34,140,925)	(36,287,353)	(36,812,650)	(37,212,785)
To Capital Project Fund	(19,973,545)	(22,980,206)	(19,726,574)	(20,541,959)	(35,958,434)
To Other Funds	(12,081,564)	(13,382,712)	(11,932,390)	(10,935,378)	(13,729,571)
Total Other Financing Sources (Uses)	$(60,711,111)	$(50,048,069)	$(61,994,791)	$(68,289,987)	$(85,335,930)
Excess (deficiency) Revenue & Other Sources Over Expend. & Other Uses	$ 22,674,243	$ 6,227,834	$ 8,169,568	$ 13,719,387	$ 20,847,178
Fund Balance, July 1	89,878,766	112,553,009	118,780,843	126,950,411	140,669,798
Fund Balance, June 30	**$112,553,009**	**$118,780,843**	**$126,950,411**	**$140,669,798**	**$161,516,976**

Analysis of Fund Balance

	2001	2002	2003	2004	2005
Fund Balances:					
Reserved & Designated	$ 36,859,796	$ 32,927,790	$ 31,298,430	$ 36,717,796	$ 53,131,994
Undesignated	75,693,213	85,853,053	95,651,981	103,952,002	108,384,982
TOTAL	**$112,553,009**	**$118,780,843**	**$126,950,411**	**$140,669,798**	**$161,516,976**

Summary of Annual Fiscal Plan for the Fiscal Year Ending June 30, 2006

The County's Fiscal Plan for the fiscal year ending June 30, 2006, reflects a growing tax base, a healthy local economy, and a continuing commitment to provide increased quality services and facilities for a growing population. While projected revenues continue to increase, actual receipts are being closely monitored. Real Property taxes are projected to increase 10.4% over the previous fiscal year budget. Personal Property taxes are projected to increase 1.3%. Expenditure increases include a 4% merit and wage adjustment increase for both school and general government employees. These numbers are unaudited.

The increase in the General Fund budget for fiscal year 2006 was 5.1%. Revenues will provide ample resources to provide continued levels of quality service for the citizens of Henrico County. Actual revenues and expenditures to date are on target. The County is expected to generate a surplus as of June 30, 2006.

As set forth in the Annual Fiscal Plan, General Fund revenues, expenditures and transfers are summarized below for the fiscal year ending June 30, 2006:

Revenues and Transfers		**Expenditures**	
General property taxes	$325,950,700	General government administration	$ 40,648,502
Other local taxes	109,983,700	Financial administration	11,274,968
Revenue from use of money and property	8,605,000	Public safety	122,257,787
		Public works	31,573,469
Intergovernmental revenue	247,375,700	Health and welfare	18,308,706
Permits, fees & licenses	4,131,100	Education	337,218,513
Fines and forfeitures	2,450,500	Parks, recreation and cultural	24,718,825
Charges for services	10,497,500	Judicial administration	6,336,462
Miscellaneous	5,949,600	Community development	17,071,279
Transfers to other funds	(98,128,693)	Miscellaneous	7,406,596
Total Projected Revenues and Transfers	$616,815,107	**Total Budgeted Expenditures**	$616,815,107

Population

The County's population has increased rapidly since 1980, as shown in the following table:

Calendar Year	**Population**	**Calendar Year**	**Population**
1980	179,562	1998	247,832
1990	217,881	1999	254,194
1991	221,287	2000	259,179
1992	223,729	2001	262,300
1993	226,684	2002	267,031
1994	230,729	2003	274,847
1995	235,229	2004	281,069
1996	239,683	2005	288,735
1997	243,273		

Source: Population estimates provided by Henrico County Department of Planning.

Taxable Retail Sales Data

The following table presents the taxable retail sales, number of retail merchants and taxable retail sales per capita. As in many other metro areas in the Mid-Atlantic region, the County's taxable retail sales per capita have steadily increased since 1995. Economic activity in the County has matched the population growth noted above. The following table also reflects the increasing income levels of its residents and the County's increasing importance as a regional commercial and retail center.

Calendar Year	Population[(1)]	Taxable Retail Sales (000)[(2)]	Number of Merchants	Taxable Retail Sales Per Capita
1995	235,229	$2,977,931	5,292	$12,660
1996	239,683	3,104,943	5,288	12,954
1997	243,273	3,359,351	5,396	13,809
1998	247,832	3,571,221	5,418	14,410
1999	254,194	3,829,852	5,514	15,067
2000	259,179	4,054,871	5,475	15,645
2001	262,300	3,902,580	5,617	14,615
2002	267,031	4,080,038	5,595	15,031
2003	274,847	4,195,664	5,854	15,265
2004	281,069	4,619,827	6,034	16,436
2005	288,735	4,897,017[(3)]	6,125	16,960

Sources: [(1)] Population estimates provided by Henrico County Department of Planning.
[(2)] Commonwealth of Virginia, Department of Taxation. Data excludes automobile and prescription drug sales.
[(3)] Estimate from Department of Finance due to computer error at State Department of Taxation.

Construction Activity

Despite the recession in the early 1990's, the County has experienced steady construction activity in both the residential and commercial development areas. Selected data are presented below to show construction activity in the County for the past decade.

Building Permits and Value

Fiscal	Total Dwelling Units [(1)]		Total Construction Permits [(2)]	
Year	No.	Value	No.	Value
1996	1,724	$141,923,506	17,936	$468,942,405
1997	1,659	147,811,577	19,675	516,388,721
1998	1,815	174,510,589	19,590	577,495,134
1999	2,083	209,258,966	20,336	529,785,425
2000	1,683	172,007,574	18,758	609,571,108
2001	1,641	175,048,202	18,880	672,373,503
2002	1,672	182,444,684	16,409	473,056,295
2003	2,024	245,754,322	18,485	674,204,598
2004	1,890	257,518,182	20,535	561,332,629
2005	1,986	302,172,160	21,928	671,144,887

Source: Henrico County Department of Building Construction and Inspections.
[(1)] Dwelling Unit is defined as a single-family residence.
[(2)] Includes all residential and commercial construction.

Building Construction Permit Values
By Classification
Fiscal Years Ended June 30
(000's omitted)

	2001	2002	2003	2004	2005
Single Family	$175,048	$182,445	$245,754	$257,518	$302,172
Multi-Family	32,039	24,855	46,202	12,465	16,164
Industrial	6,554	2,966	0	0	180
Office	40,165	40,769	6,839	9,832	20,440
Institutional	675	4,490	24,450	5,545	3,231
Commercial & Etc.	417,893	217,531	350,960	275,973	328,958
Total	$672,374	$473,056	$674,205	$561,333	$671,145

Source: Henrico County Department of Building Construction and Inspections.

Housing

The data in the table below present the characteristics of residential housing in the County. As of December 31, 2004, single family housing units represented approximately 66% of all residential housing. The percentage of the housing stock consisting of multifamily units has grown steadily throughout the period presented.

	2000		2001		2002		2003		2004	
	Units	% of Housing	Units	% of Housing	Units	% of Housing	Units	% of Housing	Units	% of Housing
Single Family	73,744	65%	75,103	65%	76,338	66%	77,855	65%	79,753	66%
Multifamily, Condominiums, Apartments & Town Houses	39,297	35	39,781	35	40,007	34	41,252	35	41,752	34
Total	113,041	100%	114,884	100%	116,345	100%	119,107	100%	121,505	100%

Source: Henrico County Department of Planning.

Commerce, Industry and Employment

The County's economy and its tax base have grown steadily throughout the 1980's and 1990's. The County's Planning Department has estimated that the County's population in 2005 was approximately 22.8% higher than it was ten years ago. Retail sales rose over $1.9 billion or 64.4% between 1995 and 2005, according to the Virginia Department of Taxation. During the period from 1990 through the first quarter of 2005, total non-agricultural employment in the County increased from 121,543 to 155,556, an increase of 28.0%. Many major industries have located in the County during the last decade, including some that expanded or relocated from another part of the metropolitan area. All growth, whether new, relocated, or expanded, contributed to the increased employment and tax base in the County.

The result of this growth has been an increase in Henrico's capacity to raise revenue and provide services. Between fiscal years 1995 and 2005, the County's total General Property tax revenues increased by over $112.1 million or 65.2%. During the same period, the Personal Property Tax rate remained constant at $3.50 per $100 assessed value and the real estate tax rate was reduced from $.98 per $100 assessed value to $.92 per $100 assessed value. It should be noted that the Board of Supervisors decreased the real estate tax rate to $.90 per $100 assessed value effective for CY2006. Moderate industrial and residential growth is expected to continue in the foreseeable future, particularly in the eastern portion of the County. Thus, the upward trend in revenue growth is expected to continue.

Employment

The following tables illustrate the level of employment, its diversity, and the income of County residents. Employment in the County is dominated by the non-manufacturing sector and consists primarily of wholesale, retail, and government employment. Financial and medical services also provide a significant employment base for County residents. On average, the County is responsible for one-third of the metropolitan area's non-manufacturing employment and one-fourth of the manufacturing employment.

Area Total Employment by Place of Residence

Date	Henrico County	Unemployment	Chesterfield County	Unemployment	City of Richmond	Unemployment	Hanover County	Unemployment	Goochland County	Unemployment
March 2006	155,556	2.9%	157,073	2.8%	93,775	4.9%	53,460	2.2%	10,127	2.6%
February 2006	154,643	3.0	156,150	2.8	93,225	5.0	53,146	2.3	10,068	2.6
January 2006	154,457	3.0	155,962	2.8	93,112	4.9	53,082	2.4	10,056	2.6
December 2005	154,097	2.8	155,598	2.5	92,895	4.8	52,958	2.3	10,032	2.6
November 2005	154,148	3.0	155,650	2.8	92,926	5.0	52,976	2.5	10,036	2.5
October 2005	154,373	3.1	155,878	2.8	93,062	5.1	53,053	2.5	10,050	2.4
September 2005	153,458	3.4	154,954	2.9	92,510	5.4	52,739	2.8	9,991	3.0
August 2005	153,861	3.4	155,361	3.0	92,753	5.5	52,877	2.9	10,017	3.1
July 2005	155,469	3.3	156,984	3.0	93,722	5.5	53,430	2.8	10,122	2.7
June 2005	154,131	3.6	155,633	3.2	92,916	5.6	52,970	2.9	10,035	3.1
May 2005	154,015	3.3	155,516	3.0	92,846	5.3	52,930	2.7	10,027	2.9
April 2005	153,087	3.1	154,579	2.8	92,286	5.0	52,611	2.6	9,967	2.8
March 2005	152,070	3.2	153,552	3.0	91,674	5.4	52,262	2.6	9,900	3.0
February 2005	151,024	3.4	152,496	3.1	91,043	5.7	51,902	2.8	9,832	3.3
January 2005	150,563	3.3	152,031	3.2	90,765	5.6	51,744	2.7	9,802	2.9
December 2004	147,217	3.3	148,357	2.9	91,610	5.4	50,543	2.5	9,433	2.9
November 2004	147,703	3.2	148,847	3.0	91,912	5.3	50,710	2.6	9,464	3.8
October 2004	147,654	3.1	148,798	3.0	91,882	5.4	50,693	2.6	9,461	3.8
September 2004	146,377	3.3	147,511	3.0	91,087	5.6	50,255	2.6	9,379	3.6
August 2004	146,516	3.6	147,651	3.3	91,174	5.9	50,302	3.0	9,388	3.5
July 2004	148,534	3.6	149,685	3.2	92,430	5.9	50,995	3.0	9,518	3.2
June 2004	148,068	3.8	149,215	3.5	92,139	6.1	50,835	3.3	9,488	3.4
May 2004	147,729	3.5	148,874	3.1	91,929	5.6	50,719	2.9	9,466	3.1
April 2004	146,966	3.2	148,104	2.9	91,454	5.2	50,457	2.7	9,417	2.7
March 2004	147,051	3.4	148,190	3.2	91,506	5.6	50,486	2.9	9,423	3.0

Source: Virginia Employment Commission.
(1) Data based on Population surveys. Data represents Henrico County residents that are employed.

Employment by Industry Type

	Calendar Year 2003			Calendar Year 2004			Calendar Year 2005		
	Richmond MSA[1]	Henrico	Henrico % of Richmond MSA	Richmond MSA	Henrico	Henrico % of Richmond MSA	Richmond MSA	Henrico	Henrico % of Richmond MSA
Natural Resources & Mining	2,031	79	3.9%	2,015	93	4.6%	1,988	106	5.3%
Construction	40,641	9,862	24.3%	40,501	8,952	22.1%	43,765	10,209	23.3%
Manufacturing	49,517	10,555	21.3%	46,984	10,317	22.0%	45,671	10,149	22.2%
Trade, Trans. & Utility	112,791	33,880	30.0%	114,279	35,073	30.7%	112,488	33,939	30.2%
Information	12,754	4,386	34.4%	12,737	4,313	33.9%	12,769	4,875	38.2%
Financial Activities	44,363	24,193	54.5%	46,134	22,842	49.5%	46,118	22,798	49.4%
Professional & Bus. Services	83,580	30,508	36.5%	83,062	29,511	35.5%	89,434	33,724	37.7%
Education & Health Services	111,879	28,227	25.2%	115,455	29,438	25.5%	120,406	31,105	25.8%
Leisure & Hospitality	44,486	13,449	30.2%	47,064	13,695	29.1%	47,614	14,321	30.1%
Other Services	19,674	5,051	25.7%	20,064	5,098	25.4%	19,943	5,001	25.1%
Public Administration	38,598	4,212	10.9%	38,531	4,194	10.9%	38,463	3,951	10.3%
Unclassified	-	-		-	-		12	-	0.0%
Total	**560,314**	**164,402**	**29.3%**	**566,826**	**163,526**	**28.8%**	**578,671**	**170,178**	**29.4%**

Source: Virginia Employment Commission

(1) Richmond MSA defined as: Amelia County, Caroline County, Charles City County, Chesterfield County, Cumberland County, Dinwiddie County, Goochland County, Hanover County, Henrico County, King and Queen County, King William County, Louisa County, New Kent County, Powhatan County, Prince George County, Sussex County, City of Colonial Heights, City of Hopewell, City of Petersburg, and City of Richmond.

(2) Calendar Years 2003-2005 represent 1st Quarter average.

(3) Data represents total employment in each locality. Includes residents of other localities that work in each respective locality.

Median Household Income

	Calendar Year 1990	Calendar Year 2000	Calendar Year 2001	Calendar Year 2002	Calendar Year 2003
Henrico County	$35,604	$49,185	$48,942	$49,541	$52,967
Chesterfield County	43,604	58,537	59,806	55,921	61,543
Commonwealth of Virginia	35,073	46,677	48,603	48,986	50,805
United States	29,943	41,944	42,317	43,057	43,564

Source: Virginia Employment Commission/U.S. Census Bureau.

Numerous business types are located within the County and offer employment in such diversified areas as wholesale distribution, contract construction, research and technical manufacturing, marketing and banking. The following table presents data regarding some of the principal employers in the County.

Major Private, Non-Retail Employers

Employers	Approximate Number Employed
Capital One	7,000-8,000
Wachovia	5,000-6,000
Dominion Resources	5,000-6,000
Bon Secours	4,000-5,000
SunTrust Bank	3,000-4,000
Bank of America Corp.	3,000-4,000
Henrico Doctors' Hospital	2,000-3,000
WellPoint, Inc. (Anthem)	2,000-3,000
Verizon	2,000-3,000
Circuit City Stores, Inc.	2,000-3,000
Qimonda	2,000-3,000
Wyeth	1,000-2,000
Admiral Security Services	1,000-2,000
Genworth Financial, Inc.	1,000-2,000
Media General	1,000-2,000
First Clearing, LLC	700-800
First Health Services	700-800
Markel Service Inc.	600-700
Colonial Mechanical	600-700
Cadmus Communications	600-700
Kraft Foods, Inc.	600-700
Southern States Cooperative	600-700
Philip Morris USA	500-600
Service Master Services, Inc.	500-600
General Medical	500-600

Source: Economic Development Authority of Henrico County, Virginia.

Economic Development

Henrico County's climate of excellent customer service, sound financial management, low tax rates and sustainable economic development may have been a strong factor in the decision made by a number of large corporations to locate their headquarters in Henrico County. Philip Morris USA (a subsidiary of Altria), Circuit City Stores, Owens and Minor and the Brink's Company (formerly known as The Pittston Company) comprise the Fortune 500 companies, which are located within the County. Markel Corporation, a Fortune 1000 company, also calls Henrico County home. Other large corporate headquarters include Alfa Laval, Well Point (Anthem), Genworth (formerly known as GE Financial Assurance), Carpenter Company, Hamilton Beach-Proctor Silex, and Southern States Cooperative. In addition to companies with corporate headquarters in Henrico County, 53 diverse foreign-based firms representing 10 countries are currently based in Henrico County.

Nine years ago, Qimonda North America Corporation (formerly known as Infineon Technologies), a large computer chip manufacturer, chose Henrico County over numerous locations throughout the world. The County and the entire region have felt the ancillary economic effect from Qimonda choosing to locate in Henrico. In 1999, Hewlett-Packard chose to construct an 800,000 square foot facility, which assembles laser jet printers in Henrico County. In 2000, Hewlett-Packard occupied an additional 640,000 square feet within the White Oak Technology Park for an assembly and distribution facility, which brought Hewlett-Packard's investment in Henrico in excess of $55 million in a two-year time frame. Other technology companies, which have recently migrated to Henrico, include Wyeth Pharmaceuticals and Danaher Power Solutions. These new facilities represent an example of the clustering of development that is typical of the high tech industry.

In the summer of 2003, Philip Morris USA, the largest cigarette company in the country, began the process of moving its corporate headquarters from New York City to Henrico County, where it was initially incorporated in 1919. Altria, the parent company, is currently ranked 20th on the Fortune 500 list.

TAX BASE DATA

The following data are presented to illustrate trends and characteristics of the assessed value of real and personal property, which are major sources of County-derived revenue. Of Henrico's $25.2 billion in taxable real estate, nearly 32% is classified as commercial.

Assessed Value of All Taxable Property
Last Ten Calendar Years

Calendar Year	Assessed Value Real Estate	Personal Property	Assessed Value Public Service Corp.[1] Real Estate	Assessed Value Public Service Corp.[1] Personal Property	Total Assessed Value
1996	$11,679,268,500	$2,048,069,501	$663,203,417	$4,615,592	$14,395,157,010
1997	12,438,859,000	2,146,750,188	721,875,439	5,214,034	15,312,698,661
1998	13,284,448,300	2,411,094,393	730,696,946	4,807,832	16,431,047,471
1999	14,195,583,300	2,609,580,250	735,466,744	4,713,473	17,545,343,767
2000	15,192,653,250	2,749,570,928	782,847,363	5,229,877	18,730,301,418
2001	16,778,229,150	2,853,452,157	827,287,178	5,820,189	20,464,788,674
2002	18,245,823,150	2,859,762,405	851,848,275	4,521,265	21,961,955,095
2003	19,695,107,150	2,790,989,192	869,735,658	6,961,396	23,362,793,396
2004	22,161,373,300	2,792,061,898	889,990,680	7,090,354	25,850,516,232
2005	25,170,718,300	3,030,117,354	785,238,708	5,487,090	28,991,561,452

Source: Henrico County Department of Finance.

[1] *Source:* State Corporation Commission.

Property Tax Rates

Property tax rates are established each year by the Board of Supervisors during the annual budget process. Property tax rates for the past ten calendar years are as set forth in the table below:

Tax Rates
(Per $100 of Assessed Value)

Calendar Year	Real Estate[1]	Personal Property	Machinery and Tools	Aircraft
1996	$0.96	$3.50	$1.00	$1.60
1997	0.94	3.50	1.00	1.60
1998	0.94	3.50	1.00	1.60
1999	0.94	3.50	1.00	1.60
2000	0.94	3.50	1.00	1.60
2001	0.94	3.50	1.00	1.60
2002	0.94	3.50	1.00	1.60
2003	0.94	3.50	1.00	1.60
2004	0.94	3.50	1.00	1.60
2005	0.92	3.50	1.00	1.60

Source: Director of Finance, Henrico County.

Property Tax Levies And Collections
Last Ten Fiscal Years

Fiscal Year	Current Levy	Current Taxes Collected	Percent of Levy	Current Year Collection of Prior Year Taxes	Total Taxes Collected	Collections as Percent of Current Levy	Outstanding[2] Delinquent Taxes	Delinquent Taxes as Percent of Current Levy
1996	$180,291,605	$175,796,767	97.5%	$1,792,386	$177,589,153	98.5%	$13,395,443	7.4%
1997	181,374,952	182,062,526	100.4	2,219,975	184,282,501	101.6	13,753,926	7.6
1998	198,885,854	196,629,230	98.9	1,181,449	197,810,679	99.5	15,310,502	7.7
1999	213,104,377	208,625,574	97.9	4,331,072	212,956,646	99.9	17,456,967	8.2
2000	229,275,318	223,791,021	97.6	2,368,741	226,159,762	98.6	15,904,301	6.9
2001	242,153,271	240,101,152	99.2	1,765,024	241,866,176	99.9	19,879,337	8.2
2002	252,230,397	258,347,048	102.4	1,491,398	259,838,446	103.0	16,826,456	6.7
2003	265,313,565	272,012,365	102.5	2,041,874	274,054,239	103.3	17,632,788	6.7
2004	287,938,125	291,656,599	101.3	1,246,013	292,902,612	101.7	17,244,904	6.0
2005	324,711,836	316,046,683[1]	97.3	1,253,773	317,300,456	97.7	19,774,591	6.1

Source: Henrico County Department of Finance.

(1) Includes $33,323,311 received from the Commonwealth of Virginia pursuant to the Personal Property Tax Relief Act of 1998.

(2) Includes First Half Property Taxes due June 5th.

Vehicle and Business License Receipts

Fiscal Year	Vehicle Receipts	Business Receipts	Fiscal Year	Vehicle Receipts	Business Receipts
1996	$4,593,998	$20,912,128	2001	$5,292,185	$23,092,646
1997	4,780,795	21,792,075	2002	5,226,643	22,315,226
1998	4,917,713	21,461,298	2003	5,434,279	23,013,363
1999	5,008,137	21,054,310	2004	5,637,493	24,042,472
2000	5,103,630	22,253,067	2005	5,974,167	25,510,344

Source: Henrico County Department of Finance.

Principal Taxpayers
As of June 30, 2005

The following data show the assessed value of the real and personal property of the 10 largest holders of real property and personal property in the County:

Taxpayer	Type of Business	Assessed Valuation	Percentage of Total Assessed Valuation(1)
Qimonda Richmond, LLC	Industrial	$ 519,104,800	1.79%
Virginia Power Company	Utility	356,169,447	1.23
Verizon	Utility	198,544,664	0.69
Short Pump Town Center, LLC	Regional Mall	193,368,100	0.66
Liberty Property, L.P.	Offices & Warehouses	186,333,600	0.64
Highwood Realty, L.P.	Offices & Warehouses	181,574,400	0.63
VAC Limited Partnership	Apartments	173,421,300	0.60
The Wilton Company	Offices, Retail, Warehouses	151,650,000	0.52
HCA Health Services of VA	Henrico Doctors Hospital	126,153,065	0.43
United Dominion Realty Trust	Apartments	95,189,300	0.33
	Total	$2,181,508,676	7.52%

Source: Henrico County Comprehensive Annual Financial Report for the fiscal year ended July 30, 2005.

(1) Total Real Estate and Personal Property Assessed Valuation for calendar year 2005 was $28,991,561,452.

The assessed value of real and personal property of these large entities in the County represents 7.52% of the total assessed value of all real property and personal property of $28,991,561,452.

DEBT ADMINISTRATION

Issuance and Authorization of Bonded Indebtedness

Pursuant to the Constitution of Virginia and the Public Finance Act of 1991, Chapter 26, Title 15.2 of the Code of Virginia of 1950, as amended, a county in Virginia is authorized to issue general obligation bonds secured by a pledge of its full faith and credit. For the payment of such bonds the governing body of a county is required to levy, if necessary, an *ad valorem* tax on all property in the county subject to local taxation. Although the issuance of general obligation bonds by Virginia counties is not subject to any limitation on amount, counties are prohibited from issuing general obligation bonds unless the issuance of such bonds has been approved by public referendum, or unless such issuance is for refunding bonds or is through the Virginia Public School Authority, the Literary Fund, the Virginia Retirement System, or other state agency prescribed by law. Payment of general government and school bonded indebtedness is provided for in the Debt Service Fund of the County.

Revenue bonds of a county are payable from revenues of the undertaking and do not require a referendum thereon. Payment of water and sewer utility revenue bonds is provided for in the County's Water and Sewer Revenue Fund.

Payment of lease revenue bonds is subject to the annual appropriation of the Board of Supervisors of the County.

As of June 30, 2005, the County's outstanding bonded indebtedness was as follows:

General Obligation Bonds	$239,090,000
Water and Sewer Revenue Bonds	134,005,000
Lease Revenue Bonds*	61,415,000
Literary Fund Obligations	660,753
Subtotal	435,170,753
Less: Water and Sewer Revenue Bonds	134,005,000
Total Net Debt	$301,165,753

*See "Bond Amortization Requirements – Total General Lease Obligations" herein.

Bond Amortization Requirements

Principal and interest payments on the outstanding general obligation bonded indebtedness of the County as of June 30, 2005 are presented in the following table:

TOTAL GENERAL OBLIGATION BONDS AND SCHOOL BONDS

Fiscal Year Ending June 30	Principal	Interest	Total
2006	$ 20,685,000	$10,876,973	$ 31,561,973
2007	19,330,000	9,959,210	29,289,210
2008	18,780,000	9,261,934	28,041,934
2009	18,645,000	8,402,847	27,047,847
2010	16,720,000	7,536,138	24,256,138
2011	16,630,000	6,753,191	23,383,191
2012	13,380,000	5,969,881	19,349,881
2013	13,355,000	5,341,206	18,696,206
2014	13,330,000	4,708,853	18,038,853
2015	11,720,000	4,124,776	15,844,776
2016	11,720,000	3,569,366	15,289,366
2017	11,710,000	3,020,466	14,730,466
2018	10,185,000	2,493,468	12,678,468
2019	10,185,000	1,995,582	12,180,582
2020	10,185,000	1,493,443	11,678,443
2021	8,400,000	1,034,800	9,434,800
2022	5,785,000	644,070	6,429,070
2023	4,455,000	362,350	4,817,350
2024	1,945,000	145,875	2,090,875
2025	1,945,000	48,625	1,993,625
Total	$239,090,000	$87,743,054	$326,833,054

Source: Henrico County Department of Finance.

* Totals may not add due to rounding

Principal and interest payments on outstanding Economic Development Authority leases of the County as of June 30, 2005 are presented in the following table:

TOTAL GENERAL LEASE OBLIGATIONS

Fiscal Year Ending June 30	Principal	Interest	Total
2006	$ 5,740,000	$ 3,237,470	$ 8,977,470
2007	6,035,000	2,962,768	8,997,768
2008	6,330,000	2,670,270	9,000,270
2009	2,565,000	2,354,540	4,919,540
2010	2,710,000	2,217,397	4,927,397
2011	2,860,000	2,075,545	4,935,545
2012	3,015,000	1,928,382	4,943,382
2013	3,170,000	1,769,973	4,939,973
2014	3,350,000	1,600,608	4,950,608
2015	3,540,000	1,418,507	4,958,507
2016	3,735,000	1,223,023	4,958,023
2017	3,960,000	1,009,656	4,969,656
2018	3,185,000	777,603	3,962,603
2019	2,560,000	586,550	3,146,550
2020	2,720,000	424,850	3,144,850
2021	2,885,000	258,606	3,143,606
2022	3,055,000	87,831	3,142,831
Total	$61,415,000	$26,603,579	$88,018,579

Source: Henrico County Department of Finance.

Debt Ratios

The following data are presented to show trends in the relationship of the net long-term indebtedness of the County to the estimated market value of taxable property in the County, its estimated population and the trend of debt service requirements as a percentage of General Fund and School Operating disbursements. In addition to General Obligation bonds, net long-term indebtedness includes General Lease Obligations and certain Literary Fund loans as of the fiscal year ended June 30, 2005, bringing the total to $293,563,168.

Net Long-Term Indebtedness Per Capita

Fiscal Year Ending June 30	Net Long-Term Indebtedness	Estimated Population[1]	Indebtedness Per Capita
1996	$259,909,535	239,683	$1,084.39
1997	278,630,041	243,273	1,145.34
1998	257,008,429	247,832	1,037.03
1999	275,145,750	254,194	1,075.96
2000	246,705,297	259,179	951.87
2001	266,836,991	262,300	999.27
2002	272,737,939	267,031	1,004.76
2003	300,311,090	274,847	1,092.65
2004	316,343,709	281,069	1,125.50
2005	293,563,168	288,735	1,016.72

Source: Henrico County Department of Finance.
[1] All years from Henrico County Department of Planning.

Trend of Net Long-Term Indebtedness as a Percentage of Assessed Value of Taxable Property

Fiscal Year Ending June 30	Net Long-Term Indebtedness	Assessed Value	Percentage
1996	$259,909,535	$14,395,157,010	1.81%
1997	278,630,041	15,312,698,661	1.82
1998	257,008,429	16,431,047,471	1.56
1999	275,145,750	17,545,343,767	1.57
2000	246,705,297	18,730,301,418	1.32
2001	266,836,991	20,464,788,674	1.30
2002	272,737,939	21,961,955,095	1.24
2003	300,311,090	23,362,792,396	1.29
2004	316,343,709	25,850,516,232	1.22
2005	293,563,168	28,991,561,452	1.01

Source: Henrico County Department of Finance.

Trend of Debt Service Requirements on General Obligation Bonds as a Percentage of General Disbursements

Fiscal Year Ending June 30	Debt Service Requirements[1]	Disbursements[2]	Percentage
1996	$28,296,392	$408,178,199	6.93%
1997	26,196,712	431,463,235	6.07
1998	31,346,391	468,369,087	6.69
1999	32,678,696	498,059,838	6.56
2000	30,963,749	542,227,420	5.71
2001	31,754,565	584,838,845	5.43
2002	33,833,406	625,648,555	5.41
2003	37,132,336	648,669,165	5.72
2004	37,893,071	698,135,652	5.43
2005	37,212,785	742,635,904	5.01

Source: Henrico County Department of Finance.

(1) Includes interest and other debt service costs.

(2) Includes General, Special Revenue, and Debt Service Funds.

Lease Commitments and Contractual Obligations

The County is obligated to make payments under various capital and operating leases for computer hardware, automotive vehicles, equipment, and the leasing of an office building. In accordance with legal requirements, all lease obligations are contingent upon the Board of Supervisors appropriating funds for each year's payments. Future minimum lease payments under these capital and operating leases for fiscal years ending June 30 are as follows:

Fiscal Year	Amount
2006	$12,973,695
2007	9,993,993
2008	9,349,603
2009	5,241,866
Thereafter	56,189,528
Total minimum lease payments	$93,748,685
Less amount representing interest	$27,050,723
Present value of all future minimum lease payments	$66,697,962

The amounts shown above include lease payments due from the County with respect to the financing of regional jail facilities through the Economic Development Authority of Henrico County, Virginia. See "Bond Amortization Requirements – Total General Lease Obligations" herein.

Contingent Liabilities

Richmond Metropolitan Authority. In September 1994, the Richmond Metropolitan Authority (the "RMA") issued $2,750,000 of stadium refunding revenue bonds (the "1994 RMA Bonds") to refund stadium revenue bonds issued by RMA in 1984 in the original principal amount of $3,810,000 (the "1984 RMA Bonds"). The 1984 RMA Bonds, together with $3,400,000 of stadium notes also issued in 1984, were issued to finance the cost of the acquisition, construction and equipping of a new stadium to replace the then existing Parker Field structure located in the City of Richmond. The construction work on the new stadium, named the Diamond, was completed in April 1985. The Diamond is presently being used primarily for the playing of baseball games by the Richmond Braves International League AAA farm club. The 1994 RMA Bonds are due in 2005 and are limited obligations of the RMA secured by certain net revenues to be derived by the RMA from the ownership and operation of the Diamond, from the operation of certain parking areas adjacent to the Diamond, and from certain funds that may be appropriated from time to time by the City of Richmond and the Counties of Henrico and Chesterfield pursuant to a moral obligation contract entered into among the RMA and these localities. If revenues from the operation of the Diamond and the parking facilities are insufficient to pay the stadium revenue bonds when due and pay the expenses associated with owning, operating, maintaining and improving the Diamond, the County Manager, and the administrative heads of other localities, are obligated by the terms of the moral obligation contract related to the bonds to request an appropriation from their respective governing bodies. The revenue bonds were paid in full as of June 30, 2005.

During the fiscal year 2005, the County made contributions of $172,361 to the RMA for its pro rata portion of the debt service and for capital improvements. The stadium facility had a net operating gain of $208,287 for the year ended June 30, 2005.

Joint Ventures

Capital Region Airport Commission. The Capital Region Airport Commission (the "Commission") was created in 1975 pursuant to Virginia statute. On January 1, 1976, the County and the City of Richmond entered into an intergovernmental joint venture for the operation of the Richmond International Airport ("Airport") by the Commission. As part of the venture, the City of Richmond conveyed the Airport property to the Commission, and the Commission in turn agreed to reimbursement of the outstanding debt of the City relating to the property. The County also made a contribution to the Commission, for a 40 percent interest in the venture. The Counties of Chesterfield and Hanover became Commission participants in fiscal year 1984 and fiscal year 1986, respectively.

The Commission is comprised of a fourteen-member board of directors, with four members each being appointed by the governing bodies of the City of Richmond, the County of Henrico, and the County of Chesterfield and two members being appointed by the County of Hanover governing body. The Commission generates its revenues from service charges to users of the Airport facilities to recover the costs of maintaining, repairing and operating the Airport. Virginia statute requires that the Commission annually submit a budget showing estimated revenues and expenditures to the governing bodies of the City of Richmond and the three counties for their approval. After approval of the proposed budget by the governing bodies, if the Commission's budget contains estimated expenditures which exceed estimated revenues, then the governing bodies are required to fund the deficit in proportion to their financial interests in the Commission. If, however, actual revenues are less than estimated revenues (resulting in a deficit), the City of Richmond and the three counties may, at their discretion, appropriate funds necessary to fund the deficit. The County has agreed to fund its portion of the deficit, if any.

The percentage shares of the jurisdictions involved include the following:

City of Richmond	29.27%
County of Henrico	31.44%
County of Chesterfield	30.17%
County of Hanover	9.12%
	100.00%

This financial interest is determined by applying the percentage of the total approximate population of each jurisdiction to the combined total population of all jurisdictions. The above percentages are based on the final 1990 census figures provided by the Richmond Regional Planning District Commission.

During fiscal year 2004, the Commission's budget was not formally approved by the County; the Commission did not receive any significant subsidies from the County; and the County did not receive any funds from the Commission for repayment of its contribution.

Complete financial statements for the Capital Region Airport Commission can be obtained from their administrative office at South Airport Drive, Richmond, Virginia 23231.

Greater Richmond Convention Center Authority. The Greater Richmond Convention Center Authority (the "Convention Authority"), a political subdivision of the Commonwealth of Virginia, was created on January 9, 1998 pursuant to the Public Recreational Facilities Authorities Act, Chapter 56 of Title 15.2, Code of Virginia (1950). The political subdivisions participating in the incorporation of the Convention Authority are the City of Richmond and the Counties of Henrico, Chesterfield and Hanover. The Convention Authority is governed by a five-member board comprised of the chief administrative officer of each of the four incorporating local governments and the President/CEO of the Retail Merchants Association of Greater Richmond.

The Convention Authority was created to acquire, finance, expand, renovate, construct, lease, operate and maintain the facility and grounds of a visitors and convention center or centers including the facility and grounds currently known as the Richmond Centre. The primary purpose of the Convention Authority is to issue revenue bonds to finance the expansion of the Richmond Centre facility and to construct access, streetscape, or other on-site/off-site improvements. Once the expansion is complete, the Convention Authority will have responsibility for the operation and maintenance of the convention center.

The Convention Authority has issued $158,415,000 in Hotel Tax Revenue Bonds, which are secured by an 8 percent transient occupancy tax imposed and collected by the localities. The County recorded an expenditure of $8,252,295 for transient occupancy tax to the Convention Authority during the year ended June 30, 2005.

Complete financial statements for the Convention Authority can be obtained from Chesterfield County, Accounting Department, Post Office Box 40, Chesterfield, Virginia 23832.

Employee Retirement and Pension Plans

All full-time salaried permanent employees of Henrico County are automatically enrolled in the Virginia Retirement System ("VRS"), except law enforcement officers, who are enrolled in the Law Enforcement Officers Retirement System, which is also administered by VRS. Retirement, group insurance coverage, disability and death benefits are provided under these plans. Professional instructional personnel in the Henrico County School System are also automatically enrolled in the VRS, but in accordance with Chapter

1, Title 51.1 of the Code of Virginia, the employer contribution costs are partially borne by the Commonwealth of Virginia.

Other Post Employment Benefits

Expenses associated with retirees' health benefits are funded annually on a cash basis. Current Henrico County retirees who qualify for health benefits receive an implicit subsidy by participating in the active employee health care risk pool; as well, the County offers a health care credit.

Eligibility for health care benefits is based on the retiree being immediately eligible to receive a Virginia Retirement System (VRS) monthly retirement payment. Under age 65, the retiree and their dependents can remain in the County's health and dental plans and pay the full active premium. Over age 65, a retiree and their dependents move to a Medicare carve out plan.

Retirees who are not eligible for the VRS Health Care Credit may qualify for the County supplement. Retirees must have a minimum of 20 full years of VRS service, 10 years of which must be with the County. The supplement will be paid only to eligible retirees who choose to remain in the County's group plan. This supplement is $3 per month for each full year of service.

A cost evaluation study prepared in February 2006 reported an annual required contribution estimated at $9,920,000. This estimate is based on the 2005 employee census, and the County intends to update the estimates prior to the adoption of the fiscal year 2007-2008 budget. The County does not intend to alter retiree health benefits at this time.

Capital Improvement Program

The Capital Improvement Program (the "CIP") represents those infrastructure improvements needed over the next five years by the County and provides for the orderly and systematic financing and acquisition of public improvements. In evaluating each of the proposed projects, the CIP process takes into account such factors as population growth, density, economic development concerns, the County's fiscal ability, and the desired service levels.

The amount appropriated for capital projects each year is based on the CIP in effect at the time of the development of the budget. Recommendations in subsequent CIP's may result in revisions to the amounts appropriated for specific projects.

The approved Capital Budget for fiscal year 2006 is $150,814,109. Shown below is a summary of the approved CIP for fiscal year 2006 and proposed expenditures for the five-year plan in addition to a summary of projected funding sources:

Capital Improvement Program Summary
Fiscal Year 2005-06 through Fiscal Year 2009-10

By Department:	Approved FY 2005-06	Requested FY 2005-06	Requested FY 2006-07	Requested FY 2007-08	Requested FY 2008-09	Requested FY 2009-10	Total Five Years
Fund 21 - Capital Projects Fund							
CATC	$ 2,500,000	$ 2,705,033	$ -0-	$ -0-	$ -0-	$ -0-	$ 2,705,033
Education	84,279,133	92,279,133	53,735,273	31,763,931	89,448,679	47,909,730	315,136,746
Fire	1,900,000	4,324,200	6,313,894	9,268,414	3,700,000	13,670,503	37,277,011
General Services	1,900,000	8,515,522	12,758,827	30,068,188	99,723,406	59,135,897	210,201,840
Human Resources	-0-	7,772,895	-0-	-0-	-0-	-0-	7,772,895
Juvenile Detention Home	-0-	685,019	-0-	-0-	-0-	-0-	685,019
Mental Health	1,600,000	1,645,000	-0-	-0-	-0-	-0-	1,645,000
Public Library	1,500,000	22,373,685	20,487,502	-0-	9,266,409	67,760	52,195,356
Public Relations & Media Services	130,000	132,000	-0-	-0-	-0-	-0-	132,000
Public Utilities – Landfill	550,000	550,000	-0-	-0-	-0-	-0-	550,000
Public Works – Drainage	-0-	-0-	8,618,971	7,932,604	11,288,398	11,505,926	39,345,899
Public Works – GIS	300,000	300,000	300,000	300,000	300,000	300,000	1,500,000
Public Works – Roadway	9,174,000	9,174,000	3,412,400	17,122,000	17,125,900	2,460,400	49,294,700
Recreation	7,925,000	15,185,337	44,457,356	34,579,568	12,623,556	25,618,466	132,464,283
Total Fund 21:	**$111,758,133**	**$165,641,824**	**$150,084,223**	**$131,034,705**	**$243,476,348**	**$160,668,682**	**$850,905,782**
Fund 51 - Enterprise Fund - Public Utilities							
Public Utilities – Sewer	$25,114,800	$25,114,800	$19,349,320	$29,343,800	$18,584,600	$34,606,280	$126,998,800
Public Utilities – Water	13,941,176	13,941,176	5,955,000	11,735,888	6,694,624	7,812,176	46,138,864
Total Fund 51:	**$39,055,976**	**$39,055,976**	**$25,304,320**	**$41,079,688**	**$25,279,224**	**$42,418,456**	**$173,137,664**
Fund 52 - Enterprise Fund - Belmont Golf Course							
Recreation/Belmont Golf Course	$ -0-	$ 258,800	$ 2,017,680	$ 575,887	$ 238,209	$ 234,957	$3,325,533
Total Fund 52:	$ -0-	$ 258,800	$ 2,017,680	$ 575,887	$ 238,209	$ 234,957	$3,325,533
Grand Total:	**$150,814,109**	**$204,956,600**	**$177,406,223**	**$172,690,280**	**$268,993,781**	**$203,322,095**	**$1,027,368,979**

By Revenue Source	Approved FY 2005-06	Requested FY 2005-06	Requested FY 2006-07	Requested FY 2007-08	Requested FY 2008-09	Requested FY 2009-10	Total Five Years
Fund 21 - Capital Projects Fund							
Gas Tax	$ 2,624,000	$ 2,624,000	$ 2,562,400	$ 2,272,000	$ 2,275,900	$ 1,610,400	$ 11,344,700
General Fund	5,300,000	33,533,369	68,236,550	72,698,774	134,001,769	108,698,552	417,169,014
General Fund – Public Works	850,000	850,000	850,000	850,000	850,000	850,000	4,250,000
G.O. Bonds - Education 2000	41,307,745	41,307,745	23,759,052	-0-	-0-	-0-	65,066,797
G.O. Bonds - Education 2005	23,695,167	26,695,167	21,000,000	23,487,710	82,210,115	43,675,800	197,068,792
G.O. Bonds - Gen Gov't 2000	7,090,000	7,090,000	-0-	-0-	-0-	-0-	7,090,000
G.O. Bonds - Gen Gov't 2005	8,500,000	30,900,000	27,900,000	25,950,000	19,400,000	4,100,000	108,250,000
Landfill Revenue	550,000	550,000	-0-	-0-	-0-	-0-	550,000
Lottery/State Construction	5,776,221	5,776,221	5,776,221	5,776,221	4,738,564	1,733,930	23,801,157
Other Local	5,065,000	5,315,322	-0-	-0-	-0-	-0-	5,315,322
State	11,000,000	11,000,000	-0-	-0-	-0-	-0-	11,000,000
Total Fund 21:	**$111,758,133**	**$165,641,824**	**$150,084,223**	**$131,034,705**	**$243,476,348**	**$160,668,682**	**$850,905,782**
Fund 51 – Enterprise Fund – Public Utilities							
Enterprise Funds	$39,055,976	$39,055,976	$25,304,320	$41,079,688	$25,279,224	$42,418,456	$173,137,664
Total Fund 51:	$39,055,976	$39,055,976	$25,304,320	$41,079,688	$25,279,224	$42,418,456	$173,137,664
Fund 52 – Enterprise Fund – Belmont Golf Course							
Other Local Funds	$ -0-	$ 258,800	$ 2,017,680	$ 575,887	$ 238,209	$ 234,957	$ 3,325,533
Total Fund 52:	$ -0-	$ 258,800	$ 2,017,680	$ 575,887	$ 238,209	$ 234,957	$ 3,325,533
Grand Total:	**$150,814,109**	**$204,956,600**	**$177,406,223**	**$172,690,280**	**$268,993,781**	**$203,322,095**	**$1,027,368,979**

APPENDIX D

BOOK-ENTRY-ONLY SYSTEM

The description that follows is based solely on information furnished by DTC.

The description that follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Series 2006 Bonds, payments of principal, premium, if any, and interest on the Series 2006 Bonds to DTC, defined herein, its nominee, Participants, defined herein, or Beneficial Owners, defined herein, confirmation and transfer of beneficial ownership interests in the Series 2006 Bonds and other bond-related transactions by and between DTC, Participants and Beneficial Owners, is based solely on information furnished by DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2006 Bonds. The Series 2006 Bonds will be issued as fully registered bonds registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2006 Bond certificate will be issued for each maturity, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2006 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2006 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners, however, are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2006 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Series 2006 Bonds, except in the event that use of the book-entry system for the Series 2006 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2006 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2006 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2006 Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2006 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Series 2006 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2006 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2006 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2006 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from County, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2006 Bonds at any time by giving reasonable notice to the County. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2006 Bond certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2006 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

The County has no responsibility or obligation to the Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Participant, (b) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal of and premium,

if any, and interest on the Series 2006 Bonds, (c) the delivery or timeliness of delivery by any Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Resolutions to be given to Bondholders, or (d) any other action taken by DTC, or its nominee, Cede & Co., as Bondholder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.

So long as Cede & Co. is the registered owner of the Series 2006 Bonds, as nominee of DTC, references in this Official Statement to the registered owners of the Series 2006 Bonds or Bondholders will mean Cede & Co. as the only registered owner of the Series 2006 Bonds for all purposes under the , Resolutions.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty, or contract modification of any kind.

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APPENDIX E

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Certificate"), dated as of July 1, 2006, is executed and delivered in connection with the issuance of $81,470,000 principal amount of Water and Sewer System Revenue Bonds, Series 2006A and $4,795,000 principal amount of Water and Sewer System Refunding Revenue Bonds, Series 2006B (the "Bonds") of Henrico County, Virginia (the "County") and pursuant to a resolution duly adopted by the Board of Supervisors of the County on June 13, 2006 (the "Resolution"). Capitalized terms used in this Certificate shall have the respective meanings specified above or in Article I hereof. Pursuant to the Resolution, the County agrees as follows:

ARTICLE I
DEFINITIONS

Section 1.1. Definitions. The following terms used in this Certificate shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (i) the financial information and operating data with respect to the County for each fiscal year as set forth in Appendix A to the Official Statement in the sections "THE SYSTEM - Rates and Charges," "THE SYSTEM - Largest Customers," "THE SYSTEM - System Statistics," "SUMMARY OF REVENUES AND EXPENSES OF THE SYSTEM," "HISTORICAL DEBT SERVICE COVERAGE," "ANNUAL DEBT SERVICE REQUIREMENTS," and "WATER AND SEWER SYSTEM CAPITAL IMPROVEMENT PLAN" and (ii) information regarding amendments to this Certificate required pursuant to Sections 4.2(c) and (d) of this Certificate. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. Where such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information.

(2) "Audited Financial Statements" means the annual financial statements, if any, of the County, audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP for governmental units as prescribed by GASB; provided, however, that the County may from time to time, if required by federal or State legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification shall be provided to each NRMSIR and the SID, and shall include a reference to the specific federal or State law or regulation describing such accounting basis.

(3) "Counsel" means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws, in each case acceptable to the County.

(4) "GAAP" means generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board.

(5) "Material Event" means any of the following events with respect to the Bonds, whether relating to the County or otherwise, if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the security;

(vii) modifications to rights of securityholders;

(viii) bond calls;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the securities; and

(xi) rating changes.

(6) "Material Event Notice" means notice of a Material Event.

(7) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934.

(8) "NRMSIR" means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs as of the date of this Certificate are Bloomberg Municipal Repository, DPC Data Inc., FT Interactive Data, and Standard and Poor's Securities Evaluations, Inc. Filing information relating to each such NRMSIR is set forth in Exhibit A hereto.

(9) "Official Statement" means the "final official statement" as defined in paragraph (f)(3) of the Rule.

(10) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities and Exchange Act of 1934 as amended (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Certificate, including any official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

(11) "SEC" means the United States Securities and Exchange Commission.

(12) "SID" means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Certificate, there is no SID.

(13) "State" means the Commonwealth of Virginia.

(14) "Unaudited Financial Statements" means the same as Audited Financial Statements, except the same shall not have been audited.

(15) "Underwriter" means the underwriters of the Bonds, for whom J.P. Morgan Securities Inc. is serving as representative.

ARTICLE II
THE UNDERTAKING

Section 2.1. Purpose. This Certificate shall constitute a written undertaking for the benefit of the holders of the Bonds, and is being executed and delivered solely to assist the Underwriter in complying with subsection (b)(5) of the Rule.

Section 2.2. Annual Financial Information. (a) The County shall provide Annual Financial Information for the County with respect to each fiscal year of the County, commencing with fiscal year beginning July 1, 2006, by no later than six months after the end of the respective fiscal year, to each NRMSIR and the SID.

(b) The County shall provide, in a timely manner, notice of any failure of the County to provide the Annual Financial Information by the date specified in subsection (a) above to (i) either the MSRB or each NRMSIR, and (ii) the SID.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the dates required by Section 2.2(a) hereof, the County shall provide Audited Financial Statements, when and if available, to each NRMSIR and the SID.

Section 2.4. Notices of Material Events. (a) If a Material Event occurs, the County shall provide, in a timely manner, a Material Event Notice to (i) either the MSRB or each NRMSIR and (ii) the SID and the Underwriter.

(b) Any notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

Section 2.5. Additional Disclosure Obligations. The County acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and SEC Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the County, and that under some circumstances, compliance with this Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the County under such laws.

Section 2.6. Additional Information. Nothing in this Certificate shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Financial Information or notice of Material Event hereunder, in addition to that which is required by this Certificate. If the County chooses to include any information in any Annual Financial Information or Material Event Notice in addition to that which is specifically required by this Certificate, the County shall have no obligation under this Certificate to update such additional information or include it in any future Annual Financial Information or notice of a Material Event hereunder.

Section 2.7. No Previous Non-Compliance. The County represents that, in the previous five years, it has not failed to comply in all material respects with any previous undertaking in a written contract or Certificate specified in paragraph (b)(5)(i) of the Rule.

ARTICLE III
OPERATING RULES

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if the County provides Annual Financial Information by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID or (2) filed with the SEC or (ii) if such document is a "final official statement" as defined in paragraph (f)(3) of the Rule, available from the MSRB.

Section 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.3. CUSIP Numbers in Material Event Notices. Each Material Event Notice relating to the Bonds shall include the CUSIP numbers of the Bonds to which such Material Event Notice relates or, if the Material Event Notice relates to all bond issues of the County including the Bonds, such Material Event Notice need only include the CUSIP number of the County.

Section 3.4. Filing with Certain Dissemination Agents or Conduits. The County may satisfy its obligations hereunder to file any notice, document or information with a NRMSIR or SID (i) solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at http://www.disclosureusa.org unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004, or (ii) by filing the same with any dissemination agent or conduit, including any "central post office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such NRMSIR or SID, to the extent permitted by the SEC or SEC staff or required by the SEC. For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the agent or conduit has received an interpretive letter, which has not been withdrawn, from the SEC staff to the effect that using the agent or conduit to transmit information to the NRMSIRs and the SID will be treated for purposes of the Rule as if such information were transmitted directly to the NRMSIRs and the SID.

Section 3.5. Transmission of Information and Notices. Unless otherwise required by law and, in the County's sole determination, subject to technical and economic feasibility, the County shall employ such methods of information and notice transmission as shall be requested or recommended by the recipients of the County's information and notices.

Section 3.6. Fiscal Year. (a) The County's current fiscal year is July 1 to June 30, and the County shall promptly notify each NRMSIR and the SID of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE IV
TERMINATION, AMENDMENT AND ENFORCEMENT

Section 4.1. Termination.

(a) The County's obligations under this Certificate shall terminate upon legal defeasance, prior redemption or payment in full of all of the Bonds.

(b) This Certificate or any provision hereof, shall be null and void in the event that the County (1) delivers to the County an opinion of Counsel, addressed to the County, to the effect that those portions of the Rule which require the provisions of this Certificate or any of such provisions, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to each NRMSIR and the SID and the Underwriter.

Section 4.2. Amendment.

(a) This Certificate may be amended, by written certificate of the Director of Finance, without the consent of the holders of the Bonds if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the County or the type of business conducted thereby, (2) this

Certificate as so amended would have complied with the requirements of the Rule as of the date of this Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the County shall have received an opinion of Counsel addressed to the County, to the same effect as set forth in clause (2) above and further to the effect that the amendment does not materially impair the interests of the holders of the Bonds and (4) the County delivers copies of such opinion and amendment to each NRMSIR and the SID and to the Underwriter.

(b) In addition to subsection (a) above, this Certificate may be amended and any provision of this Certificate may be waived, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date hereof which is applicable to this Certificate, (2) the County shall have received an opinion of Counsel to the effect that performance by the County under this Certificate as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule, and (3) the County shall have delivered copies of such opinion and amendment to each NRMSIR and the SID and to the Underwriter.

(c) To the extent any amendment to this Certificate results in a change in the type of financial information or operating data provided pursuant to this Certificate, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made pursuant to Section 3.2 (a) hereof to the accounting principles to be followed by the County in preparing its financial statements, Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 4.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Certificate shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Certificate. The provisions of this Certificate shall create no rights in any person or entity except as provided in this subsection (a) and subsection (b) of this Section.

(b) The obligations of the County to comply with the provisions of this Certificate shall be enforceable by the holders of the Bonds, including beneficial owners thereof. The Bond holders' rights to enforce the provisions of this Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the County's obligations under this Certificate and the Resolution. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the County to perform in accordance with this Certificate shall not constitute a default under the Resolution and any rights and remedies provided by the Resolution upon the occurrence of a default shall not apply to any such failure.

(d) This Certificate shall be construed and interpreted in accordance with the laws of the State, without regard to its conflict of law rules, and any suits and actions arising out of this Certificate shall be instituted and tried only in the Circuit Court of the County of Henrico, Virginia; provided, however, that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the date first above written.

HENRICO COUNTY, VIRGINIA

By: ______________________________
Director of Finance

EXHIBIT A
to Continuing Disclosure Agreement

Filing information relating to the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") approved by the Securities and Exchange Commission (subject to change):

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Telephone: (609) 279-3225
Facsimile: (609) 279-5962
http://www.bloomberg.com/markets/rates/municontracts.html
E-mail address: munis@bloomberg.com

FT Interactive Data
Attention: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Telephone: (212) 771-6999; (800) 689-8466
Facsimile: (212) 771-7390
http://www.ftid.com
E-mail address: nrmsir@interactivedata.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Telephone: (201) 346-0701
Facsimile: (201) 947-0107
http://www.dpcdata.com
E-mail address: nrmsir@dpcdata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Telephone: (212) 438-4595
Facsimile: (212) 438-3975
http://www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
E-mail address: nrmsir_repository@sandp.com

An updated list of NRMSIRs may be found at the Securities and Exchange Commission website (www.sec.gov)

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APPENDIX F

PROPOSED FORMS OF OPINIONS OF BOND COUNSEL

Board of Supervisors
of Henrico County
Richmond, Virginia

Dear Members of the Board of Supervisors:

HENRICO COUNTY, VIRGINIA,
WATER AND SEWER SYSTEM REVENUE BONDS,
SERIES 2006A, $81,470,000

At your request we have examined into the validity of $81,470,000 principal amount of Water and Sewer System Revenue Bonds, Series 2006A (the "Bonds"), of Henrico County, Virginia (the "County"). The Bonds are dated as the date of their initial issuance, are issuable in fully registered form in the denomination of $5,000 each or any integral multiple thereof, and are numbered from No. R-2006A-1 upwards in order of issuance. The Bonds mature on May 1 in each of the years and in the principal amounts set forth below, with the Bonds maturing in a particular year bearing interest payable on November 1, 2006 and semiannually on each May 1 and November 1 thereafter at the interest rate per annum stated opposite such year, to wit:

Year	Principal Amount	Interest Rate	Year	Principal Amount	Interest Rate
2007	$1,065,000	4.50%	2018	$ 2,110,000	4.50 %
2008	1,345,000	4.25	2019	2,205,000	5.00
2009	1,405,000	4.25	2020	2,315,000	4.625
2010	1,465,000	4.25	2021	2,420,000	5.00
2011	1,525,000	4.25	2022	2,545,000	5.00
2012	1,590,000	4.50	2023	2,670,000	5.00
2013	1,660,000	4.50	2024	2,805,000	5.00
2014	1,735,000	5.00	2025	2,945,000	5.00
2015	1,820,000	5.00	2026	3,090,000	5.00
2016	1,915,000	5.00	2031	17,940,000	5.00
2017	2,010,000	5.00	2036	22,890,000	5.00

The Bonds maturing on and after May 1, 2017 are subject to redemption prior to their stated maturities at the option of the County on or after May 1, 2016 upon the terms and conditions and at the prices set forth therein. The Bonds maturing on May 1, 2031 are subject to mandatory sinking fund redemption on May 1, 2027 and on each May 1 thereafter to and including May 1, 2031 upon the terms and conditions and at the prices set forth therein. The Bonds maturing on May 1, 2036 are subject to mandatory sinking fund redemption on May 1, 2032 and on each May 1 thereafter to and including May 1, 2036 upon the terms and conditions and at the prices set forth therein.

The Bonds recite that they are issued by the County under and pursuant to and in full compliance with the Constitution and statutes of the Commonwealth of Virginia, including Chapter 26 of Title 15.2 of the Code of Virginia, 1950 (the same being the Public Finance Act of 1991), a resolution duly adopted by the Board of Supervisors of the County on November 23, 1977 and a resolution supplemental thereto duly adopted by such Board on June 13, 2006 (collectively, the "Resolution"), for the purpose of financing the costs of acquisition, construction, reconstruction, improvement, extension and enlargement of the unified water supply and sanitary sewerage system in the County.

We have examined (i) the Constitution and statutes of the Commonwealth of Virginia, (ii) certified copies of the proceedings of the Board of Supervisors of the County authorizing the issuance, sale and delivery of the Bonds, (iii) such other papers, instruments, documents and proceedings as we have deemed necessary or advisable and (iv) a specimen Bond.

In our opinion, the Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the Commonwealth of Virginia and constitute valid and legally binding special obligations of the County payable solely from and secured equally and ratably solely by a lien and charge on the revenues derived from the operation of the water and sewer system of the County on a parity with bonds heretofore issued and any bonds, and interest on bond anticipation notes, which hereafter may be issued under the Resolution, subject, however, to the prior payment from such revenues of the expenses of operation and maintenance of the water and sewer system, all as set forth and provided in the Resolution.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to judicial discretion, to the exercise of the sovereign police powers of the Commonwealth of Virginia and the constitutional powers of the United States of America and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting the relief of debtors.

In our opinion, under existing statutes and court decisions and assuming continuing compliance by the County with certain tax covenants described herein, interest on the Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code") and (ii) is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact and statements of reasonable expectations made by the County in connection with the Bonds, and we have assumed compliance by the County with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

It is also our opinion that under existing law of the Commonwealth of Virginia, such interest is not includable in computing the Virginia income tax.

We express no opinion regarding other federal or Commonwealth of Virginia tax consequences arising with respect to the Bonds. We are rendering our opinion under existing statutes and court decisions as of the issue date of the Bonds, and we assume no obligation to update our opinion after the issue date of the Bonds to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Very truly yours,

Board of Supervisors
of Henrico County
Richmond, Virginia

Dear Members of the Board of Supervisors:

HENRICO COUNTY, VIRGINIA,
WATER AND SEWER SYSTEM REFUNDING REVENUE BONDS,
SERIES 2006B, $4,795,000

At your request we have examined into the validity of $4,795,000 principal amount of Water and Sewer System Refunding Revenue Bonds, Series 2006B (the “Bonds”), of Henrico County, Virginia (the “County”). The Bonds are dated the date of their issuance, are issuable in fully registered form in the denomination of $5,000 each or any integral multiple thereof, and are numbered from No. R-2006B-1 upwards in order of issuance. The Bonds mature on May 1 in each of the years and in the principal amounts set forth below, with the Bonds maturing in a particular year bearing interest payable on November 1, 2006 and semiannually on each May 1 and November 1 thereafter at the interest rate per annum stated opposite such year, to wit:

Year	Principal Amount	Interest Rate
2007	$875,000	4.50%
2008	495,000	4.25
2009	515,000	4.25
2010	535,000	4.25
2011	555,000	4.25
2012	580,000	4.50
2013	610,000	4.50
2014	630,000	5.00

The Bonds are not subject to redemption prior to their stated maturities.

The Bonds recite that they are issued by the County under and pursuant to and in full compliance with the Constitution and statutes of the Commonwealth of Virginia, including Chapter 26 of Title 15.2 of the Code of Virginia, 1950 (the same being the Public Finance Act of 1991), a resolution duly adopted by the Board of Supervisors of the County on November 23, 1977 and a resolution supplemental thereto duly adopted by such Board on June 13, 2006 (collectively, the “Resolution”), for the purpose of refunding in advance of their stated maturities bonds heretofore issued by the County to finance the costs of acquisition, construction, reconstruction, improvement, extension and enlargement of the unified water supply and sanitary sewerage system in the County.

We have examined (i) the Constitution and statutes of the Commonwealth of Virginia, (ii) certified copies of the proceedings of the Board of Supervisors of the County authorizing the issuance, sale and delivery of the Bonds, (iii) such other papers, instruments, documents and proceedings as we have deemed necessary or advisable and (iv) a specimen Bond.

In our opinion, the Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the Commonwealth of Virginia and constitute valid and legally binding special obligations of the County payable solely from and secured equally and ratably solely by a lien and charge on the revenues derived from the operation of the water and sewer system of the County on a parity with bonds heretofore issued and any bonds, and interest on bond anticipation notes, which hereafter may be issued under the Resolution, subject, however, to the prior payment from such revenues of the expenses of operation and maintenance of the water and sewer system, all as set forth and provided in the Resolution.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to judicial discretion, to the exercise of the sovereign police powers of the Commonwealth of Virginia and the constitutional powers of the United States of America and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting the relief of debtors.

In our opinion, under existing statutes and court decisions and assuming continuing compliance by the County with certain tax covenants described herein, interest on the Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code") and (ii) is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact and statements of reasonable expectations made by the County in connection with the Bonds, and we have assumed compliance by the County with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

It is also our opinion that under existing law of the Commonwealth of Virginia, such interest is not includable in computing the Virginia income tax.

We express no opinion regarding other federal or Commonwealth of Virginia tax consequences arising with respect to the Bonds. We are rendering our opinion under existing statutes and court decisions as of the issue date of the Bonds, and we assume no obligation to update our opinion after the issue date of the Bonds to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds

Very truly yours,