

**VIRGINIA PUBLIC SCHOOL AUTHORITY**  
**FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEAR ENDING JUNE 30, 2005**



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

This section of the annual financial report of the Virginia Public School Authority (the "Authority") presents an analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2005. This information should be considered in conjunction with the information contained in the financial statements, which follow this section.

### **Authority Activities and Highlights**

The Virginia Public School Authority, created by Chapter 11, Title 22.1, *Code of Virginia*, 1950, as amended, provides financing to localities under the pooled bond program through the sale of its bonds. With the proceeds of its bond issues, the Authority purchases a "pool" of general obligation bonds from localities (the "Local Issuers"). Each Local Issuer uses the proceeds for the purpose of financing capital projects for public schools.

The Authority currently has bonds outstanding under the 1997 Resolution. The 1997 Resolution, adopted on October 23, 1997, currently serves as the primary instrument under which the Authority issues bonds under its pooled bond program. The 1997 Resolution bonds are secured by general obligation local school bonds purchased; the State Aid Intercept Provision; and, a sum sufficient appropriation, first from available Literary Fund monies and then from the Commonwealth's General Fund. During the fiscal year, the Authority issued \$725,065,000 under its pooled bond program.

In addition to its pooled bond program, the Authority also issues special obligation bonds under its stand-alone program. Bonds issued under the stand-alone program are secured solely by the local school bonds purchased from one or more specific localities. The Authority acts as a conduit issuer under the stand-alone program. The Authority also issues obligations to finance technology equipment purchases for local public school systems within the Commonwealth. These obligations are payable from, or otherwise secured by, the assets and income of the Literary Fund and now benefit from a sum sufficient appropriation from the Commonwealth's General Fund. The Authority issued \$55,255,000 under the educational technology equipment note program during the fiscal year, but did not issue any new special obligation bonds.

### **Overview of the Financial Statements**

This discussion and analysis is an introduction to the Authority's basic financial statements, which are comprised of two components: 1) fund financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements. The Authority is not required to present government-wide financial statements since all of its activity is reported in an enterprise fund, which would not change in measurement focus (economic resources) or basis of accounting (accrual) for government-wide statements.

The financial statements of the Authority offer short- and long-term financial information about its activities. The Statement of Net Assets provides information about the nature and amounts of the Authority's cash, investments, and receivables (assets) and their obligations to creditors

(liabilities). All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. This statement measures whether the Authority successfully recovered all its costs through investment earnings, bond proceeds, appropriations from the Commonwealth, and the collection of receivables. The Statement of Cash Flows provides information on the Authority's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financial activities.

### Financial Analysis of the Authority

The Authority provides a vehicle for financing capital projects for primary and secondary public schools in the Commonwealth's counties, cities and towns. On local school bonds held by the Authority, localities pay interest 10 basis points (0.10%) above the rates paid by the Authority on corresponding maturities of its bonds. This revenue is deposited to the Authority's general fund and used to pay the operating costs attributable to its financing programs, including costs of issuance and administration, such as rebate compliance expenses. The Department of the Treasury provides staff support for the Authority. The Authority owns no capital assets.

#### Virginia Public School Authority's Net Assets (in millions)

	Enterprise Fund	
	2005	2004
Current assets	\$ 6	\$ 4
Noncurrent assets	2,737	2,654
Total Assets	2,743	2,658
Current Liabilities	325	320
Noncurrent liabilities	2,403	2,313
Total Liabilities	2,728	2,633
Net assets:		
Restricted for debt service	9	22
Unrestricted	6	3
Total net assets	\$ 15	\$ 25

Total assets increased during the year by \$85 million, or 3%. This is primarily due to an increase in local school bonds outstanding (\$124 million) offset by the distribution of debt service reserve account balances (\$33 million) as part of the refunding transactions related to the 1991 Resolution bonds. Total liabilities increased by \$95 million, or 4%, during the same period as a result of an increase in outstanding bonds payable (\$69 million) and an increase in deferred premiums (\$36 million). These increases were offset by decreases in interest payable and amounts due to localities. Accordingly, only a slight decrease of \$10 million is reflected in net assets.

**Virginia Public School Authority's Changes in Net Assets  
(in millions)**

	Enterprise Fund	
	2005	2004
Revenues:		
Operating revenues:		
Charges for Services	\$ 124	\$ 127
Non-operating revenues:		
Investment earnings	3	2
Total revenues	127	129
Expenses:		
Interest on long-term debt	121	118
Other	20	7
Total expenses	141	125
Transfers	4	(7)
Change in net assets	(10)	(3)
Net assets July 1	25	28
Net assets June 30	\$ 15	\$ 25

**Debt Administration**

As a financing entity, the whole business of the Authority is debt administration. The Authority issues bonds, pursuant to its pooled bond programs, to finance capital projects approved by the local governing bodies of counties, cities, and towns of the Commonwealth of Virginia. Such bonds are secured by general obligation bonds of the participating local issuers, which provide payment of principal and interest when due. Obligations issued pursuant to the technology notes programs, in conjunction with the Board of Education, are paid from, and secured by, appropriations made from the Literary Fund. The following table summarizes bond issuance activity during the year under each program:

**Summary of Authority Bond Obligations  
(in millions)**

	Outstanding at 6/30/04	Issued During Year	Retired During Year	Outstanding at 6/30/05 *
Pooled Bond Programs	\$ 2,270	\$ 725	\$ (628)	\$ 2,367
Technology Notes Programs	170	55	(57)	168
Special Obligation Bonds	78	-	(5)	73
Total	\$ 2,518	\$ 780	\$ (690)	\$ 2,608

\* Excludes deferral on debt defeasance.

The Authority obtains bond ratings from Moody’s Investors Service (Moody’s), Standard and Poor’s Rating Service (S&P) and Fitch Ratings, Inc. (Fitch). The table below summarizes the ratings on outstanding Authority bonds.

**Virginia Public School Authority Bond Ratings**

	<u>Moody’s</u>	<u>S&amp;P</u>	<u>Fitch</u>
Pooled Bond Programs <sup>1</sup>	Aa1	AA+	AA+
School Educational Technology	Aa1	AA+	AA+

<sup>1</sup> 1997 Resolution Bonds

Since the Authority’s bond programs are either backed by state appropriations (School Educational Technology Notes Programs) or carry the credit support of the State Aid Intercept Provision (Pooled Bond Program), the bond ratings are a direct reflection of the Commonwealth’s triple-A rating from each of the three rating agencies.

**Future Impact to Financial Position**

In November 2005, the Authority plans to issue approximately \$199.4 million of School Financing Bonds (1997 Resolution) Series 2005 D to purchase certain general obligation local school bonds to finance capital projects for public schools.

## **Financial Statements**

VIRGINIA PUBLIC SCHOOL AUTHORITY  
STATEMENT OF NET ASSETS (Unaudited)  
As of June 30, 2005

ASSETS

Current assets:

Cash and cash equivalents (Note 2)	\$ 5,827,883
Interest receivable	502
Total current assets	5,828,385

Noncurrent assets:

Restricted cash and cash equivalents (Note 2)	81,476,935
Loans to localities:	
Local school bonds (Note 3)	2,433,982,169
Interest receivable	53,280,365
Due from Literary Fund (Note 5)	168,315,000
Total noncurrent assets	2,737,054,469
Total assets	2,742,882,854

LIABILITIES

Current liabilities:

Accounts payable	69,554
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Current liabilities payable from restricted assets:

Interest payable	47,541,820
Accrued interest sold	375,658
Due to paying agent for overpayment	213,181
Due to localities (Note 5)	61,792,833
Notes payable (Notes 4 and 5)	54,550,000
Bonds payable (net of interest deferral) (Notes 4 and 7)	154,928,400
Premium on bonds sold	5,523,756
Total current liabilities payable from restricted assets	324,925,648

Noncurrent liabilities payable from restricted assets:

Notes payable (Notes 4 and 5)	113,765,000
Bonds payable (net of interest deferral) (Notes 4 and 7)	2,224,387,563
Premium on bonds sold	64,606,890
Total noncurrent liabilities payable from restricted assets	2,402,759,453

Total liabilities	2,727,754,655
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NET ASSETS

Restricted for debt service	9,369,368
Unrestricted	5,758,831
Total net assets	\$ 15,128,199

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



VIRGINIA PUBLIC SCHOOL AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET ASSETS (Unaudited)  
For the Year Ended June 30, 2005

Operating Revenues:	
Interest on:	
Local school bonds	\$ 123,345,048
Cash, cash equivalents, and investments	2,713,928
Premium on bonds sold	473,500
Net increase in fair value of investments	31,999
Rebate and penalty payments received from localities (Note 9)	741,271
Other	<u>31,314</u>
Total Operating Revenues	<u>127,337,060</u>
Operating Expenses:	
Interest on bonds	121,063,177
Financial advisor fees	299,640
Legal fees	693,388
Bond rating fees	344,637
Printing and electronic distribution	38,175
Board expenses	288
Staffing expenses	119,431
Underwriters' discount	1,615,388
Rebate and penalty payments and calculation fees (Note 9)	121,338
Payments to localities	16,587,728
Other	<u>67,672</u>
Total Operating Expenses	<u>140,950,862</u>
Operating Loss	<u>(13,613,802)</u>
Nonoperating Transfers:	
Transfers from Literary Fund (Note 8)	4,138,510
Transfer to the General Fund of the Commonwealth (Note 8)	<u>(170,221)</u>
Total Nonoperating Transfers	<u>3,968,289</u>
Change in Net Assets	(9,645,513)
Net Assets, July 1, 2004	<u>24,773,712</u>
Net Assets, June 30, 2005	<u><u>\$ 15,128,199</u></u>

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

VIRGINIA PUBLIC SCHOOL AUTHORITY  
STATEMENT OF CASH FLOWS (Unaudited)  
For the Year Ended June 30, 2005

Cash flows from operating activities:	
Interest on cash equivalents	\$ 237,884
Purchase of local school bonds	(279,697,000)
Principal received on local school bonds	155,307,541
Interest received on local school bonds	117,497,056
Payments to vendors for goods and services	(1,623,414)
Payments received from the Literary Fund	57,460,000
Other operating revenues	31,314
Net cash provided by operating activities	49,213,381
Cash flows from noncapital financial activities:	
Proceeds from the sale of bonds	780,320,000
Principal paid on VPSA bonds	(203,155,000)
Interest paid on VPSA bonds	(117,012,145)
Premium on bonds sold	44,565,653
Underwriters' discount	(1,634,658)
Rebate calculation fees	741,271
Accrued interest sold	(174,233)
Transfers from the Literary Fund	3,021,098
Transfer to the General Fund of the Commonwealth (Note 7)	(170,221)
Payments to localities (Education Technology Notes)	(63,834,898)
Payments to localities (refunding savings)	(16,587,728)
Payments to escrow agent	(516,739,656)
Rebate and penalty payments to the Internal Revenue Service	(880,275)
Net cash used by noncapital financing activities	(91,540,792)
Cash flows from investing activities:	
Proceeds from sale and maturities of investments	46,504,465
Interest on investments	3,394,243
Increase in fair value of cash equivalents	10,614
Net cash provided by investing activities	49,909,322
Net increase in cash and cash equivalents	7,581,911
Cash and cash equivalents, July 1, 2004	79,722,907
Cash and cash equivalents, June 30, 2005	\$ 87,304,818

Operating loss	<u>\$ (13,613,802)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in interest receivable	(1,628,717)
Decrease in accounts payable	(819,995)
Decrease in interest payable	(3,034,768)
Rebate and penalty payments received from localities	(741,271)
Payments from the Literary Fund	57,460,000
Principal received on local school bonds	155,307,541
Purchase of local school bonds	(279,697,000)
Rebate and penalty payments to the Internal Revenue Service	880,275
Payments to localities	16,587,728
Amount due to paying agent for overpayment	213,181
Amortization of premium	(3,514,257)
Underwriters' discount	1,615,388
Premium on bonds sold	(473,500)
Amortization of interest deferral	7,086,675
Interest paid on VPSA bonds	117,012,145
Increase in fair value of investments	(31,999)
Interest on investments	<u>(3,394,243)</u>
Total adjustments	<u>62,827,183</u>
Net cash provided by operating activities	<u>\$ 49,213,381</u>

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

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## **Notes to the Financial Statements**

**VIRGINIA PUBLIC SCHOOL AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Unaudited)**  
**AS OF JUNE 30, 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Financial Reporting Entity

The Virginia Public School Authority (the “Authority” or “VPSA”) was created by Chapter 11, Title 22.1, *Code of Virginia* 1950, as amended (the “Enabling Act”). The Authority provides financing to localities through the sale of its bonds. With the proceeds of its bonds, the Authority purchases a predetermined number of general obligation bonds issued by localities. The Enabling Act authorizes the Authority to purchase local school bonds issued by counties, cities and towns under the provisions of Section 15.2-2600, et seq., *Code of Virginia* (the “Public Finance Act of 1991”). The Enabling Act further authorizes the Authority to issue bonds which are payable from the funds of the Authority including:

- 1) principal and interest received on local school bonds held by the Authority;
- 2) proceeds from the sale of such local school bonds;
- 3) any moneys transferred from the Literary Fund or funds appropriated from the General Assembly; and
- 4) a reserve fund(s) created from bond proceeds pledged to secure designated bonds.

Currently, the Authority has pooled bonds outstanding under its 1997 Resolution. Bonds issued under the 1997 Resolution are secured by local school bonds purchased and a “sum sufficient appropriation,” first from available Literary Fund monies and then from the Commonwealth’s General Fund.

With the issuance under the 1997 Resolution of the Authority’s Series 2005 A bonds, which closed on March 15, 2005, the Authority refunded the remaining outstanding bonds under the 1991 Resolution. Funds were placed with an escrow agent to provide for the redemption of the bonds at maturity or call date.

In addition to its pooled bond program, the Authority also issues special obligation bonds under its stand-alone program. Bonds issued under the stand-alone program are secured solely by the local school bonds purchased from one or more specific localities. The Authority acts as a conduit issuer under the stand-alone program.

As directed by the General Assembly, the Authority has also issued obligations to finance technology equipment purchases for local public school systems within the Commonwealth. These obligations are payable from, or otherwise secured by, the assets and income of the Literary Fund.

A separate report is prepared for the Commonwealth of Virginia which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Authority is a component unit of the Commonwealth of Virginia and is included in the general purpose financial statements of the Commonwealth.

The accounting and reporting policies of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB), the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Authority's significant policies.

B. Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting under which revenues are recognized when they are earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. The cash basis of accounting is used during the year. The financial statements are prepared on the accrual basis at the end of the fiscal year by the Authority.

C. Fund Accounting

The activities of the Authority are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate. All fund accounts of the Authority are presented in total on the financial statements.

D. Bond Issuance Costs, Discounts, and Premiums

Costs associated with issuing debt, which are either offset by fees collected over the life of the respective pooled bond issues from local issuers, reimbursed directly by localities participating in stand-alone issues, or paid from Literary Fund contributions, are expensed in the year incurred. The original issue discount or premium, for each bond issuance, is also expensed or recorded as revenue in the year incurred unless it exceeds 1% of the amount of bonds issued. In that case, the original issue discount or premium is deferred and amortized, on a straight-line basis, over the life of the outstanding debt.

## 2. CASH AND CASH EQUIVALENTS (Unrestricted and Restricted)

Cash and cash equivalents of the Authority are held by the Treasurer of Virginia. Cash is defined as demand deposits, non-negotiable time deposits, and certificates of deposit in accordance with Section 2.2-4400 of the *Code of Virginia*. Cash equivalents are defined as investments with an original maturity of less than three months.

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"). Under the Act, banks holding public deposits in excess of the amount insured by the FDIC must pledge collateral that ranges in amounts from 50% to 100% of excess deposits in the case of a bank, and 100% to 110% for a savings institution to a collateral pool in the name of the Commonwealth of Virginia Treasury Board. Accordingly, all deposits are considered fully collateralized.

Section 2.2-4500 and Section 2.2-4501 of the *Code of Virginia* outline the instruments in which public sinking funds and other public funds may legally invest. The Authority adheres to these general guidelines unless bond resolutions require more restrictive investment policies. All investments of the Authority are held in the Authority's name. The Authority's investments are valued at fair value, which approximates market value. All investments of the Authority are rated AAA by Standard and Poor's. Details of cash and cash equivalents are presented below.

### Summary of Cash and Cash Equivalents As of June 30, 2005

|                                             | <u>Fair Value</u>    |
|---------------------------------------------|----------------------|
| Deposits                                    | \$ 73,250            |
| U.S. Treasury and Agency Securities         | 19,711,705           |
| Negotiable Certificates of Deposit          | 1,123,618            |
| Short Term Investment Fund <sup>1</sup>     | 2,305,520            |
| State Non-Arbitrage Program <sup>sm 2</sup> | 64,090,725           |
| Total cash and cash equivalents             | <u>\$ 87,304,818</u> |

1 The Authority invests certain short-term cash balances held within its accounts in the JP Morgan Treasury Plus Money Market Fund. This is a rated fund, which maintains a policy of investing all assets in U.S. Treasury obligations and repurchase agreements backed by those obligations.

2 The Virginia State Non-Arbitrage Program<sup>sm</sup> ("SNAP<sup>sm</sup>") offers a professionally-managed money market mutual fund, which provides issuers with a temporary pooled investment vehicle for proceeds pending expenditure, and with record keeping, depository and arbitrage rebate calculation services. SNAP<sup>sm</sup> is an external investment pool registered under the Investment Company Act of 1940, as amended. Participants in the Authority's various bond programs are required to invest their bond proceeds in SNAP<sup>sm</sup>.

The Authority does not limit the amount that may be invested in any one issuer. The Authority had investments of 5 percent or more in the State Non-Arbitrage Program<sup>sm</sup> (73%), the Federal National Mortgage Association (11%), the Federal Home Loan Mortgage Corporation (9%), and the JPMorgan Treasury Plus Money Market Fund (5%).



### 3. LOCAL SCHOOL BONDS

The Authority purchases bonds from (makes loans to) various localities throughout the Commonwealth, which are issued to finance the construction of local public school facilities. These bonds are recorded at purchase price that is equal to the face value of the bonds. Local school bonds purchased under the 1997 Resolution are held in a pledge account of the General Pledge Fund established under its bond resolution. Local school bonds purchased under the stand-alone program are deposited in separate purchase funds established for each issue. Assets of the Authority that are held or received in purchase funds, pledge funds, or debt service funds are classified as restricted assets because their use is limited to the purpose of the funds in which they reside, in accordance with applicable bond resolutions. The local school bonds are held and pledged to repay the Authority's bonds.

The interest rates on the local school bonds are determined by the Authority and fixed at the time of sale of the Authority bonds issued to fund the acquisition of the local school bonds. For pooled bond sales, the interest rate on each maturity of the local bonds is ten basis points (0.10%) higher than the interest rate paid by the Authority on the corresponding maturity on its bonds.

Shown below are the local school bonds held by the Authority as of June 30, 2005.

Local school bonds:

|                                                                                |                                |
|--------------------------------------------------------------------------------|--------------------------------|
| Held in 1994 Purchase Fund<br>(York County Stand Alone)                        | \$ 1,195,000                   |
| Held in 1995 Purchase Fund<br>(Cheaspeake, City of , Stand Alone)              | 11,000,000                     |
| Held in 1997 Pledge Account                                                    | 2,362,122,907                  |
| Held in 1999 Purchase Fund<br>(Northampton County Qualified Zone Academy Bond) | 1,225,000                      |
| Held in 2001 Purchase Fund<br>(Northampton County Qualified Zone Academy Bond) | 348,133                        |
| Held in 2002 Purchase Fund<br>(Accomack County Qualified Zone Academy Bond)    | 1,266,129                      |
| Held in 2004 Purchase Fund<br>(Chesterfield County Stand Alone)                | <u>56,825,000</u>              |
| Total local school bonds                                                       | <u><u>\$ 2,433,982,169</u></u> |

#### 4. LONG-TERM INDEBTEDNESS

##### A. Changes in Long-Term Debt

The following is a summary of changes in long-term debt of the Authority for the year ended June 30, 2005.

|                                      | <u>Current<br/>Liability</u> | <u>Long-Term<br/>Liability</u> | <u>Total</u>            |
|--------------------------------------|------------------------------|--------------------------------|-------------------------|
| Balance July 1, 2004                 | \$ 203,155,000               | \$ 2,315,052,063               | \$ 2,518,207,063        |
| Issued during fiscal 2005            | 29,945,000                   | 750,375,000                    | 780,320,000             |
| Retired during fiscal 2005           | (203,155,000)                | -                              | (203,155,000)           |
| Defeased during fiscal 2005          | (25,130,000)                 | (462,595,000)                  | (487,725,000)           |
| Maturing fiscal 2006                 | 211,615,000                  | (211,615,000)                  | -                       |
| Subtotal                             | <u>216,430,000</u>           | <u>2,391,217,063</u>           | <u>2,607,647,063</u>    |
| Less: Deferral on<br>debt defeasance | <u>(6,951,600)</u>           | <u>(53,064,500)</u>            | <u>(60,016,100)</u>     |
| Balance June 30, 2005                | <u>\$ 209,478,400</u>        | <u>\$ 2,338,152,563</u>        | <u>\$ 2,547,630,963</u> |

##### B. Annual Requirements to Amortize Bonds Payable and Notes Payable

The following schedule provides the annual funding requirements necessary to amortize long-term debt of the Authority outstanding at June 30, 2005.

| Year Ending<br><u>June 30</u>       | <u>Principal</u>       | <u>Interest</u>        | <u>Total</u>           |
|-------------------------------------|------------------------|------------------------|------------------------|
| 2006                                | \$ 216,430,000         | \$ 121,420,448         | \$ 337,850,448         |
| 2007                                | 219,970,000            | 114,593,539            | 334,563,539            |
| 2008                                | 199,385,000            | 104,022,613            | 303,407,613            |
| 2009                                | 188,675,000            | 94,318,459             | 282,993,459            |
| 2010                                | 172,125,000            | 85,156,212             | 257,281,212            |
| 2011-2015                           | 706,265,000            | 309,281,553            | 1,015,546,553          |
| 2016-2020                           | 555,972,063            | 148,301,869            | 704,273,932            |
| 2021-2025                           | 285,205,000            | 43,190,944             | 328,395,944            |
| 2026-2030                           | 62,425,000             | 6,325,825              | 68,750,825             |
| 2031                                | 1,195,000              | 26,887                 | 1,221,887              |
| Subtotal                            | <u>2,607,647,063</u>   | <u>1,026,638,349</u>   | <u>3,634,285,412</u>   |
| Less Deferral on<br>Debt defeasance | <u>(60,016,100)</u>    | <u>-</u>               | <u>(60,016,100)</u>    |
| Total                               | <u>\$2,547,630,963</u> | <u>\$1,026,638,349</u> | <u>\$3,574,269,312</u> |

## 5. EQUIPMENT NOTES

Periodically, the Authority issues Equipment Financing Notes, the proceeds of which are used to make grants to school divisions for the purchase of educational technology equipment. The proceeds are invested in the Virginia State Non-Arbitrage Program<sup>sm</sup> until requisitioned by localities. The following schedule details the notes that have been issued which still have either bonds outstanding or funds remaining to be disbursed to localities as of June 30, 2005.

### Educational Technology Notes

| Issue              | Description | Amount Issued         | Outstanding Balance   | Remaining Available for Disbursement |
|--------------------|-------------|-----------------------|-----------------------|--------------------------------------|
| Ed Tech Series I   | 2001 Notes  | \$ 55,765,000         | \$ 11,790,000         | \$ 619                               |
| Ed Tech Series II  | 2002 Notes  | 55,555,000            | 22,480,000            | 107,657                              |
| Ed Tech Series III | 2003 Notes  | 55,325,000            | 32,950,000            | 228,366                              |
| Ed Tech Series IV  | 2004 Notes  | 56,835,000            | 45,840,000            | 14,114,993                           |
| Ed Tech Series V   | 2005 Notes  | 55,255,000            | 55,255,000            | 47,341,198                           |
|                    |             | <u>\$ 278,735,000</u> | <u>\$ 168,315,000</u> | <u>\$ 61,792,833</u>                 |

## 6. QUALIFIED ZONE ACADEMY BOND

On October 29, 1999, the Authority issued \$2,100,000 in Special Obligations School Financing Bond (County of Northampton Qualified Zone Academy Financing) Series of 1999 as a Qualified Zone Academy Bond ("QZAB"). On December 21, 2001, the Authority issued \$419,060 in Special Obligations School Financing Bond (County of Northampton Qualified Zone Academy Financing) Series 2001 as a QZAB. Also, on December 31, 2002, the Authority issued \$1,433,003 in Special Obligations School Financing Bond (County of Accomack Qualified Zone Academy Financing) Series 2002 as a QZAB. These bonds were issued pursuant to Section 1297E of the Internal Revenue Code of 1986, as amended, and the Authority purchased certain general obligation school bonds of Northampton County and Accomack County to finance capital projects for public schools.

The localities will make annual principal payments to the Authority on the anniversary date of each issuance. Such payments received by the Authority will be held in trust and invested in certificates of deposit maturing on the next anniversary date of each issuance in accordance with the funding agreements. The agreements provide that maturing certificate of deposit proceeds will be combined with the current annual payment and reinvested to the next anniversary date. The final annual principal payments on the 1999 QZAB, the 2001 QZAB and the 2002 QZAB are due October 29, 2011, December 21, 2015, and December 31, 2016, respectively, at which dates the QZABs will mature.

## 7. DEFEASANCE OF DEBT

From time to time, when interest rates indicate that it would be favorable to do so, the Authority has issued refunding bonds to defease outstanding bonds. These refundings have placed the proceeds of the new bonds in irrevocable trusts with escrow agents to provide for all future debt service on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the Authority's financial statements.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," the difference between the reacquisition price and the net carrying amount of the bonds defeased with refunding debt is amortized as a component of Interest on Bonds over the remaining life of the refunded debt. Therefore, Bonds Payable has been reduced by \$60,016,100 to reflect the remaining deferral on debt defeasance at June 30, 2005.

The Authority issued three series of refunding bonds during fiscal year 2005. The proceeds of the refunding bonds were placed with an escrow agent to provide for all future debt service on the defeased bonds. Accordingly, the liability for the defeased bonds is not included on the Authority's financial statements. Any savings realized as a result of these refundings will be passed through, on a pro rata basis, to the issuers of the related underlying local school bonds in accordance with the Authority's Enabling Legislation. The following table reflects the refunding activity during the year.

Refunding Bonds Issued During Fiscal Year 2005

| Refunding Issue         | Refunded Issue | Maturities Defeased  | Amount Defeased |
|-------------------------|----------------|----------------------|-----------------|
| 2004 C&D                | 1995 C         | 2005-16              | \$ 71,545,000   |
| 2004 C&D                | 1996 A         | 2005-17              | 30,565,000      |
| 2004 C&D                | 1996 B         | 2005-17              | 82,815,000      |
| 2005 A                  | 1997 A         | 2005-18              | 63,720,000      |
| 2005 B                  | 1997-I         | 2005-17 <sup>1</sup> | 65,710,000      |
| 2005 B                  | 1998 A         | 2005-18 <sup>1</sup> | 25,255,000      |
| 2005 B                  | 1998 B         | 2005-18 <sup>1</sup> | 49,140,000      |
| 2005 B                  | 1999 A         | 2005-19 <sup>1</sup> | 51,515,000      |
| 2005 B                  | 2000 A         | 2005-20 <sup>1</sup> | 47,460,000      |
| Total Defeased, FY 2005 |                |                      | \$ 487,725,000  |

<sup>1</sup> For certain maturities, only a portion was defeased.

The issuance under the 1997 Resolution of the Authority's Series 2004 C and D bonds refunded certain outstanding bonds under the 1991 resolution. This debt defeasance resulted in an accounting loss of \$12,160,000. Total debt service payments over the next 13 years will be reduced by \$6,910,076 resulting in a present value savings of \$6,744,123 discounted at the rate of 3.2947 percent.

With the issuance of the Authority's Series 2005 A bonds the Authority refunded the remaining outstanding bonds under the 1991 Resolution. This defeasance resulted in an accounting loss of \$3,910,000. Total debt service payments over the next 14 years will be reduced by \$2,211,755 resulting in a present value savings of \$2,177,057 discounted at the rate of 3.592069 percent.

The issuance of the Authority's Series 2005 B bonds refunded several series of the Authority's outstanding bonds as reflected in the above table. This defeasance resulted in an accounting loss of \$11,601,000. Total debt service payments over the next 16 years will be reduced by \$8,826,164 resulting in a present value savings of \$8,661,957 discounted at the rate of 4.0370436 percent.

At June 30, 2005, \$583,295,000 of bonds outstanding are considered defeased for financial reporting purposes.

## **8. TRANSFERS**

In June 2005, after final rebate computation and payment on the Educational Technology Notes Issue VI, the residual earnings of \$1,637,769 on the related bond proceeds were transferred to the Literary Fund, which had been the source of the debt service appropriation for these Notes. Also in June 2005, the Authority transferred \$1,105,895 to the Literary Fund based on the VPSA Board of Commissioners' approval of the distribution of the allocable savings achieved through the refunding of the Series 1999 B (1997 Resolution) issue. Finally, in June 2005, the Authority transferred \$170,221 to the General Fund of the Commonwealth pursuant to Section 3-3.01 of Chapter 951 of the 2005 Virginia Acts of Assembly.

The Authority received \$6,880,508 from the Literary Fund to pay interest on the various outstanding Educational Technology Notes. Also contributing to net transfers for the year was the residual effect of the fiscal year 2004 repeal of the 1987 Resolution, which resulted in a final transfer from the Literary Fund of \$1,666.

## **9. ARBITRAGE EARNINGS**

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the federal government. The U.S. Treasury has issued regulations on calculating the rebate amount and complying with the provisions of the Tax Reform Act of 1986. The Authority and the issuers of local school bonds purchased by the Authority must comply with the rebate regulations in order for the Authority's bonds to maintain a tax-exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with the bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield to be rebated to the federal government.

Income earned on excess earnings is also subject to rebate. Rebate payments, if required, are due at least every five years over the life of the bonds. Some Authority bonds may be exempt from the rebate requirement if they meet statutory exceptions per the rebate regulations. The Authority may also elect, on or before the date of the bond issue, to pay a penalty in lieu of rebate if it does not meet certain expenditure schedules. If such an election is made and if the Authority (local issuer) meets the expenditure schedule, the Authority (local issuer) retains any arbitrage earnings. The Authority, to date, has not elected penalty in lieu of rebate due to the difficulty in estimating local issuer's expenditure schedules. Rebate and penalty payments are calculated and paid by the Authority as required by law on bond issues that do not meet the statutory exceptions. Rebate installments must be paid no later than 60 days after the computation date.

In most cases, rebate liability is payable by local issuers whose local school bonds were purchased by the Authority. During the year, the Authority's rebate calculation agent, or the locality's rebate calculation agent in the case of special obligation stand-alone bonds, calculate rebate liability or penalty in lieu of rebate if selected by a locality. The Authority paid liability, if applicable, on the following bond issues:

| Bond Issue                        | Computation             |                  | Liability |
|-----------------------------------|-------------------------|------------------|-----------|
|                                   | Initial 5 Year or Final | Computation Date |           |
| (97 Resolution) Series 1999 A     | Initial 5 year          | 5/13/2004        | \$ -      |
| (87 Resolution) Series 1993 C     | Final*                  | 1/12/2004        | -         |
| (87 Resolution) Series 1993 A     | Final*                  | 1/12/2004        | -         |
| (87 Resolution) 1991 Ref Series C | Final*                  | 1/12/2004        | -         |
| (87 Resolution) 1993 Ref Series B | Final*                  | 1/12/2004        | -         |
| (91 Resolution) 1994 Series B     | Final*                  | 8/1/2004         | -         |
| (97 Resolution) 1999 Series B     | Initial 5 year          | 11/18/2004       | 42,534    |
| (91 Resolution) 1994 Series A     | 5 year                  | 5/1/2004         | -         |
| (91 Resolution) 1994 Series A     | Final*                  | 8/1/2004         | -         |
| (87 Resolution) Series 1992 B     | Final*                  | 1/1/2005         | -         |
| Equipment Notes Series VI         | Final*                  | 4/1/2005         | 23,454    |

\* Reports prepared as of the final redemption of the bonds

The Authority paid \$78,500 to its rebate calculation agent for services provided in connection with the above rebate calculations.

The VPSA School Financing Bonds (1991 Resolution) Series 1995 C, the VPSA School Financing Bonds (1991 Resolution) Series 1996 A and the VPSA School Financing Bonds (1991 Resolution) Series 1996 B were all refunded as part of VPSA's \$159,585,000 School Financing Bonds (1997 Resolution) Refunding Series 2004 C and Refunding Series 2004 D (Federally Taxable). The redemption date for the final maturity of the Series 1996 A and Series 1996 B is August 1, 2006 with final computations to be completed at the time.

The previously refunded Series 1995 A (1991 Resolution), Series 1995 B (1991 Resolution) and Series 1995 C (1991 Resolution) had final rebate computation due as of August 1, 2005. The final rebate computations received for the three refunded series were received September 7, 2005. No rebate liability was owed to the IRS for the Series 1995 A and Series 1995 B. The Series 1995 C had a rebate liability of \$124,706.31 that was paid to the IRS on September 28, 2005.

The VPSA School Financing Bonds Series 2000 B (1997 Resolution), the VPSA School Financing Bonds Series 2001 A (1997 Resolution), the VPSA School Financing Bonds Series 1996 A (1991 Resolution), the VPSA School Financing Bonds Series 1997 A (1991 Resolution), and the VPSA School Educational Technology Notes Series I, will require a rebate computation as of November 1, 2005, May 1, 2006, May 1, 2006, May 1, 2006, and May 30, 2006, respectively.

## **10. SUBSEQUENT EVENTS**

In November 2005, the Authority plans to issue approximately \$199.4 million of School Financing Bonds (1997 Resolution) Series 2005 D to purchase certain general obligation local school bonds to finance capital projects for public schools.

## **11. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Department of Treasury participates in insurance plans maintained by the Commonwealth of Virginia on behalf of the Authority. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The Department of Treasury pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

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## **Supplementary Information**

**Virginia Public School Authority**  
**Detail of Long-Term Indebtedness**  
**June 30, 2005**  
**(Dollars in Thousands)**

**Detail of Long-Term Indebtedness by Series**

	Dated Date	Bond Resolution	True Interest Cost ("TIC")	Amount Issued (a)	Local School Bonds Purchased	Outstanding July 1, 2004	Issued (Retired) During Year	Outstanding June 30, 2005 (b)	Original Maturity
1994 Series York County	07/01/94	Stand Alone	5.76%	\$ 25,000	\$ 25,000	\$ 2,325	\$ (1,130)	\$ 1,195	07/15/14
1995 Series Chesapeake City	06/01/95	Stand Alone	5.63%	102,000	102,000	15,000	(4,000)	11,000	06/01/15
Series 1995 C	12/01/95	1991	5.10%	121,610	110,528	77,300	(77,300)	-	08/01/16
Sereis 1996 A	04/15/96	1991	5.45%	49,205	44,555	32,940	(32,940)	-	08/01/17
Series 1996 B	11/01/96	1991	5.20%	132,545	120,396	88,955	(88,955)	-	08/01/17
Series 1997A	04/01/97	1991	5.49%	92,175	83,325	67,900	(67,900)	-	08/01/18
Series 1997 I	11/01/97	1997	4.92%	224,285	140,818	152,820	(76,965)	75,855	08/01/17
Series 1998 A	04/01/98	1997	4.71%	130,715	50,730	89,045	(32,615)	56,430	08/01/18
Series 1998 B	11/01/98	1997	4.56%	105,025	105,311	78,800	(54,405)	24,395	08/01/18
Series 1999 A	05/01/99	1997	4.60%	153,040	153,040	124,680	(58,770)	65,910	08/01/19
Series 1999 B	11/01/99	1997	5.54%	91,770	91,770	28,785	(4,745)	24,040	08/01/19
Series 1999 QZAB, Northampton County	10/29/99	Stand Alone	0.00%	2,100	2,100	2,100	-	2,100	10/29/11
Series 2000 A	05/01/00	1997	5.38%	100,175	100,175	85,650	(52,340)	33,310	08/01/20
Series 2000 Ed Tech Issue VI	05/01/00	Equip. Notes	5.12%	66,380	-	14,420	(14,420)	-	04/01/05
Series 2000 B	11/01/00	1997	5.11%	106,200	106,197	92,835	(4,655)	88,180	08/01/20
Series 2001 A	05/01/01	1997	4.84%	153,940	153,940	139,475	(7,325)	132,150	08/01/21
Series 2001 Ed Tech Series I	05/01/01	Equip. Notes	3.53%	55,765	-	23,125	(11,335)	11,790	04/15/06
Series 2001 B	11/01/01	1997	4.87%	142,400	142,400	128,680	(6,875)	121,805	08/01/21
Series 2001 C	11/01/01	1997	4.87%	41,500	41,500	41,500	(1,050)	40,450	08/01/26
Series 2001 QZAB, Northampton County	12/21/01	Stand Alone	0.00%	419	419	419	-	419	12/21/15
Series 2002 A	05/01/02	1997	4.70%	111,510	111,510	106,520	(5,030)	101,490	08/01/22
Series 2002 Ed Tech Series II	05/01/02	Equip. Notes	2.94%	55,555	-	32,925	(10,445)	22,480	04/15/07
Series 2002 B	11/01/02	1997	4.12%	155,545	155,545	148,815	(7,875)	140,940	08/01/22
Series 2002 QZAB, Accomack County	12/31/02	Stand Alone	0.00%	1,433	1,433	1,433	-	1,433	12/31/16
Series 2003 A	05/01/03	1997	4.00%	113,155	113,155	113,155	(5,505)	107,650	08/01/28
Series 2003 Ed Tech Series III	05/01/03	Equip. Notes	1.92%	55,325	-	43,215	(10,265)	32,950	04/15/08
Series 2003 B	05/01/03	1997	2.93%	74,850	74,850	70,830	(8,110)	62,720	08/01/13

(a) Includes refunding bonds issued.

(b) Excludes deferral on debt defeasance.

**Virginia Public School Authority**  
**Detail of Long-Term Indebtedness**  
**June 30, 2005**  
**(Dollars in Thousands)**

**Detail of Long-Term Indebtedness by Series (continued)**

	Dated Date	Bond Resolution	True Interest Cost ("TIC")	Amount Issued (a)	Local School Bonds Purchased	Outstanding July 1, 2004	Issued (Retired) During Year	Outstanding June 30, 2005 (b)	Original Maturity
Series 2003 C	11/01/03	1997	4.39%	190,645	190,645	190,645	(6,255)	184,390	08/01/28
Series 2003 D	12/11/03	1997	3.23%	286,670	-	286,670	(28,675)	257,995	08/01/19
2004 Series Chesterfield County	02/15/04	Stand Alone	3.80%	56,825	56,825	56,825	-	56,825	01/15/25
Series 2004 A	05/01/04	1997	4.33%	123,585	123,585	123,585	-	123,585	08/01/29
Series 2004 Ed Tech Series IV	06/01/04	Equip. Notes	2.82%	56,835	-	56,835	(10,995)	45,840	04/15/09
Series 2004 B	11/01/04	1997	3.91%	145,340	145,337	-	145,340	145,340	08/01/29
Series 2004 C	12/08/04	1997	3.34%	156,125	-	-	156,125	156,125	08/01/16
Series 2004 D	12/08/04	1997	3.34%	3,460	-	-	3,460	3,460	08/01/05
Series 2005 A	03/15/05	1997	3.64%	55,200	-	-	55,200	55,200	08/01/17
Series 2005 B	04/20/05	1997	4.07%	230,580	-	-	230,580	230,580	08/01/20
Series 2005 C	05/01/05	1997	4.13%	134,360	134,360	-	134,360	134,360	08/01/30
Series 2005 Ed Tech Series V	05/25/05	Equip. Notes	2.97%	55,255	-	-	55,255	55,255	04/15/10
Total				<u>\$ 3,958,502</u>	<u>\$ 2,681,449</u>	<u>\$ 2,518,207</u>	<u>\$ 89,440</u>	<u>\$ 2,607,647</u>	

**Detail of Long-Term Indebtedness by Resolution**

	Amount Issued (a)	Local School Bonds Purchased	Outstanding July 1, 2004	Issued (Retired) During Year	Outstanding June 30, 2005 (b)
1991 Resolution	\$ 395,535	\$ 358,804	\$ 267,095	\$ (267,095)	\$ -
1997 Resolution	3,030,075	2,134,868	2,002,490	363,870	2,366,360
Stand Alone Issues	187,777	187,777	78,102	(5,130)	72,972
Equipment Notes	345,115	-	170,520	(2,205)	168,315
Total	<u>\$ 3,958,502</u>	<u>\$ 2,681,449</u>	<u>\$ 2,518,207</u>	<u>\$ 89,440</u>	<u>\$ 2,607,647</u>

(a) Includes refunding bonds issued.

(b) Excludes deferral on debt defeasance.

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VIRGINIA PUBLIC SCHOOL AUTHORITY  
Richmond, Virginia

BOARD OF COMMISSIONERS

As of June 30, 2005

James J. Wheaton, Chairman

James M. Holland, Vice Chairman

Hady Amr

Tammy Barnett Hall

Brenda L. Skidmore

EX OFFICIO

Jody M. Wagner, Secretary and Treasurer, State Treasurer

David Von Moll, State Comptroller

Jo Lynne DeMary, Superintendent of Public Instruction