

VIRGINIA PUBLIC SCHOOL AUTHORITY
FINANCIAL STATEMENTS (UNAUDITED)
FOR THE YEAR ENDING JUNE 30, 2009



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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, 2009. 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, 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 \$433,545,000 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 \$111,965,000 in special obligation bonds during the fiscal year and \$55,395,000 under the educational technology equipment note program.

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 its 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 that were issued prior to March 26, 2009, localities pay interest 10 basis points (0.10%) above the rates paid by the Authority on corresponding maturities of its bonds. As a result of a policy change made by the Authority on March 26, 2009, local school bonds issued by localities subsequent to March 26, 2009 and through June 30, 2012, and held by the Authority, will pay interest 5 basis points (0.05%) 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	
	2009	2008
Current assets	\$ 1	\$ 16
Noncurrent assets	3,566	3,330
Total Assets	3,567	3,346
Current Liabilities	402	390
Noncurrent liabilities	3,165	2,943
Total Liabilities	3,567	3,333
Net assets:		
Unrestricted	-	13
Total net assets	\$ -	\$ 13

Total assets increased during the year by \$221 million, or seven percent. This is primarily due to an increase in local school bonds outstanding (\$228 million), offset by a \$6 million decrease in interest receivable and small decreases in other categories. Total liabilities increased by \$234 million, or seven percent, during the same period as a result of an increase in outstanding bonds and notes payable (\$223 million), an increase in amounts due to localities (\$3 million), an increase in premiums on bonds sold (\$4 million), and an increase in capitalized interest held (\$4 million). Accordingly, a decrease of \$13 million is reflected in net assets.

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

	Enterprise Fund	
	2009	2008
Revenues:		
Operating revenues:		
Charges for Services	\$ 151	\$ 151
Non-operating revenues:		
Investment earnings	2	4
Total revenues	153	155
Expenses:		
Interest on long-term debt	161	154
Other	3	2
Total expenses	164	156
Transfers	(2)	(2)
Change in net assets	(13)	(3)
Net assets July 1	13	16
Net assets June 30	\$ -	\$ 13

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 6/30/08 *	Issued During Year	Retired During Year	Outstanding at 6/30/09 *
Pooled Bond Programs	\$ 2,965	\$ 433	\$ (320)	\$ 3,078
Technology Notes Programs	173	55	(56)	172
Special Obligation Bonds	52	111	(2)	161
Total	\$ 3,190	\$ 599	\$ (378)	\$ 3,411

* 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

	Moody’s	S&P	Fitch
Pooled Bond Programs ¹	Aa1	AA+	AA+
School Educational Technology	Aa1	AA+	AA+

¹ 1997 Resolution Bonds

Since the Authority’s bond programs are either backed by state appropriations (School Educational Technology Notes Program) 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 September 2009, the Authority authorized a new debt program utilizing a portion of the Virginia allocation the new Qualified School Construction Bond (QSCB) tax credit bond program created by The American Recovery and Reinvestment Act of 2009. The new tax credit bond program authorized an initial issuance of up to \$85.0 million. The first pool issue of such tax credit bonds is anticipated in late October or early November 2009. In October 2009, the Authority issued its \$485.3 million School Financing Refunding Series 2009 C and its \$19.9 million School Financing Bonds, (1997 Resolution) Series 2009 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, 2009

ASSETS

Current assets:

Cash and cash equivalents (Note 2A)	\$ 1,084,851
Interest receivable	52
	1,084,903

Noncurrent assets:

Restricted cash and cash equivalents (Note 2A)	94,379,551
Loans to localities:	
Local school bonds (Note 2B)	3,236,802,623
Interest receivable	62,820,328
Due from Literary Fund (Note 2D)	172,160,000
	3,566,162,502
Total noncurrent assets	3,566,162,502
	3,567,247,405

Total assets

LIABILITIES

Current liabilities:

Accounts payable	36,302
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Current liabilities payable from restricted assets:

Interest payable	63,678,013
Accrued interest sold	315,390
Due to localities (Note 2D)	68,742,851
Notes payable (Notes 2C and 2D)	57,540,000
Bonds payable (net of interest deferral) (Notes 2C and 2F)	202,001,600
Premium on bonds sold	6,235,189
Capitalized interest held for localities	3,908,200
	402,421,243

Total current liabilities payable from restricted assets

Noncurrent liabilities payable from restricted assets:

Notes payable (Notes 2C and 2D)	114,620,000
Bonds payable (net of interest deferral) (Notes 2C and 2F)	2,999,296,763
Premium on bonds sold	50,724,536
	3,164,641,299

Total noncurrent liabilities payable from restricted assets

Total liabilities

3,567,098,844

NET ASSETS

Unrestricted	148,561
Total net assets	\$ 148,561

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, 2009

Operating Revenues:	
Interest on:	
Local school bonds	\$ 149,937,013
Cash equivalents	1,516,189
Premium on bonds sold	1,555,858
Other	<u>20,268</u>
Total Operating Revenues	<u>153,029,328</u>
Operating Expenses:	
Interest on bonds	161,387,336
Financial advisor fees	208,962
Legal fees	313,000
Bond rating fees	301,241
Printing and electronic distribution	22,984
Board expenses	750
Staffing expenses	146,842
Underwriters' discount	2,058,294
Rebate and penalty payments and calculation fees (Note 2H)	89,856
Other	<u>77,910</u>
Total Operating Expenses	<u>164,607,175</u>
Operating Loss	<u>(11,577,847)</u>
Nonoperating Transfers:	
Transfers to Literary Fund (Note 2G)	(1,387,475)
Transfer to the General Fund of the Commonwealth (Note 2G)	<u>(201,000)</u>
Total Nonoperating Transfers	<u>(1,588,475)</u>
Change in Net Assets	(13,166,322)
Net Assets, July 1, 2008	<u>13,314,883</u>
Net Assets, June 30, 2009	<u><u>\$ 148,561</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, 2009

Cash flows from operating activities:	
Interest on cash equivalents	\$ 1,517,328
Purchase of local school bonds	(431,327,295)
Principal received on local school bonds	203,291,503
Interest received on local school bonds	150,145,076
Payments to vendors for goods and services	(1,067,910)
Payments received from the Literary Fund	64,469,470
Other operating revenues	20,268
Net cash used by operating activities	<u>(12,951,560)</u>
Cash flows from noncapital financial activities:	
Proceeds from the sale of bonds	600,905,000
Principal paid on VPSA bonds	(261,270,000)
Interest paid on VPSA bonds	(154,723,513)
Premium on bonds sold	15,534,192
Underwriters' discount	(2,186,255)
Accrued interest sold	(155,982)
Transfer to the General Fund of the Commonwealth	(201,000)
Transfers to the Literary Fund	(9,531,945)
Payments to localities (Education Technology Notes)	(56,352,298)
Payments to escrow agent	(123,384,958)
Rebate and penalty payments and calculation fees	(77,687)
Capitalized interest received	3,908,200
Net cash provided by noncapital financing activities	<u>12,463,754</u>
Net decrease in cash and cash equivalents	(487,806)
Cash and cash equivalents, July 1, 2008	<u>95,952,208</u>
Cash and cash equivalents, June 30, 2009	<u>\$ 95,464,402</u>

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	<u>\$ (11,577,847)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Decrease in interest receivable	5,862,122
Increase in accounts payable	15,914
Decrease in interest payable	(8,478)
Payments from the Literary Fund	64,469,470
Principal received on local school bonds	203,291,503
Purchase of local school bonds	(431,327,295)
Rebate and penalty payments to the Internal Revenue Service	77,687
Amortization of premium	(5,652,919)
Underwriters' discount	2,058,294
Premium on bonds sold	(1,555,858)
Amortization of interest deferral	6,672,334
Interest paid on VPSA bonds	<u>154,723,513</u>
Total adjustments	<u>(1,373,713)</u>
Net cash used by operating activities	<u>\$ (12,951,560)</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, 2009**

**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.

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 basic 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. DETAILED NOTES

### A. 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. Details of cash and cash equivalents are presented below. Standard and Poor's ratings, where available, have also been presented below.

#### Summary of Cash and Cash Equivalents As of June 30, 2009

|                                               | <u>Fair Value</u>    | <u>Rating</u> |
|-----------------------------------------------|----------------------|---------------|
| Non-Negotiable Certificates of Deposit        | \$ 2,274,357         | Not Rated     |
| Short Term Investment Fund <sup>1</sup>       | 14,767,809           | AAAm          |
| State Non-Arbitrage Program <sup>® 2</sup>    | <u>78,422,236</u>    | AAAm          |
| Total cash, cash equivalents, and investments | <u>\$ 95,464,402</u> |               |

1 The Authority invests certain short-term cash balances held within its accounts in the JP Morgan US Govt 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>®</sup> ("SNAP<sup>®</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>®</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>®</sup>.

The Authority does not limit the amount that may be invested in any one issuer. The Authority had investments of five percent or more in the State Non-Arbitrage Program<sup>®</sup> (82%) and the JP Morgan US Govt Money Market Fund (15%).



B. 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, 2009.

|                                                  |                                |
|--------------------------------------------------|--------------------------------|
| Local school bonds:                              |                                |
| Held in 1997 Pledge Account                      | \$ 3,077,714,916               |
| Held in 1999 Purchase Fund                       |                                |
| (Northampton County Qualified Zone Academy Bond) | 525,000                        |
| Held in 2001 Purchase Fund                       |                                |
| (Northampton County Qualified Zone Academy Bond) | 253,563                        |
| Held in 2002 Purchase Fund                       |                                |
| (Accomack County Qualified Zone Academy Bond)    | 899,144                        |
| Held in 2004 Purchase Fund                       |                                |
| (Chesterfield County Stand Alone)                | 45,445,000                     |
| Held in 2008 Purchase Fund                       |                                |
| (Henrico County Stand Alone)                     | 44,440,000                     |
| Held in 2008 Purchase Fund                       |                                |
| (Fluvanna County Stand Alone)                    | 67,525,000                     |
| Total local school bonds                         | <u><u>\$ 3,236,802,623</u></u> |

C. Long-Term Indebtedness

1. 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, 2009.

|                                      | <u>Current<br/>Liability</u> | <u>Long-Term<br/>Liability</u> | <u>Total</u>            |
|--------------------------------------|------------------------------|--------------------------------|-------------------------|
| Balance July 1, 2008                 | \$ 261,270,000               | \$ 2,928,667,063               | \$ 3,189,937,063        |
| Issued during fiscal 2009            | 18,615,000                   | 582,290,000                    | 600,905,000             |
| Retired during fiscal 2009           | (261,270,000)                | -                              | (261,270,000)           |
| Defeased during fiscal 2009          | (4,560,000)                  | (113,030,000)                  | (117,590,000)           |
| Maturing in fiscal 2010              | 251,855,000                  | (251,855,000)                  | -                       |
| Subtotal                             | <u>265,910,000</u>           | <u>3,146,072,063</u>           | <u>3,411,982,063</u>    |
| Less: Deferral on<br>debt defeasance | <u>(6,368,400)</u>           | <u>(32,155,300)</u>            | <u>(38,523,700)</u>     |
| Balance June 30, 2009                | <u>\$ 259,541,600</u>        | <u>\$ 3,113,916,763</u>        | <u>\$ 3,373,458,363</u> |

2. 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, 2009.

| <u>Year Ending<br/>June 30</u>       | <u>Principal</u>       | <u>Interest</u>        | <u>Total</u>           |
|--------------------------------------|------------------------|------------------------|------------------------|
| 2010                                 | \$ 265,910,000         | \$ 158,856,905         | \$ 424,766,905         |
| 2011                                 | 262,310,000            | 147,899,273            | 410,209,273            |
| 2012                                 | 250,675,000            | 135,005,257            | 385,680,257            |
| 2013                                 | 227,360,000            | 122,980,360            | 350,340,360            |
| 2014                                 | 212,960,000            | 112,022,541            | 324,982,541            |
| 2015-2019                            | 944,132,063            | 414,091,697            | 1,358,223,760          |
| 2020-2024                            | 732,010,000            | 207,337,947            | 939,347,947            |
| 2025-2029                            | 420,425,000            | 67,115,394             | 487,540,394            |
| 2030-2034                            | 82,920,000             | 11,835,825             | 94,755,825             |
| 2035-2038                            | 13,280,000             | 967,025                | 14,247,025             |
| Subtotal                             | <u>3,411,982,063</u>   | <u>1,378,112,224</u>   | <u>4,790,094,287</u>   |
| Less: Deferral on<br>debt defeasance | <u>(38,523,700)</u>    | <u>-</u>               | <u>(38,523,700)</u>    |
| Total                                | <u>\$3,373,458,363</u> | <u>\$1,378,112,224</u> | <u>\$4,751,570,587</u> |

D. Equipments 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>®</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, 2009.

Educational Technology Notes

| Issue               | Description | Amount Issued         | Outstanding Balance   | Remaining Available for Disbursement |
|---------------------|-------------|-----------------------|-----------------------|--------------------------------------|
| Ed Tech Series II   | 2002 Notes  | \$ 55,555,000         | \$ -                  | \$ 107,657                           |
| Ed Tech Series III  | 2003 Notes  | 55,325,000            | -                     | 72,366                               |
| Ed Tech Series IV   | 2004 Notes  | 56,835,000            | -                     | 202,911                              |
| Ed Tech Series V    | 2005 Notes  | 55,255,000            | 12,035,000            | 159,133                              |
| Ed Tech Series VI   | 2006 Notes  | 56,620,000            | 23,845,000            | 275,943                              |
| Ed Tech Series VII  | 2007 Notes  | 56,765,000            | 35,345,000            | 1,266,432                            |
| Ed Tech Series VIII | 2008 Notes  | 56,475,000            | 45,540,000            | 19,146,373                           |
| Ed Tech Series IX   | 2009 Notes  | 55,395,000            | 55,395,000            | 47,512,036                           |
|                     |             | <u>\$ 448,225,000</u> | <u>\$ 172,160,000</u> | <u>\$ 68,742,851</u>                 |

E. 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.

F. 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.

The Authority issued one series of refunding bonds during fiscal year 2009. 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 2009

| <u>Refunding Issue</u>  | <u>Refunded Issue</u> | <u>Maturities Defeased</u> | <u>Amount Defeased</u> |
|-------------------------|-----------------------|----------------------------|------------------------|
| 2009A                   | 1997-I                | 2011                       | \$ 7,445,000           |
| 2009A                   | 1998A                 | 2011-14                    | 17,030,000             |
| 2009A                   | 1999A                 | 2009-13                    | 31,415,000             |
| 2009A                   | 2000B                 | 2009-20                    | 61,700,000             |
| Total Defeased, FY 2009 |                       |                            | <u>\$ 117,590,000</u>  |

The issuance under the 1997 Resolution of the Authority's Series 2009A bonds refunded certain outstanding bonds under the 1997 resolution. This debt defeasance resulted in an accounting loss of \$5,596,000. Total debt service payments over the next 12 years will be reduced by \$7,090,942 resulting in a present value savings of \$6,944,511 discounted at the rate of 2.60 percent.

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 \$38,523,700 to reflect the remaining deferral on debt defeasance at June 30, 2009

At June 30, 2009, \$233,675,000 of bonds outstanding are considered defeased for financial reporting purposes.

G. Transfers

During the year, the Authority received \$8,144,470 from the Literary Fund to pay interest on the various outstanding Educational Technology Notes. Pursuant to Section 3-3.01 of Chapter 781 of the 2009 Virginia Acts of Assembly, the Authority transferred \$201,000 to the General Fund of the Commonwealth in June 2009 and \$9,531,945 to the Literary Fund in June 2009.

H. 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:

| <u>Bond Issue</u>                                                   | <u>Computation<br/>Initial 5-Year or Final</u> | <u>Computation<br/>Date</u> | <u>Liability</u> |
|---------------------------------------------------------------------|------------------------------------------------|-----------------------------|------------------|
| (97 Resolution) 2003 Series A & B<br>Ed. Technology Notes Series IV | 5 year<br>Final*                               | 5/15/08<br>4/15/09          | \$ -<br>9,354    |
| (97 Resolution) 2003 Series C                                       | 5 year                                         | 11/16/08                    | 15,083           |
| (97 Resolution) 1998 Series B                                       | 5 year                                         | 11/19/08                    | -                |
| (97 Resolution) 2003 Series D                                       | 5 year                                         | 12/11/08                    | -                |

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

The Authority paid \$53,250 to its rebate calculation agent for services provided in connection with the above rebate calculations.

The Series 2004 A (1997 Resolution) had a first installment computation date of May 13, 2009 and no rebate was owed. The Series 1999 A (1997 Resolution) had an installment computation date of May 13, 2009 and no rebate was owed. The Series 1999 B (1997 Resolution) had a final installment computation date of August 1, 2009 and no rebate was owed. The VPSA Bonds Series 2004 B (1997 Resolution), the VPSA School Financing Refunding Bonds Series 2004 C (1997 Resolution), the VPSA Refunding Bonds Series 2005 A (1997 Resolution), the VPSA Refunding Bonds Series 2005 B (1997 Resolution), the VPSA School Educational Technology Notes Series V, the VPSA Bonds Series 2005 C (1997 Resolution), and the VPSA School Financing Bonds Series 2004 A (1997 Resolution), will require a rebate computation as of November 10, 2009, December 7, 2009, March 15, 2010, March 15, 2010, April 15, 2010, May 12, 2010 and May 18, 2010 respectively.

#### I. Subsequent Events

In September 2009, the Authority authorized a new debt program utilizing a portion of the Virginia allocation the new Qualified School Construction Bond (QSCB) tax credit bond program created by The American Recovery and Reinvestment Act of 2009. The new tax

credit bond program authorized an initial issuance of up to \$85.0 million. The first pool issue of such tax credit bonds is anticipated in late October or early November 2009. In October 2009, the Authority issued its \$485.3 million School Financing Refunding Series 2009 C and its \$19.9 million School Financing Bonds, (1997 Resolution) Series 2009 D to purchase certain general obligation local school bonds to finance capital projects for public schools.

J. 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 the Treasury participates in insurance plans maintained by the Commonwealth of Virginia on behalf of the Authority. 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 the Treasury pays premiums to this Department 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.

## **Supplementary Information**

**Virginia Public School Authority**  
**Detail of Long-Term Indebtedness**  
**June 30, 2009**  
**(Dollars in Thousands)**

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

|                                         | Dated<br>Date | Bond<br>Resolution | True Interest<br>Cost ("TIC") | Amount<br>Issued (a) | Local<br>School Bonds<br>Purchased | Outstanding<br>July 1,<br>2008 | Issued<br>(Retired)<br>During<br>Year | Outstanding<br>June 30,<br>2009 (b) | Original<br>Maturity |
|-----------------------------------------|---------------|--------------------|-------------------------------|----------------------|------------------------------------|--------------------------------|---------------------------------------|-------------------------------------|----------------------|
| Series 1997 I                           | 11/01/97      | 1997               | 4.92%                         | 224,285              | 140,818                            | 43,330                         | (14,540)                              | 28,790                              | 08/01/17             |
| Series 1998 A                           | 04/01/98      | 1997               | 4.71%                         | 130,715              | 50,730                             | 34,840                         | (24,525)                              | 10,315                              | 08/01/18             |
| Series 1998 B                           | 11/01/98      | 1997               | 4.56%                         | 105,025              | 105,311                            | 10,030                         | (5,110)                               | 4,920                               | 08/01/18             |
| Series 1999 A                           | 05/01/99      | 1997               | 4.60%                         | 153,040              | 153,040                            | 45,070                         | (38,830)                              | 6,240                               | 08/01/19             |
| Series 1999 B                           | 11/01/99      | 1997               | 5.54%                         | 91,770               | 91,770                             | 9,690                          | (4,825)                               | 4,865                               | 08/01/19             |
| Series 1999 QZAB,<br>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                            | 19,915                         | (4,975)                               | 14,940                              | 08/01/20             |
| Series 2000 B                           | 11/01/00      | 1997               | 5.11%                         | 106,200              | 106,197                            | 73,750                         | (66,695)                              | 7,055                               | 08/01/20             |
| Series 2001 A                           | 05/01/01      | 1997               | 4.84%                         | 153,940              | 153,940                            | 110,125                        | (7,255)                               | 102,870                             | 08/01/21             |
| Series 2001 B                           | 11/01/01      | 1997               | 4.87%                         | 142,400              | 142,400                            | 101,115                        | (6,950)                               | 94,165                              | 08/01/21             |
| Series 2001 C                           | 11/01/01      | 1997               | 4.87%                         | 41,500               | 41,500                             | 37,030                         | (1,235)                               | 35,795                              | 08/01/26             |
| Series 2001 QZAB,<br>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                            | 86,100                         | (5,245)                               | 80,855                              | 08/01/22             |
| Series 2002 B                           | 11/01/02      | 1997               | 4.12%                         | 155,545              | 155,545                            | 117,210                        | (7,945)                               | 109,265                             | 08/01/22             |
| Series 2002 QZAB,<br>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                            | 91,020                         | (5,585)                               | 85,435                              | 08/01/28             |
| Series 2003 B                           | 05/01/03      | 1997               | 2.93%                         | 74,850               | 74,850                             | 39,190                         | (7,675)                               | 31,515                              | 08/01/13             |
| Series 2003 C                           | 11/01/03      | 1997               | 4.39%                         | 190,645              | 190,645                            | 164,280                        | (7,095)                               | 157,185                             | 08/01/28             |
| Series 2003 D                           | 12/11/03      | 1997               | 3.23%                         | 286,670              | -                                  | 146,660                        | (28,950)                              | 117,710                             | 08/01/19             |
| 2004 Series Chesterfield County         | 02/15/04      | Stand Alone        | 3.80%                         | 56,825               | 56,825                             | 48,290                         | (2,845)                               | 45,445                              | 01/15/25             |
| Series 2004 A                           | 05/01/04      | 1997               | 4.33%                         | 123,585              | 123,585                            | 109,885                        | (4,695)                               | 105,190                             | 08/01/29             |
| Series 2004 Ed Tech Series IV           | 06/01/04      | Equip. Notes       | 2.82%                         | 56,835               | -                                  | 12,170                         | (12,170)                              | -                                   | 04/15/09             |
| Series 2004 B                           | 11/01/04      | 1997               | 3.91%                         | 145,340              | 145,337                            | 126,505                        | (6,600)                               | 119,905                             | 08/01/29             |
| Series 2004 C                           | 12/08/04      | 1997               | 3.34%                         | 156,125              | -                                  | 120,945                        | (14,080)                              | 106,865                             | 08/01/16             |
| Series 2005 A                           | 03/15/05      | 1997               | 3.64%                         | 55,200               | -                                  | 44,385                         | (4,220)                               | 40,165                              | 08/01/17             |
| Series 2005 B                           | 04/20/05      | 1997               | 4.07%                         | 230,580              | -                                  | 229,775                        | (7,020)                               | 222,755                             | 08/01/20             |
| Series 2005 C                           | 05/01/05      | 1997               | 4.13%                         | 134,360              | 134,360                            | 123,105                        | (5,740)                               | 117,365                             | 08/01/30             |

(a) Includes refunding bonds issued.

(b) Excludes deferral on debt defeasance.



**Virginia Public School Authority**  
**Detail of Long-Term Indebtedness**  
**June 30, 2009**  
**(Dollars in Thousands)**

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

|                                 | Dated<br>Date | Bond<br>Resolution | True Interest<br>Cost ("TIC") | Amount<br>Issued (a) | Local<br>School Bonds<br>Purchased | Outstanding<br>July 1,<br>2008 | Issued<br>(Retired)<br>During<br>Year | Outstanding<br>June 30,<br>2009 (b) | Original<br>Maturity |
|---------------------------------|---------------|--------------------|-------------------------------|----------------------|------------------------------------|--------------------------------|---------------------------------------|-------------------------------------|----------------------|
| Series 2005 Ed Tech Series V    | 05/25/05      | Equip. Notes       | 2.97%                         | 55,255               | -                                  | 23,495                         | (11,460)                              | 12,035                              | 04/15/10             |
| Series 2005 D                   | 11/01/05      | 1997               | 4.19%                         | 199,345              | 199,341                            | 183,240                        | (8,350)                               | 174,890                             | 08/01/30             |
| Series 2006 A                   | 05/01/06      | 1997               | 4.39%                         | 202,175              | 202,175                            | 194,530                        | (7,780)                               | 186,750                             | 08/01/31             |
| Series 2006 Ed Tech Series VI   | 05/25/06      | Equip. Notes       | 3.71%                         | 56,620               | -                                  | 34,920                         | (11,075)                              | 23,845                              | 04/15/11             |
| Series 2006 B                   | 11/01/06      | 1997               | 4.22%                         | 240,955              | 240,954                            | 232,615                        | (9,325)                               | 223,290                             | 08/01/32             |
| Series 2007 A                   | 05/01/07      | 1997               | 4.24%                         | 112,235              | 112,235                            | 112,235                        | (4,790)                               | 107,445                             | 08/01/32             |
| Series 2007 Ed Tech Series VII  | 05/24/07      | Equip. Notes       | 3.70%                         | 56,765               | -                                  | 46,030                         | (10,685)                              | 35,345                              | 04/15/12             |
| Series 2007 B                   | 11/01/07      | 1997               | 4.28%                         | 223,080              | 223,076                            | 223,080                        | (9,655)                               | 213,425                             | 08/01/32             |
| Series 2008 A                   | 05/01/08      | 1997               | 4.22%                         | 134,950              | 134,950                            | 134,950                        | -                                     | 134,950                             | 08/01/37             |
| Series 2008 Ed Tech Series VIII | 05/22/08      | Equip. Notes       | 2.88%                         | 56,475               | -                                  | 56,475                         | (10,935)                              | 45,540                              | 04/15/13             |
| 2008 Series Henrico County      | 07/17/08      | Stand Alone        | 4.12%                         | 44,440               | 44,440                             | -                              | 44,440                                | 44,440                              | 07/15/28             |
| Series 2008 B                   | 12/01/08      | 1997               | 4.75%                         | 118,930              | 118,927                            | -                              | 118,930                               | 118,930                             | 08/01/33             |
| 2008 Series Fluvanna County     | 12/22/08      | Stand Alone        | 5.95%                         | 67,525               | 67,525                             | -                              | 67,525                                | 67,525                              | 12/01/35             |
| Series 2009 A                   | 03/12/09      | 1997               | 2.60%                         | 114,180              | -                                  | -                              | 114,180                               | 114,180                             | 08/01/20             |
| Series 2009 B                   | 05/01/09      | 1997               | 3.69%                         | 200,435              | 200,435                            | -                              | 200,435                               | 200,435                             | 08/01/29             |
| Series 2009 Ed Tech Series IX   | 05/21/09      | Equip. Notes       | 1.60%                         | 55,395               | -                                  | -                              | 55,395                                | 55,395                              | 04/15/14             |
| <b>Total</b>                    |               |                    |                               | <u>\$ 5,082,987</u>  | <u>\$ 3,739,703</u>                | <u>\$ 3,189,937</u>            | <u>\$ 222,045</u>                     | <u>\$ 3,411,982</u>                 |                      |

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

|                    | Amount<br>Issued (a) | Local<br>School Bonds<br>Purchased | Outstanding<br>July 1,<br>2008 | Issued<br>(Retired)<br>During<br>Year | Outstanding<br>June 30,<br>2009 (b) |
|--------------------|----------------------|------------------------------------|--------------------------------|---------------------------------------|-------------------------------------|
| 1997 Resolution    | \$ 4,572,900         | \$ 3,566,961                       | \$ 2,964,605                   | \$ 113,855                            | \$ 3,078,460                        |
| Stand Alone Issues | 172,742              | 172,742                            | 52,242                         | 109,120                               | 161,362                             |
| Equipment Notes    | 337,345              | -                                  | 173,090                        | (930)                                 | 172,160                             |
| <b>Total</b>       | <u>\$ 5,082,987</u>  | <u>\$ 3,739,703</u>                | <u>\$ 3,189,937</u>            | <u>\$ 222,045</u>                     | <u>\$ 3,411,982</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, 2009

James M. Holland, Chairman

Woodrow W. Mullins, Jr., Vice Chairman

Hady Amr

Brenda L. Skidmore

Kanchana K. Thamodaran

EX OFFICIO

Manju S. Ganeriwala, Secretary and Treasurer, State Treasurer

David Von Moll, State Comptroller

Dr. Patricia I. Wright, Superintendent of Public Instruction