

**VIRGINIA PUBLIC SCHOOL AUTHORITY**  
**FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE YEAR ENDING JUNE 30, 2010**



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VIRGINIA PUBLIC SCHOOL AUTHORITY  
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, 2010. 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 its pooled bond program. Under the program, the Authority issues its bonds and uses the proceeds to purchase 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's 1997 Resolution, adopted on October 23, 1997, serves as the primary instrument under which the Authority issues bonds for its pooled bond program. The 1997 Resolution bonds are secured first by payments from Local Issuers on their local school bonds; second, from amounts obtained under the State Aid Intercept Provision under which the Authority can intercept state appropriations to the locality; and third, from a sum sufficient appropriation. The sum sufficient appropriation is first from available Literary Fund monies and then from the Commonwealth's General Fund.

Also under its pooled bond program, the Authority has issued Qualified School Construction Bonds under a Master Indenture of Trust dated of October 1, 2009. Qualified School Construction Bonds are tax credit bonds established under the American Recovery and Reinvestment Act of 2009 (ARRA), under which the bondholder receives a federal tax credit in lieu of interest. These bonds are secured by payments from Local Issuers on their general obligation local school bonds, then from amounts obtained through the State Aid Intercept Provision, and then from any amounts received by the Authority pursuant to any current Appropriation Act Provision. During the fiscal year, the Authority issued a total of \$663,695,000 in pooled bonds under these two programs.

In addition to its pooled bond program, the Authority also issues special obligation bonds under its stand-alone program and its equipment 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. Under the Equipment Notes Program, the Authority 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 \$54,110,000 under the educational technology equipment note program. No stand-alone bonds were issued during the year.

### **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

VIRGINIA PUBLIC SCHOOL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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 held by the Authority issued subsequent to March 26, 2009 and through June 30, 2012, 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.

During 2010, the Authority completed its 2009 C Refunding that resulted in debt service savings that would be available to the Authority at the August 1, 2010 payment date. Of the \$28.7 million in total savings, \$24.2 million was allocable to the underlying local participants, and \$4.5 million was allocable to the Literary Fund on behalf of the participants that had originally received a subsidized VPSA loan from the Literary Fund. The Authority's savings will result from a reduced principal payment while the local participants' realization of those savings comes in the form of a credit against interest due to the Authority. The accrual of these interest savings to the benefit of the local participants results in a deficit net assets amount in the current fiscal year, which will be resolved once the savings are actually realized on August 1<sup>st</sup>, 2010.

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**Condensed Statement of Net Assets**  
**(in millions)**

	Enterprise Fund	
	2010	2009
Current assets	\$ 11	\$ 1
Noncurrent assets	3,504	3,566
Total Assets	3,515	3,567
Current Liabilities	388	402
Noncurrent liabilities	3,152	3,165
Total Liabilities	3,540	3,567
Net assets:		
Restricted for debt service	-	-
Unrestricted	(25)	-
Total net assets	\$ (25)	\$ -

Total assets decreased during the year by \$52 million, or one percent. This is primarily due to a \$29 million decrease in local school bonds outstanding, an \$18 million decrease in interest receivable, a \$3 million decrease in amounts due from the Literary Fund, and small decreases in other categories. Total liabilities decreased by \$27 million, or one percent, during the same period as a result of an decrease in outstanding bonds and notes payable (\$90 million), offset by an increase in amounts due to localities (\$4 million), an increase in premiums on bonds sold (\$64 million), a decrease in capitalized interest held (\$4 million), and small decreases in other categories. Accordingly, a decrease of \$25 million is reflected in net assets.

**Condensed Statement of Changes in Net Assets**  
**(in millions)**

	Enterprise Fund	
	2010	2009
Revenues:		
Operating revenues:		
Charges for Services	\$ 143	\$ 151
Non-operating revenues:		
Investment earnings	1	2
Total revenues	144	153
Expenses:		
Interest on long-term debt	161	161
Other	4	3
Total expenses	165	164
Transfers	(4)	(2)
Change in net assets	(25)	(13)
Net assets July 1	-	13
Net assets June 30	\$ (25)	\$ -

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

**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 6/30/09 *	Issued During Year	Retired During Year	Outstanding at 6/30/10 *
Pooled Bond Programs	\$ 3,078	\$ 664	\$ (702)	\$ 3,040
Technology Notes Programs	172	54	(57)	169
Special Obligation Bonds	161	-	(5)	156
<b>Total</b>	<b>\$ 3,411</b>	<b>\$ 718</b>	<b>\$ (764)</b>	<b>\$ 3,365</b>

\* 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 <sup>1</sup>	Aa1	AA+	AA+
School Educational Technology Notes	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 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 July 2010, the Authority closed on its \$72.6 million Qualified School Construction Bonds (QSCB), Series 2010-1. In October 2010, the Authority issued its \$85.5 million School Financing Refunding Series 2010 C bonds. The Authority also anticipates issuing its \$9.9 million School Financing Bonds, (1997 Resolution) Series 2010 D in November 2010 to purchase certain general obligation local school bonds to finance capital projects for public schools.

VIRGINIA PUBLIC SCHOOL AUTHORITY  
STATEMENT OF NET ASSETS (Unaudited)  
As of June 30, 2010

ASSETS

Current assets:

Cash and cash equivalents (Note 2A)	\$ 11,450,536
Interest receivable	<u>3</u>
Total current assets	<u>11,450,539</u>

Noncurrent assets:

Restricted cash and cash equivalents (Note 2A)	82,622,597
Loans to localities:	
Local school bonds (Note 2B)	3,207,431,882
Interest receivable	44,884,110
Due from Literary Fund (Note 2D)	<u>168,730,000</u>
Total noncurrent assets	<u>3,503,668,589</u>
 Total assets	 <u>3,515,119,128</u>

LIABILITIES

Current liabilities:

Accounts payable	<u>206,418</u>
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Current liabilities payable from restricted assets:

Interest payable	61,889,052
Accrued interest sold	2,226
Good faith deposit for future bond closing	730,000
Due to localities (Note 2D)	72,821,559
Notes payable (Notes 2C and 2D)	55,865,000
Bonds payable (net of interest deferral) (Notes 2C and 2G)	186,726,800
Premium on bonds sold	<u>10,137,305</u>
Total current liabilities payable from restricted assets	<u>388,171,942</u>

Noncurrent liabilities payable from restricted assets:

Notes payable (Notes 2C and 2D)	112,865,000
Bonds payable (net of interest deferral) (Notes 2C and 2G)	2,927,925,763
Premium on bonds sold	<u>111,156,876</u>
Total noncurrent liabilities payable from restricted assets	<u>3,151,947,639</u>

Total liabilities	<u>3,540,325,999</u>
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NET ASSETS

Unrestricted	<u>(25,206,871)</u>
Total net assets (Note 2J)	<u>\$ (25,206,871)</u>

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

**VIRGINIA PUBLIC SCHOOL AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES (Unaudited)**  
**IN FUND NET ASSETS**  
**For the Year Ended June 30, 2010**

Operating Revenues:	
Interest on:	
Local school bonds	\$ 142,061,598
Cash equivalents	243,062
Premium on bonds sold	455,707
Rebate and penalty payments received from the Literary Fund (Note 2I)	511,031
Other	<u>390,000</u>
Total Operating Revenues	<u>143,661,398</u>
Operating Expenses:	
Interest on bonds	160,583,339
Financial advisor fees	238,252
Legal fees	487,161
Bond rating fees	311,599
Printing and electronic distribution	10,708
Board expenses	564
Staffing expenses	144,731
Underwriters' discount	2,410,195
Rebate and penalty payments and calculation fees (Note 2I)	609,930
Other	<u>44,733</u>
Total Operating Expenses	<u>164,841,212</u>
Operating Loss	<u>(21,179,814)</u>
Nonoperating Transfers:	
Transfers to Literary Fund (Note 2H)	(3,974,618)
Transfer to the General Fund of the Commonwealth (Note 2H)	<u>(201,000)</u>
Total Nonoperating Transfers	<u>(4,175,618)</u>
Change in Net Assets	(25,355,432)
Net Assets, July 1, 2009	<u>148,561</u>
Net Assets, June 30, 2010 (Note 2J)	<u><u>\$ (25,206,871)</u></u>

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



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STATEMENT OF CASH FLOWS (Unaudited)

For the Year Ended June 30, 2010

Cash flows from operating activities:	
Interest on cash equivalents	\$ 246,532
Purchase of local school bonds	(182,410,000)
Principal received on local school bonds	210,600,368
Interest received on local school bonds	152,308,763
Payments to vendors for goods and services	(1,104,829)
Payments received from the Literary Fund	65,297,635
Other operating revenues	<u>390,000</u>
Net cash used by operating activities	<u>245,328,469</u>
Cash flows from noncapital financial activities:	
Proceeds from the sale of bonds	717,805,000
Good faith deposit on future bond closing	730,000
Principal paid on VPSA bonds	(265,910,000)
Interest paid on VPSA bonds	(152,212,100)
Premium on bonds sold	78,980,420
Underwriters' discount	(2,470,384)
Accrued interest sold	(313,164)
Transfers from the Literary Fund	511,031
Transfer to the General Fund of the Commonwealth	(201,000)
Transfers to the Literary Fund	(12,274,320)
Payments to localities (Education Technology Notes)	(54,783,225)
Payments to escrow agent	(552,131,432)
Rebate and penalty payments and calculation fees	(572,300)
Capitalized interest used	<u>(3,908,200)</u>
Net cash provided by noncapital financing activities	<u>(246,749,674)</u>
Cash flows from investing activities:	
Interest on investments	<u>29,936</u>
Net cash provided by investing activities	<u>29,936</u>
Net decrease in cash and cash equivalents	(1,391,269)
Cash and cash equivalents, July 1, 2009	<u>95,464,402</u>
Cash and cash equivalents, June 30, 2010	<u>\$ 94,073,133</u>

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

Operating loss	<u>\$ (21,179,814)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Decrease in interest receivable	17,936,267
Increase in accounts payable	170,116
Decrease in interest payable	(1,788,961)
Rebate and penalty payments received from the Literary Fund	(511,031)
Payments from the Literary Fund	65,297,635
Principal received on local school bonds	210,600,368
Purchase of local school bonds	(182,410,000)
Rebate and penalty payments to the Internal Revenue Service	572,300
Amortization of premium	(8,836,067)
Underwriters' discount	2,410,195
Premium on bonds sold	(455,707)
Amortization of interest deferral	10,160,632
Interest paid on VPSA bonds	152,212,100
Refunding credit applied to local school bonds	1,147,037
Investment fees paid	<u>3,399</u>
Total adjustments	<u>266,508,283</u>
Net cash used by operating activities	<u><u>\$ 245,328,469</u></u>

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

VIRGINIA PUBLIC SCHOOL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

AS OF JUNE 30, 2010

**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.

The Authority also has Qualified School Construction Bonds outstanding, which also fall under the pooled bond program. These bonds are taxable, but they receive a 100% interest rate subsidy from the federal government. They are secured by general obligation local school bonds in a pool pledged to their security.

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.

VIRGINIA PUBLIC SCHOOL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

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 and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice will pledge collateral that

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NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

ranges in amounts from 50% to 130% of excess deposits. 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, 2010

	Fair Value	Rating
Non-Negotiable Certificates of Deposit	\$ 2,706,096	Not Rated
Short Term Investment Fund <sup>1</sup>	13,051,016	AAAm
State Non-Arbitrage Program <sup>®2</sup>	78,316,021	AAAm
Total cash, cash equivalents, and investments	\$ 94,073,133	

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> (83%) and the JP Morgan US Govt Money Market Fund (14%).

**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

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NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

bonds. On local school bonds held by the Authority that were issued prior to March 26, 2009, 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. 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.

Shown below are the local school bonds held by the Authority as of June 30, 2010.

Local school bonds:	
Held in 1997 Pledge Account	\$ 2,992,609,591
Held in 1999 Purchase Fund	
(Northampton County Qualified Zone Academy Bond)	350,000
Held in 2001 Purchase Fund	
(Northampton County Qualified Zone Academy Bond)	229,920
Held in 2002 Purchase Fund	
(Accomack County Qualified Zone Academy Bond)	782,371
Held in 2004 Purchase Fund	
(Chesterfield County Stand Alone)	42,600,000
Held in 2008 Purchase Fund	
(Henrico County Stand Alone)	42,215,000
Held in 2008 Purchase Fund	
(Fluvanna County Stand Alone)	67,525,000
Held in 2009 Purchase Fund	
(Qualified School Construction Bonds)	<u>61,120,000</u>
Total local school bonds	<u><u>\$ 3,207,431,882</u></u>

VIRGINIA PUBLIC SCHOOL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

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, 2010.

	<u>Current Liability</u>	<u>Long-Term Liability</u>	<u>Total</u>
Balance July 1, 2009	\$ 265,910,000	\$ 3,146,072,063	\$ 3,411,982,063
Issued during fiscal 2010	11,165,000	706,640,000	717,805,000
Retired during fiscal 2010	(265,910,000)	-	(265,910,000)
Defeased during fiscal 2010	(21,400,000)	(477,545,000)	(498,945,000)
Maturing in fiscal 2011	262,310,000	(262,310,000)	-
Subtotal	<u>252,075,000</u>	<u>3,112,857,063</u>	<u>3,364,932,063</u>
Less: Deferral on debt defeasance	<u>(9,483,200)</u>	<u>(72,066,300)</u>	<u>(81,549,500)</u>
Balance June 30, 2010	<u>\$ 242,591,800</u>	<u>\$ 3,040,790,763</u>	<u>\$ 3,283,382,563</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, 2010.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 252,075,000	\$ 153,070,826	\$ 405,145,826
2012	267,130,000	142,014,211	409,144,211
2013	243,725,000	129,313,426	373,038,426
2014	229,780,000	117,745,014	347,525,014
2015	214,865,000	106,918,945	321,783,945
2016-2020	945,187,063	387,116,346	1,332,303,409
2021-2025	709,895,000	185,955,283	895,850,283
2026-2030	432,695,000	54,268,018	486,963,018
2031-2035	61,875,000	8,498,237	70,373,237
2036-2038	7,705,000	344,663	8,049,663
Subtotal	<u>3,364,932,063</u>	<u>1,285,244,969</u>	<u>4,650,177,032</u>
Less: Deferral on debt defeasance	<u>(81,549,500)</u>	<u>-</u>	<u>(81,549,500)</u>
Total	<u>\$ 3,283,382,563</u>	<u>\$ 1,285,244,969</u>	<u>\$ 4,568,627,532</u>

VIRGINIA PUBLIC SCHOOL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

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, 2010.

Educational Technology Notes			Outstanding	Remaining
Issue	Description	Amount Issued	Balance	Available for Disbursement
Ed Tech Series VI	2006 Notes	\$ 56,620,000	\$ 12,215,000	\$ 248,775
Ed Tech Series VII	2007 Notes	56,765,000	24,135,000	422,332
Ed Tech Series VIII	2008 Notes	56,475,000	34,335,000	2,031,841
Ed Tech Series IX	2009 Notes	55,395,000	43,935,000	21,685,710
Ed Tech Series X	2010 Notes	54,110,000	54,110,000	48,432,901
		\$ 279,365,000	\$ 168,730,000	\$ 72,821,559

E. Qualified Zone Academy Bonds

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. Qualified School Construction Bonds

On November 13, 2009, the Authority issued \$61,160,000 in School Tax Credit Bonds (Qualified School Construction Bonds) Series 2009-1. The proceeds of these bonds were used to purchase general obligation school bonds issued by certain localities. The bonds have been issued as “qualified school construction bonds” in accordance with Section 54F of the Internal Revenue Code of 1986, as amended. These bonds are non-interest



VIRGINIA PUBLIC SCHOOL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

bearing; however, a taxpayer who holds such bonds during a taxable year will be allowed a federal income tax credit for such taxable year in accordance with the structure established at issuance.

G. 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 2010. 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 2010

<u>Refunding Issue</u>	<u>Refunded Issue</u>	<u>Maturities Defeased</u>	<u>Amount Defeased</u>
2009C	2001A	2010, 2012-21	\$ 85,430,000
2009C	2001B	2010, 2012-19, 2021	69,230,000
2009C	2001C	2010, 2011-26	33,495,000
2009C	2002A	2010, 2013-22	62,145,000
2009C	2002B	2010, 2013-32	80,665,000
2009C	2003A	2010, 2014-21	45,505,000
2009C	2003C	2010, 2014-28	122,475,000
Total Defeased, FY 2010			<u><u>\$ 498,945,000</u></u>

The issuance under the 1997 Resolution of the Authority's Series 2009 C bonds refunded certain outstanding bonds under the 1997 resolution. This debt defeasance resulted in an accounting loss of \$53,186,000. Total debt service payments over the next 19 years will be reduced by \$29,229,742 resulting in a present value savings of \$28,722,072 discounted at the rate of 2.65 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 \$81,549,500 to reflect the remaining deferral on debt defeasance at June 30, 2010.

At June 30, 2010, \$603,530,000 of bonds outstanding are considered defeased for financial reporting purposes.

VIRGINIA PUBLIC SCHOOL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

H. Transfers

In May 2010, after final rebate computation and payment on the Educational Technology Notes Issue V, the residual earnings of \$1,898,751 on the related bond proceeds were transferred to the Literary Fund, which had been the source of the debt service appropriation for these Notes. Residual earnings totaling \$2,480,265 from Educational Technology Notes II, III, and IV were also transferred to the Literary Fund during fiscal year 2010.

Pursuant to Section 22.1-167.1 of the *Code of Virginia*, the Authority transferred \$2,856,100 of allocable savings generated from the Series 2009 A Refunding Bonds to the Literary Fund in October 2009. Similarly, the allocable savings generated from the 2009C Refunding Bonds of \$4,497,137 were transferred to the Literary Fund in April 2010.

The Authority received \$7,757,635 from the Literary Fund to pay interest on the various outstanding Educational Technology Notes.

Finally, in June 2010, the Authority transferred \$201,000 to the General Fund of the Commonwealth pursuant to Section 3-3.01 of Chapter 951 of the 2010 Virginia Acts of Assembly.

I. 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,

VIRGINIA PUBLIC SCHOOL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

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 Initial 5-Year or Final	Computation Date	Liability
(97 Resolution) 2004 Series A	5 year	5/13/2009	\$ 2,669
(97 Resolution) 1999 Series A	5 year	5/13/2009	-
(97 Resolution) 1999 Series B	5 year	8/1/2009	-
(97 Resolution) 2004 Series B	5 year	11/10/2009	-
(97 Resolution) 2004 Series C	5 year	12/8/2009	-
(97 Resolution) 2005 Series A	5 year	3/10/2010	-
Ed. Technology Notes Series V	Final*	4/15/2010	511,031
(97 Resolution) 2005 Series C	5 year	5/12/2010	35,699

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

The Authority paid \$69,950 to its rebate calculation agent for services provided in connection with the above rebate calculations.

The Series 2005 B (1997 Resolution) had a first installment computation date of April 20, 2010 and no rebate was owed. The Series 2000 A (1997 Resolution) had an installment computation date of May 18, 2010 and no rebate was owed.

J. Deficit Net Assets

Pursuant to Section 22.1-167.1 of the *Code of Virginia*, the Authority transferred the allocable savings generated from the 2009C Refunding Bonds of \$4,497,137 to the Literary Fund in April 2010 and has accrued a credit of \$24,224,935 against future debt service payments on Local School Bonds that will be due on July 15, 2010 from the localities. The savings to be realized by the issuance of the 2009C Refunding Bonds will be generated as a result of the differential in the principal payments due from the localities on July 15, 2010 and the principal payments that will be made by the Authority on August 1, 2010. Since the distribution of the savings, in the form of a refunding credit against future debt service payments has occurred prior to the realization of those savings, a deficit net assets in the amount of \$25,206,871 is reflected on the Statement of Net Assets.

K. Subsequent Events

In July 2010, the Authority closed on its \$72.6 million Qualified School Construction Bond (QSCB) Series 2010-1. In October 2010, the Authority issued its \$85.5 million School Financing Refunding Series 2010 C bonds. The Authority also anticipates issuing its \$9.9 million School Financing Bonds, (1997 Resolution) Series 2010 D in November 2010 to purchase certain general obligation local school bonds to finance capital projects for public schools.

VIRGINIA PUBLIC SCHOOL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

L. 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.

**VIRGINIA PUBLIC SCHOOL AUTHORITY  
SUPPLEMENTARY INFORMATION**

**Detail of Long-Term Indebtedness  
June 30, 2010  
(Dollars in Thousands)**

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

	Dated	Bond	True Interest	Amount	Local	Outstanding	Issued	Outstanding	Original
	Date	Resolution	Cost ("TIC")	Issued (a)	School Bonds Purchased	July 1, 2009	(Retired) During Year	June 30, 2010 (b)	Maturity
Series 1997 I	11/01/97	1997	4.92%	\$ 224,285	\$ 140,818	\$ 28,790	\$ (14,240)	\$ 14,550	08/01/17
Series 1998 A	04/01/98	1997	4.71%	130,715	50,730	10,315	(5,125)	5,190	08/01/18
Series 1998 B	11/01/98	1997	4.56%	105,025	105,311	4,920	(4,920)	-	08/01/18
Series 1999 A	05/01/99	1997	4.60%	153,040	153,040	6,240	(6,240)	-	08/01/19
Series 1999 B	11/01/99	1997	5.54%	91,770	91,770	4,865	(4,865)	-	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	14,940	(5,000)	9,940	08/01/20
Series 2000 B	11/01/00	1997	5.11%	106,200	106,197	7,055	(1,815)	5,240	08/01/20
Series 2001 A	05/01/01	1997	4.84%	153,940	153,940	102,870	(92,765)	10,105	08/01/21
Series 2001 B	11/01/01	1997	4.87%	142,400	142,400	94,165	(76,230)	17,935	08/01/21
Series 2001 C	11/01/01	1997	4.87%	41,500	41,500	35,795	(34,785)	1,010	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	80,855	(67,450)	13,405	08/01/22
Series 2002 B	11/01/02	1997	4.12%	155,545	155,545	109,265	(88,625)	20,640	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	85,435	(51,120)	34,315	08/01/28
Series 2003 B	05/01/03	1997	2.93%	74,850	74,850	31,515	(7,675)	23,840	08/01/13
Series 2003 C	11/01/03	1997	4.39%	190,645	190,645	157,185	(129,740)	27,445	08/01/28
Series 2003 D	12/11/03	1997	3.23%	286,670	-	117,710	(22,815)	94,895	08/01/19
2004 Series Chesterfield County	02/15/04	Stand Alone	3.80%	56,825	56,825	45,445	(2,845)	42,600	01/15/25
Series 2004 A	05/01/04	1997	4.33%	123,585	123,585	105,190	(4,765)	100,425	08/01/29
Series 2004 B	11/01/04	1997	3.91%	145,340	145,337	119,905	(6,640)	113,265	08/01/29
Series 2004 C	12/08/04	1997	3.34%	156,125	-	106,865	(14,175)	92,690	08/01/16
Series 2005 A	03/15/05	1997	3.64%	55,200	-	40,165	(4,270)	35,895	08/01/17
Series 2005 B	04/20/05	1997	4.07%	230,580	-	222,755	(2,560)	220,195	08/01/20
Series 2005 C	05/01/05	1997	4.13%	134,360	134,360	117,365	(5,810)	111,555	08/01/30

(a) Includes refunding bonds issued.

(b) Excludes deferral on debt defeasance.

**VIRGINIA PUBLIC SCHOOL AUTHORITY  
SUPPLEMENTARY INFORMATION**

**Detail of Long-Term Indebtedness  
June 30, 2010  
(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, 2009	Issued (Retired) During Year	Outstanding June 30, 2010 (b)	Original Maturity
Series 2005 Ed Tech Series V	05/25/05	Equip. Notes	2.97%	55,255	-	12,035	(12,035)	-	04/15/10
Series 2005 D	11/01/05	1997	4.19%	199,345	199,341	174,890	(8,485)	166,405	08/01/30
Series 2006 A	05/01/06	1997	4.39%	202,175	202,175	186,750	(7,915)	178,835	08/01/31
Series 2006 Ed Tech Series VI	05/25/06	Equip. Notes	3.71%	56,620	-	23,845	(11,630)	12,215	04/15/11
Series 2006 B	11/01/06	1997	4.22%	240,955	240,954	223,290	(9,540)	213,750	08/01/32
Series 2007 A	05/01/07	1997	4.24%	112,235	112,235	107,445	(4,840)	102,605	08/01/32
Series 2007 Ed Tech Series VII	05/24/07	Equip. Notes	3.70%	56,765	-	35,345	(11,210)	24,135	04/15/12
Series 2007 B	11/01/07	1997	4.28%	223,080	223,076	213,425	(9,940)	203,485	08/01/32
Series 2008 A	05/01/08	1997	4.22%	134,950	134,950	134,950	(4,965)	129,985	08/01/37
Series 2008 Ed Tech Series VIII	05/22/08	Equip. Notes	2.88%	56,475	-	45,540	(11,205)	34,335	04/15/13
2008 Series Henrico County	07/17/08	Stand Alone	4.12%	44,400	44,440	44,440	(2,225)	42,215	07/15/28
Series 2008 B	12/01/08	1997	4.75%	118,930	118,927	118,930	(4,930)	114,000	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	(11,460)	43,935	04/15/14
Series 2009 C	10/27/09	1997	2.85%	481,285	-	-	481,285	481,285	08/01/28
Series 2009-1 QSCB	11/13/09	School Tax Cr.	0.63%	61,120	61,120	-	61,120	61,120	09/15/26
Series 2009 D	11/30/09	1997	3.48%	11,645	11,645	-	11,645	11,645	08/01/29
Series 2010 A	05/13/10	1997	3.01%	45,805	45,805	-	45,805	45,805	08/01/30
Series 2010 B	05/13/10	1997	5.09%	63,840	63,840	-	63,840	63,840	08/01/30
Series 2010 Ed Tech Series X	05/18/10	Equip. Notes	1.37%	54,110	-	-	54,110	54,110	04/15/15
<b>Total</b>				<u>\$ 5,743,917</u>	<u>\$ 3,922,113</u>	<u>\$ 3,411,982</u>	<u>\$ (47,050)</u>	<u>\$ 3,364,932</u>	

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

	Amount Issued (a)	Local School Bonds Purchased	Outstanding July 1, 2009	Issued (Retired) During Year	Outstanding June 30, 2010 (b)
1997 Resolution	\$ 5,175,475	\$ 3,688,251	\$ 3,078,460	\$ (99,670)	\$ 2,978,790
Stand Alone Issues	172,702	172,742	161,362	(5,070)	156,292
Equipment Notes	334,620	-	172,160	(3,430)	168,730
School Tax Credit	61,120	61,120	-	61,120	61,120
<b>Total</b>	<u>\$ 5,743,917</u>	<u>\$ 3,922,113</u>	<u>\$ 3,411,982</u>	<u>\$ (47,050)</u>	<u>\$ 3,364,932</u>

(a) Includes refunding bonds issued.

(b) Excludes deferral on debt defeasance.

VIRGINIA PUBLIC SCHOOL AUTHORITY  
Richmond, Virginia

BOARD OF COMMISSIONERS

As of June 30, 2010

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Woodrow W. Mullins, Jr., Vice Chairman

Hady Amr

Brenda L. Skidmore

Kanchana K. Thamodaran

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