

VIRGINIA PUBLIC SCHOOL AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2004



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MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)

This section of the Virginia Public School Authority’s (the “Authority”) annual financial report presents an analysis of the Authority’s financial performance during the fiscal year that ended on June 30, 2004. 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 issues bonds for its pooled bond program under different bond resolutions. The Authority currently has bonds outstanding under the (1) 1991 Resolution; and (2) 1997 Resolution. The 1997 Resolution, adopted on October 23, 1997, currently serves as the primary instrument under which the Authority issues bonds under its pooled bond program. The 1997 Resolution bonds are secured by general obligation local school bonds purchased; the State Aid Intercept Provision; and, a sum sufficient appropriation, first from available Literary Fund monies and then from the Commonwealth’s General Fund. During the fiscal year, the Authority issued \$600,900,000 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 \$56,825,000 in special obligation bonds during the fiscal year and \$56,835,000 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 or accounting (accrual) for government-wide statements.

The financial statements of the Authority offer short- and long-term financial information about its activities. The Statement of Net Assets provides information about the nature and amounts of the Authority's cash, investments, and receivables (assets) and their obligations to creditors (liabilities). All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. This statement measures whether the Authority successfully recovered all its costs through investment earnings, bond proceeds, appropriations from the Commonwealth, and the collection of receivables. The Statement of Cash Flows provides information on the Authority's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financial activities. It also provides insight regarding from where cash came, for what it was used, and how it changed during the reporting period.

Financial Analysis of the Authority

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

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

	Enterprise Fund	
	2004	2003
Current assets	\$ 4	\$ 1
Noncurrent assets	2,654	2,883
Total Assets	2,658	2,884
Current Liabilities	320	334
Noncurrent liabilities	2,313	2,522
Total Liabilities	2,633	2,856
Net assets:		
Restricted for debt service	22	27
Unrestricted	3	1
Total net assets	\$ 25	\$ 28

Total assets decreased during the year by \$226 million, or 9%. This is comparable to the decrease in liabilities of \$223 million, or 8%, during the same period. Accordingly, only a slight decrease of \$3 million is reflected in net assets. The primary reason for the decrease in both assets and liabilities is due the return of the Literary loans to the Literary Fund. This decrease was offset by an increase in bonds issued and local school bonds purchased.

In fiscal year 2004, the Authority refunded its remaining 1987 Resolution Bonds and therefore, no longer had a need to hold Literary loans as collateral. Accordingly, at its March 19th Board meeting, the Authority voted to return the remaining Literary loans to the Literary Fund.

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

	Enterprise Fund	
	2004	2003
Revenues:		
Operating revenues:		
Charges for Services	\$ 127	\$ 126
Non-operating revenues:		
Investment earnings	2	3
Total revenues	129	129
Expenses:		
Interest on long-term debt	118	117
Other	7	3
Total expenses	125	120
Transfers	(7)	(7)
Change in net assets	(3)	2
Net assets July 1	28	26
Net assets June 30	\$ 25	\$ 28

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 6/30/03	Issued During Year	Retired During Year	Outstanding at 6/30/04
Pooled Bond Programs	\$ 2,114	\$ 601	\$ (445)	\$ 2,270
Technology Notes Programs	161	57	(48)	170
Special Obligation Bonds	27	57	(6)	78
Total	\$ 2,302	\$ 715	\$ (499)	\$ 2,518

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

Virginia Public School Authority Bond Ratings

	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
Pooled Bond Programs ¹	Aa1	AA+	AA+
School Equipment Financing Notes	Aa2	AA	AA+
School Educational Technology	Aa1	AA+	AA+

¹ 1997 Resolution Bonds

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

Future Impact to Financial Position

In November 2004, the Authority plans to issue \$145.3 million of School Financing Bonds (1997 Resolution) Series 2004 B 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
As of June 30, 2004

ASSETS

Current assets:

Cash and cash equivalents (Note 2)	\$ 53,808
Short-term investments (Note 2)	4,111,744
Interest receivable	<u>15,296</u>
Total current assets	<u>4,180,848</u>

Noncurrent assets:

Restricted cash and cash equivalents (Note 2)	79,669,099
Restricted short-term investments (Note 2)	10,486,890
Restricted long-term investments (Note 2)	31,884,448
Loans to Localities:	
Local school bonds (Note 3)	2,309,592,550
Interest receivable	51,636,854
Due from Literary Fund (Note 5)	<u>170,520,000</u>
Total noncurrent assets	<u>2,653,789,841</u>
Total assets	<u>2,657,970,689</u>

LIABILITIES

Current liabilities:

Accounts payable	<u>889,549</u>
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Current Liabilities payable from restricted assets:

Interest payable	50,576,588
Accrued interest sold	549,891
Due to Literary Fund	234,438
Due to localities (Note 5)	68,120,706
Notes payable (Notes 4 and 5)	57,460,000
Bonds payable (net of interest deferral) (Notes 4 and 7)	140,642,400
Premium on bonds sold	<u>1,533,611</u>
Total current liabilities payable from restricted assets	<u>319,117,634</u>

Noncurrent liabilities payable from restricted assets:

Notes payable (Notes 4 and 5)	113,060,000
Bonds payable (net of interest deferral) (Notes 4 and 7)	2,167,613,763
Premium on bonds sold	<u>32,516,031</u>
Total noncurrent liabilities payable from restricted assets	<u>2,313,189,794</u>

Total liabilities	<u>2,633,196,977</u>
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NET ASSETS

Restricted for debt service	21,482,413
Unrestricted	<u>3,291,299</u>
Total net assets	<u><u>\$ 24,773,712</u></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
IN FUND NET ASSETS
For the Year Ended June 30, 2004

Operating Revenues:

Interest on:

Local school bonds	\$ 114,607,244
Literary Fund loans	11,197,751
Cash, cash equivalents, and investments	2,313,884
Premium on bonds sold	716,942
Net decrease in fair value of investments	(98,301)
Rebate and penalty payments received from localities (Note 9)	536,042
Other	625

Total Operating Revenues	129,274,187
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Operating Expenses:

Interest on bonds	117,656,688
Financial advisor fees	212,204
Legal fees	625,110
Bond rating fees	328,316
Printing and electronic distribution	40,861
Board expenses	1,474
Staffing expenses	113,283
Underwriters' discount	1,573,655
Rebate and penalty payments and calculation fees (Note 9)	1,331,229
Payments to localities	3,417,276
Collateral custody and valuation fees	8,000
Other	64,729

Total Operating Expenses	125,372,825
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Operating Income	3,901,362
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Nonoperating Transfers:

Transfers to Literary Fund (Note 8)	(6,220,950)
Transfer to the General Fund of the Commonwealth (Note 8)	(840,275)

Total Nonoperating Transfers	(7,061,225)
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Change in Net Assets	(3,159,863)
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Net Assets, July 1, 2003	27,933,575
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Net Assets, June 30, 2004	\$ 24,773,712
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The accompanying notes to the financial statements are an integral part of this statement.

VIRGINIA PUBLIC SCHOOL AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004

Cash flows from operating activities:	
Interest on cash equivalents	\$ 103,571
Principal received on Literary Fund loans	429,738,689
Interest received on Literary Fund loans	11,197,751
Purchase of local school bonds	(371,054,251)
Principal received on local school bonds	145,537,058
Interest received on local school bonds	106,921,980
Payments to vendors for goods and services	(1,377,971)
Payments received from the Literary Fund	54,031,600
Other operating revenues	3,368
Net cash provided by operating activities	<u>375,101,795</u>
Cash flows from noncapital financial activities:	
Proceeds from the sale of bonds	714,560,000
Principal paid on VPSA bonds	(196,900,000)
Interest paid on VPSA bonds	(107,819,584)
Premium on bonds sold	26,536,890
Underwriters' discount	(1,605,153)
Rebate calculation fees	536,042
Accrued interest sold	(41,979)
Transfers to the Literary Fund	(465,836,349)
Transfer to the General Fund of the Commonwealth (Note 7)	(840,275)
Payments to localities (Education Technology Notes)	(60,844,089)
Payments to localities (refunding savings)	(3,417,276)
Payments to escrow agent	(316,938,687)
Rebate and penalty payments to the Internal Revenue Service	(564,992)
Net cash used by noncapital financing activities	<u>(413,175,452)</u>
Cash flows from investing activities:	
Purchase of investment securities	(11,727,750)
Proceeds from sale and maturities of investments	27,973,092
Interest on investments	3,455,621
Decrease in fair value of cash equivalents	(1,184)
Accrued interest purchased	3,583
Net cash provided by investing activities	<u>19,703,362</u>
Net decrease in cash and cash equivalents	(18,370,295)
Cash and cash equivalents, July 1, 2003	<u>98,093,202</u>
Cash and cash equivalents, June 30, 2004	<u><u>\$ 79,722,907</u></u>

Operating income	<u>\$ 3,901,362</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts receivable	2,743
Increase in interest receivable	(4,622,098)
Increase in accounts payable	782,243
Increase in interest payable	4,813,904
Rebate and penalty payments received from localities	(536,042)
Payments from the Literary Fund	54,031,600
Principal received on Literary Fund loans	429,738,689
Principal received on local school bonds	145,537,058
Purchase of local school bonds	(371,054,251)
Rebate and penalty payments to the Internal Revenue Service	564,992
Payments to localities	3,417,276
Amortization of premium	(1,817,858)
Underwriters' discount	1,573,655
Premium on bonds sold	(716,942)
Amortization of interest deferral	5,023,200
Interest paid on VPSA bonds	107,819,584
Decrease in fair value of investments	98,301
Interest on investments	<u>(3,455,621)</u>
Total adjustments	<u>371,200,433</u>
Net cash provided by operating activities	<u><u>\$ 375,101,795</u></u>

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



Notes to the Financial Statements

**VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2004**

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 provides that the Authority shall manage and administer all Literary Fund moneys and obligations transferred to the Authority pursuant to law, and it 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) principal and interest received on Literary Fund loan obligations transferred to the Authority;
- 4) proceeds from the sale of such Literary Fund loan obligations;
- 5) any moneys transferred from the Literary Fund or funds appropriated from the General Assembly; and
- 6) a reserve fund(s) created from bond proceeds pledged to secure designated bonds.

The Authority issues bonds for its pooled bond program under different bond resolutions. Currently, the Authority has pooled bonds outstanding under its 1991 Resolution and 1997 Resolution. Bonds issued under the 1991 Resolution are secured by local school bonds purchased and a debt service reserve account. The Authority is limited by statute to no more than \$800 million in bonds outstanding at any one time which utilize a debt service reserve account backed by a moral obligation of the Commonwealth of Virginia to restore deficiencies therein.

On October 23, 1997, the Authority adopted the 1997 Resolution to supplant the Authority's 1991 Resolution. Bonds issued under the 1997 Resolution are secured by local school bonds purchased and a "sum sufficient appropriation," first from available Literary Fund monies and then from the Commonwealth's General Fund.

With the issuance under the 1997 Resolution of the Authority's Series 2003 D bonds, which closed on December 11, 2003, the Authority refunded the remaining outstanding bonds under the 1987 Resolution. The bonds were redeemed on January 12, 2004. On March 17, 2004 the Authority repealed the 1987 Resolution and released the Literary Fund Obligations held in the 1987 Reserve Fund for transfer to the Literary 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.

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

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

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

B. Basis of Accounting

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

C. Fund Accounting

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

D. Bond Issuance Costs, Discounts, and Premiums

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Unrestricted and Restricted)

Cash and investments 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. Short-term investments are investments with maturities of one year or less. Long-term investments have maturities of over one year.

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits 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. With the exception of flexible repurchase agreements, the Authority's investments are valued at fair value, which approximates market value. The flexible repurchase agreements are considered to be nonparticipating investment contracts, and as such, are valued at cost. Details of cash, cash equivalents and investments are presented on the following page.

Summary of Cash, Cash Equivalents, and Investments
As of June 30, 2004

	<u>Carrying</u>	<u>Fair Value</u>
Cash and cash equivalents:		
Short Term Investment Fund ¹	\$ 8,627,050	\$ 8,627,050
State Non-Arbitrage Program ^{sm 2}	<u>71,095,857</u>	<u>71,095,857</u>
Total cash and cash equivalents	<u>\$ 79,722,907</u>	<u>\$ 79,722,907</u>
Short-term investments:		
U. S. Government Securities	\$ 12,904,489	\$ 12,883,105
Flexible Repurchase Agreements ³	869,188	869,188
Certificates of Deposit	<u>846,341</u>	<u>846,341</u>
Total short-term investments	<u>\$ 14,620,018</u>	<u>\$ 14,598,634</u>
Long-term investments:		
Flexible Repurchase Agreements ³	<u>\$ 31,884,448</u>	<u>\$ 31,884,448</u>
Total long-term investments	<u>\$ 31,884,448</u>	<u>\$ 31,884,448</u>

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

2 The Virginia State Non-Arbitrage Programsm (“SNAPsm”) 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. SNAPsm 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 SNAPsm.

3 The Authority has four series of 1991 Resolution bonds outstanding with the debt service reserve accounts invested in flexible repurchase agreements. The outstanding flexible repurchase agreements are with MBIA Investment Management Corp. (1) and Bayerische Landesbank Girozentrale (3). The flexible repurchase agreements provide fixed investment rate earnings, are held by a collateral trustee and provide scheduled cash flow to provide partial payment of debt service payments. The Series 1997 A dated April 10, 1997 was the final series issued under the 1991 Resolution with the final maturity on August 1, 2018 when the final flexible repurchase agreement (MBIA) will be liquidated.

3. LOCAL SCHOOL BONDS

The Authority purchases bonds from (makes loans to) various localities throughout the Commonwealth, which are issued to finance the construction of local public school facilities. These bonds are recorded at purchase price that is equal to the face value of the bonds. Local school bonds purchased under the 1991 Resolution are held in the purchase fund established under its bond resolution. 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, 2004.

Local school bonds:	
Held in 1991 Purchase Fund	202,729,548
Held in 1994 Purchase Fund	
(York County Stand Alone)	2,325,000
Held in 1995 Purchase Fund	
(Cheasapeake, City of , Stand Alone)	15,000,000
Held in 1997 Pledge Account	2,029,591,661
Held in 1999 Purchase Fund	
(Northampton County Qualified Zone Academy Bond)	1,400,000
Held in 2001 Purchase Fund	
(Northampton County Qualified Zone Academy Bond)	371,775
Held in 2002 Purchase Fund	
(Accomack County Qualified Zone Academy Bond)	1,349,566
Held in 2004 Purchase Fund	
(Chesterfield County Stand Alone)	56,825,000
Total local school bonds	<u>\$ 2,309,592,550</u>

4. LONG-TERM INDEBTEDNESS

A. Changes in Long-Term Debt

The following is a summary of changes in long-term debt of the Authority for the year ended June 30, 2004.

	Current Liability	Long-Term Liability	Total
Balance July 1, 2003	\$ 196,900,000	\$ 2,105,457,063	\$ 2,302,357,063
Issued during fiscal 2004	45,925,000	668,635,000	714,560,000
Retired during fiscal 2004	(196,900,000)	-	(196,900,000)
Defeased during fiscal 2004	(42,980,000)	(258,830,000)	(301,810,000)
Maturing fiscal 2005	200,210,000	(200,210,000)	-
Subtotal	203,155,000	2,315,052,063	2,518,207,063
Less: Deferral on debt defeasance	(5,052,600)	(34,378,300)	(39,430,900)
Balance June 30, 2004	<u>\$ 198,102,400</u>	<u>\$ 2,280,673,763</u>	<u>\$ 2,478,776,163</u>

B. Annual Requirements to Amortize Bonds Payable and Notes Payable

The following schedule provides the annual funding requirements necessary to amortize long-term debt of the Authority outstanding at June 30, 2004.

Year Ending June 30	Principal	Interest	Total
2005	\$ 203,155,000	\$ 121,291,384	\$ 324,446,384
2006	211,615,000	110,389,921	322,004,921
2007	198,390,000	100,750,286	299,140,286
2008	177,375,000	91,105,471	268,480,471
2009	165,775,000	82,600,396	248,375,396
2010-2014	678,950,000	301,556,332	980,506,332
2015-2019	546,012,063	147,951,603	693,963,666
2020-2024	275,740,000	42,098,209	317,838,209
2025-2029	57,325,000	7,141,375	64,466,375
2030	3,870,000	91,913	3,961,913
Subtotal	2,518,207,063	1,004,976,890	3,523,183,953
Less Deferral on Debt defeasance	(39,430,900)	-	(39,430,900)
Total	<u>\$2,478,776,163</u>	<u>\$1,004,976,890</u>	<u>\$3,483,753,053</u>

5. EQUIPMENT NOTES

In May 2000, the Authority issued \$66,380,000 School Equipment Financing Notes Educational Technology Issue VI (the “2000 Notes”). In May 2001, the Authority issued \$55,765,000 School Equipment Financing Notes Educational Technology Series I (the “2001 Notes”). In May 2002, the Authority issued \$55,555,000 School Equipment Financing Notes Educational Technology Series II (the “2002 Notes”). In May 2003, the Authority issued \$55,325,000 School Equipment Financing Notes Educational Technology Series III (the “2003 Notes”). In June 2004, the Authority issued \$56,835,000 School Equipment Financing Notes Educational Technology Series IV (the “2004 Notes”). The proceeds of each issue were used to make grants to school divisions for the purchase of educational technology equipment. The proceeds are invested in the Virginia State Non-Arbitrage Programsm until requisitioned by localities. As of June 30, 2004, the amount remaining to be requisitioned by localities is \$882,975 for the 2000 Notes, \$619 for the 2001 Notes, \$133,657 for the 2002 Notes, \$19,195,104 for the 2003 Notes and \$47,908,351 for the 2004 Notes. The notes are to be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund. Notes outstanding as of June 30, 2004 are \$170,520,000.

6. QUALIFIED ZONE ACADEMY BOND

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

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

7. DEFEASANCE OF DEBT

In 1987, 1991, 1993, 1997, 1998 and 2003 the Authority issued refunding bonds to defease bonds issued under the 1963, 1987, 1990 Insured and 1991 Resolutions. These refundings placed the proceeds of the new bonds in irrevocable trusts with escrow agents to provide for all future debt service on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the Authority’s financial statements.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," the difference between the reacquisition price and the net carrying amount of the bonds defeased with refunding debt is amortized as a component of Interest on Bonds over the remaining life of the refunded debt. Therefore, Bonds Payable has been reduced by \$39,430,900 to reflect the remaining deferral on debt defeasance at June 30, 2004.

Additionally, in 1996, the Authority used \$1,508,852 of available funds held in the 1987 General Fund to defease portions of certain maturities of the School Financing Bonds (1987 Resolution) 1992 Series B in the amount of \$1,475,000. These funds were placed in an irrevocable trust 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.

In March 2003, the City of Chesapeake issued bonds to refund certain of the callable maturities of the City of Chesapeake's \$102,000,000 General Obligation School Bonds, Series 1995. The proceeds were placed in an irrevocable trust with an escrow agent to pay debt service on the advance refunded local school bonds and the Authority's corresponding Special Obligation School Financing Bonds, City of Chesapeake Series 1995, totaling \$81,000,000. These bonds were advance refunded to their earliest call date.

With the issuance under the 1997 Resolution of the Authority's Series 2003 D bonds, which closed on December 11, 2003, the Authority refunded the remaining outstanding bonds under the 1987 resolution. The bonds were redeemed on January 12, 2004, totaling \$201,910,000. Additionally, the defeased portions of certain maturities of the School Financing Bonds (1991 Resolution and 1997 Resolution) 1995 Series A in the amount of \$39,470,000, 1995 Series B in the amount of \$16,265,000 and 1999 Series B in the amount of \$44,165,000 were placed in an irrevocable trust 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. The debt defeasance resulted in an accounting loss of \$16,796,000. Total debt service payments over the next 16 years will be reduced by \$30,268,469 resulting in a present value savings of \$19,992,970 discounted at the rate of 3.143131 percent.

At June 30, 2004, \$297,065,000 of bonds outstanding is considered defeased for financial reporting purposes.

8. TRANSFERS

With the issuance under the 1997 Resolution of the Authority's Series 2003 D bonds, which closed on December 11, 2003, the Authority refunded the remaining outstanding bonds under the 1987 Resolution. The bonds were redeemed on January 12, 2004. On March 17, 2004 the Authority repealed the 1987 Resolution and released the Literary Fund Obligations held in the 1987 Reserve Fund for transfer to the Literary Fund. Loans that were transferred back to the Literary Fund after this decision totaled \$397,690,267. This amount is not reflected in the transfers on the Statement of Revenues, Expenses, and Changes in Fund Net Assets because it did not take the form of a cash transfer, but was reflected as a reduction in assets and related liabilities.

Prior to the repeal of the 1987 Resolution on March 17, 2004, the Enabling Act provided that the 1987 Reserve Fund balance, other than that portion which comprised the Literary Fund loans, should be transferred to the Literary Fund on or before January 10th of each year. Such a transfer did occur on January 10th and an additional transfer also occurred after the repeal of the 1987 Resolution. Transfers to the Literary Fund of amounts held in the 1987 Reserve Fund totaled \$67,297,920 (comprised of \$49,853,528 of loan principal repayments, \$17,105,155 of interest on Literary Fund loan obligations, and \$339,237 of interest on short-term investments).

Additionally, the provisions of the now repealed 1987 Resolution also required transfers of Literary loans from the Literary Fund to the Authority's 1987 Reserve Fund. Three such loans were transferred before the dissolution occurred. Two Literary Fund loan obligations totaling \$611,600 were transferred on July 1, 2003. One Literary Fund loan obligation of \$250,000 was transferred on January 1, 2004. Also transferred from the Literary Fund to the Authority, were amounts required to pay debt service on the various outstanding Equipment Notes, of \$6,076,599, net of principal payments.

Several other transfers also occurred during the year. In September 2003, the Literary Fund transferred \$141,656 to the Authority representing actual costs of issuance related to the VPSA Educational Notes Series III, in accordance with the 2003 Appropriation Act, Item 147(C) 9. In January 2004, the Literary Fund transferred \$66,692 to the Authority representing capitalized interest related to the subsidy participants in the Series 2003C bond issuance, in accordance with the 2003 Appropriation Act, Item 159(B). In June 2004, the Authority transferred \$1,056,509 to the Literary Fund based on the VPSA Board of Commissioners' approval of the distribution of the allocable savings achieved through the refunding of the Series 1993 (1990 Insured Resolution) issue. Finally, in June 2004, the Authority transferred \$840,275 to the General Fund of the Commonwealth pursuant to Section 3-3.01 of Chapter 1042 of the 2003 Virginia Acts of Assembly.

Also contributing to net transfers out for the year was effect of the decrease in the liability to the Literary Fund offset by the effect of returning the remaining loans to the Literary Fund. This net decrease in the liability, which had a positive effect on transfers, totaled \$54,986,932.

9. ARBITRAGE EARNINGS

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

Income earned on excess earnings is also subject to rebate. Rebate payments, if required, are due at least every five years over the life of the bonds. Some Authority bonds may be exempt from the rebate requirement if they meet statutory exceptions per the rebate regulations. The Authority may also elect, on or before the date of the bond issue, to pay a penalty in lieu of rebate if it does not meet certain expenditure schedules. If such an election is made and if the Authority (local issuer) meets the expenditure schedule, the Authority (local issuer) retains

any arbitrage earnings. The Authority, to date, has not elected penalty in lieu of rebate due to the difficulty in estimating local issuer's expenditure schedules. Rebate and penalty payments are calculated and paid by the Authority as required by law on bond issues that do not meet the statutory exceptions. Rebate installments must be paid no later than 60 days after the computation date.

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

Bond Issue	Computation		Liability
	Initial 5 Year or Final	Computation Date	
Henrico County Series of 1993	Final*	7/10/03 & 7/15/03	\$ -
(87 Resolution) 1993 Ref Series B	5 year	6/8/2003	\$ -
(97 Resolution) Series 1998 B	Initial 5 year	11/19/2003	\$ 532,242
(87 Resolution) 1993 Series C	5 year	11/1/2003	\$ -

* Reports prepared as of the final redemption of the bonds

The Authority paid \$32,750 to its rebate calculation agent for services provided in connection with the above rebate calculations.

The VPSA School Financing Bonds (1987 Resolution) 1991 Refunding Series C, the VPSA School Financing Bonds (1987 Resolution) 1993 Series A, the VPSA School Financing Bonds (1987 Resolution) Series 1993 B bond issues and the VPSA School Financing Bonds (1987 Resolution) 1993 Series C were all refunded as part of VPSA's \$286,670,000 School Financing Bonds (1997 Resolution) Refunding Series 2003 D. These refunded issues represented the remaining bonds outstanding under the 1987 Resolution and were all redeemed as of January 12, 2004. The 1991 C, 1993 A and 1993 C final rebate computations (as of the January 12, 2004 redemption date) were received on September 7, 2003. No rebate liability was owed to the IRS.

The VPSA School Financing Bonds Series 1994 A (1991 Resolution), the VPSA School Financing Bonds Series 1994 B (1991 Resolution), the VPSA Series 1999 A (1997 Resolution), and the VPSA School Financing Bonds Series 1999 B (1997 Resolution) will require a rebate computation as of May 1, 2004, August 1, 2004, May 13, 2004, and November 18, 2004 respectively. The estimated rebate liability for Series 1994 A, Series 1994 B, and Series 1999 B has not been determined. The rebate report for Series 1999 A was received on July 15, 2004 and \$735,787 was paid to the IRS on July 12, 2004. Also paid in July was \$30,450 to the rebate calculation agent.

10. SUBSEQUENT EVENTS

In November 2004, the Authority plans to issue \$145.3 million of School Financing Bonds (1997 Resolution) Series 2004 B to purchase certain general obligation local school bonds to finance capital projects for public schools.

11. RISK MANAGEMENT

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

Supplementary Information

Virginia Public School Authority
Detail of Long-Term Indebtedness
June 30, 2004
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series

	Dated Date	Bond Resolution	True Interest Cost ("TIC")	Amount Issued *	Local School Bonds Purchased	Outstanding July 1, 2003	Issued (Retired) During Year	Outstanding June 30, 2004	Original Maturity
1991 Series C Refunding Bonds	12/01/91	1987	6.25%	127,285	-	38,270	(38,270)	-	01/01/09
1992 Series B	12/01/92	1987	5.75%	60,460	60,460	25,595	(25,595)	-	01/01/13
1993 Series A	04/01/93	1987	5.21%	45,710	45,710	22,460	(22,460)	-	01/01/13
1993 Series C	10/01/93	1987	4.62%	80,135	80,135	27,525	(27,525)	-	01/01/14
1993 Series Henrico County	05/15/93	Stand Alone	5.20%	32,000	32,000	1,600	(1,600)	-	07/15/13
1993 Series B Refunding Bonds	05/01/93	1987	5.16%	293,160	-	130,335	(130,335)	-	01/01/12
1994 Series York County	07/01/94	Stand Alone	5.76%	25,000	25,000	3,390	(1,065)	2,325	07/15/14
Series 1995 A	05/01/95	1991	5.64%	63,595	57,460	42,540	(42,540)	-	08/01/16
1995 Series Chesapeake City	06/01/95	Stand Alone	5.63%	102,000	102,000	18,000	(3,000)	15,000	06/01/15
Series 1995 B	09/01/95	1991	5.60%	26,070	23,620	17,515	(17,515)	-	08/01/16
Series 1995 C	12/01/95	1991	5.10%	121,610	110,528	82,955	(5,655)	77,300	08/01/16
Sereis 1996 A	04/15/96	1991	5.45%	49,205	44,555	35,300	(2,360)	32,940	08/01/17
Series 1996 B	11/01/96	1991	5.20%	132,545	120,396	95,080	(6,125)	88,955	08/01/17
Series 1997A	04/01/97	1991	5.49%	92,175	83,325	72,045	(4,145)	67,900	08/01/18
Series 1997 I	11/01/97	1997	4.92%	224,285	140,818	167,060	(14,240)	152,820	08/01/17
Series 1998 A	04/01/98	1997	4.71%	130,715	50,730	96,705	(7,660)	89,045	08/01/18
Series 1998 B	11/01/98	1997	4.56%	105,025	105,311	84,055	(5,255)	78,800	08/01/18
Series 1999 A	05/01/99	1997	4.60%	153,040	153,040	131,860	(7,180)	124,680	08/01/19
Series 1999 B	11/01/99	1997	5.54%	91,770	91,770	77,685	(48,900)	28,785	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	90,515	(4,865)	85,650	08/01/20
Series 2000 Ed Tech Issue VI	05/01/00	Equip. Notes	5.12%	66,380	-	28,140	(13,720)	14,420	04/01/05
Series 2000 B	11/01/00	1997	5.11%	106,200	106,197	97,430	(4,595)	92,835	08/01/20
Series 2001 A	05/01/01	1997	4.84%	153,940	153,940	146,730	(7,255)	139,475	08/01/21
Series 2001 Ed Tech Series I	05/01/01	Equip. Notes	3.53%	55,765	-	33,925	(10,800)	23,125	04/15/06
Series 2001 B	11/01/01	1997	4.87%	142,400	142,400	135,555	(6,875)	128,680	08/01/21
Series 2001 C	11/01/01	1997	4.87%	41,500	41,500	41,500	-	41,500	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	111,510	(4,990)	106,520	08/01/22

*Includes refunding bonds issued.

Virginia Public School Authority
Detail of Long-Term Indebtedness
June 30, 2004
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series (continued)

	Dated Date	Bond Resolution	True Interest Cost ("TIC")	Amount Issued *	Local School Bonds Purchased	Outstanding July 1, 2003	Issued (Retired) During Year	Outstanding June 30, 2004	Original Maturity
Series 2002 Ed Tech Series II	05/01/02	Equip. Notes	2.94%	55,555	-	44,250	(11,325)	32,925	04/15/07
Series 2002 B	11/01/02	1997	4.12%	155,545	155,545	155,545	(6,730)	148,815	08/01/22
Series 2002 QZAB, Accomack County	12/31/02	Stand Alone	0.00%	1,433	1,433	1,433	-	1,433	12/31/16
Series 2003 A	05/01/03	1997	4.00%	113,155	113,155	113,155	-	113,155	08/01/28
Series 2003 Ed Tech Series III	05/01/03	Equip. Notes	1.92%	55,325	-	55,325	(12,110)	43,215	04/15/08
Series 2003 B	05/01/03	1997	2.93%	74,850	74,850	74,850	(4,020)	70,830	08/01/13
Series 2003 C	11/01/03	1997	4.39%	190,645	190,645	-	190,645	190,645	08/01/28
Series 2003 D	12/11/03	1997	3.23%	286,670	-	-	286,670	286,670	08/01/19
2004 Series Chesterfield County	02/15/04	Stand Alone	3.80%	56,825	56,825	-	56,825	56,825	01/15/25
Series 2004 A	05/01/04	1997	4.33%	123,585	123,585	-	123,585	123,585	08/01/29
Series 2004 Ed Tech Series IV	06/01/04	Equip. Notes	2.82%	56,835	-	-	56,835	56,835	04/15/09
Total				<u>\$ 3,906,597</u>	<u>\$ 2,701,137</u>	<u>\$ 2,302,357</u>	<u>\$ 215,850</u>	<u>\$ 2,518,207</u>	

Detail of Long-Term Indebtedness by Resolution

	Amount Issued *	Local School Bonds Purchased	Outstanding July 1, 2003	Issued (Retired) During Year	Outstanding June 30, 2004
1987 Resolution	\$ 606,750	\$ 186,305	\$ 244,185	\$ (244,185)	\$ -
1991 Resolution	485,200	439,884	345,435	(78,340)	267,095
1997 Resolution	2,305,010	1,855,171	1,524,155	478,335	2,002,490
Stand Alone Issues	219,777	219,777	26,942	51,160	78,102
Equipment Notes	289,860	-	161,640	8,880	170,520
Total	<u>\$ 3,906,597</u>	<u>\$ 2,701,137</u>	<u>\$ 2,302,357</u>	<u>\$ 215,850</u>	<u>\$ 2,518,207</u>

*Includes refunding bonds issued.

VIRGINIA PUBLIC SCHOOL AUTHORITY

1991 Resolution Income Coverage

As of June 30, 2004

		<u>Income Available to Pay Debt Service</u>				
		Debt Service	(A)		(B)	Debt Service
		Reserve	Total		Total Debt Service	Coverage
	Local School Bond Income	Cash Flow (1)	Income		Requirements	(A) / (B)
8/1/2004	\$ 23,987,526	\$ 1,727,088	\$ 25,714,614	\$	25,601,818	100.44%
2/1/2005	5,905,529	835,182	6,740,711		6,607,224	102.02%
8/1/2005	23,613,371	1,775,382	25,388,753		25,277,224	100.44%
2/1/2006	5,365,439	810,562	6,176,002		6,047,124	102.13%
8/1/2006	23,219,614	1,787,562	25,007,177		24,897,124	100.44%
2/1/2007	4,848,873	784,987	5,633,860		5,511,124	102.23%
8/1/2007	22,768,099	1,790,427	24,558,526		24,456,124	100.42%
2/1/2008	4,369,063	758,656	5,127,718		5,013,404	102.28%
8/1/2008	22,364,213	1,673,518	24,037,731		23,948,404	100.37%
2/1/2009	3,901,675	734,612	4,636,287		4,530,973	102.32%
8/1/2009	22,038,421	1,554,254	23,592,675		23,515,973	100.33%
2/1/2010	3,424,718	713,151	4,137,869		4,041,151	102.39%
8/1/2010	21,714,057	1,551,720	23,265,777		23,186,151	100.34%
2/1/2011	2,941,058	691,195	3,632,253		3,544,367	102.48%
8/1/2011	21,048,144	1,880,169	22,928,313		22,844,367	100.37%
2/1/2012	2,460,794	660,359	3,121,153		3,042,380	102.59%
8/1/2012	20,651,066	1,571,038	22,222,103		22,157,380	100.29%
2/1/2013	1,975,797	636,412	2,612,209		2,542,041	102.76%
8/1/2013	20,349,969	1,467,043	21,817,012		21,747,041	100.32%
2/1/2014	1,485,644	614,633	2,100,277		2,039,225	102.99%
8/1/2014	20,044,739	1,436,095	21,480,835		21,419,225	100.29%
2/1/2015	989,760	593,100	1,582,860		1,530,994	103.39%
8/1/2015	19,750,119	1,429,743	21,179,863		21,105,994	100.35%
2/1/2016	488,525	571,176	1,059,701		1,017,672	104.13%
8/1/2016	13,574,622	7,577,757	21,152,379		20,782,672	101.78%
2/1/2017	131,740	393,065	524,805		499,381	105.09%
8/1/2017	4,836,740	9,939,153	14,775,893		14,294,381	103.37%
2/1/2018	-	142,868	142,868		133,838	106.75%
8/1/2018	-	5,390,543	5,390,543		5,113,838	105.41%
Total	<u>\$ 318,249,315</u>	<u>\$ 51,491,450</u>	<u>\$ 369,740,765</u>	<u>\$</u>	<u>366,448,609</u>	

- (1) Represents principal and interest income. For each series of Bonds, interest income is computed at the lesser of the arbitrage yield on the applicable series of Bonds and the investment rate reasonably estimated by the State Treasurer. The corpus of the Account is drawn down as the Debt Service Account Requirement declines.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

November 15, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission

Board of Commissioners
Virginia Public School Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Virginia Public School Authority, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Virginia Public School Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Public School Authority as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Virginia Public School Authority's basic financial statements. The Detail of Long Term Indebtedness and 1991 Resolution Income Coverage are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

AUDITOR OF PUBLIC ACCOUNTS

VIRGINIA PUBLIC SCHOOL AUTHORITY
Richmond, Virginia

BOARD OF COMMISSIONERS

As of June 30, 2004

James J. Wheaton, Chairman

William D. Sessoms, Jr., Vice Chairman

Tammy Barnett Hall

James M. Holland

Hady Amr

EX OFFICIO

Jody M. Wagner, Secretary and Treasurer, State Treasure

David Von Moll, State Comptroller

Jo Lynne DeMary, Superintendent of Public Instruction