VIRGINIA PUBLIC SCHOOL AUTHORITY

RICHMOND, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 1999

AUDITOR OF
PUBLIC
ACCOUNTS

COMMONWEALTH OF VIRGINIA

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November 15, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the balance sheet of the **Virginia Public School Authority** as of June 30, 1999, and the related statement of revenues, expenses, and changes in retained earnings, and the statement of cash flows for the year then ended. These financial statements are the responsibility of the 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 generally accepted auditing standards. 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 the Virginia Public School Authority as of June 30, 1999, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Authority. The information in those schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects to the financial statements taken as a whole.

AUDITOR OF PUBLIC ACCOUNTS

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FINANCIAL STATEMENTS

VIRGINIA PUBLIC SCHOOL AUTHORITY
BALANCE SHEET
As of June 30, 1999

ASSETS	
Unrestricted Assets:	
Cash and cash equivalents with Treasurer of Virginia (Note 2)	$ 6,139,212
Long-term investments (Note 2)	988,125
Interest receivable	26,884
Total Unrestricted Assets	7,154,221
Restricted Assets:	
Cash and cash equivalents with Treasurer of Virginia (Note 2)	39,033,956
Cash with paying agents	48,561
Investments:	
Short-term investments (Note 2)	1,119,211
Long-term investments (Note 2)	55,726,882
Loans to Localities:	
Local school bonds (Note 3)	1,649,040,266
Literary Fund loan obligations (Note 3)	279,170,967
Interest receivable	29,853,216
Due from Literary Fund (Note 5)	83,110,000
Discount on bonds sold	3,295,142
Total Restricted Assets	2,140,398,201
Total Assets	$2,147,552,422
LIABILITIES AND FUND EQUITY	
Liabilities:	
Current Liabilities (payable from unrestricted assets):	
Accounts payable	$ 150,266
Current Liabilities (payable from restricted assets):	
Matured interest and bonds payable	48,561
Interest payable	37,433,229
Accrued interest sold	470,748
Due to Literary Fund	18,370,195
Due to localities (Note 5)	73,135
Notes payable (Notes 4 and 5)	30,015,000
Bonds payable (net of interest deferral) (Notes 4 and 6)	107,642,000
Premium on bonds sold	356,238
Total Current Liabilities	194,409,106
Long-term Liabilities (payable from restricted assets):	
Notes payable (Notes 4 and 5)	53,095,000
Bonds payable (net of interest deferral) (Notes 4 and 6)	1,593,527,800
Premium on bonds sold	6,372,067
Advance from Literary Fund (Note 3)	279,170,967
Total Long-term Liabilities	1,932,165,834
Total Liabilities	2,126,725,206
Fund equity - Retained earnings	20,827,216
Total Liabilities and Fund Equity	$2,147,552,422

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

VIRGINIA PUBLIC SCHOOL AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS
For the Year Ended June 30, 1999

Revenues:	
Interest on:	
Local School Bonds	$ 86,963,891
Literary Fund loans	8,349,176
Cash and cash equivalents and investments	6,469,590
Premium on bonds sold	1,010,145
Total Revenues	102,792,802
Operating Expenses:	
Interest on bonds	91,222,828
Financial advisor fees	83,656
Paying agent fees	296
Escrow agent fees	965
Legal fees	259,033
Bond rating fees	106,823
Printing	9,911
Board expenses	2,546
Underwriters' discount	896,149
Rebate and penalty payments and calculation fees (Note 8)	206,497
Collateral custody and valuation fees	14,000
Premium on bonds purchased	1,307,479
Payment to localities	1,252,644
Net decrease in fair value of investments	5,174
Other	190,764
Total Operating Expenses	95,558,765
Operating Income	7,234,037
Nonoperating Transfers:	
Transfers to Literary Fund (Note 7)	(8,379,659)
Transfer to the General Fund of the Commonwealth (Note 7)	(137,000)
Total Nonoperating Transfers	(8,516,659)
Net Income	(1,282,622)
Retained Earnings, July 1, 1998	22,109,838
Retained Earnings, June 30, 1999	$ 20,827,216

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

VIRGINIA PUBLIC SCHOOL AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 1999

Cash flows from operating activities:	
Interest on cash equivalents	$ 875,648
Principal received on Literary Fund loans	26,870,922
Interest received on Literary Fund loans	8,349,176
Principal received on local school bonds	99,127,701
Interest received on local school bonds	84,913,034
Payments to vendors for goods and services	(445,134)
Payments received from the Literary Fund	33,534,294
Other operating revenues	10,726
Net cash provided by operating activities	253,236,367
Cash flows from non-capital financial activities:	
Proceeds from the sale of bonds	258,065,000
Principal paid on VPSA bonds	(131,720,000)
Interest paid on VPSA bonds	(87,829,621)
Premium on bonds sold	2,729,656
Underwriters' discount	(896,149)
Premium on bonds purchased	(1,307,479)
Accrued interest sold	(752,550)
Transfers to the Literary Fund (Note 7)	(40,111,384)
Transfer to the General Fund of the Commonwealth (Note 7)	(137,000)
Payments to localities (Education Technology Notes)	(29,117,279)
Rebate and penalty payments to the Internal Revenue Service	(217,142)
Net cash provided from noncapital financing activites	(31,293,948)
Cash flows from investing activities:	
Purchase of investment securities	(999,520)
Proceeds from sale and maturities of investments	562,683
Interest on investments	5,727,776
Increase in fair value of cash equivalents	6,221
Purchase of local school bonds	(258,350,926)
Net cash used in investing activities	(253,053,766)
Net increase in cash and cash equivalents	(31,111,347)
Cash and cash equivalents, July 1, 1998	76,284,515
Cash and cash equivalents, June 30, 1999	$ 45,173,168
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 7,234,037
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts receivable	130,541
Increase in interest receivable	(1,638,944)
Increase in accounts payable	92,400
Decrease in interest payable	(576,405)
Payments from the Literary Fund	33,534,294
Principal received on Literary Fund loans	26,870,922
Principal received on local school bonds	99,127,701
Rebate and penalty payments to the Internal Revenue Service	217,142
Payments to localities	1,252,644
Amortization of discount	1,613,412
Amortization of premium	(278,079)
Underwriters' discount	896,149
Premium on bonds purchased	1,307,479
Premium on bonds sold	(1,010,145)
Amortization of interest deferral	2,356,200
Interest paid on VPSA bonds	87,829,621
Decrease in fair value of investments	5,174
Interest on investments	(5,727,776)
Total Adjustments	246,002,330
Net cash provided by operating activities	$ 253,236,367

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

NOTES TO FINANCIAL STATEMENTS

VIRGINIA PUBLIC SCHOOL AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

AS OF JUNE 30, 1999

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. Prior to August 1987, the Authority issued bonds for its pooled bond program under provisions of a bond resolution adopted in 1963 (the 1963 Resolution). In August 1987, the Authority adopted the 1987 Resolution under which most subsequent pooled bonds have been issued. Under the provision of the 1963 Resolution and 1987 Resolution, bonds issued thereunder are secured by the local school bonds purchased and payments received on Literary Fund loan obligations held in the VPSA 1987 Reserve Fund. In June 1993, all outstanding 1963 Resolution bonds were defeased. In September 1993, the VPSA Board temporarily suspended issuance of bonds under the 1987 Resolution until Literary Fund loan note transfers resume, thereby maintaining debt service coverage at levels deemed acceptable by the Authority.

In recent years, the Authority has developed alternatives to the 1987 Resolution. The Authority has created and issued pooled bonds under its 1990 Insured Resolution, 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.

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 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 on the accrual basis of accounting under which revenues are recognized in the period in which the are earned and expenses are recognized in the period in which they are incurred. 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 one percent 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, time deposits, and certificates of deposit in accordance with Section 2.1-329 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 percent to 100 percent of excess deposits in the case of a bank and 100 percent to 110 percent for a savings institution to a collateral pool in the name of the State Treasury Board. Accordingly, all deposits are considered fully collateralized.

Section 2.1-327 and Section 2.1-328 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.

The Authority's cash equivalents and investments are categorized to give an indication of the level of credit risk assumed by the Authority at June 30, 1999. Credit risk is the risk that the Authority may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments which are insured or registered or for which the securities are held by the Authority or its safekeeping agent in the Authority's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held in the Authority's name by the trust department of the financial institution that purchased the investments for the Authority. Risk category 3 includes uninsured or unregistered investments purchased and held by the Trustee for the Authority, but not in the Authority's name. There are no investments in risk category 2, nor risk category 3. The investments in risk category 1 include U.S. government securities and repurchase agreements. Cash deposits and SNAP amounts are not categorized. Details of cash, cash equivalents, and investments are presented below.

Summary of Cash, Cash Equivalents and Investments
As of June 30, 1999

	Carrying Amount	Fair Value
Cash and cash equivalents:		
Deposits	$ 229,312	$ 229,312
Mutual fund investments [1]	19,716,000	19,716,000
U. S. Government Securities	21,879,238	21,992,300
State Non-Arbitrage Program [2]	3,235,556	3,235,556
Total cash and cash equivalents	$45,060,106	$45,173,168

Short-term investments:		
Flexible Repurchase Agreements	$ 1,119,211	$ 1,119,211
Long-term investments:		
U. S. Government Securities	$ 999,520	$ 988,125
Flexible Repurchase Agreements [3]	55,726,882	55,726,882
Total long-term investments	$56,726,402	$56,715,007

1 The Authority invests certain short-term cash balances held within its accounts in the Fidelity Institutional Cash Portfolio – Class A – U.S. Treasury Portfolio II open-end mutual fund. This fund 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 (SNAP) 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 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.

3 The Authority has eight 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. (5) 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 AND LITERARY FUND LOAN OBLIGATIONS

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, which is equal to the face value of the bonds. Local school bonds purchased under the 1987, 1990 Insured, and 1991 Resolutions are held in the purchase fund established under the respective pooled 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 generally ten basis points higher than the interest rate paid by the Authority on the corresponding maturity on its bonds.

Other loans to localities held by the Authority consist of Literary Fund loan obligations, which are recorded at face value. Literary Fund loan obligations are transferred to the Authority semiannually on January 1 and July 1. Interest rates charged on Literary Fund loans are established by the State Board of Education. Section 22.1-170 of the Code of Virginia provides that Literary Fund loan obligations remain an asset of the Literary Fund but may be used by the Authority as if such assets were the property of the Authority. Accordingly, these assets are reflected as being due to the Literary Fund.

Shown below are the local school bonds and Literary Fund loan obligations held by the Authority as of June 30, 1999:

Local school bonds:

Held in 1987 Purchase Fund	$ 417,995,000
Held in 1990 Insured Purchase Fund	21,690,000
Held in 1991 Purchase Fund	470,832,043
Held in 1993 Purchase Fund (Henrico County Stand Alone)	24,000,000
Held in 1994 Purchase Fund (York County Stand Alone)	21,970,000
Held in 1995 Purchase Fund (City of Chesapeake, Stand Alone)	102,000,000
Held in 1997 Pledge Account	590,553,223
Total local school bonds	$1,649,040,266
Literary Fund loan obligations:	
Held in 1987 Reserve Fund	$ 279,170,967

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, 1999.

	Current Liability	Long-Term Liability	Total
Balance July 1, 1998, as reclassified	$ 131,720,000	$1,561,230,000	$1,692,950,000
Issued during fiscal 1999	5,225,000	252,840,000	258,065,000
Retired during fiscal 1999	(131,720,000)	-	(131,720,000)
Maturing fiscal 2000	135,905,000	(135,905,000)	-
Subtotal	$ 141,130,000	$1,678,165,000	$1,819,295,000
Less: Deferral on debt defeasance	(3,473,000)	(31,542,200)	(35,015,200)
Balance June 30, 1999	$137,657,000	$1,646,622,800	$1,784,279,800

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, 1999.

Year Ending June 30	Principal	Interest	Total
2000	$ 141,130,000	$ 91,518,259	$ 232,648,259
2001	134,630,000	85,158,139	219,788,139
2002	134,660,000	78,457,640	213,117,640
2003	120,775,000	71,780,509	192,555,509
2004	112,490,000	65,610,596	178,100,596
2005-2019	1,175,610,000	386,367,517	1,561,977,517
Subtotal	1,819,295,000	778,892,660	2,598,187,660
Less: Deferral on debt defeasance	(35,015,200)	-	(35,015,200)
Total	$1,784,279,800	$778,892,660	$2,563,172,460

5. EQUIPMENT NOTES

In September 1995, the Authority issued $46,205,000 School Equipment Financing Notes Educational Technology Issue III (the 1995 Notes). In March 1997, the Authority issued $55,910,000 School Equipment Financing Notes Educational Technology Issue IV (the 1997 Notes). In March 1998, the Authority issued $46,925,000 School Equipment Financing Notes Educational Technology Issue V (the 1998 Notes). The proceeds of each issue were used to make grants to school divisions for the purchase of educational technology equipment. The notes are to be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund. The proceeds are invested in the Virginia State Non-Arbitrage Program until requisitioned by localities. As of June 30, 1999 the amount remaining to be requisitioned by localities is $73,135 for the 1998 Notes.

6. DEFEASANCE OF DEBT

In 1987, 1991, 1993, 1997, and 1998 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 $35,015,200 to reflect the remaining deferral on debt defeasance at June 30, 1999.

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.

At June 30, 1999, $203,700,000 of bonds outstanding is considered defeased for financial reporting purposes.

7. TRANSFERS

The Enabling Act provides that the 1987 Reserve Fund balance, other than that portion which comprises the Literary Fund loans, shall be transferred to the Literary Fund on or before January 10th of each year. During the year ended June 30, 1999, $36,439,968, comprised of $9,530,417 of interest on Literary Fund loan obligations and short-term investments, and $26,909,551 of loan principal repayments, was transferred to the Literary Fund from the 1987 Reserve Fund.

The Enabling Act also requires transfers from the Literary Fund to the VPSA 1987 Reserve Fund each January 1 and July 1. Eight Literary Fund loan obligations in the amount of $13,875,614 were transferred on July 1, 1998 and eleven Literary Fund loan obligations totaling $36,296,275 were transferred on January 1, 1999.

Additionally, on September 1, 1998, the Authority transferred $3,913,875 to the Literary Fund. This represents savings generated on the subsidy portion of bonds that were refunded through the issuance of the Series 1997-I and Series 1998 A bonds in fiscal year 1998. In accordance with the Enabling Act, refunding savings attributable to these bonds are required to be returned to the Literary Fund.

On June 18, 1999, the Authority transferred $137,000 to the General Fund of the Commonwealth pursuant to Section 3-3.01(A) of Chapter 935 of the 1999 Virginia Acts of Assembly, representing reimbursement to the Commonwealth for staff and other administrative services provided by the Department of the Treasury.

8. 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 tax-exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with 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 Initial 5 year or final	Computation Date	Liability
(90 Insured Resolution) Refunding Series 1993	5 year	8/12/98	$ -
(87 Resolution) 1993 Series C	5 year	11/18/98	$59,818
(87 Resolution) 1989 Series B	Final	1/1/99	$ -
(87 Resolution) 1990 Series A	Final	1/1/99	$ -
Henrico County Stand Alone Series 1990	Final	1/15/99	$ -
(91 Resolution) Series 1994 A	5 year	5/1/99	$ -

The Authority paid $157,324 to its rebate calculation agent for computation of the amounts owed to the federal government.

The VPSA School Special Obligation School Financing Bonds York County Series of 1994 and the VPSA School Financing Bonds (1991 Resolution) Series 1994 B will require a rebate computation as of August 1, 1999 and November 22, 1999, respectively. The estimated liability for arbitrage earnings on these issues has not been determined; however, it is expected that any rebate liability will be payable by applicable localities.

9. SUBSEQUENT EVENTS

By November 1999, the Authority plans to issue approximately $2.1 million in Special Obligations School Financing Bond (County of Northampton Qualified Zone Academies) Series of 1999 as a Qualified Zone Academy Bond pursuant to Section 1297E of the Internal Revenue Code of 1986, as amended, to purchase certain general obligation local school bonds of Northampton County to finance capital projects for public schools.

In November 1999, the Authority plans to issue approximately $92.3 million of School Financing Bonds (1997 Resolution) Series 1999 B to purchase certain general obligation local school bonds to finance capital projects for public schools.

10. SURETY BOND

Mary G. Morris, Treasurer of Virginia and Treasurer of the Authority, was covered under a Faithful Performance of Duty Bond in the amount of $500,000 with the Fidelity and Deposit Company of Maryland as surety.

The Commonwealth of Virginia, through its Department of General Services, Division of Risk Management, provides employee dishonesty coverage to its agencies and institutions with coverage in the amount of $500,000 for each loss. All employees of the Commonwealth, as well as parties acting on behalf of the Commonwealth, such as the board members of the Authority, are covered under the policy.

SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION
YEAR 2000 READINESS

Many existing computer and embedded technology systems use only two digits to identify a year in the date field. These systems were designed and developed without considering the impact of the upcoming change in the century. If not corrected, these systems could fail or create erroneous results by or at the Year 2000. In addition, the Year 2000 is a leap year, which may generate additional problems. The Authority recognizes the need to ensure its operations will not be adversely impacted by Year 2000 failures.

The Authority is a public body corporate and an agency and instrumentality of the Commonwealth of Virginia (the Commonwealth) and is staffed by the Department of the Treasury (Treasury). Treasury has modified its systems to address this issue, with particular emphasis on its "mission critical" systems, which include, but are not limited to, various financial systems. However, due to the interdependent nature of business processes, Treasury may be adversely impacted in the Year 2000 depending on whether it or other entities not affiliated with the Commonwealth address this issue successfully. For example, while the Commonwealth anticipates having sufficient funds to pay debt service, problems may disrupt external systems necessary to send payments to bondholders. Therefore Treasury cannot provide assurance against problems that may disrupt external systems not affiliated with the Commonwealth.

As of June 30, 1999, Treasury had completed the Awareness, Assessment, and Remediation Stages of its Year 2000 compliance efforts and is nearing the completion of the Validation/Testing Stage. As of June 30, 1999, Treasury had incurred approximately $236,121 in Year 2000 related costs and it was estimated that approximately $108,000 of additional costs would be required to complete the testing, validation, and implementation of systems to ensure Year 2000 compliance.

Virginia Public School Authority
Supplementary Information
June 30, 1999
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Serie	Dated Date	Bond Resolution	True Interest Cost ("TIC")	Amount Issued *	Local School Bonds Purchased	Outstanding July 1, 1998
1989 Series B	10/01/89	1987	6.86%	$ 55,730	$ 55,730	$ 3,080
1990 Series A	04/01/90	1987	7.02%	58,865	58,865	3,600
1990 Series B	12/01/90	1987	6.62%	28,440	28,440	3,700
1990 Series Henrico County	07/15/90	Stand Alone	6.84%	37,305	37,305	1,865
1990 Series Insured	08/15/90	1990 Insured	6.88%	33,105	33,105	1,550
1991 Series A	05/01/91	1987	6.39%	40,940	40,940	5,200
1991 Series B	11/01/91	1987	6.12%	55,105	55,105	13,780
1991 Series C Refunding Bonds	12/01/91	1987	6.25%	127,285	-	107,655
1992 Series A	04/15/92	1987	6.13%	68,365	68,365	12,230
1992 Series B	12/01/92	1987	5.75%	60,460	60,460	41,530
1993 Series A	04/01/93	1987	5.21%	45,710	45,710	34,610
1993 Series C	10/01/93	1987	4.62%	80,135	80,135	55,290
1993 Series Henrico County	05/15/93	Stand Alone	5.20%	32,000	32,000	25,600
1993 Series B Refunding Bonds	05/01/93	1987	5.16%	293,160	-	213,505
1993 Series Refunding Bonds	07/01/93	1990 Insured	5.29%	24,080	-	24,040
Series 1994 A	04/01/94	1991	6.07%	115,425	104,045	95,860
1994 Series York County	07/01/94	Stand Alone	5.76%	25,000	25,000	22,785
Series 1995 A	05/01/95	1991	5.64%	63,595	57,460	57,750
1995 Series Chesapeake City	06/01/95	Stand Alone	5.63%	102,000	102,000	102,000
Series 1995 B	09/01/95	1991	5.60%	26,070	23,620	23,700
Series 1995 C	12/01/95	1991	5.10%	121,610	110,528	111,025
Series 1995 Ed Tech Issue III	09/15/95	Equip. Notes	4.17%	46,205	-	19,155
Sereis 1996 A	04/15/96	1991	5.45%	49,205	44,555	46,935
Series 1996 B	11/01/96	1991	5.20%	132,545	120,396	126,540
Series 1997A	04/01/97	1991	5.49%	92,175	83,325	92,175
Series 1997 Ed Tech Issue IV	02/15/97	Equip. Notes	4.17%	55,910	-	45,865
Series 1997 I	11/01/97	1997	4.92%	224,285	140,818	224,285
Series 1998 Ed Tech Issue V	02/15/98	Equip. Notes	4.04%	46,925	-	46,925
Series 1998 A	04/01/98	1997	4.71%	130,715	50,730	130,715
Series 1998 B	11/01/98	1997	4.56%	105,025	105,311	-
Series 1999 A	05/01/99	1997	4.60%	153,040	153,040	-
Total				$ 2,530,415	$ 1,716,988	$1,692,950

Detail of Long-Term Indebtedness by Resolution	Amount Issued *	Local School Bonds Purchased	Outstanding July 1, 1998
1987 Resolution	$ 914,195	$ 493,750	$ 494,180
1991 Resolution	600,625	543,929	553,985
1997 Resolution	613,065	449,899	355,000
Stand Alone Issues	196,305	196,305	152,250
Equipment Notes	149,040	-	111,945
1990 Insured Resolution	57,185	33,105	25,590
Total	$ 2,530,415	$ 1,716,988	$1,692,950

* Includes refunding bonds issued.

Issued (Retired) During Year	Outstanding June 30, 1999	Original Maturity
$ (3,080)	$ -	01/01/10
(3,600)	-	01/01/10
(1,210)	2,490	01/01/11
(1,865)	-	01/15/11
(1,550)	-	08/01/10
(2,600)	2,600	01/01/11
(2,560)	11,220	01/01/12
(8,945)	98,710	01/01/09
(5,160)	7,070	01/01/12
(2,070)	39,460	01/01/13
(2,535)	32,075	01/01/13
(6,130)	49,160	01/01/14
(1,600)	24,000	07/15/13
(19,410)	194,095	01/01/12
(270)	23,770	08/01/10
(5,590)	90,270	08/01/14
(815)	21,970	07/15/14
(2,930)	54,820	08/01/16
-	102,000	06/01/15
(1,200)	22,500	08/01/16
(5,550)	105,475	08/01/16
(9,365)	9,790	04/01/00
(2,260)	44,675	08/01/17
(6,065)	120,475	08/01/17
(3,820)	88,355	08/01/18
(10,770)	35,095	04/01/02
(8,395)	215,890	08/01/17
(8,700)	38,225	04/01/03
(3,675)	127,040	08/01/18
105,025	105,025	08/01/18
153,040	153,040	08/01/19
$ 126,345	$ 1,819,295	

Issued (Retired) During Year	Outstanding June 30, 1999
$ (57,300)	$ 436,880
(27,415)	526,570
245,995	600,995
(4,280)	147,970
(28,835)	83,110
(1,820)	23,770
$ 126,345	$ 1,819,295

VIRGINIA PUBLIC SCHOOL AUTHORITY

1987 Resolution Income Coverage [(1)]

As of June 30, 1999

	Schedule of Total Income						
	Local School Bonds Held in 1987 Purchase Fund			Literary Fund Obligations Held In 1987 Reserve Fund			
Calendar Year	Principal	Interest	Total	Principal	Interest	Total	Total Income
1999	$ 51,560,000	$ 27,134,478	$ 78,694,478	$ 28,297,552	$ 9,224,818	$ 37,522,370	$ 116,216,848
2000	45,990,000	23,789,944	69,779,944	29,079,911	9,475,521	38,555,432	108,335,376
2001	42,525,000	20,768,219	63,293,219	27,660,386	8,583,751	36,244,137	99,537,356
2002	39,875,000	17,965,713	57,840,713	26,217,413	7,725,437	33,942,850	91,783,563
2003	40,085,000	15,325,010	55,410,010	24,754,840	6,932,722	31,687,562	87,097,572
2004	36,840,000	12,691,186	49,531,186	23,362,595	6,166,654	29,529,249	79,060,435
2005	34,325,000	10,310,879	44,635,879	22,129,587	5,446,404	27,575,991	72,211,870
2006	31,605,000	8,093,846	39,698,846	20,717,778	4,763,144	25,480,922	65,179,768
2007	26,895,000	6,049,477	32,944,477	19,496,509	4,122,257	23,618,766	56,563,243
2008	23,915,000	4,291,676	28,206,676	18,201,136	3,518,665	21,719,801	49,926,477
2009	18,040,000	2,704,629	20,744,629	15,899,607	2,957,666	18,857,273	39,601,902
2010	11,840,000	1,566,143	13,406,143	13,512,917	2,474,073	15,986,989	29,393,132
2011	9,380,000	851,773	10,231,773	11,764,474	2,064,957	13,829,431	24,061,204
2012	4,020,000	294,258	4,314,258	9,808,468	1,712,985	11,521,453	15,835,710
2013	780,000	65,240	845,240	8,574,845	1,427,474	10,002,318	10,847,558
2014	320,000	21,120	341,120	8,488,392	1,179,838	9,668,230	10,009,350
2015	-	-	-	8,439,463	934,900	9,374,363	9,374,363
2016	-	-	-	8,129,243	691,432	8,820,675	8,820,675
2017	-	-	-	7,519,449	457,413	7,976,862	7,976,862
2018	-	-	-	5,037,389	239,332	5,276,721	5,276,721
Totals	$417,995,000	$151,923,590	$ 569,918,590	$337,091,948	$ 80,099,445	$ 417,191,393	$ 987,109,982

(1) Numbers may not add to totals due to rounding.

(2) Includes scheduled payments on Literary Fund Obligations held in 1987 Reserve Fund as of January 1, 1999 and on Literary Fund Obligations in the principal amount of $36,296,275 transferred to the Authority on January 1, 1999 and $47,540,124 on July 1, 1999.

(3) Total Coverage equals Total Income divided by Total Debt Service.

(4) Debt service shown includes interest due on July 1 of the indicated calendar year and principal and interest due on January 1 of the next calendar year.

Schedule of Total Debt Service(4)

1987 Resolution Bonds

Principal	Interest	Total Debt Service	Total Coverage (3)
$ 55,430,000	$ 23,251,353	$ 78,681,353	1.48
49,360,000	20,401,955	69,761,955	1.55
45,485,000	17,768,270	63,253,270	1.57
42,420,000	15,364,965	57,784,965	1.59
42,275,000	13,076,375	55,351,375	1.57
38,650,000	10,823,285	49,473,285	1.60
35,815,000	8,762,918	44,577,918	1.62
32,615,000	6,844,935	39,459,935	1.65
27,650,000	5,075,000	32,725,000	1.73
24,440,000	3,565,183	28,005,183	1.78
18,255,000	2,275,678	20,530,678	1.93
11,860,000	1,309,513	13,169,513	2.23
9,300,000	677,205	9,977,205	2.41
2,865,000	178,148	3,043,148	5.20
460,000	22,540	482,540	22.48
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
$ 436,880,000	$ 129,397,320	$ 566,277,320	1.69

VIRGINIA PUBLIC SCHOOL AUTHORITY
1991 Resolution Income Coverage
As of June 30, 1999

	Income Available to Pay Debt Service				
	Local School Bond Income	Debt Service Reserve Cash Flow (1)	(A) Total Income	(B) Total Debt Service Requirements	Debt Service Coverage (A) / (B)
08/01/1999	$ 39,956,253	$ 2,671,504	$ 42,627,757	$ 42,478,053	100.35%
02/01/2000	12,395,314	1,521,466	13,916,780	13,677,991	101.75%
08/01/2000	39,327,065	2,872,953	42,200,018	42,042,991	100.37%
02/01/2001	11,672,302	1,484,280	13,156,582	12,930,098	101.75%
08/01/2001	38,598,186	2,992,450	41,590,636	41,440,098	100.36%
02/01/2002	10,951,964	1,443,087	12,395,051	12,181,363	101.75%
08/01/2002	37,593,829	3,217,872	40,811,701	40,681,363	100.32%
02/01/2003	10,224,442	1,394,937	11,619,379	11,416,820	101.77%
08/01/2003	36,992,128	2,804,972	39,797,100	39,671,820	100.32%
02/01/2004	9,460,839	1,356,239	10,817,078	10,624,803	101.81%
08/01/2004	36,365,828	2,823,737	39,189,565	39,054,803	100.35%
02/01/2005	8,658,735	1,316,008	9,974,743	9,791,554	101.87%
08/01/2005	35,716,577	2,828,988	38,545,565	38,421,554	100.32%
02/01/2006	7,843,551	1,274,617	9,118,168	8,943,364	101.95%
08/01/2006	35,042,726	2,837,377	37,880,103	37,753,364	100.34%
02/01/2007	7,055,307	1,231,884	8,287,191	8,122,784	102.02%
08/01/2007	34,319,533	2,802,849	37,122,382	37,002,784	100.32%
02/01/2008	6,301,202	1,188,991	7,490,193	7,338,401	102.07%
08/01/2008	33,626,352	2,705,629	36,331,980	36,218,401	100.31%
02/01/2009	5,556,043	1,147,347	6,703,389	6,564,858	102.11%
08/01/2009	33,022,789	2,547,708	35,570,497	35,474,858	100.27%
02/01/2010	4,798,937	1,108,871	5,907,808	5,781,952	102.18%
08/01/2010	32,418,276	2,541,029	34,959,305	34,856,952	100.29%
02/01/2011	4,033,908	1,069,529	5,103,437	4,990,648	102.26%
08/01/2011	31,470,994	2,854,890	34,325,885	34,215,648	100.32%
02/01/2012	3,270,823	1,021,219	4,292,041	4,192,743	102.37%
08/01/2012	30,796,095	2,519,802	33,315,897	33,227,743	100.27%
02/01/2013	2,502,143	979,471	3,481,614	3,395,879	102.52%
08/01/2013	30,226,315	2,383,275	32,609,590	32,525,879	100.26%
02/01/2014	1,725,852	934,888	2,660,740	2,594,282	102.56%
08/01/2014	24,329,947	7,995,740	32,325,687	31,929,282	101.24%
02/01/2015	1,109,864	733,418	1,843,282	1,785,213	103.25%
08/01/2015	23,915,223	2,035,420	25,950,643	25,685,213	101.03%
02/01/2016	488,525	702,221	1,190,745	1,145,628	103.94%
08/01/2016	13,574,622	12,018,111	25,592,733	25,010,628	102.33%
02/01/2017	131,740	393,065	524,805	499,381	105.09%
08/01/2017	4,836,740	9,939,153	14,775,893	14,294,381	103.37%
02/01/2018	-	142,868	142,868	133,838	106.75%
08/01/2018	-	5,390,543	5,390,543	5,113,838	105.41%
Total	$700,310,966	$99,228,407	$ 799,539,373	$ 793,211,245	

(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.

VIRGINIA PUBLIC SCHOOL AUTHORITY
Richmond, Virginia

As of June 30, 1999

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