VIRGINIA PUBLIC SCHOOL AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This section of the annual financial report of the Virginia Public School Authority (the "Authority") presents an analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2009. This information should be considered in conjunction with the information contained in the financial statements, which follow this section.

Authority Activities and Highlights

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

The Authority currently has bonds outstanding under the 1997 Resolution. The 1997 Resolution, adopted on October 23, 1997, serves as the primary instrument under which the Authority issues bonds under its pooled bond program. The 1997 Resolution bonds are secured by general obligation local school bonds purchased; the State Aid Intercept Provision; and a sum sufficient appropriation, first from available Literary Fund monies and then from the Commonwealth's General Fund. During the fiscal year, the Authority issued $433,545,000 under its pooled bond program.

In addition to its pooled bond program, the Authority also issues special obligation bonds under its stand-alone program. Bonds issued under the stand-alone program are secured solely by the local school bonds purchased from one or more specific localities. The Authority acts as a conduit issuer under the stand-alone program. The Authority also issues obligations to finance technology equipment purchases for local public school systems within the Commonwealth. These obligations are payable from, or otherwise secured by, the assets and income of the Literary Fund and now benefit from a sum sufficient appropriation from the Commonwealth's General Fund. The Authority issued $111,965,000 in special obligation bonds during the fiscal year and $55,395,000 under the educational technology equipment note program.

Overview of the Financial Statements

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

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

Financial Analysis of the Authority

The Authority provides a vehicle for financing capital projects for primary and secondary public schools in the Commonwealth's counties, cities and towns. On local school bonds held by the Authority that were issued prior to March 26, 2009, localities pay interest 10 basis points (0.10%) above the rates paid by the Authority on corresponding maturities of its bonds. As a result of a policy change made by the Authority on March 26, 2009, local school bonds issued by localities subsequent to March 26, 2009 and through June 30, 2012, and held by the Authority, will pay interest 5 basis points (0.05%) above the rates paid by the Authority on corresponding maturities of its bonds. This revenue is deposited to the Authority's General Fund and used to pay the operating costs attributable to its financing programs, including costs of issuance and administration, such as rebate compliance expenses. The Department of the Treasury provides staff support for the Authority. The Authority owns no capital assets.

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

	Enterprise Fund	
	2009	2008
Current assets	$ 1	$ 16
Noncurrent assets	3,566	3,330
Total Assets	3,567	3,346
Current Liabilities	402	390
Noncurrent liabilities	3,165	2,943
Total Liabilities	3,567	3,333
Net assets:		
Unrestricted	-	13
Total net assets	$ -	$ 13

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

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

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

Debt Administration

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

Summary of Authority Bond Obligations
(in millions)

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

* Excludes deferral on debt defeasance.

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

Virginia Public School Authority Bond Ratings

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

[1] 1997 Resolution Bonds

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

Future Impact to Financial Position

In September 2009, the Authority authorized a new debt program utilizing a portion of the Virginia allocation of the new Qualified School Construction Bond (QSCB) tax credit bond program created by The American Recovery and Reinvestment Act of 2009. The new tax credit bond program authorized an initial issuance of up to $85.0 million. The first pool issue of $61.1 million QSCB tax credit bonds was in November 2009. In October and December 2009, respectively, the Authority issued its $481.3 million School Financing Refunding Series 2009 C and its $11.6 million School Financing Bonds, (1997 Resolution) Series 2009 D to purchase certain general obligation local school bonds to finance capital projects for public schools.

Financial Statements

VIRGINIA PUBLIC SCHOOL AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2009

ASSETS	
Current assets:	
Cash and cash equivalents (Note 2A)	$ 1,084,851
Interest receivable	52
Total current assets	1,084,903
Noncurrent assets:	
Restricted cash and cash equivalents (Note 2A)	94,379,551
Loans to localities:	
Local school bonds (Note 2B)	3,236,802,623
Interest receivable	62,820,328
Due from Literary Fund (Note 2D)	172,160,000
Total noncurrent assets	3,566,162,502
Total assets	3,567,247,405
LIABILITIES	
Current liabilities:	
Accounts payable	36,302
Current liabilities payable from restricted assets:	
Interest payable	63,678,013
Accrued interest sold	315,390
Due to localities (Note 2D)	68,742,851
Notes payable (Notes 2C and 2D)	57,540,000
Bonds payable (net of interest deferral) (Notes 2C and 2F)	202,001,600
Premium on bonds sold	6,235,189
Capitalized interest held for localities	3,908,200
Total current liabilities payable from restricted assets	402,421,243
Noncurrent liabilities payable from restricted assets:	
Notes payable (Notes 2C and 2D)	114,620,000
Bonds payable (net of interest deferral) (Notes 2C and 2F)	2,999,296,763
Premium on bonds sold	50,724,536
Total noncurrent liabilities payable from restricted assets	3,164,641,299
Total liabilities	3,567,098,844
NET ASSETS	
Unrestricted	148,561
Total net assets	$ 148,561

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

VIRGINIA PUBLIC SCHOOL AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
For the Year Ended June 30, 2009

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

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, 2009

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

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

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

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

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

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

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

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

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

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

B. Basis of Accounting

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

C. Fund Accounting

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

D. Bond Issuance Costs, Discounts, and Premiums

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

2. DETAILED NOTES

A. Cash and Cash Equivalents (Unrestricted and Restricted)

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

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

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

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

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

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

2 The Virginia State Non-Arbitrage Program® ("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®.

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

B. Local School Bonds

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

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

Shown below are the local school bonds held by the Authority as of June 30, 2009.

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

C. Long-Term Indebtedness

1. Changes in Long-Term Debt

The following is a summary of changes in long-term debt of the Authority for the year ended June 30, 2009.

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

2. Annual Requirements to Amortize Bonds Payable and Notes Payable

The following schedule provides the annual funding requirements necessary to amortize long-term debt of the Authority outstanding at June 30, 2009.

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

D. Equipments Notes

Periodically, the Authority issues Equipment Financing Notes, the proceeds of which are used to make grants to school divisions for the purchase of educational technology equipment. The proceeds are invested in the Virginia State Non-Arbitrage Program® until requisitioned by localities. The following schedule details the notes that have been issued which still have either bonds outstanding or funds remaining to be disbursed to localities as of June 30, 2009.

Educational Technology Notes

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

E. Qualified Zone Academy Bond

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

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

F. Defeasance of Debt

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

The Authority issued one series of refunding bonds during fiscal year 2009. The proceeds of the refunding bonds were placed with an escrow agent to provide for all future debt service on the defeased bonds. Accordingly, the liability for the defeased bonds is not included on the Authority's financial statements. Any savings realized as a result of these refundings will be passed through, on a pro rata basis, to the issuers of the related underlying local school bonds in accordance with the Authority's Enabling Legislation. The following table reflects the refunding activity during the year.

Refunding Bonds Issued During Fiscal Year 2009

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

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," the difference between the reacquisition price and the net carrying amount of the bonds defeased with refunding debt is amortized as a component of Interest on Bonds over the remaining life of the refunded debt. Therefore, Bonds Payable has been reduced by $38,523,700 to reflect the remaining deferral on debt defeasance at June 30, 2009

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

G. Transfers

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

H. Arbitrage Earnings

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

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

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

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

* Reports prepared as of the final redemption of the bonds

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

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

I. Subsequent Events

In September 2009, the Authority authorized a new debt program utilizing a portion of the Virginia allocation of the new Qualified School Construction Bond (QSCB) tax credit bond program created by The American Recovery and Reinvestment Act of 2009. The new tax credit bond program authorized an initial issuance of up to $85.0 million. The first pool issue of $61.1 million QSCB tax credit bonds was in November 2009. In October and December 2009, respectively, the Authority issued its $481.3 million School Financing Refunding Series 2009 C and its $11.6 million School Financing Bonds, (1997 Resolution) Series 2009 D to purchase certain general obligation local school bonds to finance capital projects for public schools.

J. Risk Management

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

Supplementary Information

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

Detail of Long-Term Indebtedness by Series

	Dated Date	Bond Resolution	True Interest Cost ("TIC")	Amount Issued (a)	Local School Bonds Purchased	Outstanding July 1, 2008	Issued (Retired) During Year	Outstanding June 30, 2009 (b)	Original Maturity
Series 1997 I	11/01/97	1997	4.92%	224,285	140,818	43,330	(14,540)	28,790	08/01/17
Series 1998 A	04/01/98	1997	4.71%	130,715	50,730	34,840	(24,525)	10,315	08/01/18
Series 1998 B	11/01/98	1997	4.56%	105,025	105,311	10,030	(5,110)	4,920	08/01/18
Series 1999 A	05/01/99	1997	4.60%	153,040	153,040	45,070	(38,830)	6,240	08/01/19
Series 1999 B	11/01/99	1997	5.54%	91,770	91,770	9,690	(4,825)	4,865	08/01/19
Series 1999 QZAB,									
Northampton County	10/29/99	Stand Alone	0.00%	2,100	2,100	2,100	-	2,100	10/29/11
Series 2000 A	05/01/00	1997	5.38%	100,175	100,175	19,915	(4,975)	14,940	08/01/20
Series 2000 B	11/01/00	1997	5.11%	106,200	106,197	73,750	(66,695)	7,055	08/01/20
Series 2001 A	05/01/01	1997	4.84%	153,940	153,940	110,125	(7,255)	102,870	08/01/21
Series 2001 B	11/01/01	1997	4.87%	142,400	142,400	101,115	(6,950)	94,165	08/01/21
Series 2001 C	11/01/01	1997	4.87%	41,500	41,500	37,030	(1,235)	35,795	08/01/26
Series 2001 QZAB,									
Northampton County	12/21/01	Stand Alone	0.00%	419	419	419	-	419	12/21/15
Series 2002 A	05/01/02	1997	4.70%	111,510	111,510	86,100	(5,245)	80,855	08/01/22
Series 2002 B	11/01/02	1997	4.12%	155,545	155,545	117,210	(7,945)	109,265	08/01/22
Series 2002 QZAB,									
Accomack County	12/31/02	Stand Alone	0.00%	1,433	1,433	1,433	-	1,433	12/31/16
Series 2003 A	05/01/03	1997	4.00%	113,155	113,155	91,020	(5,585)	85,435	08/01/28
Series 2003 B	05/01/03	1997	2.93%	74,850	74,850	39,190	(7,675)	31,515	08/01/13
Series 2003 C	11/01/03	1997	4.39%	190,645	190,645	164,280	(7,095)	157,185	08/01/28
Series 2003 D	12/11/03	1997	3.23%	286,670	-	146,660	(28,950)	117,710	08/01/19
2004 Series Chesterfield County	02/15/04	Stand Alone	3.80%	56,825	56,825	48,290	(2,845)	45,445	01/15/25
Series 2004 A	05/01/04	1997	4.33%	123,585	123,585	109,885	(4,695)	105,190	08/01/29
Series 2004 Ed Tech Series IV	06/01/04	Equip. Notes	2.82%	56,835	-	12,170	(12,170)	-	04/15/09
Series 2004 B	11/01/04	1997	3.91%	145,340	145,337	126,505	(6,600)	119,905	08/01/29
Series 2004 C	12/08/04	1997	3.34%	156,125	-	120,945	(14,080)	106,865	08/01/16
Series 2005 A	03/15/05	1997	3.64%	55,200	-	44,385	(4,220)	40,165	08/01/17
Series 2005 B	04/20/05	1997	4.07%	230,580	-	229,775	(7,020)	222,755	08/01/20
Series 2005 C	05/01/05	1997	4.13%	134,360	134,360	123,105	(5,740)	117,365	08/01/30

(a) Includes refunding bonds issued.
(b) Excludes deferral on debt defeasance.

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

Detail of Long-Term Indebtedness by Series (continued)

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

Detail of Long-Term Indebtedness by Resolution

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

(a) Includes refunding bonds issued.
(b) Excludes deferral on debt defeasance.

Commonwealth of Virginia

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

December 14, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
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 the **Virginia Public School Authority** (the Authority), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2009, as listed in the table of contents. 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages one through four 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 the methods of measurement and presentation of the 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 basic financial statements of the Authority. The Detail of Long-Term Indebtedness is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Detail of Long-Term Indebtedness has 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

WJK/alh

VIRGINIA PUBLIC SCHOOL AUTHORITY
Richmond, Virginia

BOARD OF COMMISSIONERS
As of June 30, 2009

James M. Holland, Chairman

Woodrow W. Mullins, Jr., Vice Chairman

Hady Amr

Brenda L. Skidmore

Kanchana K. Thamodaran

EX OFFICIO

Manju S. Ganeriwala, Secretary and Treasurer, State Treasurer

David Von Moll, State Comptroller

Dr. Patricia I. Wright, Superintendent of Public Instruction