

**VIRGINIA PUBLIC SCHOOL AUTHORITY
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



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January 14, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Public School Authority

INDEPENDENT AUDITOR'S REPORT

We have audited the balance sheet of **Virginia Public School Authority**, a component unit of the Commonwealth of Virginia as of June 30, 2001, and the 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 auditing standards generally accepted in the United States of America. 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, 2001, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made 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. 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 in relation to the financial statements taken as a whole.

AUDITOR OF PUBLIC ACCOUNTS

MSM:aom
aom:34

FINANCIAL STATEMENTS

VIRGINIA PUBLIC SCHOOL AUTHORITY
BALANCE SHEET
As of June 30, 2001

ASSETS	
Unrestricted assets:	
Cash and cash equivalents with Treasurer of Virginia (Note 2)	\$ 1,582,070
Short term investments (Note 2)	2,248,499
Interest receivable	42,701
Accounts receivable	<u>11,157</u>
Total unrestricted assets	<u>3,884,427</u>
Restricted assets:	
Cash and cash equivalents with Treasurer of Virginia (Note 2)	67,876,061
Cash with paying agents	5,379
Investments:	
Short-term investments (Note 2)	26,204,419
Long-term investments (Note 2)	52,867,225
Loans to localities:	
Local school bonds (Note 3)	1,883,871,975
Literary Fund loan obligations (Note 3)	334,914,618
Interest receivable	39,217,034
Due from Literary Fund (Note 5)	141,460,000
Discount on bonds sold	<u>2,721,405</u>
Total restricted assets	<u>2,549,138,116</u>
Total assets	<u>\$ 2,553,022,543</u>
LIABILITIES AND FUND EQUITY	
Liabilities:	
Current liabilities (payable from unrestricted assets):	
Accounts payable	<u>\$ 12,505</u>
Current liabilities (payable from restricted assets):	
Matured interest and bonds payable	5,379
Interest payable	41,501,066
Accrued interest sold	767,631
Due to Literary Fund	21,739,193
Due to localities (Note 5)	46,699,486
Notes payable (Notes 4 and 5)	45,820,000
Bonds payable (net of interest deferral) (Notes 4 and 7)	123,313,200
Premium on bonds sold	<u>418,333</u>
Total current liabilities	<u>280,264,288</u>
Long-term liabilities (payable from restricted assets):	
Notes payable (Notes 4 and 5)	95,640,000
Bonds payable (net of interest deferral) (Notes 4 and 7)	1,809,516,300
Premium on bonds sold	6,720,484
Advance from Literary Fund	<u>334,914,617</u>
Total long-term liabilities	<u>2,246,791,401</u>
Total liabilities	2,527,068,194
Fund equity - retained earnings	<u>25,954,349</u>
Total liabilities and fund equity	<u>\$ 2,553,022,543</u>

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, 2001

Revenues:

Interest on:

Local School Bonds	\$ 97,522,275
Literary Fund loans	10,602,506
Cash and cash equivalents and investments	7,703,889
Premium on bonds sold	1,145,091
Net increase in fair value of investments	267,903
Rebate and penalty payments received from localities (Note 8)	176,020
Other	19,624

Total revenues	<u>117,437,308</u>
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Operating expenses:

Interest on bonds	103,171,726
Financial advisor fees	133,766
Legal fees	305,835
Bond rating fees	149,857
Printing and electronic distribution	32,162
Board expenses	2,073
Staffing expenses	82,749
Underwriters' discount	1,144,519
Rebate and penalty payments and calculation fees (Note 9)	1,025,014
Collateral custody and valuation fees	10,666
Other	65,977

Total operating expenses	<u>106,124,344</u>
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Operating income	<u>11,312,964</u>
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Nonoperating transfers:

Transfers to Literary Fund	(9,242,432)
Transfer to the General Fund of the Commonwealth (Note 8)	<u>(137,000)</u>

Total nonoperating transfers	<u>(9,379,432)</u>
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Net income	1,933,532
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Retained earnings, July 1, 2000	<u>24,020,817</u>
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Retained earnings, June 30, 2001	<u><u>\$ 25,954,349</u></u>
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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, 2001

Cash flows from operating activities:	
Interest on cash equivalents	\$ 890,403
Principal received on Literary Fund loans	31,443,529
Interest received on Literary Fund loans	10,602,506
Purchase of local school bonds	(260,137,121)
Principal received on local school bonds	114,833,064
Interest received on local school bonds	93,753,838
Payments to vendors for goods and services	(779,756)
Payments received from the Literary Fund	36,570,137
Other operating revenues	66,032
Net cash provided by operating activities	27,242,632
Cash flows from non-capital financial activities:	
Proceeds from the sale of bonds	315,905,000
Principal paid on VPSA bonds	(152,025,000)
Interest paid on VPSA bonds	(97,780,465)
Premium on bonds sold	2,682,320
Underwriters' discount	(1,198,131)
Rebate calculation fees	176,020
Accrued interest sold	68,605
Transfers to the Literary Fund (Note 8)	(41,679,696)
Transfer to the General Fund of the Commonwealth (Note 8)	(137,000)
Payments to localities (Education Technology Notes)	(48,759,657)
Rebate and penalty payments to the Internal Revenue Service	(1,048,155)
Net cash provided from noncapital financing activities	(23,796,159)
Cash flows from investing activities:	
Purchase of investment securities	(26,594,460)
Proceeds from sale and maturities of investments	5,249,801
Interest on investments	6,689,085
Decrease in fair value of cash equivalents	(94,448)
Net cash used in investing activities	(14,750,022)
Net decrease in cash and cash equivalents	(11,303,549)
Cash and cash equivalents, June 30, 2000	80,761,680
Cash and cash equivalents, June 30, 2001	\$ 69,458,131
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 11,312,964
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts receivable	46,399
Increase in interest receivable	(3,474,499)
Decrease in accounts payable	(19,801)
Increase in interest payable	1,742,692
Rebate and penalty payments received from localities	(176,020)
Payments from the Literary Fund	36,570,137
Principal received on Literary Fund loans	31,443,529
Principal received on local school bonds	114,833,064
Purchase of local school bonds	(260,137,121)
Rebate and penalty payments to the Internal Revenue Service	1,048,155
Amortization of discount	286,867
Amortization of premium	(418,339)
Underwriters' discount	1,144,519
Premium on bonds sold	(1,145,091)
Amortization of interest deferral	3,361,700
Interest paid on VPSA bonds	97,780,465
Increase in fair value of investments	(267,903)
Interest on investments	(6,689,085)
Total adjustments	15,929,668
Net cash provided by operating activities	\$ 27,242,632

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, 2001

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:

- principal and interest received on local school bonds held by the Authority;
- proceeds from the sale of such local school bonds;
- principal and interest received on Literary Fund loan obligations transferred to the Authority;
- proceeds from the sale of such Literary Fund loan obligations;
- any moneys transferred from the Literary Fund or funds appropriated from the General Assembly; and
- 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 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 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 accounting principles generally accepted in the United States of America 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 they 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 1 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 and are categorized in risk category 1. Categorization under the provisions of GASB 3 is not required for money market funds and the SNAPsm fund. 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 below and on the following page.

Summary of Cash, Cash Equivalents, and Investments
As of June 30, 2001

	Carrying Amount	Fair Value
Cash and cash equivalents:		
Deposits	\$ 147,106	\$ 147,106
Short-term investment fund ¹	4,832,723	4,832,723
U. S. Government securities	15,114,753	15,155,514
State non-arbitrage program ^{sm 2}	49,322,788	49,322,788
Total cash and cash equivalents	<u>\$ 69,417,370</u>	<u>\$ 69,458,131</u>

Short-term investments:		
U. S. Government securities	\$ 26,419,460	\$ 26,769,748
Flexible repurchase agreements ³	1,508,170	1,508,170
Certificate of deposit	<u>175,000</u>	<u>175,000</u>
Total short-term investments	<u>\$ 28,102,630</u>	<u>\$ 28,452,918</u>
Long-term investments:		
Flexible repurchase agreements ³	<u>\$ 52,867,225</u>	<u>\$ 52,867,225</u>
Total long-term investments	<u>\$ 52,867,225</u>	<u>\$ 52,867,225</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 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 that 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 1st and July 1st. 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, 2001.

Local school bonds:	
Held in 1987 purchase fund	\$ 320,445,000
Held in 1990 insured purchase fund	18,500,000
Held in 1991 purchase fund	417,059,983
Held in 1993 purchase fund	
(Henrico County stand-alone)	20,800,000
Held in 1994 purchase fund	
(York County stand-alone)	20,210,000
Held in 1995 purchase fund	
(Cheasapeake, City of , stand-alone)	101,000,000
Held in 1997 pledge account	983,931,992
Held in 1999 purchase fund	
(Northampton County qualified zone academy bond)	<u>1,925,000</u>
Total local school bonds	<u>\$1,883,871,975</u>
Literary fund loan obligations:	
Held in 1987 reserve fund	<u>\$ 334,914,618</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, 2001.

	<u>Current Liability</u>	<u>Long-Term Liability</u>	<u>Total</u>
Balance July 1, 2000	\$ 152,025,000	\$ 1,786,565,000	\$ 1,938,590,000
Issued during fiscal 2001	15,780,000	300,125,000	315,905,000
Retired during fiscal 2001	(152,025,000)	-	(152,025,000)
Maturing fiscal 2002	<u>156,625,000</u>	<u>(156,625,000)</u>	<u>-</u>
Subtotal	172,405,000	1,930,065,000	2,102,470,000
Less: Deferral on debt defeasance	<u>(3,271,800)</u>	<u>(24,908,700)</u>	<u>(28,180,500)</u>
Balance June 30, 2001	<u>\$ 169,133,200</u>	<u>\$ 1,905,156,300</u>	<u>\$ 2,074,289,500</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, 2001.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 172,405,000	\$ 105,991,173	\$ 278,396,173
2003	165,440,000	98,103,002	263,543,002
2004	158,460,000	89,809,678	248,269,678
2005	154,240,000	81,684,296	235,924,296
2006	139,200,000	73,743,940	212,943,940
2007-2022	<u>1,312,725,000</u>	<u>414,869,028</u>	<u>1,727,594,028</u>
Subtotal	2,102,470,000	864,201,117	2,966,671,117
Less:			
Deferral on debt defeasance	<u>(28,180,500)</u>	<u>-</u>	<u>(28,180,500)</u>
Total	<u>\$2,074,289,500</u>	<u>\$ 864,201,117</u>	<u>\$ 2,938,490,617</u>

5. EQUIPMENT 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”). 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”). 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, 2001 the amount remaining to be requisitioned by localities is \$5,704,106 for the 2000 Notes and \$40,995,380 for the 2001 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, 2001 are \$141,460,000.

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 Academies) Series of 1999 as a Qualified Zone Academy Bond (“QZAB”) pursuant to Section 1297E of the Internal Revenue Code of 1986, as amended, and purchased certain general obligation school bonds of Northampton County to finance capital projects for public schools.

Northampton County will make annual principal payments to the Authority on the anniversary date of the issuance. Such payments received by the Authority will be held in trust and invested in a Wachovia Bank certificate of deposit maturing on the next anniversary date in accordance with the funding agreement. The agreement provides 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 payment is due October 29, 2011, at which time the QZAB will mature.

7. 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 \$28,180,500 to reflect the remaining deferral on debt defeasance at June 30, 2001.

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, 2001, \$135,325,000 of bonds outstanding is considered defeased for financial reporting purposes.

8. 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, 2001, \$41,679,696, comprised of \$11,143,462 of interest on Literary Fund loan obligations and short-term investments, and \$30,536,234 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 1st and July 1st. Eight Literary Fund loan obligations totaling \$23,166,489 were transferred on July 1, 2000 and 17 Literary Fund loan obligations totaling \$24,796,268 were transferred on January 1, 2001. Also transferred from the Literary Fund to the VPSA, were amounts required to pay debt service on the various outstanding Equipment Notes.

In June 2001, the Authority transferred \$137,000 to the General Fund of the Commonwealth pursuant to Section 3-3.01(A) of Chapter 1073 of the 2000 Virginia Acts of Assembly.

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:

<u>Bond Issue</u>	<u>Computation Initial 5 Year or Final</u>	<u>Computation Date</u>	<u>Liability</u>
(91 Resolution) Series 1995 B	Initial 5 year	9/1/2000	\$ 15,706
(91 Resolution) Series 1995 C	Initial 5 year	12/1/2000	\$ 564,586
(87 Resolution) Series 1992 A	Final*	1/1/2001	\$ -
(87 Resolution) 1990 Series B	Final*	12/19/2000	\$ -
(91 Resolution) Series 1996 A	Initial 5 year	5/1/2001	\$ 344,558

* Reports prepared as of the final redemption of the bonds

The Authority paid \$100,164 to its rebate calculation agent for services provided in connection with the above rebate calculations.

The VPSA School Financing Bonds (1991 Resolution) Series 1991 A, the VPSA School Financing Bonds (1987 Resolution) 1991 Series B, and VPSA School Financing Bonds (1991 Resolution) Series 1996 B will require a rebate computation as of July 31, 2001, November 1, 2001 and November 14, 2001, respectively. There is no rebate liability owed for Series 1991 A. The estimated liability for arbitrage earnings on 1991 Series B and Series 1996 B has not been determined.

10. SUBSEQUENT EVENTS

On November 15, 2001, the Authority issued \$183.9 million of School Financing Bonds (1997 Resolution) Series 2001 B and Series 2001 C to purchase certain general obligation local school bonds to finance capital projects for public schools.

On November 8, 2001, York County issued \$15,005,000 in refunding bonds. A portion of the proceeds of the refunding bonds were used to advance refund certain maturities of the County of York, Virginia, General Obligation Bonds and in turn also advance refund certain maturities of the Authority's Special Obligation School Financing Bonds York County Series of 1994.

11. SURETY BOND

Mary G. Morris, Treasurer of Virginia and Treasurer of the Authority, was covered under a Faithful Performance 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 the Treasury, 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.

12. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, issued June 1999, will be effective for the Authority for the fiscal year ending June 30, 2002. This Statement imposes new standards for financial reporting. The changes to the Authority’s financial statements will be minimal since its activity is accounted for in an enterprise fund. However, the Authority will be required to provide a management’s discussion and analysis that gives readers an analysis of the Authority’s overall financial position and results of operations including a comparison of current year results with the prior year. The Department of Treasury is in the process of assessing the changes required by this Statement and is preparing for implementation for the Authority.

SUPPLEMENTARY INFORMATION

VIRGINIA PUBLIC SCHOOL AUTHORITY
SUPPLEMENTARY INFORMATION
June 30, 2001
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series

	Dated Date	Bond Resolution	True Interest Cost ("TIC")	Amount Issued *	Local School Bonds Purchased
1990 Series B	12/01/1990	1987	6.62%	\$ 28,440	\$ 28,440
1991 Series B	11/01/1991	1987	6.12%	55,105	55,105
1991 Series C Refunding Bonds	12/01/1991	1987	6.25%	127,285	-
1992 Series A	04/15/1992	1987	6.13%	68,365	68,365
1992 Series B	12/01/1992	1987	5.75%	60,460	60,460
1993 Series A	04/01/1993	1987	5.21%	45,710	45,710
1993 Series C	10/01/1993	1987	4.62%	80,135	80,135
1993 Series Henrico County	05/15/1993	Stand Alone	5.20%	32,000	32,000
1993 Series B Refunding Bonds	05/01/1993	1987	5.16%	293,160	-
1993 Series Refunding Bonds	07/01/1993	1990 Insured	5.29%	24,080	-
Series 1994 A	04/01/1994	1991	6.07%	115,425	104,045
1994 Series York County	07/01/1994	Stand Alone	5.76%	25,000	25,000
Series 1995 A	05/01/1995	1991	5.64%	63,595	57,460
1995 Series Chesapeake City	06/01/1995	Stand Alone	5.63%	102,000	102,000
Series 1995 B	09/01/1995	1991	5.60%	26,070	23,620
Series 1995 C	12/01/1995	1991	5.10%	121,610	110,528
Series 1996 A	04/15/1996	1991	5.45%	49,205	44,555
Series 1996 B	11/01/1996	1991	5.20%	132,545	120,396
Series 1997A	04/01/1997	1991	5.49%	92,175	83,325
Series 1997 Ed Tech Issue IV	02/15/1997	Equip. Notes	4.17%	55,910	-
Series 1997 I	11/01/1997	1997	4.92%	224,285	140,818
Series 1998 Ed Tech Issue V	02/15/1998	Equip. Notes	4.04%	46,925	-
Series 1998 A	04/01/1998	1997	4.71%	130,715	50,730
Series 1998 B	11/01/1998	1997	4.56%	105,025	105,311
Series 1999 A	05/01/1999	1997	4.60%	153,040	153,040
Series 1999 B	11/01/1999	1997	5.54%	91,770	91,770
Series 1999 QZAB Northampton County	10/29/1999	Stand Alone	0.00%	2,100	2,100
Series 2000 A	05/01/2000	1997	5.38%	100,175	100,175
Series 2000 Ed Tech Issue VI	05/01/2000	Equip. Notes	5.12%	66,380	-
Series 2000 B	11/01/2000	1997	5.11%	106,200	106,197
Series 2001 A	05/01/2001	1997	4.84%	153,940	153,940
Series 2001 Ed Tech Series I	05/01/2001	Equip. Notes	3.53%	55,765	-
Total				<u>\$ 2,834,595</u>	<u>\$ 1,945,225</u>

Detail of Long-Term Indebtedness by Resolution

	Amount Issued *	Local School Bonds Purchased
1987 Resolution	758,660	338,215
1991 Resolution	600,625	543,929
1997 Resolution	1,065,150	901,981
Stand Alone Issues	161,100	161,100
Equipment Notes	224,980	-
1990 Insured Resolution	24,080	-
Total	<u>\$ 2,834,595</u>	<u>\$ 1,945,225</u>

* Includes refunding bonds issued.

Outstanding July 1, 2000	Issued (Retired) During Year	Outstanding June 30, 2001	Original Maturity
\$ 1,250	\$ (1,250)	\$ -	01/01/2011
8,600	(2,530)	6,070	01/01/2012
84,435	(17,295)	67,140	01/01/2009
3,485	(3,485)	-	01/01/2012
35,940	(3,405)	32,535	01/01/2013
29,580	(2,410)	27,170	01/01/2013
43,225	(5,575)	37,650	01/01/2014
22,400	(1,600)	20,800	07/15/2013
174,935	(13,410)	161,525	01/01/2012
21,920	(1,895)	20,025	08/01/2010
84,665	(5,655)	79,010	08/01/2014
21,115	(905)	20,210	07/15/2014
51,750	(3,075)	48,675	08/01/2016
102,000	(1,000)	101,000	06/01/2015
21,255	(1,255)	20,000	08/01/2016
99,870	(5,630)	94,240	08/01/2016
42,390	(2,340)	40,050	08/01/2017
114,260	(6,345)	107,915	08/01/2017
84,320	(4,065)	80,255	08/01/2018
23,875	(11,695)	12,180	04/01/2002
205,345	(10,645)	194,700	08/01/2017
29,220	(9,355)	19,865	04/01/2003
119,490	(7,560)	111,930	08/01/2018
99,800	(5,245)	94,555	08/01/2018
153,040	(7,005)	146,035	08/01/2019
91,770	(4,665)	87,105	08/01/2019
2,100	-	2,100	10/29/2011
100,175	-	100,175	08/01/2020
66,380	(12,730)	53,650	04/01/2005
-	106,200	106,200	08/01/2020
-	153,940	153,940	08/01/2021
-	55,765	55,765	04/15/2006
<u>\$ 1,938,590</u>	<u>\$ 163,880</u>	<u>\$ 2,102,470</u>	

Outstanding July 1, 2000	Issued (Retired) During Year	Outstanding June 30, 2001
381,450	(49,360)	332,090
498,510	(28,365)	470,145
769,620	225,020	994,640
147,615	(3,505)	144,110
119,475	21,985	141,460
21,920	(1,895)	20,025
<u>\$ 1,938,590</u>	<u>\$ 163,880</u>	<u>\$ 2,102,470</u>

VIRGINIA PUBLIC SCHOOL AUTHORITY
1987 RESOLUTION INCOME COVERAGE (1)
As of June 30, 2001

Schedule of Total Income

<u>Local School Bonds Held in 1987 Purchase Fund</u>				<u>Literary Fund Obligations Held In 1987 Reserve Fund (2)</u>			
Calendar Year	Principal	Interest	Total	Principal	Interest	Total	Total Income
2001	\$ 42,525,000	\$ 20,768,219	\$ 63,293,219	\$ 31,832,624	\$ 11,052,962	\$ 42,885,586	\$ 106,178,804
2002	39,875,000	17,965,713	57,840,713	32,279,475	10,800,214	43,079,689	100,920,402
2003	40,085,000	15,325,010	55,410,010	30,816,902	9,844,410	40,661,312	96,071,322
2004	36,840,000	12,691,186	49,531,186	29,424,657	8,915,254	38,339,911	87,871,097
2005	34,325,000	10,310,879	44,635,879	28,191,649	8,031,915	36,223,564	80,859,443
2006	31,605,000	8,093,846	39,698,846	26,764,840	7,185,566	33,950,406	73,649,252
2007	26,895,000	6,049,477	32,944,477	25,543,571	6,381,891	31,925,462	64,869,938
2008	23,915,000	4,291,676	28,206,676	24,266,948	5,615,510	29,882,458	58,089,134
2009	18,040,000	2,704,629	20,744,629	21,978,139	4,890,973	26,869,111	47,613,740
2010	11,840,000	1,566,143	13,406,143	19,591,449	4,243,332	23,834,781	37,240,923
2011	9,380,000	851,773	10,231,773	17,843,006	3,670,169	21,513,175	31,744,947
2012	4,020,000	294,258	4,314,258	15,887,000	3,154,149	19,041,149	23,355,407
2013	780,000	65,240	845,240	14,657,197	2,704,591	17,361,787	18,207,027
2014	320,000	21,120	341,120	14,539,924	2,292,793	16,832,717	17,173,837
2015	-	-	-	14,490,995	1,884,618	16,375,613	16,375,613
2016	-	-	-	14,180,607	1,477,913	15,658,519	15,658,519
2017	-	-	-	13,386,781	1,080,661	14,467,442	14,467,442
2018	-	-	-	10,904,721	704,869	11,609,590	11,609,590
2019	-	-	-	7,512,930	400,295	7,913,224	7,913,224
Totals	<u>\$ 320,445,000</u>	<u>\$ 100,999,167</u>	<u>\$ 421,444,167</u>	<u>\$ 394,093,409</u>	<u>\$ 94,332,085</u>	<u>\$ 488,425,494</u>	<u>\$ 909,869,661</u>

(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, 2001 and on Literary Fund Obligations in the principal amount of \$24,796,268.00 transferred to the Authority on January 1, 2001 and \$51,266,345.00 on July 1, 2001.

(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 Services (4)

1987 Resolution Bonds

Principal	Interest	Total Debt Service	Total Coverage (3)
\$ 45,485,000	\$ 17,768,270	\$ 63,253,270	1.68
42,420,000	15,364,965	57,784,965	1.75
42,275,000	13,076,375	55,351,375	1.74
38,650,000	10,823,285	49,473,285	1.78
35,815,000	8,762,918	44,577,918	1.81
32,615,000	6,844,935	39,459,935	1.87
27,650,000	5,075,000	32,725,000	1.98
24,440,000	3,565,183	28,005,183	2.07
18,255,000	2,275,678	20,530,678	2.32
11,860,000	1,309,513	13,169,513	2.83
9,300,000	677,205	9,977,205	3.18
2,865,000	178,148	3,043,148	7.67
460,000	22,540	482,540	37.73
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>\$ 332,090,000</u>	<u>\$ 85,744,013</u>	<u>\$ 417,834,013</u>	<u>1.98</u>

VIRGINIA PUBLIC SCHOOL AUTHORITY
1991 RESOLUTION INCOME COVERAGE
As of June 30, 2001

(A) <u>Income Available to Pay Debt Service</u>						
	Local School Bond Income	Debt Service Reserve Cash Flow (1)	(A) Total Income	(B) Total Debt Service Requirements	Debt Service Coverage (A) / (B)	
8/1/2001	\$ 38,598,186	\$ 2,992,450	\$ 41,590,636	\$ 41,440,098	100.36%	
2/1/2002	10,951,964	1,443,087	12,395,051	12,181,363	101.75%	
8/1/2002	37,593,829	3,217,872	40,811,701	40,681,363	100.32%	
2/1/2003	10,224,442	1,394,937	11,619,379	11,416,820	101.77%	
8/1/2003	36,992,128	2,804,972	39,797,100	39,671,820	100.32%	
2/1/2004	9,460,839	1,356,239	10,817,078	10,624,803	101.81%	
8/1/2004	36,365,828	2,823,737	39,189,565	39,054,803	100.35%	
2/1/2005	8,658,735	1,316,008	9,974,743	9,791,554	101.87%	
8/1/2005	35,716,577	2,828,988	38,545,565	38,421,554	100.32%	
2/1/2006	7,843,551	1,274,617	9,118,168	8,943,364	101.95%	
8/1/2006	35,042,726	2,837,377	37,880,103	37,753,364	100.34%	
2/1/2007	7,055,307	1,231,884	8,287,191	8,122,784	102.02%	
8/1/2007	34,319,533	2,802,849	37,122,382	37,002,784	100.32%	
2/1/2008	6,301,202	1,188,991	7,490,193	7,338,401	102.07%	
8/1/2008	33,626,352	2,705,629	36,331,980	36,218,401	100.31%	
2/1/2009	5,556,043	1,147,347	6,703,389	6,564,858	102.11%	
8/1/2009	33,022,789	2,547,708	35,570,497	35,474,858	100.27%	
2/1/2010	4,798,937	1,108,871	5,907,808	5,781,952	102.18%	
8/1/2010	32,418,276	2,541,029	34,959,305	34,856,952	100.29%	
2/1/2011	4,033,908	1,069,529	5,103,437	4,990,648	102.26%	
8/1/2011	31,470,994	2,854,890	34,325,885	34,215,648	100.32%	
2/1/2012	3,270,823	1,021,219	4,292,041	4,192,743	102.37%	
8/1/2012	30,796,095	2,519,802	33,315,897	33,227,743	100.27%	
2/1/2013	2,502,143	979,471	3,481,614	3,395,879	102.52%	
8/1/2013	30,226,315	2,383,275	32,609,590	32,525,879	100.26%	
2/1/2014	1,725,852	934,888	2,660,740	2,594,282	102.56%	
8/1/2014	24,329,947	7,995,740	32,325,687	31,929,282	101.24%	
2/1/2015	1,109,864	733,418	1,843,282	1,785,213	103.25%	
8/1/2015	23,915,223	2,035,420	25,950,643	25,685,213	101.03%	
2/1/2016	488,525	702,221	1,190,745	1,145,628	103.94%	
8/1/2016	13,574,622	12,018,111	25,592,733	25,010,628	102.33%	
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>\$ 596,960,032</u>	<u>\$ 90,678,204</u>	<u>\$ 687,638,236</u>	<u>\$ 682,082,113</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.

VIRGINIA PUBLIC SCHOOL AUTHORITY
Richmond, Virginia

BOARD OF COMMISSIONERS

As of June 30, 2001

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Kenneth C. Clarry, Vice Chairman

Tammy Barnett Hall

Richard F. Neel, Jr.

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EX OFFICIO

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