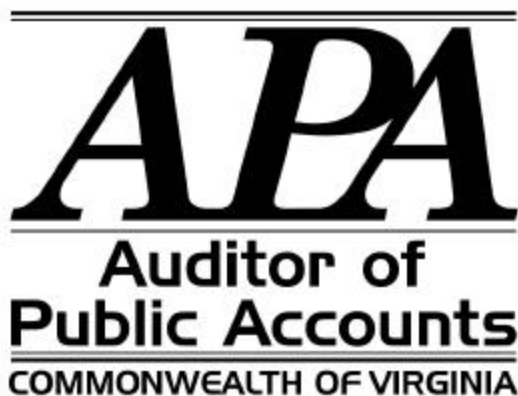


**VIRGINIA PUBLIC SCHOOL AUTHORITY
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**



- TABLE OF CONTENTS -

	<u>Pages</u>
INDEPENDENT AUDITOR’S REPORT	1- 2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3- 6
FINANCIAL STATEMENTS:	
Statement of Net Assets	8- 9
Statement of Revenues, Expenses, and Changes in Net Assets	11
Statement of Cash Flows	12-13
Notes to Financial Statements	16-25
SUPPLEMENTARY INFORMATION:	
Detail of Long-Term Indebtedness	28-31
1987 Resolution Income Coverage	32-33
1991 Resolution Income Coverage	35
AUTHORITY OFFICIALS	37



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

November 12, 2003

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Vice 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, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2003, 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 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, 2003, 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 3 through 6 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 Virginia Public School Authority. The *Detail of Long-term Indebtedness*, *1987 Resolution Income Coverage*, and *1991 Resolution Income Coverage* schedules are presented for the purpose of additional analysis, are not a required part of the basic financial statements, and have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

AUDITOR OF PUBLIC ACCOUNTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Virginia Public School Authority's (the "Authority") annual financial report presents an analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2003. This information should be considered in conjunction with the information contained in the financial statements, which follow this section.

Authority Activities and Highlights

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

The Authority issues bonds for its pooled bond program under different bond resolutions. The Authority currently has bonds outstanding under the: (1) 1987 Resolution; (2) 1991 Resolution; and (3) 1997 Resolution. The 1997 Resolution, adopted on October 23, 1997, currently serves as the primary instrument under which the Authority issues bonds under its pooled bond program. The 1997 Resolution bonds are secured by general obligation local school bonds purchased, the State Aid Intercept Provision, and a sum sufficient appropriation, first from available Literary Fund monies and then from the Commonwealth's General Fund. During the fiscal year, the Authority issued \$343,550,000 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 \$1,433,003 in special obligation bonds during the fiscal year and \$55,325,000 under the educational technology equipment note program.

Overview of the Financial Statements

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

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

Financial Analysis of the Authority

The Authority provides a vehicle for financing capital projects for primary and secondary public schools in the Commonwealth's counties, cities, and towns. On local school bonds held by the Authority, localities pay interest ten basis points (0.10 percent) 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)

	<u>Enterprise Fund</u>	
	<u>2003</u>	<u>2002</u>
Assets:		
Current assets	\$ 1	\$ 32
Noncurrent assets	<u>2,883</u>	<u>2,773</u>
Total assets	<u>2,884</u>	<u>2,805</u>
Liabilities:		
Current liabilities	334	315
Noncurrent liabilities	<u>2,522</u>	<u>2,464</u>
Total liabilities	<u>2,856</u>	<u>2,779</u>
Net assets:		
Restricted for debt service	27	24
Unrestricted	<u>1</u>	<u>2</u>
Total net assets	<u>\$ 28</u>	<u>\$ 26</u>

Total assets increased during the year by \$79 million or three percent. This is comparable to the increase in liabilities of \$77 million or three percent during the same period. Accordingly, only a slight increase of \$2 million is reflected in net assets.

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

	<u>Enterprise Fund</u>	
	<u>2003</u>	<u>2002</u>
Revenues:		
Program revenues:		
Charges for services	\$126	\$118
General revenues:		
Investment earnings	<u>3</u>	<u>6</u>
Total revenues	<u>129</u>	<u>124</u>

Expenses:		
Interest on long-term debt	117	113
Other	<u>3</u>	<u>4</u>
Total expenses	<u>120</u>	<u>117</u>
Transfers	<u>(7)</u>	<u>(7)</u>
Increase in net assets	<u>2</u>	<u>-</u>
Net assets, July 1	<u>26</u>	<u>26</u>
Net assets, June 30	<u>\$ 28</u>	<u>\$ 26</u>

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 <u>at 6/30/02</u>	Issued <u>During Year</u>	Retired <u>During Year</u>	Outstanding <u>at 6/30/03</u>
Pooled Bond Programs	\$1,989	\$343	\$(218)	\$2,114
Technology Notes Programs	151	55	(45)	161
Special Obligation Bonds	<u>126</u>	<u>1</u>	<u>(100)</u>	<u>27</u>
Total	<u>\$2,266</u>	<u>\$399</u>	<u>\$(363)</u>	<u>\$2,302</u>

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

Virginia Public School Authority Bond Ratings

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

¹ 1997 Resolution Bonds

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

Future Impact to Financial Position

In November 2003, the Authority issued \$190.6 million of School Financing Bonds (1997 Resolution) Series 2003 C 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, 2003

ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 675,886
Short-term investments (Note 2)	499,475
Interest receivable	4,349
Accounts receivable	2,743
	<hr/>
Total current assets	1,182,453
	<hr/>
Noncurrent assets:	
Restricted cash and cash equivalents (Note 2)	97,417,316
Restricted short-term investments (Note 2)	20,046,664
Restricted long-term investments (Note 2)	42,026,589
Long-term investments (Note 2)	252,813
Accrued interest purchased	3,583
Loans to localities:	
Local school bonds (Note 3)	2,083,283,908
Literary Fund loan obligations (Note 3)	428,877,088
Interest receivable	47,025,703
Due from Literary Fund (Note 5)	161,640,000
Discount on bonds sold	2,147,668
	<hr/>
Total noncurrent assets	2,882,721,332
	<hr/>
Total assets	2,883,903,785
	<hr/>

LIABILITIES	
Current liabilities:	
Accounts payable	106,988
Current liabilities payable from restricted assets:	
Interest payable	45,762,684
Accrued interest sold	591,870
Due to Literary Fund	24,034,548
Due to localities (Note 5)	69,448,665
Notes payable (Notes 4 and 5)	47,955,000
Bonds payable (net of interest deferral) (Notes 4 and 7)	145,362,500
Premium on bonds sold	609,646
	<hr/>
Total current liabilities payable from restricted assets	333,764,913
	<hr/>
Noncurrent liabilities payable from restricted assets:	
Notes payable (Notes 4 and 5)	113,685,000
Bonds payable (Net of interest deferral) (Notes 4 and 7)	1,967,696,463
Premium on bonds sold	11,839,757
Advance from Literary Fund (Note 3)	428,877,089
	<hr/>
Total noncurrent liabilities payable from restricted assets	2,522,098,309
	<hr/>
Total liabilities	2,855,970,210
	<hr/>

NET ASSETS	
Restricted for debt service	26,858,110
Unrestricted	<u>1,075,465</u>
Total net assets	<u><u>\$ 27,933,575</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

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VIRGINIA PUBLIC SCHOOL AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
For the Year Ended June 30, 2003

Revenues:

Interest on:

Local school bonds	\$ 111,253,902
Literary Fund loans	12,849,181
Cash and cash equivalents and investments	3,326,285
Premium on bonds sold	880,318
Net decrease in fair value of investments	(67,125)
Rebate and penalty payments received from localities (Note 9)	834,104
Other	219,183
	<hr/>
Total revenues	129,295,848

Operating expenses:

Interest on bonds	117,055,069
Financial advisor fees	135,656
Legal fees	357,600
Bond rating fees	187,441
Printing and electronic distribution	30,155
Board expenses	806
Staffing expenses	100,106
Underwriters' discount	1,053,436
Rebate and penalty payments and calculation fees (Note 9)	920,664
Collateral custody and valuation fees	12,000
Other	74,603
	<hr/>

Total operating expenses	119,927,536
--------------------------	-------------

Operating income	9,368,312
------------------	-----------

Nonoperating transfers:

Transfers to Literary Fund (Note 8)	(6,461,455)
Transfer to the General Fund of the Commonwealth (Note 8)	(657,222)
	<hr/>

Total nonoperating transfers	(7,118,677)
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Net income	2,249,635
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Net assets, June 30, 2002	25,683,940
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Net assets, June 30, 2003	\$ 27,933,575
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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, 2003

Cash flows from operating activities:

Interest on cash equivalents	\$ 149,982
Principal received on Literary Fund loans	36,741,885
Interest received on Literary Fund loans	12,849,181
Purchase of local school bonds	(270,132,272)
Principal received on local school bonds	133,117,127
Interest received on local school bonds	107,270,544
Payments to vendors for goods and services	(804,572)
Payments received from the Literary Fund	51,600,988
Other operating revenues	217,331

Net cash provided by operating activities	<u>71,010,194</u>
---	-------------------

Cash flows from noncapital financing activities:

Proceeds from the sale of bonds	400,308,003
Principal paid on VPSA bonds	(183,590,000)
Interest paid on VPSA bonds	(113,395,868)
Premium on bonds sold	10,165,424
Underwriters' discount	(1,075,566)
Rebate calculation fees	834,104
Accrued interest sold	(160,751)
Transfers to the Literary Fund	(48,368,135)
Transfer to the General Fund of the Commonwealth (Note 8)	(657,222)
Payments to localities (Education Technology Notes)	(54,219,654)
Payments to escrow agent	(90,502,586)
Rebate and penalty payments to the Internal Revenue Service	(920,664)

Net cash used by noncapital financing activities	<u>(81,582,915)</u>
--	---------------------

Cash flows from investing activities:

Purchase of investment securities	(20,429,126)
Proceeds from sale and maturities of investments	41,132,789
Interest on investments	4,267,706
Increase in fair value of cash equivalents	1,184
Accrued interest purchased	(3,583)

Net cash provided by investing activities	<u>24,968,970</u>
---	-------------------

Net increase in cash and cash equivalents	14,396,249
---	------------

Cash and cash equivalents, June 30, 2002	<u>83,696,953</u>
--	-------------------

Cash and cash equivalents, June 30, 2003	<u><u>\$ 98,093,202</u></u>
--	-----------------------------

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	9,368,312
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in accounts receivable	(1,852)
Increase in interest receivable	(2,422,814)
Increase in accounts payable	93,210
Decrease in interest payable	(430,267)
Rebate and penalty payments received from localities	(834,104)
Payments from the Literary Fund	51,600,988
Principal received on Literary Fund loans	36,741,885
Principal received on local school bonds	133,117,127
Purchase of local school bonds	(270,132,272)
Rebate and penalty payments to the Internal Revenue Service	920,664
Amortization of discount	287,453
Amortization of premium	(469,141)
Underwriters' discount	1,053,436
Premium on bonds sold	(880,318)
Amortization of interest deferral	3,802,600
Interest paid on VPSA bonds	113,395,868
Decrease in fair value of investments	67,125
Interest on investments	(4,267,706)
	<hr/>
Total adjustments	61,641,882
	<hr/>
Net cash provided by operating activities	<u><u>\$ 71,010,194</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

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NOTES TO FINANCIAL STATEMENTS

VIRGINIA PUBLIC SCHOOL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

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 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 and 1987 Resolutions, 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 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 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 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, non-negotiable time deposits, and certificates of deposit in accordance with Section 2.2-4400 of the Code of Virginia. Cash equivalents are defined as investments with an original maturity of less than three months. Short-term investments are investments with maturities of one year or less. Long-term investments have maturities of over one year.

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

Sections 2.2-4500 and 2.2-4501 of the Code of Virginia outline the instruments in which public sinking funds and other public funds may legally invest. The Authority adheres to these general guidelines unless bond resolutions require more restrictive investment policies. All investments of the Authority are held in the Authority's name. With the exception of flexible repurchase agreements, the Authority's investments are valued at fair value, which approximates market value. The flexible repurchase agreements are considered to be nonparticipating investment contracts, and as such, are valued at cost. Details of cash, cash equivalents, and investments are presented below.

Summary of Cash, Cash Equivalents, and Investments
As of June 30, 2003

	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents:		
Deposits	\$ 259,672	\$ 259,672
Short Term Investment Fund ¹	12,025,467	12,025,467
U.S. Government Securities	13,060,639	13,061,823
State Non-Arbitrage Program ^{sm 2}	<u>72,746,240</u>	<u>72,746,240</u>
Total cash and cash equivalents	<u>\$98,092,018</u>	<u>\$98,093,202</u>

Short-term investments:		
U.S. Government Securities	\$18,849,895	\$18,918,077
Flexible Repurchase Agreements ³	1,070,035	1,070,035
Certificates of Deposit	<u>558,027</u>	<u>558,027</u>
Total short-term investments	<u>\$20,477,957</u>	<u>\$20,546,139</u>
Long-term investments:		
U.S. Government Securities	\$ 2,023,080	\$ 2,030,631
Flexible Repurchase Agreements ³	<u>40,248,771</u>	<u>40,248,771</u>
Total long-term investments	<u>\$42,271,851</u>	<u>\$42,279,402</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 six 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. (3) 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 a purchase price that is equal to the face value of the bonds. Local school bonds purchased under the 1987 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 ten basis points (0.10 percent) 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, 2003.

Local school bonds:	
Held in 1987 Purchase Fund	\$ 238,045,000
Held in 1991 Purchase Fund	305,287,234
Held in 1993 Purchase Fund (Henrico County Stand Alone)	1,600,000
Held in 1994 Purchase Fund (York County Stand Alone)	3,390,000
Held in 1995 Purchase Fund (Chesapeake City Stand Alone)	18,000,000
Held in 1997 Pledge Account	1,513,558,253
Held in 1999 Purchase Fund	
(Northampton County Qualified Zone Academy Bond)	1,575,000
Held in 2001 Purchase Fund	
(Northampton County Qualified Zone Academy Bond)	395,418
Held in 2002 Purchase Fund	
(Accomack County Qualified Zone Academy Bond)	<u>1,433,003</u>
Total local school bonds	<u>\$2,083,283,908</u>
Literary Fund loan obligations:	
Held in 1987 Reserve Fund (tax-exempt)	\$ 417,002,088
Held in 1987 Reserve Fund (taxable)	<u>11,875,000</u>
Total literary fund loan obligation	<u>\$ 428,877,088</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, 2003.

	<u>Current Liability</u>	<u>Long-Term Liability</u>	<u>Total</u>
Balance July 1, 2002	\$183,590,000	\$2,082,999,060	\$2,266,589,060
Issued during fiscal 2003	22,860,000	377,448,003	400,308,003
Retired during fiscal 2003	(183,590,000)	-	(183,590,000)
Defeased during fiscal 2003	(7,610,000)	(173,340,000)	(180,950,000)
Maturing fiscal 2004	<u>181,650,000</u>	<u>(181,650,000)</u>	<u>-</u>
Subtotal	196,900,000	2,105,457,063	2,302,357,063
Less: Deferral on debt defeasance	<u>(3,582,500)</u>	<u>(24,075,600)</u>	<u>(27,658,100)</u>
Balance June 30, 2003	<u>\$193,317,500</u>	<u>\$2,081,381,463</u>	<u>\$2,274,698,963</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, 2003.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 196,900,000	\$111,279,231	\$ 308,179,231
2005	200,210,000	102,518,605	302,728,605
2006	185,850,000	92,971,481	278,821,481
2007	172,385,000	83,797,931	256,182,931
2008	150,820,000	75,186,164	226,006,164
2009-2013	634,425,000	270,633,530	905,058,530
2014-2018	496,612,063	127,655,809	624,267,872
2019-2023	246,700,000	28,381,259	275,081,259
2024-2028	18,035,000	1,559,300	19,594,300
2029	<u>420,000</u>	<u>9,713</u>	<u>429,713</u>
Subtotal	2,302,357,063	893,993,023	3,196,350,086
Less: Deferral on debt defeasance	<u>(27,658,100)</u>	<u>-</u>	<u>(27,658,100)</u>
Total	<u>\$2,274,698,963</u>	<u>\$893,993,023</u>	<u>\$3,168,691,986</u>

5. EQUIPMENT NOTES

In May 2000, the Authority issued \$66,380,000 School Equipment Financing Notes Educational Technology Issue VI (the "2000 Notes"). In May 2001, the Authority issued \$55,765,000 School Equipment Financing Notes Educational Technology Series I (the "2001 Notes"). In May 2002, the Authority issued \$55,555,000 School Equipment Financing Notes Educational Technology Series II (the "2002 Notes"). In May 2003, the Authority issued

\$55,325,000 School Equipment Financing Notes Educational Technology Series III (the “2003 Notes”). 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, 2003, the amount remaining to be requisitioned by localities is \$882,975 for the 2000 Notes; \$619 for the 2001 Notes; \$19,629,896 for the 2002 Notes; and \$48,935,175 for the 2003 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, 2003, are \$161,640,000.

6. QUALIFIED ZONE ACADEMY BOND

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

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

7. DEFEASANCE OF DEBT

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, “Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities,” the difference between the reacquisition price and the net carrying amount of the bonds defeased with refunding debt is amortized as a component of Interest on Bonds over the remaining life of the refunded debt. Therefore, Bonds Payable has been reduced by \$27,658,100 to reflect the remaining deferral on debt defeasance at June 30, 2003.

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

irrevocable trust with an escrow agent to provide for all future debt service on the defeased bonds. Accordingly, the liability for the defeased bonds is not included on the Authority's financial statements.

In February 2003, Henrico County issued bonds to refund certain of the callable maturities of the Henrico County's \$32,000,000 General Obligation School Bonds, Series 1993. The proceeds were placed in an irrevocable trust with an escrow agent to pay debt service on the advance refunded local school bonds and the Authority's corresponding Special Obligation School Financing Bonds, Henrico County Series 1993, totaling \$16,000,000. These bonds were advance refunded to their earliest call date.

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

At June 30, 2003, \$142,095,000 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, 2003, \$48,455,164 (comprised of \$13,280,774 of interest on Literary Fund loan obligations and short-term investments, and \$35,174,390 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. Eleven Tax Exempt Literary Fund loan obligations totaling \$31,662,015 and two Taxable Literary Fund loan obligations totaling \$12,500,000 were transferred on July 1, 2002. Six Tax Exempt Literary Fund loan obligations totaling \$25,529,993 were transferred on January 1, 2003. Also transferred from the Literary Fund to the VPSA were amounts required to pay debt service on the various outstanding Equipment Notes.

In June 2003, the Authority transferred \$657,222 to the General Fund of the Commonwealth pursuant to Section 3-3.01 of the 2003 Appropriation Act. Also in June 2003, the Authority transferred \$87,029 from the Literary Fund representing capitalized interest related to the subsidy participants in the Series 2002B bond issuances in accordance with the 2003 Appropriation Act, Item 159(B).

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 bond issues presented below:

<u>Bond Issue</u>	Computation Initial <u>5-Year or Final</u>	Computation <u>Date</u>	<u>Liability</u>
(91 Resolution) Series 1992	Final*	08/01/2002	\$ -
(97 Resolution) Series 1997-I	Initial 5 year	11/01/2002	217,651
(87 Resolution) 1992 Series B	5 year	12/01/2002	-
(87 Resolution) 1991 Series B	Final	01/01/2003	-
Equipment Notes Series 1998	Final	03/01/2003	504,544
(87 Resolution) 1993 Series A	5 year	04/01/2003	-
(91 Resolution) Series 1998 A	Initial 5 year	04/30/2003	122,593

* Reports prepared as of the final redemption of the bonds

The Authority paid \$75,876 to its rebate calculation agent for services provided in connection with the above rebate calculations.

The VPSA School Financing Bonds (1987 Resolution) Series 1993 B Refunding, the Henrico County Series 1993 Stand Alone, the VPSA School Financing Bonds (1987 Resolution) 1993 Series C, and VPSA School Financing Bonds (1997 Resolution) Series 1998 B will require a rebate computation as of June 8, 2003, June 10, 2003, November 1, 2003, and November 19, 2003, respectively. The VPSA School Financing Bonds Series 1993 B Refunding and Henrico County Series 1993 rebate computations were received on October 10, 2003 and September 25, 2003, respectively, and there was no rebate liability owed. The estimated liability for arbitrage earnings on 1993 Series C and Series 1998 B has not been determined.

10. SUBSEQUENT EVENTS

In November 2003, the Authority issued approximately \$190.6 million of School Financing Bonds (1997 Resolution) Series 2003 C to purchase certain general obligation local school bonds to finance capital projects for public schools.

11. RISK MANAGEMENT

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

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SUPPLEMENTARY INFORMATION

VIRGINIA PUBLIC SCHOOL AUTHORITY
DETAIL OF LONG-TERM INDEBTEDNESS
As of June 30, 2003
(Dollars in Thousands)

	Dated Date	Bond Resolution	True Interest Cost ("TIC")
Detail of Long-Term Indebtedness by Series:			
1991 Series B	11/01/91	1987	6.12%
1991 Series C Refunding Bonds	12/01/91	1987	6.25%
1992 Series B	12/01/92	1987	5.75%
1993 Series A	04/01/93	1987	5.21%
1993 Series C	10/01/93	1987	4.62%
1993 Series Henrico County	05/15/93	Stand Alone	5.20%
1993 Series B Refunding Bonds	05/01/93	1987	5.16%
1993 Series Refunding Bonds	07/01/93	1990 Insured	5.29%
Series 1994 A	04/01/94	1991	6.07%
1994 Series York County	07/01/94	Stand Alone	5.76%
Series 1995 A	05/01/95	1991	5.64%
1995 Series Chesapeake City	06/01/95	Stand Alone	5.63%
Series 1995 B	09/01/95	1991	5.60%
Series 1995 C	12/01/95	1991	5.10%
Series 1996 A	04/15/96	1991	5.45%
Series 1996 B	11/01/96	1991	5.20%
Series 1997A	04/01/97	1991	5.49%
Series 1997 I	11/01/97	1997	4.92%
Series 1998 Ed Tech Issue V	02/15/98	Equip. Notes	4.04%
Series 1998 A	04/01/98	1997	4.71%
Series 1998 B	11/01/98	1997	4.56%
Series 1999 A	05/01/99	1997	4.60%
Series 1999 B	11/01/99	1997	5.54%
Series 1999 QZAB, Northampton County	10/29/99	Stand Alone	0.00%
Series 2000 A	05/01/00	1997	5.38%
Series 2000 Ed Tech Issue VI	05/01/00	Equip. Notes	5.12%
Series 2000 B	11/01/00	1997	5.11%
Series 2001 A	05/01/01	1997	4.84%
Series 2001 Ed Tech Series I	05/01/01	Equip. Notes	3.53%
Series 2001 B	11/01/01	1997	4.87%
Series 2001 C	11/01/01	1997	4.87%
Series 2001 QZAB, Northampton County	12/21/01	Stand Alone	0.00%
Series 2002 A	05/01/02	1997	4.70%
Series 2002 Ed Tech Series II	05/01/02	Equip. Notes	2.94%
Series 2002 B	11/01/02	1997	4.12%
Series 2002 QZAB, Accomack County	12/31/02	Stand Alone	0.00%
Series 2003 A	05/01/03	1997	4.00%
Series 2003 Ed Tech Series III	05/01/03	Equip. Notes	1.92%
Series 2003 B	05/01/03	1997	2.93%

Total

* Includes refunding bonds issued

Amount Issued *	Local School Bonds Purchased	Outstanding July 1, 2002	Issued (Retired) During Year	Outstanding June 30, 2003	Original Maturity
\$ 55,105	\$ 55,105	\$ 2,740	\$ (2,740)	\$ -	01/01/12
127,285	-	52,170	(13,900)	38,270	01/01/09
60,460	60,460	29,245	(3,650)	25,595	01/01/13
45,710	45,710	24,840	(2,380)	22,460	01/01/13
80,135	80,135	32,420	(4,895)	27,525	01/01/14
32,000	32,000	19,200	(17,600)	1,600	07/15/13
293,160	-	145,190	(14,855)	130,335	01/01/12
24,080	-	18,145	(18,145)	-	08/01/10
115,425	104,045	73,355	(73,355)	-	08/01/14
25,000	25,000	4,395	(1,005)	3,390	07/15/14
63,595	57,460	45,610	(3,070)	42,540	08/01/16
102,000	102,000	100,000	(82,000)	18,000	06/01/15
26,070	23,620	18,755	(1,240)	17,515	08/01/16
121,610	110,528	88,575	(5,620)	82,955	08/01/16
49,205	44,555	37,680	(2,380)	35,300	08/01/17
132,545	120,396	101,505	(6,425)	95,080	08/01/17
92,175	83,325	76,155	(4,110)	72,045	08/01/18
224,285	140,818	181,280	(14,220)	167,060	08/01/17
46,925	-	10,130	(10,130)	-	04/01/03
130,715	50,730	104,340	(7,635)	96,705	08/01/18
105,025	105,311	89,305	(5,250)	84,055	08/01/18
153,040	153,040	138,980	(7,120)	131,860	08/01/19
91,770	91,770	82,405	(4,720)	77,685	08/01/19
2,100	2,100	2,100	-	2,100	10/29/11
100,175	100,175	95,355	(4,840)	90,515	08/01/20
66,380	-	41,205	(13,065)	28,140	04/01/05
106,200	106,197	101,880	(4,450)	97,430	08/01/20
153,940	153,940	153,940	(7,210)	146,730	08/01/21
55,765	-	44,305	(10,380)	33,925	04/15/06
142,400	142,400	142,400	(6,845)	135,555	08/01/21
41,500	41,500	41,500	-	41,500	08/01/26
419	419	419	-	419	12/21/15
111,510	111,510	111,510	-	111,510	08/01/22
55,555	-	55,555	(11,305)	44,250	04/15/07
155,545	155,545	-	155,545	155,545	08/01/22
1,433	1,433	-	1,433	1,433	12/31/16
113,155	113,155	-	113,155	113,155	08/01/28
55,325	-	-	55,325	55,325	04/15/08
74,850	74,850	-	74,850	74,850	08/01/13
<u>\$ 3,433,572</u>	<u>\$ 2,489,232</u>	<u>\$ 2,266,589</u>	<u>\$ 35,768</u>	<u>\$ 2,302,357</u>	

VIRGINIA PUBLIC SCHOOL AUTHORITY
 DETAIL OF LONG-TERM INDEBTEDNESS
 As of 6/30/2003
 (Dollars in Thousands)

	Amount Issued *	Local School Bonds Purchased
Detail of Long-Term Indebtedness by Resolution:		
1987 Resolution	\$ 661,855	\$ 241,410
1991 Resolution	600,625	543,929
1997 Resolution	1,704,110	1,540,941
Stand Alone Issues	162,952	162,952
Equipment Notes	279,950	-
1990 Insured Resolution	24,080	-
Total	<u>\$ 3,433,572</u>	<u>\$ 2,489,232</u>

* Includes refunding bonds issued

Outstanding July 1, 2002	Issued (Retired) During Year	Outstanding June 30, 2003
\$ 286,605	\$ (42,420)	\$ 244,185
441,635	(96,200)	345,435
1,242,895	281,260	1,524,155
126,114	(99,172)	26,942
151,195	10,445	161,640
18,145	(18,145)	-
<u>\$ 2,266,589</u>	<u>\$ 35,768</u>	<u>\$ 2,302,357</u>

VIRGINIA PUBLIC SCHOOL AUTHORITY
1987 RESOLUTION INCOME COVERAGE ⁽¹⁾
As of June 30, 2003

Calendar Year	Schedule of Total Income						Total Income
	Local School Bonds			Literary Fund Obligations			
	Held in 1987 Purchase Fund			Held In 1987 Reserve Fund ⁽²⁾			
	Principal	Interest	Total	Principal	Interest	Total	
2003	\$ 40,085,000	\$15,325,010	\$ 55,410,010	\$ 18,218,510	\$ 6,760,890	\$ 24,979,400	\$ 80,389,410
2004	36,840,000	12,691,186	49,531,186	34,414,046	11,480,203	45,894,249	95,425,435
2005	34,325,000	10,310,879	44,635,879	33,181,038	10,459,985	43,641,023	88,276,902
2006	31,605,000	8,093,846	39,698,846	31,754,230	9,476,757	41,230,987	80,929,833
2007	26,895,000	6,049,477	32,944,477	30,506,563	8,536,202	39,042,766	71,987,242
2008	23,915,000	4,291,676	28,206,676	29,248,690	7,633,584	36,882,274	65,088,951
2009	18,040,000	2,704,629	20,744,629	26,950,981	6,772,059	33,723,040	54,467,669
2010	11,840,000	1,566,143	13,406,143	24,570,932	5,987,667	30,558,599	43,964,742
2011	9,380,000	851,773	10,231,773	22,877,849	5,277,487	28,155,335	38,387,108
2012	4,020,000	294,258	4,314,258	20,891,410	4,622,236	25,513,646	29,827,904
2013	780,000	65,240	845,240	19,692,039	4,034,359	23,726,398	24,571,638
2014	320,000	21,120	341,120	19,574,766	3,483,330	23,058,096	23,399,216
2015	-	-	-	19,525,837	2,935,923	22,461,761	22,461,761
2016	-	-	-	19,215,459	2,389,987	21,605,446	21,605,446
2017	-	-	-	18,421,613	1,853,504	20,275,117	20,275,117
2018	-	-	-	15,939,563	1,338,480	17,278,044	17,278,044
2019	-	-	-	12,547,772	894,675	13,442,447	13,442,447
2020	-	-	-	9,886,014	545,051	10,431,066	10,431,066
2021	-	-	-	6,500,389	280,039	6,780,428	6,780,428
2022	-	-	-	2,835,720	106,685	2,942,405	2,942,405
Total	\$ 238,045,000	\$62,265,236	\$300,310,236	\$ 416,753,425	\$94,869,103	\$ 511,622,528	\$811,932,763

(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, 2003 and on Literary Fund Obligations in the principal amount of \$25,529,993 transferred to the Authority on January 1, 2003 and \$611,600 on July 1, 2003.

(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			Total Coverage ⁽³⁾
Principal	Interest	Total Debt Service	
\$ 42,275,000	\$ 13,076,375	\$ 55,351,375	1.45
38,650,000	10,823,285	49,473,285	1.93
35,815,000	8,762,918	44,577,918	1.98
32,615,000	6,844,935	39,459,935	2.05
27,650,000	5,075,000	32,725,000	2.20
24,440,000	3,565,183	28,005,183	2.32
18,255,000	2,275,678	20,530,678	2.65
11,860,000	1,309,513	13,169,513	3.34
9,300,000	677,205	9,977,205	3.85
2,865,000	178,148	3,043,148	9.80
460,000	22,540	482,540	50.92
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<hr/> \$ 244,185,000 \$ 52,610,778 \$ 296,795,778			2.27

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VIRGINIA PUBLIC SCHOOL AUTHORITY
1991 RESOLUTION INCOME COVERAGE
INCOME AVAILABLE TO PAY DEBT SERVICE
As of June 30, 2003

	Local School Bond Income	Debt Service Reserve Cash Flow (1)	(A) Total Income	(B) Total Debt Service Requirements	Debt Service Coverage (A) / (B)
8/1/2003	\$ 29,905,039	\$ 2,122,895	\$ 32,027,934	\$ 31,961,903	100.21%
2/1/2004	7,825,095	1,026,062	8,851,157	8,734,386	101.34%
8/1/2004	29,440,084	2,143,560	31,583,644	31,514,386	100.22%
2/1/2005	7,184,336	998,081	8,182,417	8,070,637	101.39%
8/1/2005	28,952,178	2,176,061	31,128,239	31,060,637	100.22%
2/1/2006	6,530,497	968,415	7,498,912	7,391,647	101.45%
8/1/2006	28,439,672	2,191,175	30,630,847	30,561,647	100.23%
2/1/2007	5,903,598	937,582	6,841,180	6,740,267	101.50%
8/1/2007	27,877,824	2,178,547	30,056,371	29,990,267	100.22%
2/1/2008	5,310,838	906,239	6,217,077	6,124,784	101.51%
8/1/2008	27,345,988	2,077,876	29,423,864	29,364,784	100.20%
2/1/2009	4,730,330	876,669	5,607,000	5,523,966	101.50%
8/1/2009	26,907,076	1,932,031	28,839,107	28,793,966	100.16%
2/1/2010	4,137,876	850,269	4,988,145	4,913,785	101.51%
8/1/2010	26,467,215	1,937,427	28,404,641	28,348,785	100.20%
2/1/2011	3,537,498	823,002	4,360,500	4,295,206	101.52%
8/1/2011	25,684,584	2,258,363	27,942,947	27,880,206	100.23%
2/1/2012	2,939,064	786,941	3,726,005	3,670,026	101.53%
8/1/2012	25,174,336	1,940,525	27,114,861	27,070,026	100.17%
2/1/2013	2,335,035	757,269	3,092,304	3,045,734	101.53%
8/1/2013	24,754,207	1,831,073	26,585,280	26,540,734	100.17%
2/1/2014	1,725,852	724,236	2,450,088	2,418,822	101.29%
8/1/2014	24,329,947	1,766,455	26,096,401	26,093,822	100.01%
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	\$ 421,494,883	\$ 65,565,550	\$ 487,060,433	\$ 483,778,539	

(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.

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VIRGINIA PUBLIC SCHOOL AUTHORITY
Richmond, Virginia

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As of June 30, 2003

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