PRELIMINARY OFFICIAL STATEMENT DATED JUNE 16, 2010

This Preliminary Official Statement and the information contained herein are subject to change, completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 2010-1 Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. VPSA has duly authorized the distribution of this Preliminary Official Statement. This Preliminary Official Statement has been deemed final as of its date by VPSA in accordance with the meaning and requirements of Rule 15c2-12 of the Securities Exchange Act of 1934, as amended, except for information permitted by such Rule to be omitted.

NEW ISSUE – FULL BOOK-ENTRY

RATINGS: AA+ (Fitch)
Aa1 (Moody's)
AA+ (S&P)
(See "RATINGS" herein)

In the opinion of McGuireWoods LLP, Bond Counsel, under current law, interest on the 2010-1 Bonds is includible in gross income for federal income tax purposes. Bond Counsel is further of the opinion that interest on the 2010-1 Bonds is exempt from taxation by the Commonwealth of Virginia (the "Commonwealth"). See "GENERAL TAX MATTERS" herein regarding certain other tax considerations.

$73,165,000*
VIRGINIA PUBLIC SCHOOL AUTHORITY
School Tax Credit Bonds
(Direct Payment Qualified School Construction Bonds)
Series 2010-1
CUSIP: _____[1]

Dated: Date of Delivery | **Interest Rate: ____%** | **Price: ____%** | **Maturity Date: June 15, 2027**

The Virginia Public School Authority ("VPSA") is issuing the above-referenced bonds (the "2010-1 Bonds") and using the sale proceeds thereof to (i) purchase general obligation school bonds (the "2010-1 Local School Bonds") issued by certain Virginia counties and cities (the "2010-1 Local Issuers") to finance capital projects for public school purposes and (ii) pay the issuance cost of the 2010-1 Bonds. See "APPLICATION OF 2010-1 BOND PROCEEDS" herein.

The 2010-1 Bonds are principally payable from and secured by payments on the 2010-1 Local School Bonds. The 2010-1 Bonds do not constitute a debt or a pledge of the faith and credit of the Commonwealth of Virginia. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

Interest on the 2010-1 Bonds shall be payable on each June 15 and December 15, commencing on December 15, 2010, at the interest rate set forth above. Principal of the 2010-1 Bonds is payable on the maturity date set forth above.

The 2010-1 Bonds are not subject to mandatory sinking fund redemption; however, the 2010-1 Bonds are subject to optional redemption and extraordinary optional redemption prior to maturity. See "DESCRIPTION OF THE 2010-1 BONDS" herein.

The 2010-1 Bonds will be initially issued in book-entry form only, in denominations of $5,000, or any integral of $5,000, and will be initially issued and registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2010-1 Bonds. Purchasers will not receive physical delivery of the 2010-1 Bonds purchased by them. Payments of principal of and premium, if any, on the 2010-1 Bonds will be made by the Paying Agent to DTC, for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the 2010-1 Bonds. See Appendix H – "BOOK-ENTRY ONLY SYSTEM" attached hereto.

The 2010-1 Bonds are being issued as "qualified school construction bonds" as defined in Section 54F of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to which VPSA will irrevocably elect to receive periodic interest subsidy payments from the United States Treasury rather than to provide a tax credit to the owners of the 2010-1 Bonds. VPSA will transfer to the 2010-1 Local Issuers the interest subsidy payments that VPSA receives. See "INTRODUCTION - Description of the 2010-1 Bonds-Interest Subsidy Payments" herein.

This Cover Page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The 2010-1 Bonds are offered for delivery, when, as and if issued subject to the approval of their validity by McGuireWoods LLP, Richmond, Virginia, Bond Counsel. Certain legal matters will be passed upon for VPSA by the Office of the Attorney General of Virginia. BB&T Capital Markets, Richmond, Virginia, is serving as Financial Advisor to VPSA in connection with the issuance of the 2010-1 Bonds. The 2010-1 Bonds, in book-entry form, will be available for delivery through DTC in New York, New York on or about July 8, 2010.*

The 2010-1 Bonds will be awarded pursuant to electronic competitive bidding to be held via BiDCOMP/*PARITY*® on June 23, 2010*, unless changed, as set forth in the Notice of Sale contained in Appendix J to this Official Statement.

Dated: June __, 2010

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* Preliminary, subject to change.

1 CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data herein is provided for convenience of reference only. VPSA and the Financial Advisor take no responsibility for the accuracy of such data.

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THE 2010-1 BONDS ARE EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE 2010-1 BONDS ARE ALSO EXEMPT FROM REGISTRATION UNDER THE SECURITIES LAWS OF THE COMMONWEALTH OF VIRGINIA.

NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY VPSA. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF ANY OFFER TO BUY, NOR SHALL THERE BE ANY OFFER OR SOLICITATION OF SUCH OFFER OR SALE OF THE 2010-1 BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT OR AGREEMENT BETWEEN VPSA AND THE PURCHASERS OR HOLDERS OF ANY OF THE 2010-1 BONDS.

CERTAIN STATEMENTS INCLUDED IN THIS OFFICIAL STATEMENT CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED SUCH AS "PLAN," "PROJECT," "EXPECT," "ANTICIPATE," "INTEND," "BELIEVE," "ESTIMATE," "BUDGET" OR OTHER SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY RESULTS, PERFORMANCES OR ACHIEVEMENTS EXPRESS OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. EXCEPT AS SPECIFICALLY SET FORTH HEREIN, VPSA DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS DUE TO CHANGES IN ITS EXPECTATIONS OR SUBSEQUENT EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED.

THE INFORMATION CONTAINED HEREIN IS SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF VPSA SINCE THE DATE HEREOF.

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OFFICIAL STATEMENT

of the

VIRGINIA PUBLIC SCHOOL AUTHORITY
for its

$73,165,000*
School Tax Credit Bonds
(Direct Payment Qualified School Construction Bonds)
Series 2010-1

INTRODUCTION

This Introduction is only a brief description of, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page through the appendices hereto, and the documents summarized or described herein. The offering of 2010-1 Bonds to potential investors is made only by means of the entire Official Statement. A full review should be made of the entire Official Statement.

General

This Official Statement is provided by the Virginia Public School Authority ("VPSA" or the "Authority") to furnish information with respect to the offering of its $73,165,000* School Tax Credit Bonds (Direct Payment Qualified School Construction Bonds), Series 2010-1 (the "2010-1 Bonds"). VPSA is a public body corporate and an agency and instrumentality of the Commonwealth of Virginia (the "Commonwealth"), created by Chapter 11, Title 22.1, Code of Virginia, 1950, as amended (the "Enabling Act"). See "THE VIRGINIA PUBLIC SCHOOL AUTHORITY" herein. The 2010-1 Bonds are expected to be offered for sale at competitive bidding on June 23, 2010,* as set forth in the Notice of Sale contained in Appendix J to this Official Statement. See "SALE AT COMPETITIVE BIDDING" herein.

Authority and Purpose for Issuance of the 2010-1 Bonds

The 2010-1 Bonds have been authorized and are being issued pursuant to the Enabling Act, a program resolution adopted on September 11, 2009 (the "Program Resolution"), and a bond resolution adopted on March 25, 2010 (together with the Program Resolution, the "Resolutions"), by the Board of Commissioners of VPSA (the "Board"), a Master Trust Indenture dated as of October 1, 2009 (as previously supplemented, the "Master Indenture"), and a Second Supplemental Trust Indenture, dated as of July 1, 2010 (the "Second Supplemental Indenture" and, together with the Master Indenture, the "Indenture"), each between VPSA and U.S. Bank National Association, as trustee, paying agent, registrar and transfer agent (the "Trustee" or "Paying Agent").

VPSA's purpose in issuing the 2010-1 Bonds is to provide funds for (i) the purchase by VPSA of certain general obligation school bonds (the "2010-1 Local School Bonds") to be issued by certain Virginia counties and cities (the "2010-1 Local Issuers") and (ii) the payment of the issuance cost of the 2010-1 Bonds. The 2010-1 Local Issuers are to use the net proceeds of their 2010-1 Local School Bonds to finance capital projects for public school purposes.

Description of the 2010-1 Bonds

Payment of Interest. Interest on the 2010-1 Bonds will be payable semi-annually on June 15 and December 15, commencing December 15, 2010, at the rate of ___%.

Payment of Principal. Principal of the 2010-1 Bonds is payable on June 15, 2027, subject to redemption.

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* Preliminary, subject to change.

Redemption of 2010-1 Bonds. The 2010-1 Bonds are not subject to mandatory sinking fund redemption. The 2010-1 Bonds are subject to optional redemption and extraordinary optional redemption prior to maturity, as more fully described herein. See "DESCRIPTION OF THE 2010-1 BONDS – Redemption" herein.

Form and Registration. The 2010-1 Bonds will be initially issued in book-entry form only, in denominations of $5,000 principal amount or integral multiples thereof, and will be initially issued and registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2010-1 Bonds.

Purchasers will not receive physical delivery of the 2010-1 Bonds purchased by them. Payments of principal of and interest on and premium, if any, on the 2010-1 Bonds will be made by the Paying Agent with respect to the 2010-1 Bonds, to DTC, for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the 2010-1 Bonds. See Appendix H — "BOOK-ENTRY ONLY SYSTEM" attached hereto.

Designation of 2010-1 Bonds as Qualified School Construction Bonds and Specified Tax Credit Bonds. VPSA will designate and issue the 2010-1 Bonds as "qualified school construction bonds" ("Qualified School Construction Bonds") as defined in Section 54F of the Internal Revenue Code of 1986, as amended (the "Code"), and will irrevocably elect to treat the 2010-1 Bonds as "specified tax credit bonds" ("Specified Tax Credit Bonds") as defined in Section 6431(f) of the Code. Section 54F was added to the Code under the American Recovery and Reinvestment Act of 2009 ("ARRA"). Section 6431(f) was added to the Code by the Hiring Incentives to Restore Employment Act of 2010.

Interest Subsidy Payments. Section 6431(f) of the Code authorizes an issuer of a Specified Tax Credit Bond periodically to receive a refundable credit under Section 6431 of the Code (the "Interest Subsidy Payment") in lieu of providing a federal tax credit to the owner of such bond. Section 6431(b) (as modified by Section 6431(f)) requires the Secretary of the Treasury to pay (contemporaneously with each interest payment date under a Specified Tax Credit Bond) to the issuer of such bond the lesser of (i) the amount of interest payable under such bond on such date, or (ii) the amount of interest which would have been payable under such bond on such date if such interest were determined at the applicable credit rate determined under Section 54(b)(3) with respect to such bond. VPSA will transfer to the 2010-1 Local Issuers the Interest Subsidy Payments to the extent they are received by VPSA. The Interest Subsidy Payments to be received by VPSA or transferred to the 2010-1 Local Issuers are not directly pledged as security for or a source of payment of the principal of or interest on or any premium, if any, on either the 2010-1 Bonds or the 2010-1 Local School Bonds.

An owner of a Specified Tax Credit Bond such as a 2010-1 Bond is entitled to receive only periodic payments of current interest in addition to the payment of the principal of and premium, if any, thereon at maturity or upon earlier redemption. Section 6431(f)(1)(D) of the Code provides that the interest on a Specified Tax Credit Bond is includible in gross income for purposes of federal income taxation. See "GENERAL TAX MATTERS" herein.

Certain Defined Terms

In this Official Statement:

- The 2010-1 Bonds and the parity bonds issued under the Indenture are called collectively "Bonds."
- The 2010-1 Local School Bonds and all other general obligation school bonds the principal, interest and redemption components of which have been, or will be, pledged to the Bonds are called collectively "Local School Bonds."
- Cities, counties and towns, including the 2010-1 Local Issuers, are called "Local Issuers."

Security and Sources of Payment for the 2010-1 Bonds

All the Bonds, including the 2010-1 Bonds, will be secured by and payable from payments of the principal of and interest on and premium, if any, on all the Local School Bonds, including the 2010-1 Local School Bonds. The Indenture requires, in connection with the issuance of additional Bonds by VPSA, that the sum of the scheduled debt service on all Local School Bonds after the issuance of such additional Bonds at least equal the related scheduled debt service on all of the Bonds on each debt service payment date on the Bonds. All Local School Bonds, including the 2010-1 Local School Bonds, must be general obligations of Local Issuers for which their full faith and credit and taxing power are irrevocably pledged. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and "THE LOCAL SCHOOL BONDS" herein.

VPSA has covenanted in the Indenture to seek in each biennium in which debt service on Bonds is due a sum sufficient appropriation of an amount at least equal to the difference between (A) debt service on the Bonds becoming due in the fiscal years covered by such biennial Budget Bill (as defined herein) and (B) the amounts paid on the Local School Bonds credited to the General Pledge Fund (as defined herein) or realized from the application of the State-Aid Intercept Provision (as defined herein). The General Assembly has the power to make sum sufficient appropriations with respect to debt service on the 2010-1 Bonds, but the General Assembly is under no legal obligation to do so. **The 2010-1 Bonds do not constitute a debt or pledge of either the faith and credit or the taxing power of the Commonwealth or any political subdivision thereof.** See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

Additional Bonds

The 2010-1 Bonds will be the second series of Bonds issued under the Indenture. The Indenture permits the issuance of additional Bonds of VPSA to:

- purchase additional Local School Bonds; and
- refund any Bonds or other outstanding indebtedness of VPSA.

The issuance of additional Bonds is conditioned upon certifications that:

(i) the scheduled debt service payments on the Local School Bonds are equal to or greater than the related scheduled debt service payments on the Bonds on each debt service payment date, and

(ii) (A) the current Appropriation Act, and

(B) if and as applicable, either of

(I) the Governor's Budget Bill as introduced in the General Assembly for the next fiscal year or biennium or,

(II) if enacted, the Appropriation Act for the next fiscal year or biennium

contain a sum sufficient appropriation to pay the debt service on the Bonds not paid from payments on the Local School Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Additional Bonds" herein and Appendix I - "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" attached hereto.

VPSA has issued, and expects to issue in the future, bonds and other obligations ("Other Obligations") under other security instruments ("Other Resolutions"). Other Obligations have no claim to amounts payable on the Local School Bonds or to any sum sufficient appropriation made with respect to the Bonds. The Bonds have no claim on the general obligation school bonds or other security pledged to the payment of the Other Obligations. See

"THE VIRGINIA PUBLIC SCHOOL AUTHORITY–Other Authority Financings" and "FUTURE FINANCINGS" herein.

Prior Bonds Issued Under the Indenture

On November 4, 2009, VPSA issued its School Tax Credit Bonds (Qualified School Construction Bonds) Series 2009-1 (the "2009-1 Bonds") in the aggregate principal amount of $61,120,000 under the Indenture and pursuant to a First Supplemental Trust Indenture dated as of October 1, 2009, between VPSA and U.S. Bank National Association, as trustee, paying agent, registrar and transfer agent. The 2009-1 Bonds mature on September 15, 2026 and do not bear interest. The holders of the 2009-1 Bonds on a specified credit allowance date during a taxable year shall be allowed a federal income tax credit for such taxable year. The 2009-1 Bonds are not subject to optional or mandatory redemption, but are subject to extraordinary mandatory redemption prior to maturity.

No other Bonds have been issued under the Indenture.

Continuing Disclosure

VPSA has covenanted, for the benefit of the holders of the 2010-1 Bonds to provide to the Municipal Securities Rulemaking Board (the "MSRB"), through its Electronic Municipal Market Access System ("EMMA"), annually, not later than 10 months after the end of each Fiscal Year, commencing with the Fiscal Year ended June 30, 2011, certain financial information and operating data (the "Annual Reports"), with respect to itself, as issuer for purposes of the 1994 amendments to Rule 15c-12 of the U.S. Securities and Exchange Commission (as more particularly defined herein, the "Amendments"). Similarly, VPSA will provide notices of certain events ("Event Notices") with respect to the 2010-1 Bonds to the MSRB, through EMMA, as required under the Amendments.

VPSA has determined that the Commonwealth is a material "obligated person" ("MOP") for purposes of the Amendments. The Commonwealth will covenant, by executing a Continuing Disclosure Agreement prior to issuance of the 2010-1 Bonds, to provide to the MSRB, through EMMA, annually, not later than January 31 of each year, commencing January 31, 2011, Annual Reports with respect to itself. Similarly, the Commonwealth will provide notice of any changes in the ratings of the Commonwealth's general obligation bonds to the MSRB, through EMMA. The Commonwealth will also represent that it has complied with its undertakings regarding the Amendments.

VPSA has also determined that, with respect to Local Issuers, a MOP shall include any such Local Issuer that has Local School Bonds outstanding as of the end of a Fiscal Year (June 30), in an aggregate principal amount that exceeds 10% of the aggregate principal amount of all outstanding Bonds of VPSA. VPSA has covenanted in the Second Supplemental Indenture to require each 2010-1 Local Issuer that is or may become a MOP to execute and deliver to VPSA an undertaking by which the 2010-1 Local Issuer will agree that if it becomes a MOP, it will, so long as it remains a MOP, file Annual Reports and provide Event Notices with respect to its 2010-1 Local School Bonds credited to the General Pledge Fund if material, as required by the Rule. Any such Annual Report or Event Notice of a Local Issuer will be filed with the MSRB, through EMMA.

In addition, VPSA has covenanted to file a notice with the MSRB, through EMMA, of the final expenditure of all Available Project Proceeds (as defined herein) of the 2010-1 Bonds. See "CONTINUING DISCLOSURE" herein and Appendix F-"CONTINUING DISCLOSURE UNDERTAKINGS" attached hereto.

Tax Matters

In the opinion of McGuireWoods LLP, Richmond, Virginia, Bond Counsel, under current law, interest on the 2010-1 Bonds is includible in the gross income of the owners of the 2010-1 Bonds for federal income tax purposes, but exempt from taxation by the Commonwealth of Virginia and by any municipality, county, or any other political subdivision thereof. See 'GENERAL TAX MATTERS."

Certain Investor Considerations Regarding Qualified School Construction Bonds

Because of the developing nature of practices and regulations related to the Qualified School Construction Bond provisions of the Code, it may be necessary following the date of delivery of the 2010-1 Bonds for VPSA and the Trustee to make changes to the transfer, exchange or other provisions of the Indenture as additional guidance is provided by the IRS. Such changes may be made without the consent of the Owners of the 2010-1 Bonds. See "DESCRIPTION OF THE 2010-1 BONDS" herein.

Other Information

This Official Statement contains brief descriptions of, among other things, VPSA and its financing programs, the Indenture, and certain matters relating to the security for the 2010-1 Bonds. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to documents are qualified in their entirety by reference to such documents. Copies of such documents are available for inspection at VPSA by request to the Director of Debt Management, Virginia Department of the Treasury, (804) 225-2142, and, following delivery of the 2010-1 Bonds will be on file at the corporate trust office of the Trustee in Richmond, Virginia.

DESCRIPTION OF THE 2010-1 BONDS

General

The 2010-1 Bonds will be issued in fully registered form only, coming due as a single maturity on June 15, 2027. The 2010-1 Bonds will be initially registered in the name of Cede & Co., as nominee of DTC. As described in Appendix H, DTC will act as securities depository of the 2010-1 Bonds. The principal of the 2010-1 Bonds is payable in lawful money of the United States of America. Principal is payable when due upon surrender of the 2010-1 Bonds at the office of the Trustee.

Payment of Interest

Interest shall be payable on each June 15 and December 15, commencing on December 15, 2010 (each an "Interest Payment Date"), and will be computed on the basis of a 360-day year of twelve 30-day months. Each 2010-1 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless it is authenticated during the period after the close of business on the Record Date immediately preceding any Interest Payment Date to and including such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from its date. "Record Date" means the close of business on the first day of the month preceding an Interest Payment Date.

The interest on each 2010-1 Bond is payable in lawful money of the United States of America to the person whose name appears on the bond registration books of the Paying Agent, as the Owner thereof as of the close of business on the applicable Record Date, whether or not such day is a business day. So long as the 2010-1 Bonds are registered in the name of Cede & Co., as nominee of DTC, payments of principal of and interest on the 2010-1 Bonds will be made by wire transfer. If the book-entry system is discontinued, interest, if any, will be paid (i) by check mailed on each Interest Payment Date (or the next business day, if the Interest Payment Date does not fall on a business day) to each Owner at such Owner's address as it appears on such registration books or at such address as the Owner may have filed with the Paying Agent, for that purpose or (ii) in immediately available funds (for example, by wire transfer) to any Owner of at least $1,000,000 principal amount of outstanding 2010-1 Bonds who has requested in writing such method of payment of interest on the 2010-1 Bonds prior to the close of business on the applicable Record Date.

Payment of Principal

Principal of the 2010-1 Bonds is payable on June 15, 2027, subject to prior redemption. The principal of the 2010-1 Bonds will be payable, when due or upon redemption prior thereto, in lawful money of the United States of America to the person whose name appears on the registration books of the Paying Agent as the Owner thereof upon the surrender thereof at the principal corporate trust office of the Paying Agent.

Form and Registration

The 2010-1 Bonds will be initially issued in book-entry form only, in denominations of $5,000 principal amount or integral multiples thereof (the "Authorized Denominations"), and will be initially issued and registered in the name of Cede & Co., as nominee for DTC. DTC will act as securities depository for the 2010-1 Bonds and registered ownership of the 2010-1 Bonds may not thereafter be transferred except as provided in the Indenture.

Purchasers will not receive physical delivery of the 2010-1 Bonds purchased by them. Payments of principal of and interest on the 2010-1 Bonds will be made by the Paying Agent to DTC, for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the 2010-1 Bonds.

Redemption

Optional Redemption. The 2010-1 Bonds are subject to redemption at the option of VPSA on any date prior to their maturity, in whole or in part in Authorized Denominations, at a redemption price equal to the greater of:

(1) 100% of the principal amount of the 2010-1 Bonds to be redeemed; or

(2) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the 2010-1 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date fixed for the redemption of such 2010-1 Bonds (the "Scheduled Redemption Date"), discounted to the Scheduled Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 20 basis points;

plus, in each case, unpaid interest accrued on the 2010-1 Bonds to be redeemed to the Scheduled Redemption Date.

No Annual Mandatory Sinking Fund Redemption. The 2010-1 Bonds are not subject to annual mandatory sinking fund redemption prior to their stated maturity. The principal of all of the 2010-1 Bonds matures on June 15, 2027.

Extraordinary Optional Redemption. On any day on or after the occurrence of an Extraordinary Event (as defined below), the 2010-1 Bonds are subject to redemption prior to their maturity at the option of VPSA, in whole or in part in Authorized Denominations, at a redemption price equal to the greater of:

(1) 100% of the principal amount of the 2010-1 Bonds to be redeemed; or

(2) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the 2010-1 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the Scheduled Redemption Date for such 2010-1 Bonds, discounted to such Scheduled Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 100 basis points;

plus, in each case, unpaid interest accrued on the 2010-1 Bonds to be redeemed to the Scheduled Redemption Date.

Definition of Treasury Rate. "Treasury Rate" shall mean, with respect to any Scheduled Redemption Date for a particular 2010-1 Bond, the yield to maturity as of such Scheduled Redemption Date of United States Treasury securities with a constant maturity excluding inflation indexed securities (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days, but no more than 45 days, prior to the Scheduled Redemption Date or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the Scheduled

Redemption Date to the maturity date of the 2010-1 Bond to be redeemed; provided, however, that if the period from the Scheduled Redemption Date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Definition of Extraordinary Event. An "Extraordinary Event" will have occurred if VPSA determines that a material adverse change has occurred to Sections 54A, 54F or 6431 of the Code, or there is any guidance published by the Internal Revenue Service or the Treasury Department with respect to such sections or any other determination by the Internal Revenue Service or the Treasury Department, which determination is not the result of any act or omission by VPSA, pursuant to which VPSA's Interest Subsidy Payments from the United States Treasury are reduced or eliminated.

Calculation of Redemption Price. At the request of the Paying Agent, the redemption price of the 2010-1 Bonds to be redeemed by optional or extraordinary optional redemption will be determined by an independent accounting firm, investment banking firm or financial advisor retained at VPSA's expense to calculate such redemption price. The Paying Agent and VPSA may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

Selection of 2010-1 Bonds for Redemption. Subject to applicable procedures of DTC while the 2010-1 Bonds are held in book-entry form by DTC, if less than all of the 2010-1 Bonds are to be called for redemption, VPSA will select 2010-1 Bonds for redemption in such manner as VPSA in its discretion may determine.

If the 2010-1 Bonds are not registered in book-entry only form, any redemption of less than all the 2010-1 Bonds shall be allocated among the Owners of such 2010-1 Bonds as nearly as practicable in proportion to the principal amounts of the 2010-1 Bonds owned by each Owner, subject to the Authorized Denominations applicable to the 2010-1 Bonds. This will be calculated based on the following formula:

$$\frac{\text{(principal amount to be redeemed) x (principal amount owned by owner)}}{\text{(principal amount outstanding).}}$$

The particular 2010-1 Bonds to be redeemed shall be determined by VPSA, using such method as it shall deem fair and appropriate. If the 2010-1 Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole Owner of the 2010-1 Bonds, partial redemptions shall be done in accordance with DTC procedures. It is VPSA's intent that redemption allocations made by DTC, its participants or such other intermediaries that may exist between VPSA and the Beneficial Owners be made in accordance with these same proportional provisions. However, VPSA can provide no assurance that DTC, participants or any other intermediaries will allocate redemptions among Beneficial Owners on such proportional basis.

Notice of Redemption and Other Notices. So long as DTC or its nominee is the sole Owner of the 2010-1 Bonds, VPSA and the Paying Agent will recognize DTC or its nominee as the Owner for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners (as hereinafter defined) will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. See Appendix H - "BOOK-ENTRY ONLY SYSTEM."

The Paying Agent will give notice of redemption to the Owners not less than 30 nor more than 60 days prior to the Scheduled Redemption Date. Failure to mail notice to a particular Owner, or any defect in the notice to such Owner, will not affect the validity of the call for redemption of any other 2010-1 Bond. So long as DTC or its nominee is the Owner, any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a Direct Participant or otherwise) to notify the Beneficial Owner so affected, will not affect the validity of the call for redemption. Any notice mailed as provided in the Indenture on will be conclusively presumed to have been given regardless of whether actually received by any Beneficial Owner.

Rescission of Notice of Redemption. VPSA may rescind any redemption of 2010-1 Bonds and notice thereof on any date prior to the Scheduled Redemption Date by causing written notice of such rescission to be given to the Owners of the 2010-1 Bonds so called for redemption, with a copy to the Paying Agent. Notice of the rescission of any such redemption of the 2010-1 Bonds shall be given in the same manner in which notice of redemption of such 2010-1 Bonds was originally given. The actual receipt by the Owner of any 2010-1 Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

Special Redemption Considerations. **The Code requires that VPSA redeem the portion of the 2010-1 Bonds in an amount equal to the unexpended Available Project Proceeds on July 8,* 2013 (unless such date is extended by the IRS for up to an additional two years). This redemption will be effected through the optional redemption provisions described in "DESCRIPTION OF THE 2010-1 BONDS - Redemption-Optional Redemption" below (and not the extraordinary optional redemption provisions). Given VPSA's experience with historical expenditure patterns of Local Issuers and with the information obtained by VPSA in its application and due diligence process for the 2010-1 Bonds, VPSA anticipates disbursing all of the Available Project Proceeds of the 2010-1 Bonds within three years of the date of issuance. However, there can be no assurance that all such proceeds will be expended prior to the date that would require VPSA to exercise its right to cause the optional redemption of the applicable portion of the 2010-1 Bonds to maintain the status of the 2010-1 Bonds as Qualified School Construction Bonds.**

Pursuant to the Indenture, VPSA has covenanted to provide notice of the final expenditure of the Available Project Proceeds of the 2010-1 Bonds by filing notice thereof with the MSRB in the same manner as described for notices under "CONTINUING DISCLOSURE" herein.

Restriction on Defeasance

VPSA will not defease or permit a defeasance of the 2010-1 Bonds unless it shall have received an opinion from nationally-recognized bond counsel to the effect that (i) the holders of the 2010-1 Bonds being defeased will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the defeasance and (ii) the defeasance will not otherwise alter those holders' U.S. federal income tax treatment of principal and interest payments on the 2010-1 Bonds being defeased. See Appendix I – "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Particular Covenants."

PLAN OF FINANCE

The proceeds of the 2010-1 Bonds, together with other available funds, will be used to (i) purchase the 2010-1 Local School Bonds and (ii) pay the issuance cost of the 2010-1 Bonds. The 2010-1 Bonds are designated as Qualified School Construction Bonds under Section 54F, and, as such, their proceeds may be applied only for qualified expenditures under Section 54F. Section 54F requires that the proceeds of Qualified School Construction Bonds, such as the 2010-1 Bonds, be applied solely to the construction, rehabilitation or repair of a public school facility, or the acquisition of land on which such a facility is to be constructed and to payment of costs of issuance not in excess of 2% of the issue price of said bonds. IRS Notice 2009-35, released April 3, 2009, which specified the allocations for Qualified School Construction Bonds, also provided that bond proceeds may be expended for "costs of acquisition of equipment to be used in such portion or portions of the public school facility that is being constructed, rehabilitated or repaired" with the proceeds of the related Qualified School Construction Bonds.

The 2010-1 Local School Bonds will be credited to the General Pledge Fund created by the Indenture. The payments of the principal of and interest on and premium, if any, on the 2010-1 Local School Bonds will be used to pay the principal of and interest on and premium, if any, on the 2010-1 Bonds.

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* Preliminary, subject to change.

APPLICATION OF THE 2010-1 BOND PROCEEDS

The proceeds of the sale of the 2010-1 Bonds, including initial offering [premium/discount] are expected to be applied as follows:

SOURCES	
Par Amount of 2010-1 Bonds	$
Net Original Issue [Premium/Discount]	
Total	$
USES	
Deposit to Purchase Fund	$
Local Issuance Cost	
VPSA Issuance Cost	
Total	$

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Enabling Act

The Enabling Act authorizes VPSA to pay its bonds solely from funds of VPSA, including, among others, the following sources:

1. payments of principal of and interest on and premium, if any, on general obligation school bonds purchased by VPSA;

2. proceeds of the sale of any such general obligation school bonds; and

3. any funds appropriated by the General Assembly.

Pledge of the Indenture

The two main sources of the funds pledged by the Indenture for the payment of debt service on the Bonds are:

1. payments received on the Local School Bonds and through enforcement of the State-Aid Intercept Provision (see "Local School Bonds" and "State-Aid Intercept Provision"), and

2. appropriations for this purpose by the General Assembly (see "Sum Sufficient Appropriation").

The Bonds are not general obligations of VPSA and are not secured by any of the funds and accounts, assets or revenues pledged under Other Resolutions (as defined herein). The Enabling Act provides that the Bonds, and the interest and premium, if any, thereon will not constitute a debt or a pledge of the faith and credit of the Commonwealth or any of its political subdivisions. Neither the faith and credit nor the taxing power of the Commonwealth or of any of its political subdivisions is pledged to the payment of the principal of and interest on and premium, if any, on the Bonds. While the Bonds do not constitute a legally enforceable obligation of the Commonwealth nor create a debt on behalf of the Commonwealth, there is no constitutional bar to the General Assembly's making appropriations in future sessions to pay debt service on the Bonds.

Local School Bonds

The 2010-1 Local School Bonds will be purchased from the 2010-1 Local Issuers by VPSA with the proceeds of the 2010-1 Bonds. VPSA will deposit all the 2010-1 Local School Bonds in a special fund known as the "General Pledge Fund" created under the Indenture. Under the Indenture, VPSA grants to the Trustee, for the benefit of the holders of the Bonds, including the 2010-1 Bonds, security interests in the principal, interest and redemption premium components of the Local School Bonds, including the 2010-1 Local School Bonds. Similarly, VPSA will deposit to accounts established within the General Pledge Fund additional Local School Bonds acquired with the proceeds of additional Bonds and assign their principal, interest and redemption premium components to such accounts, all subject to security interests in favor of the holders of the Bonds, including the 2010-1 Bonds. See "THE LOCAL SCHOOL BONDS" herein and Appendix I – "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" attached hereto.

Payments of the principal of and interest on and premium, if any, on Local School Bonds will be deposited in the "Revenue Fund," another special fund created by the Indenture. VPSA will use these payments to pay debt service on the Bonds. See Appendix I – "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" attached hereto.

The principal amount of the 2010-1 Local School Bonds will mature in annual installments which will be accumulated in the Revenue Fund and applied to pay the principal amount of the 2010-1 Bonds at maturity on June 15, 2027, subject to prior optional redemption. Investment earnings on the amounts in the Revenue Fund will be credited to the 2010-1 Local Issuers based on the respective amounts of the annual principal installments made on their 2010-1 Local School Bonds. The aggregate annual principal installments of the 2010-1 Local School Bonds are set forth below.

Year* (June 1)	Aggregate Annual Principal Installments*
2011	
2012	
2013	
2014	
2015	
2016	
2017	
2018	
2019	
2020	
2021	
2022	
2023	
2024	
2025	
2026	
2027	
Total	$__________

* Preliminary, subject to change.

State-Aid Intercept Provision

A Virginia statute (Section 15.2-2659 of the Code of Virginia, 1950, as amended) (the "State-Aid Intercept Provision") provides a mechanism for the application of appropriations by the General Assembly to the Local Issuers to overdue debt service on the Local School Bonds. The State-Aid Intercept Provision requires the Governor of the Commonwealth, upon proof of default in the payment of debt service on any general obligation bond (such as a Local School Bond) by any local government (such as a Local Issuer), to direct the Comptroller of the Commonwealth to withhold certain payments to the local government until such default is cured. These payments include funds appropriated by the General Assembly to the local government for any and all purposes. For as long as the default continues, the State-Aid Intercept Provision directs the Governor to require the Comptroller to pay from such appropriation to the holders of such general obligation bonds or their paying agent as much as is necessary to cover the principal, premium and interest due on such general obligation bonds. The State-Aid Intercept Provision further provides for notice of the default and of the availability of intercepted funds with the paying agent or with the Comptroller by publication and by mail to the registered owners of such general obligation bonds.

The State-Aid Intercept Provision has never been utilized but it has been successfully tested in a hypothetical default on a local school bond. Based on the results of such test, VPSA expects that the Comptroller would deliver such funds to the paying agent of VPSA within one business day of initial notification. VPSA further expects that, for as long as the default continued, the Comptroller would make subsequent transfers when debt service on the Local School Bond in default is due.

The State-Aid Intercept Provision applies to all general obligation bonds of the Local Issuers including Local School Bonds. It will apply to each of the annual principal installments and the interest and premium, if any, payable on the 2010-1 Local School Bonds. State aid that is payable to local governments and that is subject to interception pursuant to the State Aid Intercept Provision is derived primarily from the Commonwealth's General Fund, with the remaining aid being payable from the Highway Maintenance and Construction Fund of the Virginia Department of Transportation and certain other funds. The primary sources of revenue for the Commonwealth's General Fund are individual and corporate income tax revenues, sales and use tax revenues, other tax revenues, interest, dividends and rents. Although the State-Aid Intercept Provision has not been tested in a Virginia court, the Attorney General of the Commonwealth has opined that funds appropriated and payable by the Commonwealth to local governments for any and all purposes are subject to the withholding of the State-Aid Intercept Provision.

VPSA has covenanted in the Indenture that it will enforce the State-Aid Intercept Provision to obtain payment of the principal of and premium and interest, if any, due and unpaid on the Local School Bonds. See Appendix I – "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Sum Sufficient Appropriation

The Indenture contemplates that the General Assembly will appropriate to VPSA a sum sufficient appropriation for each fiscal year of the applicable biennium to pay any debt service coming due on Bonds during such fiscal year. Such appropriations would provide sufficient funds to VPSA to meet its debt service obligations in the event of a payment default on one or more Local School Bonds not timely cured by the implementation of the State-Aid Intercept Provision. This type of appropriation is referred to in this Official Statement as a "sum sufficient appropriation." The General Assembly will include in each Appropriation Act subsequent to the adoption of the Program Resolution in any biennium in which debt service is due on Bonds a "sum sufficient appropriation" to VPSA to provide for the difference, if any, between

(1) the scheduled debt service on Bonds and

(2) the sum of

(i) the debt service payments made on the Local School Bonds, and

(ii) the funds obtained from enforcement of the State-Aid Intercept Provision.

Each Appropriation Act will designate "available moneys" in the Literary Fund of the Commonwealth (see "THE LITERARY FUND") as the first source of funds for the appropriation and the General Fund of the Commonwealth as the secondary source.

The Enabling Act requires that the Governor's budget submission or budget amendments each year shall contain a "sum sufficient appropriation." The Enabling Act also requires VPSA to submit to the Governor and the General Assembly an annual report detailing the amount of its outstanding Bonds with the benefit of the sum sufficient appropriation. The Enabling Act and the Indenture do not place any limitation on the amount of Bonds that VPSA can issue with the benefit of the sum sufficient appropriation.

VPSA has covenanted in the Indenture that it will seek a sum sufficient appropriation which will cover:

(i) the scheduled debt service on its outstanding Bonds during the fiscal year(s) covered by such Budget Bill(s) (as defined herein), and

(ii) the estimated scheduled debt service on the additional Bonds VPSA projects that it will issue and have debt service coming due during the fiscal year(s) covered by such Budget Bill(s).

Specifically, VPSA has covenanted in the Indenture that it will cause its Chairman annually, on or before December 1, to:

(1) certify to the Governor and the Secretary of Finance of the Commonwealth an estimate of the total debt service coming due in each of the next two fiscal years on

(A) outstanding Bonds, and

(B) additional Bonds projected to be issued during such two fiscal years, each running from July 1 through the subsequent June 30, and

(2) as necessary, request inclusion in the Governor's Budget Bill(s) to be presented at the next regular session of the General Assembly of an appropriation first from available moneys in the Literary Fund and then from the General Fund of the Commonwealth to fund such debt service. See Appendix I – "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

In the event of a default in payment on one or more Local School Bonds there is a period of not less than 15 days before the principal, interest and premium, if any, payments on VPSA's Bonds become due. Should there be any deficiency remaining in the Local School Bond Payments Available to Pay Debt Service (as defined herein) on a debt service payment date after receipt of funds derived from the immediate implementation of the State-Aid Intercept Provision, VPSA will immediately notify the Governor and the Director of the Department of Planning and Budget and (assuming the General Assembly has made a sum sufficient appropriation) after issuance of a warrant by the Comptroller, the State Treasurer shall transfer to the Trustee an amount equal to any remaining deficiency.

VPSA believes that the implementation of the State-Aid Intercept Provision and, if that does not cure the deficiency, the issuance of the necessary warrant and subsequent electronic transfer pursuant to the sum sufficient appropriation will not take more than three business days following a default on a Local School Bond.

Additional Bonds

VPSA may issue additional Bonds under the Indenture to purchase Local School Bonds and refund any indebtedness, including Other Obligations, provided that VPSA shall have received certificates of:

1. the State Treasurer to the effect that the Local School Bond Payments Available to Pay Debt Service on each debt service payment date equals or exceeds the scheduled debt service on all Bonds to be outstanding immediately after the delivery of the additional Bonds, and

2. the Secretary of Finance that:

(A) the current Appropriation Act and any future Appropriation Act provision and

(B) if the date of the certificate is subsequent to December 20 of one year and prior to July 1 in the following calendar year, any Budget Bill

each contain a sum sufficient appropriation from the Literary Fund and, to the extent that funds are not available therein for such purpose, from the General Fund of the Commonwealth, to pay the difference between debt service on the Bonds becoming due in such fiscal year(s) covered by such Appropriation Act Provision or Budget Bill and the amount available to pay such debt service. See Appendix I - "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

VPSA may also issue additional Bonds under the Indenture to refund all or any of its outstanding Bonds or Other Obligations provided that, in either case, the coverage test for the issuance of additional Bonds to purchase additional Local School Bonds is satisfied. The Enabling Act requires that VPSA remit to the related Local Issuers, or in certain circumstances the Literary Fund, the net debt service savings resulting from any refunding of its Bonds or Other Obligations.

The additional Bonds will be equally and ratably secured with the 2010-1 Bonds and other outstanding Bonds under the Indenture.

The Enabling Act imposes no limitation on the amount of Bonds that VPSA can issue under the Indenture.

Expected Sufficiency of Local School Bond Payments Available to Pay Debt Service

The aggregate annual principal installments and semi-annual interest payments due on the 2010-1 Local School Bonds are expected to be sufficient to pay the principal of the 2010-1 Bonds at maturity and the semi-annual payments of interest on the 2010-1 Bonds when due and payable.

THE VIRGINIA PUBLIC SCHOOL AUTHORITY

Board of Commissioners

VPSA's Board of Commissioners consists of the State Treasurer, the State Comptroller, the Superintendent of Public Instruction and five additional members appointed by the Governor, subject to confirmation by the General Assembly, who serve at the pleasure of the Governor for terms of six years. The Governor appoints one of the appointed members of the Board as chairman, who serves as chief executive officer of VPSA. The Board elects, from its membership, a vice-chairman, treasurer and secretary.

The members of VPSA are:

JAMES M. HOLLAND, *Chairman*, President, Holland & Co. CPA, Richmond, Virginia; term as member expires June 30, 2014; residence: Chesterfield County, Virginia.

MANJU GANERIWALA, *Treasurer and Secretary*, member of VPSA by virtue of being the State Treasurer of Virginia; residence: Henrico County, Virginia.

HADY AMR, *Member*, Managing Director, Amr Group, Arlington, Virginia; term as a member expires June 30, 2010; residence: Arlington, Virginia.

WOODROW W. MULLINS, JR., *Member*, Retired, term as a member expires June 30, 2012; residence: Evington, Virginia.

BRENDA L. SKIDMORE, *Member*, Senior Vice President, SunTrust Bank, Richmond, Virginia, term as a member expires June 30, 2010; residence: Richmond, Virginia.

KANCHANA M. THAMODARAN, *Member*, Marketing Executive and Consultant, term as a member expires June 30, 2014; residence: Virginia Beach, Virginia.

DAVID A. VON MOLL, *Member* of VPSA by virtue of being the Comptroller of Virginia; residence: Chesterfield County, Virginia.

PATRICIA I. WRIGHT, *Member* of VPSA by virtue of being the Superintendent of Public Instruction of Virginia; residence: Chesterfield, Virginia.

The office of the State Treasurer provides staff and administrative support for VPSA. VPSA's mailing address is P.O. Box 1879, Richmond, Virginia 23218-1879. The telephone number of the office of the State Treasurer is (804) 225-2142.

Powers of VPSA

Under the provisions of the Enabling Act, VPSA is empowered, among other things, to (1) manage and administer all moneys and obligations that may be set aside and transferred to it by the General Assembly of Virginia from the principal of the Literary Fund for public school purposes, (2) purchase, with any of its funds available for such purpose, at public or private sale and for such price and on such terms as it shall determine, general obligation school bonds of cities, counties and towns in the Commonwealth, or to make loans or grants to local school boards, and (3) issue, for the purpose of providing funds for the purchase of general obligation school notes or the making of loans or grants to local school boards, its bonds or other obligations payable solely from its funds including, but without limitation, (a) payments of principal of and interest on the general obligation school bonds purchased by VPSA or such loans made by VPSA, (b) sale proceeds of such general obligation school bonds, (c) payments of principal of and interest on Literary Fund Obligations, (d) sale proceeds of such Literary Fund Obligations, (e) any moneys transferred to VPSA from the Literary Fund or appropriated to VPSA by the General Assembly and (f) one or more reserve funds to secure payment of principal and interest.

The validity of the original Enabling Act was upheld by the Supreme Court of Virginia in 1962 in *Button v. Day*, 203 Va. 689, 127 S.E.2d 122.

Financial Condition of Authority Funds

VPSA has caused an audit to be made of its books and accounts for the year ended June 30, 2009, which is contained in Appendix A. See "CONTINUING DISCLOSURE" and Appendix F - "CONTINUING DISCLOSURE UNDERTAKINGS–Virginia Public School Authority."

Other Authority Financings

VPSA expects that the Indenture will continue indefinitely to be the primary instrument under which it issues tax credit bonds to provide funds to purchase local school bonds and thereby promote the financing and refinancing of school tax credit bond-eligible capital projects for public schools across the Commonwealth. Historically, VPSA has issued bonds under a number of other comparable "pool" resolutions and resolutions pledging solely the local school bonds of a single local issuer ("Stand Alone Security Structure").

1991 Resolution Bonds. Under a bond resolution adopted by the Board on June 26, 1991, as amended and supplemented (the "1991 Resolution"), VPSA has issued $791,600,000 total principal amount of bonds in ten separate series (the "1991 Resolution Bonds"). VPSA used the proceeds of the 1991 Resolution Bonds in accordance with the Enabling Act to purchase general obligation school bonds issued by cities and counties in the Commonwealth to finance capital projects for public schools and to provide funds for deposit to the 1991 Debt Service Reserve Account as described in the 1991 Resolution. With the issuance under the 1997 Resolution (as defined below) of VPSA's Series 2005A bonds, which closed March 15, 2005, VPSA advance refunded all remaining outstanding bonds under the 1991 Resolution. The bonds were redeemed on August 1, 2007.

1997 Resolution Bonds. Under a bond resolution adopted by the Board on October 23, 1997, as amended and supplemented (the "1997 Resolution"), VPSA has issued $5,178,935,000 total principal amount of bonds in 36 separate series (the "1997 Resolution Bonds"). VPSA has used the proceeds of the 1997 Resolution Bonds in accordance with the Enabling Act to purchase general obligation school bonds issued by towns, cities and counties in the Commonwealth of Virginia to finance capital projects for public schools. VPSA issued a series of 1997 Resolution Bonds on May 13, 2010 in the aggregate principal amount of $109,645,000.

Special Obligation School Financing Bonds. Using a Stand Alone Security Structure, VPSA has issued several issues of special obligation school financing bonds that are secured separately from the Bonds. As of April 1, 2010, six issues of bonds issued under separate Stand Alone Security Structures were outstanding.

School Educational Technology Notes. VPSA has issued $56,620,000, $56,765,000, $56,475,000, $55,395,000 and $54,110,000 School Educational Technology Notes, Series VI, VII, VIII, IX and X, respectively (collectively, the "Notes"). Proceeds from the Notes were used primarily to make grants to establish a computer-based instructional and testing system for the Standards of Learning (SOL) and connecting high schools (and middle and elementary schools as appropriate), Best Practices Centers and the Central Office of the Department of Education. Five prior issues of Notes have been retired.

The Notes are limited obligations of VPSA payable from appropriations by the Virginia General Assembly from the Literary Fund. The Notes have carried since their issuance the additional benefit of a sum sufficient appropriation from the General Fund of the Commonwealth. See Appendix E - "LITERARY FUND–Appropriations from the Literary Fund." See also "FUTURE FINANCINGS" and "LEGISLATION."

The following table is a summary of outstanding indebtedness of VPSA issued under Other Resolutions detailed above.

Virginia Public School Authority
Summary of Outstanding Indebtedness from Other Financings
As of June 1, 2010

Issue Category	Final Maturity Date	Principal Outstanding
County of Chesterfield School Financing Bonds[1]	January 15, 2025	$42,600,000
County of Henrico School Financing Bonds[1]	July 15, 2028	42,215,000
County of Fluvanna School Financing Bonds[1]	December 1, 2035	67,525,000
2006 School Educational Technology Notes	April 15, 2011	12,215,000
2007 School Educational Technology Notes	April 15, 2012	24,140,000
2008 School Educational Technology Notes	April 15, 2013	34,080,000
2009 School Educational Technology Notes	April 15, 2014	44,185,000
2010 School Educational Technology Notes	April 15, 2015	54,110,000
County of Northampton Special Obligation Bond[1] 1999	October 29, 2011	2,100,000
County of Northampton Special Obligation Bond[1] 2001	December 21, 2015	419,060
County of Accomack Special Obligation Bond[1] 2002	December 31, 2016	1,433,003
1997 Resolution Bonds		978,790,000
Total:		$3,303,812,065

[1] See *"Special Obligation School Financing Bonds"* above.

The holders of VPSA's Other Obligations issued under the Other Resolutions described above have no claim on the Local School Bonds or their principal, interest and redemption premium components or any other assets pledged to the Bonds, and holders of Bonds issued under the Indenture have no claim to the local school bonds or other assets pledged under such Other Resolutions for the payment of such Other Obligations.

Default Experience

VPSA has never defaulted in the payment of principal or interest on any of its indebtedness.

THE LOCAL SCHOOL BONDS

Requirements for the Local School Bonds

The Indenture requires that every Local School Bond purchased by VPSA must be a valid and binding general obligation of its respective Local Issuer for the payment of which its full faith and credit are pledged, that all taxable property within the boundaries of the Local Issuer must be subject to the levy of an *ad valorem* tax, without limitation as to rate or amount, for payment of such Local School Bonds, and that all Local School Bonds must be in, or convertible into, marketable form and must be accompanied by an approving opinion of a firm of recognized municipal bond attorneys acceptable to VPSA.

2010-1 Local School Bonds

2010-1 Local School Bonds and 2010-1 Local Issuers. The following table lists the 2010-1 Local Issuers and the principal amount of the 2010-1 Local School Bonds to be issued by the 2010-1 Local Issuers and to be purchased by VPSA with the proceeds of the 2010-1 Bonds.

2010-1 Local Issuers*	2010-1 Local School Bond Principal Amount*	2010-1 Local Issuers*	2010-1 Local School Bonds Principal Amount*
Amelia County		Prince William County	
Arlington County		City of Roanoke	
Greene County		Shenandoah County	
Greensville County		Spotsylvania County	
City of Hampton		Stafford County	
City of Hopewell		City of Virginia Beach	
King William County		Washington County	
City of Lexington		Westmoreland County	
Lunenburg County		York County	
Montgomery County			

Details of the 2010-1 Local School Bonds. The 2010-1 Local Issuers are obligated to issue and sell to VPSA their 2010-1 Local School Bonds with (i) interest payable in sufficient amounts and at times which will cover the corresponding interest payments on the 2010-1 Bonds and (ii) aggregate annual principal installments which will equal to the total principal amount of the 2010-1 Bonds. The interest payments on the 2010-1 Local School Bonds are due on each December 1 and June 1, commencing December 1, 2010, so that, absent a payment default, an amount sufficient to pay the December 15 or June 15 interest payment on the 2010-1 Bonds is expected to be on deposit in the Revenue Fund on the immediately preceding December 1 or June 1, as applicable. The principal installments on the 2010-1 Local School Bonds are due on each June 1, so that, absent a payment default or a prior redemption, an amount equal to the principal amount of the 2010-1 Bonds maturing and payable on June 15, 2027, is expected to be on deposit in the Revenue Fund on June 1, 2027. The 2010-1 Local School Bonds are not subject to optional redemption prior to their respective maturities without prior written consent of VPSA. The 2010-1 Local School Bonds are subject to mandatory redemption in such amounts and at such redemption prices as will be

* Preliminary, subject to change.

sufficient to provide for any redemption of the 2010-1 Bonds required to preserve the status of the 2010-1 Bonds as Qualified School Construction Bonds. See "DESCRIPTION OF THE 2010-1 BONDS – Redemption."

Delivery of the 2010-1 Local School Bonds. The terms of the contracts between VPSA and each 2010-1 Local Issuer whose 2010-1 Local School Bonds VPSA has agreed to purchase with the proceeds of its 2010-1 Bonds require that the 2010-1 Local Issuer issue and deliver to VPSA its 2010-1 Local School Bonds on the same date that VPSA issues and delivers its 2010-1 Bonds to the purchasers thereof.

Protection from Default in Payment of Local School Bonds

There has never been a payment default on any general obligation school bonds held by VPSA. VPSA has covenanted in the Indenture that it will take any and all action available to it under the laws of the Commonwealth, including the State-Aid Intercept Provision, to secure payment of the principal of and interest, if any, on the Local School Bonds held under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS– State-Aid Intercept Provision" above.

THE LITERARY FUND

General

The Literary Fund is a permanent and perpetual school fund created in 1810 and established by the Constitution of Virginia as a depository for moneys derived by the Commonwealth from criminal fines and forfeitures, escheated property and income from the investment of moneys on deposit in the Literary Fund. The moneys therein are held by the State Treasurer and administered by the State Board of Education "for public school purposes, including the teachers' retirement fund."

Available Monies

Under the Commonwealth's Appropriation Acts for prior bienniums, the sum sufficient appropriation to VPSA for debt service on Other Obligations for the applicable biennium is payable first from "available monies" in the Literary Fund and then from the General Fund of the Commonwealth. VPSA anticipates that the determination of "available monies" at a point in time, assuming a Local Issuer has defaulted on its Local School Bond and implementation of the State-Aid Intercept Provision has not cured the default, will be made by the Director of the Department of Planning and Budget taking into account the balance of cash and cash equivalents credited to the Literary Fund, on the one hand, and all appropriations and transfers from, and Literary Fund Loan commitments made by, the Literary Fund.

See Appendix E - "LITERARY FUND." See also "FUTURE FINANCINGS" and "LEGISLATION."

THE GENERAL FUND OF THE COMMONWEALTH

The General Fund of the Commonwealth is comprised of such balances, public taxes, arrears of taxes, and monies derived from all other sources as are not by law segregated to other funds and accounts for transactions related to resources received and used for those services traditionally provided by a state government. Commonwealth General Fund revenues are principally composed of direct taxes to support a number of government functions, primarily education, individual and family services, public safety and general government, and are available for payment of debt service obligations of the Commonwealth. For the fiscal year ended June 30, 2009, Commonwealth General Fund revenue was $14,790,429,000 with expenditures of $16,397,080,000 and ending balance of $1,202,919,000 (cash basis audited). See Appendix B - "COMMONWEALTH OF VIRGINIA FINANCIAL AND OTHER INFORMATION."

RECENT DEVELOPMENTS

The Commonwealth

Reference is made to Appendix B for a description of certain financial information pertaining to the Commonwealth.

On December 18, 2009, Governor Kaine proposed amendments to the 2009 Appropriation Act affecting the remainder of fiscal year 2010 (the "2009 Appropriation Act Amendments") and a Budget Bill for the 2010-2012 biennium (the "2010 Budget Bill") for consideration by the 2010 Session of the General Assembly. The 2009 Appropriation Act Amendments and 2010 Budget Bill proposed spending cuts and other measures to address a continued downward trend in General Fund revenues.

On January 16, 2010, Robert F. McDonnell was inaugurated Governor of Virginia.

On February 17, 2010, Governor McDonnell released the revised mid-session General Fund revenue forecast (the "Mid-Session Reforecast"). Based on revenue collections for the first seven months of fiscal year 2010, the Mid-Session Reforecast increased the revenue estimate for the remainder of fiscal year 2010 by $103.5 million from the estimate used in the 2009 Appropriation Act Amendments. Mid-Session Reforecast adjustments in each year of the 2010-2012 biennium reflected the ongoing impact of these changes, projecting an additional $118.0 million in new General Fund resources for the next biennium, $63.9 million in fiscal year 2011 and $54.1 million in fiscal year 2012.

The General Assembly rejected certain elements of Governor Kaine's 2010 Budget Bill, causing the 2010 Budget Bill to be out of balance. Governor McDonnell worked with the General Assembly to develop a plan to generate the $2.2 billion necessary to balance the budget. This plan included reductions to certain service areas traditionally spared cuts, such as primary and secondary education and health and human resources, and a reduction in state contributions to the Virginia Retirement System (VRS). The VRS changes also result in savings at the local government level that can help offset the state cuts to K-12 education funding.

Prior to its adjournment *sine die* on March 14, 2010, the General Assembly passed, with amendments, the 2009 Appropriation Act Amendments and the 2010 Budget Bill (as so amended, the "Passed Budget Bill"). On March 30, 2010, the 2009 Appropriation Act Amendments and the Passed Budget Bill adopted by the General Assembly were signed by the House Speaker and Senate President and presented to the Governor for consideration. On April 13, 2010, Governor McDonnell returned the 2009 Appropriation Act Amendments and the Passed Budget Bill to the General Assembly with his proposed amendments. The General Assembly conducted its reconvened session on April 21, 2010, to consider and act on the Governor's vetoes and proposed amendments. The General Assembly accepted all but one of the Governor's amendments, and on May 7, 2010, the 2009 Appropriations Act Amendments were signed by the Governor and enacted as Chapter 872, 2010 Virginia Acts of Assembly. As noted earlier, none of the vetoes or amendments affected the sum sufficient appropriation.

Virginia Localities

The economic trends which have created pressure on the Commonwealth's budget are also affecting Virginia's localities, including Local Issuers (collectively, "Localities"). Declining home values are placing stress on the primary source of revenue for Virginia Localities - real property tax levies. While the Recovery Act might provide a beneficial amount of federal aid through the end of the calendar year, Localities may be compelled to make difficult decisions to balance their fiscal year 2011 budgets and may be forced to implement painful cost-cutting measures, including service reductions and personnel furloughs and layoffs. In addition, Localities may be compelled to deal with lower revenues and lower transfers from the Commonwealth. The implementation of the spending provisions of the Recovery Act, however, might provide sufficient resources to balance potential revenue shortfalls. Virginia law requires Localities to balance their budgets. All the Local School Bonds are general obligations of their respective Local Issuers to which their full faith and credit are pledged.

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GENERAL TAX MATTERS

The following discussion of General Tax Matters was written to support the promotion and marketing of the 2010-1 Bonds and was not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding United States federal income tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Opinion of Bond Counsel – Federal Income Tax Status of Interest on the 2010-1 Bonds

Bond Counsel's opinion with respect to the 2010-1 Bonds will state that, based on current law, interest on the 2010-1 Bonds is includible in the gross income of the owners thereof for purposes of federal income taxation as required under Section 6431(f)(1)(D) of the Code.

Summary

The following is a summary of certain of the United States federal income tax consequences of the ownership of the 2010-1 Bonds as of the date hereof. Each prospective purchaser of the 2010-1 Bonds should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as Treasury regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the 2010-1 Bonds generally and does not purport to furnish information in the level of detail or with the prospective purchaser's specific tax circumstances that would be provided by a prospective purchaser's own tax advisor. For example, it generally is addressed only to original purchasers of the 2010-1 Bonds that are "U.S. holders," as hereinafter defined, deals only with 2010-1 Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to owners that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, S corporations, persons that hold 2010-1 Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in an owner of the 2010-1 Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a beneficial owner of a 2010-1 Bond. A "non-U.S. investor" is a holder (or beneficial owner) of a 2010-1 Bond that is not a U.S. person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

General Federal Income Tax Status of the 2010-1 Bonds

The 2010-1 Bonds will be treated, for federal income tax purposes, as a debt instrument. Accordingly, interest will be included in the income of the owner as it is paid (or, if the owner is an accrual method taxpayer, as it is accrued) as interest.

Owners of the 2010-1 Bonds that allocate a basis in the 2010-1 Bonds that is greater than the principal amount of the 2010-1 Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

If an owner purchases the 2010-1 Bonds for an amount that is less than the principal amount of the 2010-1 Bonds, and such difference is not considered to be de minimis, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a 2010-1 Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year, will be deferred.

Sale and Exchange of the 2010-1 Bonds

Upon a sale or exchange of a 2010-1 Bond, an owner generally will recognize gain or loss on the 2010-1 Bond equal to the difference between the amount realized on the sale and its adjusted tax basis in such 2010-1 Bond. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the 2010-1 Bond not yet taken into income will be ordinary). The adjusted basis of the owner in a 2010-1 Bond will (in general) equal its original purchase price increased by any original issue discount or market discount includible in the gross income of the owner with respect to the 2010-1 Bonds and decreased by any principal payments received on the 2010-1 Bond. In general, if the 2010-1 Bond is held for longer than one year, any gain or loss would be long term capital gain or loss, and capital losses are subject to certain limitations.

Defeasance

Defeasance of any 2010-1 Bond may result in a reissuance thereof, in which event an owner will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the holder's adjusted tax basis in the 2010-1 Bond. However, VPSA has restricted its right to defease any 2010-1 Bond as described in the section above "DESCRIPTION OF THE 2010-1 BONDS – Restriction on Defeasance.

Foreign Investors

Distributions of the 2010-1 Bonds to a non-U.S. holder that has no connection with the United States other than holding its 2010-1 Bond generally will be made free of withholding tax, as long as that the non-U.S. holder has complied with certain tax identification and certification requirements.

Circular 230

Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), VPSA and its tax advisors are (or may be) required to inform you that (i) any advice contained herein, including any opinions of counsel referred to herein, is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer; (ii) any such advice is written to support the promotion of marketing of the 2010-1 Bonds and the transactions described herein (or in such opinion or other advice); and (iii) each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Opinion of Bond Counsel – Virginia Income Tax Consequences

Bond Counsel's opinion also will state that, in accordance with Section 22.1-172 of the Enabling Act, the 2010-1 Bonds, their transfer and the income from them, including any profit made on their sale, are exempt from taxation by the Commonwealth, any municipality, county, or other political subdivision thereof. Bond Counsel will express no opinion regarding (i) other Virginia tax consequences arising with respect to the 2010-1 Bonds or (ii) any consequences arising with respect to the 2010-1 Bonds under the tax laws of any state or local jurisdiction other than Virginia. Prospective purchasers of the 2010-1 Bonds should consult their own tax advisors regarding the tax status of interest on the 2010-1 Bonds in a particular state or local jurisdiction other than Virginia.

Backup Withholding

Under current United States federal income tax law, a 28% backup withholding tax requirement may apply to certain payments of interest and original issue discount on, and the proceeds of a sale, exchange or redemption of, the 2010-1 Bonds. Certain persons making such payments are required to submit information returns (that is, IRS Forms 1099) to the IRS with regard to those payments. Backup withholding and information reporting will generally not apply with respect to payments made to certain exempt recipients such as corporations or certain exempt entities.

Future Legislative or Regulatory Actions

Legislation and regulatory actions affecting tax credit obligations is continually being considered by the U.S. Congress and the Treasury Department and the IRS, respectively. There can be no assurance that legislation enacted after the date of issuance of the 2010-1 Bonds will not have an adverse effect on the classification of the 2010-1 Bonds as Qualified School Construction Bonds.

RATINGS

As noted on the cover page of this Official Statement, Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, have given the 2010-1 Bonds ratings of, "AA+", "Aa1" and "AA+" respectively.

Such ratings reflect only the respective views of such organizations and an explanation of the significance of such ratings may be obtained only from the respective rating agencies. VPSA furnished to such rating agencies certain information regarding its policies, practices and finances, including information that is not included in this Official Statement. There is no assurance that such policies, practices and finances or such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by any rating agency, if, in the judgment thereof, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market price of the 2010-1 Bonds.

FUTURE FINANCINGS

VPSA does not anticipate issuing any new money additional bonds or other obligations under any of its pooled bond resolutions prior to September 1, 2010.

VPSA expects to issue bonds pursuant to the 1997 Resolution in the fall of 2010 for the purchase of Local School Bonds to fund public school projects. Subject to market conditions, however, VPSA may undertake at any time the refunding for debt service savings and other purposes of any if its outstanding obligations, including Bonds issued under the 1997 Resolution.

In addition, VPSA may issue additional VPSA Tax Credit Bonds in the fall of 2010.

LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the 2010-1 Bonds are subject to the approving opinion of McGuireWoods LLP, Richmond, Virginia, Bond Counsel. Such opinion, substantially in the form set forth in Appendix G to this Official Statement, will be furnished at no expense to the initial purchaser of the 2010-1 Bonds upon delivery thereof.

Certain legal matters will be passed upon for VPSA by the Office of the Attorney General of Virginia.

LEGALITY FOR INVESTMENT

The Enabling Act provides that the 2010-1 Bonds are securities in which all public officers and bodies of the Commonwealth, counties, cities, towns, municipal subdivisions, insurance companies and associations, savings banks and savings institutions, including savings and loan associations, trust companies, beneficial and benevolent associations, administrators, guardians, executors, trustees and other fiduciaries in the Commonwealth may properly and legally invest funds under their control.

LITIGATION

VPSA is not party to any litigation. VPSA has no knowledge of any litigation, pending or threatened, to restrain or enjoin the issuance or delivery of the 2010-1 Bonds or the entering by VPSA into the transactions contemplated by this Official Statement or wherein an unfavorable decision would have a material adverse impact upon the operations or financial condition of VPSA.

CERTIFICATE CONCERNING OFFICIAL STATEMENT

Concurrently with the delivery of the Bonds, officials who signed the Bonds will certify that, to the best of their knowledge, the Official Statement did not as of its date, and does not as of the date of delivery of the Bonds, contain any untrue statement of a material fact or omit to state a material fact which should be included therein for the purpose for which the Official Statement is to be used, or which is necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading. Such certificate will also state, however, that such officials did not independently verify the information in the Official Statement from sources other than VPSA, but that they have no reason to believe that such information contains any untrue statement of a material fact or omits to state a material fact which should be included therein for the purpose for which the Official Statement is to be used, or which is necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

LEGISLATION

The Passed Budget Bill contains a "sum sufficient appropriation" that is applicable to all Bonds issued under the 1997 Resolution and that is not limited in terms of Bonds that may have the benefit thereof or in terms of maximum annual debt service.

The 2009 Appropriation Act also directs VPSA to issue the 2010 Notes during the fiscal year ending June 30, 2010 to continue the Board of Education's Six-Year Technology Plan. The Passed Budget Bill also includes sufficient appropriations from the Literary Fund to pay debt service coming due during the biennium ending June 30, 2012 on all of VPSA's outstanding Notes. See "THE VIRGINIA PUBLIC SCHOOL AUTHORITY–Other Authority Financings- School Educational Technology Notes" above and APPENDIX E – "LITERARY FUND."

FINANCIAL ADVISOR

BB&T Capital Markets, Richmond, Virginia, is serving as Financial Advisor to VPSA with respect to the sale of the 2010-1 Bonds. The Financial Advisor assisted VPSA in the preparation of this Official Statement and provided other advice. The Financial Advisor is an investment banking firm which provides a full range of investment banking, financial advisory and consulting services. BB&T Capital Markets is a division of Scott & Stringfellow, LLC, a wholly-owned subsidiary of BB&T Corporation, a North Carolina financial holding company.

CONTINUING DISCLOSURE

On November 10, 1994, the Securities and Exchange Commission adopted in final form certain amendments (the "Amendments") to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"). In general, the Amendments prohibit an underwriter from purchasing or selling municipal securities sold on or after July 3, 1995, such as the 2010-1 Bonds, unless it has determined that the issuer of such securities and/or other persons deemed to be "obligated persons" have committed to provide (i) on an annual basis, certain financial information and operating data ("Annual Reports"), and, if available, audited financial statements, to each Nationally Recognized Municipal Securities Information Repository (a "NRMSIR") and (ii) notice of various events described in the Amendments, if material ("Event Notices"), to the Municipal Securities Rulemaking Board (the "MSRB").

In the Second Supplemental Indenture, VPSA has covenanted, for the benefit of the holders of the 2010-1 Bonds to provide to the MSRB, through its Electronic Municipal Market Access System ("EMMA"), annually, not later than 10 months after the end of each Fiscal Year, commencing with the Fiscal Year ended June 30, 2011, Annual Reports with respect to itself, as issuer. Similarly, VPSA will provide Event Notices with respect to the 2010-1 Bonds to the MSRB, through EMMA. As of the date of this Official Statement, VPSA has complied with its other undertakings regarding the Amendments.

In addition, VPSA has covenanted to file a notice with the MSRB, through EMMA, of the final expenditure of all Available Project Proceeds.

VPSA has determined that the Commonwealth is a material "obligated person" ("MOP") for purposes of the Amendments. The Commonwealth will covenant, by executing a Continuing Disclosure Agreement prior to issuance of the 2010-1 Bonds, to provide to the MSRB, through EMMA, annually, not later than January 31 of each year, commencing January 31, 2011, Annual Reports with respect to itself. Similarly, the Commonwealth will provide notice of any changes in the ratings of the Commonwealth's general obligation bonds to the MSRB, through EMMA. The Commonwealth will also represent that it has complied with its undertakings regarding the Amendments.

VPSA has also determined that, with respect to Local Issuers, a MOP shall include any such Local Issuer that has local school bonds outstanding as of the end of a Fiscal Year (June 30), in an aggregate principal amount that exceeds 10% of the aggregate principal amount of all outstanding Bonds of VPSA. VPSA has covenanted in the Second Supplemental Indenture to require each Local Issuer that is or may become a MOP to execute and deliver to VPSA an undertaking by which the Local Issuer will agree that if it becomes a MOP, it will, so long as it remains a MOP, file Annual Reports and provide Event Notices with respect to its Local School Bonds credited to the General Pledge Fund if material, as required by the Rule. Any such Annual Report or Event Notice of a Local Issuer will be filed with the MSRB, through EMMA. See "OTHER INFORMATION" herein.

Alternatively to filing the Annual Reports, Event Notices and other notices required under the Amendments with the MSRB, VPSA, the Commonwealth and any Local Issuer that is a MOP may make such filings with DisclosureUSA or any other electronic filing system approved by the U.S. Securities and Exchange Commission.

For purposes of compliance with the secondary market disclosure requirements of the Amendments, VPSA will determine as of June 30 of each year whether one or more Local Issuers are MOPs. The Counties of Montgomery, Prince William and Washington and the City of Lexington will constitute MOPs. VPSA cannot predict whether any particular Local Issuer will be as of June 30 of any particular subsequent year a MOP subject to the continuing disclosure undertaking under its Continuing Disclosure Agreement with VPSA. The Counties of Montgomery, Prince William and Washington and the City of Lexington will represent as of the date of delivery of the 2010-1 Bonds that it has complied with its undertakings regarding the Amendments. See "OTHER INFORMATION."

Montgomery County has previously agreed to comply with the provisions of Rule 15c2-12 by providing certain annual financial information and operating data and event notices required by Rule 15c2-12. With respect to the audited financial information for fiscal year ended June 30, 2007, Montgomery County was 15 days late in providing such information to the appropriate repositories pursuant to Rule 15c2-12.

These covenants have been made in order to assist the Underwriter (as defined below) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). See Appendix F - "CONTINUING DISCLOSURE UNDERTAKINGS").

OTHER INFORMATION

Included as Appendices B, C and D are Financial and Other Information respecting the Commonwealth, Demographic and Economic Information relating to the Commonwealth and the audited financial statements of the Commonwealth for its fiscal year ended June 30, 2009, respectively.

Each 2010-1 Local Issuer filed with the MSRB certain operating data and financial information, including its audited financial statements for the fiscal year ended June 30, 2009. Copies of such operating data and financial information, including such audited financial statements, are available from the MSRB and, without charge, from VPSA, at 101 North 14th Street, 3rd Floor, Richmond, Virginia 23219, telephone: (804) 225-2142. Reference is made to the information and audited financial statements filed and to be filed by each 2010-1 Local Issuer with the MSRB, which information and financials filed and to be filed are hereby included by specific reference in this Official Statement the same as if they were set out here in full.

SALE AT COMPETITIVE BIDDING

The 2010-1 Bonds will be offered at competitive bidding on June 23, 2010*, unless changed as described in the Notice of Sale contained in Appendix J to this Official Statement. This Preliminary Official Statement has been deemed final as of its date by VPSA in accordance with the meaning and requirements of Rule 15c2-12, except for the omission of certain pricing and other information permitted to be omitted by Rule 15c2-12. After the 2010-1 Bonds have been awarded, VPSA will deem the Official Statement final as of its date, and the Official Statement as so completed will be a final official statement within the meaning of Rule 15c2-12 (the "Final Official Statement"). The Final Official Statement will include, among other matters, the identity of the winning bidder and the managers of the syndicate, if any, submitting the winning bid (the "Underwriter"), the expected selling compensation to the Underwriter of the 2010-1 Bonds and other information on the interest rates and offering prices or yields of the 2010-1 Bonds, as supplied by the Underwriter.

RELATIONSHIP OF PARTIES

McGuireWoods LLP, Richmond, Virginia, Bond Counsel to VPSA also serves as bond counsel to the Counties of Amelia, Arlington, King William, Stafford and York, each of which is a 2010-1 Local Issuer.

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* Preliminary, subject to change.

MISCELLANEOUS

The foregoing summaries of certain provisions of the Enabling Act and Indenture do not purport to be complete statements of such provisions and are made subject to the detailed provisions thereof to which reference is hereby made. Copies of the Enabling Act and the Indenture are available for inspection upon request to VPSA.

VPSA has furnished all information in this Official Statement relating to VPSA and has obtained all information relating to the Commonwealth and the Literary Fund from sources that it believes to be reliable. The financial statements of VPSA as of June 30, 2009, and of the Commonwealth of Virginia as of June 30, 2009, in Appendices A and D, respectively, have been examined, to the extent set forth in its reports, by the Virginia Auditor of Public Accounts and are included in reliance upon the reports of such Auditor.

Any statements in this Official Statement involving matters of opinion whether or not expressly so stated are intended as such and not as representations of fact. Terms used in this Official Statement but not otherwise defined shall have the meanings assigned to them in the Indenture.

The distribution of this Preliminary Official Statement has been duly authorized by VPSA. VPSA has deemed this Preliminary Official Statement "final" within the meaning of Rule 15c2-12 of the U.S. Securities and Exchange Commission except for the omission of certain pricing and other information permitted to be omitted by Rule 15c2-12.

VIRGINIA PUBLIC SCHOOL AUTHORITY

By: ____

Its: ____

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF VPSA

VIRGINIA PUBLIC SCHOOL AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDING JUNE 30, 2009

VIRGINIA PUBLIC SCHOOL AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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

Authority Activities and Highlights

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

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

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

Overview of the Financial Statements

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

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

Financial Analysis of the Authority

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

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

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

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

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

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

Debt Administration

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

Summary of Authority Bond Obligations
(in millions)

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

* Excludes deferral on debt defeasance.

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

Virginia Public School Authority Bond Ratings

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

[1] 1997 Resolution Bonds

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

Future Impact to Financial Position

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

Financial Statements

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

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

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

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

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

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

VIRGINIA PUBLIC SCHOOL AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2009

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

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

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

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

Notes to the Financial Statements

VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

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

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

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

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

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

B. Basis of Accounting

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

C. Fund Accounting

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

D. Bond Issuance Costs, Discounts, and Premiums

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

2. DETAILED NOTES

A. Cash and Cash Equivalents (Unrestricted and Restricted)

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

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

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

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

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

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

2 The Virginia State Non-Arbitrage Program® ("SNAP®") offers a professionally-managed money market mutual fund, which provides issuers with a temporary pooled investment vehicle for proceeds pending expenditure, and with record keeping, depository and arbitrage rebate calculation services. SNAP® is an external investment pool registered under the Investment Company Act of 1940, as amended. Participants in the Authority's various bond programs are required to invest their bond proceeds in SNAP®.

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

B. Local School Bonds

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

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

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

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

C. Long-Term Indebtedness

1. Changes in Long-Term Debt

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

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

2. Annual Requirements to Amortize Bonds Payable and Notes Payable

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

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

D. Equipments Notes

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

Educational Technology Notes

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

E. Qualified Zone Academy Bond

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

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

F. Defeasance of Debt

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

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

Refunding Bonds Issued During Fiscal Year 2009

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

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

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

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

G. Transfers

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

H. Arbitrage Earnings

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

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

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

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

* Reports prepared as of the final redemption of the bonds

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

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

I. Subsequent Events

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

J. Risk Management

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

Supplementary Information

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

Detail of Long-Term Indebtedness by Series

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

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

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

Detail of Long-Term Indebtedness by Series (continued)

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

Detail of Long-Term Indebtedness by Resolution

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

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

Commonwealth of Virginia

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

December 14, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Board of Commissioners
Virginia Public School Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the **Virginia Public School Authority** (the Authority), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority. The Detail of Long-Term Indebtedness is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Detail of Long-Term Indebtedness has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

AUDITOR OF PUBLIC ACCOUNTS

WJK/alh

VIRGINIA PUBLIC SCHOOL AUTHORITY
Richmond, Virginia

BOARD OF COMMISSIONERS
As of June 30, 2009

James M. Holland, Chairman

Woodrow W. Mullins, Jr., Vice Chairman

Hady Amr

Brenda L. Skidmore

Kanchana K. Thamodaran

EX OFFICIO

Manju S. Ganeriwala, Secretary and Treasurer, State Treasurer

David Von Moll, State Comptroller

Dr. Patricia I. Wright, Superintendent of Public Instruction

APPENDIX B

COMMONWEALTH OF VIRGINIA FINANCIAL AND OTHER INFORMATION

APPENDIX B
TABLE OF CONTENTS

INTRODUCTION

This financial and other information was provided by the Commonwealth of Virginia (the "Commonwealth"), its agencies, institutions and authorities. The data were compiled by the Department of the Treasury and were not independently verified; however, the Department of the Treasury has no reason to believe that such material is not true and correct.

GOVERNMENTAL ORGANIZATION

Under the Constitution of Virginia (the "Constitution"), the legislative, executive and judicial powers of the Commonwealth are divided into three separate and distinct departments.

Legislative Department

The legislative power is vested in the General Assembly, the oldest representative lawmaking body in the United States. The General Assembly is bicameral, consisting of a Senate with 40 Senators elected for four-year terms and a House of Delegates with 100 Delegates elected for two-year terms. The General Assembly meets annually each January. Regular sessions are 60 days in duration in even numbered years and 30 days in odd numbered years, but each can be extended for an additional 30 days by a two-thirds vote of each house.

The General Assembly is assisted in its legislative function by a full-time staff of over 100 persons and various commissions appointed by the General Assembly. The Joint Legislative Audit and Review Commission was established to carry out continuous legislative review and evaluation of Commonwealth programs from the standpoint of cost effectiveness.

The Auditor of Public Accounts is elected by the General Assembly. The Auditor and a staff of approximately 160 persons audit the accounts of all Commonwealth offices, departments, boards, commissions, institutions and other agencies handling Commonwealth funds and report thereon to the General Assembly.

Executive Department

The Governor, Lieutenant Governor and Attorney General are constitutional officers, elected every four years. The present term of each office began January 16, 2010 and each expires January 18, 2014. The Constitution does not allow a Governor to serve successive terms.

The Governor is the Commonwealth's chief executive officer. The Governor advises the General Assembly on the condition of the Commonwealth and makes recommendations for legislation. The Governor is also charged with the responsibility for preparing and executing the Commonwealth's budget. The Governor's veto of legislation may be overridden only by a two-thirds vote of each house of the General Assembly. If deemed necessary for the welfare of the Commonwealth, the Governor may convene the General Assembly at any time. With few exceptions, the Governor appoints the administrative heads and boards of all Commonwealth agencies. Commonwealth agencies report to the Governor through a cabinet of eleven Secretaries appointed by the Governor to supervise and manage the various functions of the Commonwealth's government.

The Lieutenant Governor is next in line in the event of the Governor's inability to serve. The Lieutenant Governor also serves as President of the Senate, but may not vote except in the event of a tie.

The Attorney General is the chief executive officer of the Department of Law. The Department of Law represents the Commonwealth in all civil cases to which the Commonwealth or any of its agencies is a party and in all criminal cases on appeal to the Supreme Court of Virginia. The Attorney General is also the legal advisor to the Governor, General Assembly and heads of Commonwealth agencies.

Judicial Department

The Supreme Court is the Commonwealth's highest court and consists of seven justices appointed by the General Assembly. Several agencies involved in legal administration operate under the control of the Supreme Court. These include the Judicial Inquiry and Review Commission, the Virginia State Bar and the State Board of Bar Examiners. The Commonwealth is divided into 31 Judicial Circuits over which Circuit Judges preside. The Circuit Courts are courts of record having original jurisdiction in cases involving a specified sum and felonies, and appellate jurisdiction over lower District Courts. A Court of Appeals stands between the Circuit Courts and the Supreme Court and has appellate jurisdiction.

FINANCIAL FACTORS

Budgetary Process

The Governor is the chief planning and budget officer of the Commonwealth. The Secretary of Finance and the Department of Planning and Budget assist the Governor in the preparation of executive budget documents. The Governor's Secretaries advise the Governor and the Department of Planning and Budget on the relative priority of the budget requests from their respective agencies.

The Governor is required by statute to present a bill detailing his budget (the “Budget Bill”) and a narrative summary of the bill to the General Assembly by December 20th in the year immediately prior to each even-year session. The Budget Bill is introduced in both the House of Delegates and the Senate. It is referred to the House Appropriations and Senate Finance Committees, which hold joint meetings to hear from citizens, from other General Assembly members and from agency representatives. The Budget Bill is then approved by each Committee in an open session and reported to the respective floors for consideration, debate, amendment and passage. After the bill has passed both houses, differences between the House and Senate versions are reconciled by a conference committee with equal representation from both houses.

Under constitutional provisions, the Governor retains the right in his review of legislative action on the Budget Bill, to suggest alterations to or to veto appropriations made by the General Assembly. After enactment, the Budget Bill becomes law (the “Appropriation Act”).

In the odd-year sessions of the General Assembly, amendments are considered to the Appropriation Act enacted in the previous year. The Governor submits a Budget Bill by December 20th which includes his proposed amendments. It is then introduced in both houses and is considered in the same manner as the regular biennial Budget Bill. The Appropriation Act enacted in the odd-year session is effective upon passage, whereas the regular biennial Appropriation Act is effective July 1, the beginning of the biennium.

An appropriation for a project or service is initially contained in the Appropriation Act enacted by the General Assembly. An agency request for an increase or other adjustments to its legislative appropriation must be reviewed and approved by the Department of Planning and Budget. Under the Constitution, no money may be paid out of the State Treasury except pursuant to appropriations made by law. No such appropriation may be made which is payable more than two years and six months after the end of the session of the General Assembly at which the appropriation was enacted.

Implementation and administration of the provisions of the Appropriation Act are functions of the Governor, assisted by the Secretary of Finance and the Department of Planning and Budget. This process also involves constant monitoring of revenue collections and expenditures to ensure that a balanced budget is maintained. The Appropriation Act requires that if projected revenue collections fall below amounts appropriated, the Governor must reduce expenditures and withhold allotments of appropriations, with the exception of amounts needed for debt service and specified other purposes, to the extent necessary to prevent any expenditure in excess of estimated revenues. The Appropriation Act provides that up to 15 percent of a general fund appropriation to an agency may be withheld, if required.

The Constitution requires the Governor to ensure that expenses do not exceed total revenues anticipated plus fund balances during the period of two years and six months following the end of the General Assembly session in which the appropriations are made. The Revenue Stabilization Fund was established by constitutional amendment effective January 1, 1993, and consists of an amount not to exceed 10 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the three immediately preceding fiscal years, as certified by the Auditor of Public Accounts. The Fund is available to offset, in part, anticipated shortfalls in revenues in years when appropriations based on previous forecasts exceed expected revenues in subsequent forecasts. If in any year total revenues are forecast to decline by more than 2 percent of the certified tax revenues collected in the most recently ended fiscal year, the General Assembly may appropriate for transfer up to one-half of the Revenue Stabilization Fund balance to the General Fund to stabilize revenues. This transfer shall not exceed one-half of the forecast shortfall. If any amounts accrue to the credit of the Fund in excess of the 10 percent limitation, such as through interest or dividends, the Treasurer shall promptly transfer any such excess amounts to the General Fund.

Development of Revenue Estimates

The development of the General Fund revenue estimate begins with the selection of a forecast of national economic activity for the state budget period prepared by independent economic forecasting firms based on the advice of the Governor's Advisory Board of Economists and the Commonwealth's own staff. The national economic forecast is used to develop a forecast of similar indicators of in-state activity.

After the development of forecasts of major Commonwealth economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by the Department of Taxation. Adjustments are made on a revenue source-by-source basis for any legislative, judicial or administrative changes that would affect the projected level of revenues but that cannot be forecast by models constructed using historical data. Finally, adjustments are made if revenues are substantially above or below the projected level.

Financial Control Procedures

The General Assembly appropriates funds for a particular program in the Appropriation Act. These funds must then be allotted by the Governor and the Department of Planning and Budget for specific purposes. The State Comptroller accounts for certain specific personnel and non-personnel transactions. Once appropriation, allotment and accounting procedures have been completed, funds are disbursed by the State Treasurer upon a warrant of the State Comptroller drawn at the request of the responsible agency. The Auditor of Public Accounts audits such financial transactions to assure the reporting of such transactions is in compliance with generally accepted accounting principles.

The Director of the Department of Planning and Budget is appointed by the Governor. The Department of Planning and Budget monitors and evaluates the use of resources to ensure that agencies are delivering effective and efficient services. The Governor is empowered to withhold appropriations to agencies in the event that expenditures are no longer warranted or are not being made for the purposes for which the funds were initially appropriated.

The State Comptroller, who is appointed by the Governor subject to confirmation by the General Assembly, is the director of the Department of Accounts, the central accounting agency of the Commonwealth. The State Comptroller maintains a complete system of general accounts of every department, division, office, board, commission, institution and agency of the Commonwealth. In order to assure uniform accounting practices among the agencies and to avoid duplication, the State Comptroller also prescribes the accounts and control records that are to be kept by each state agency.

The State Treasurer, who is also appointed by the Governor subject to confirmation by the General Assembly, is the director of the Department of the Treasury. This department receives, maintains custody of and disburses all funds of the Commonwealth.

Unlike the State Comptroller and the State Treasurer, the Auditor of Public Accounts is appointed by the General Assembly for a term of four years and is, therefore, part of the Legislative Department rather than the Executive Department. The principal function of the Auditor is to audit the accounts of all state departments, offices, boards, commissions, institutions and agencies handling state funds. In the event the Auditor discovers some irregularity or misuse of funds, it is his duty to inform the Governor, the Joint Legislative Audit and Review Commission and the State Comptroller.

Investment of Public Funds

It is the policy of the State Treasurer to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands and conforming to all statutes governing the investment of public funds. The General Account of the Commonwealth, which is comprised of funds collected and held for various fund groups including the General Fund, is divided into two major pools. Both pools are managed in accordance with guidelines promulgated by the Treasury Board. The Primary Liquidity Pool, representing approximately 75 percent of the General Account, provides for disbursements and operational needs. Safety of principal and liquidity are the objectives of this portfolio. The Total Return Pool, which can be up to 25 percent of the General Account, is structured to generate investment returns over the long term higher than the return on the Primary Liquidity Pool, while maintaining sound credit quality and providing secondary liquidity.

Financial Statements

The Commonwealth operates on a fiscal year basis beginning on July 1 and ending on June 30. The Commonwealth's financial statements, audited by the Auditor of Public Accounts, for the fiscal year ended June 30, 2009, are contained in the Commonwealth Comprehensive Annual Financial Report (the "CAFR") available at www.doa.virginia.gov. The financial statements implement reporting standard GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The financial statements include government-wide statements using full accrual accounting, fund financial statements that use different accounting approaches based on the type of fund, and a reconciliation of the two types of statements. See the section in the CAFR entitled "Management's Discussion and Analysis" for a more detailed explanation of the types of financial statements prepared. The Commonwealth's annual budget is prepared principally on a cash basis and represents departmental appropriations as authorized by the General Assembly. Under the cash basis of accounting, revenues and other financial resources are recognized in the accounting period in which cash is received; expenditures and other financial uses are recognized when cash is disbursed. The section of the CAFR entitled "Required Supplementary Information" reconciles the budgetary (*i.e.*, cash) presentation to the financial statements.

Summary of General Fund Revenues, Expenditures and Changes in Fund Balance

The following tables summarize the Commonwealth's General Fund revenues, expenditures and fund balance on a budgetary (*i.e.,* cash) basis for fiscal years 2005 through 2009 and compares the budgeted to actual numbers on a budgetary basis.

The General Fund balance, as shown on page B-5, decreased by $1.4 billion in fiscal year 2009, a decrease of 62.9 percent from fiscal year 2008. Overall tax revenues decreased by 8.9 percent from fiscal year 2008 to fiscal year 2009. Individual and Fiduciary Income tax revenues decreased by 6.3 percent. Additional tax revenue declines occurred in the form of a 19.8 percent decrease in Corporation Income taxes, a 5.2 percent decline in Public Service Corporation taxes and a 5.6 percent decline in State Sales and Use tax collections during fiscal year 2009. As shown on page B-5, there was a 27.9 percent decrease in other taxes which includes: Deeds, Contracts, Wills and Suits; Alcoholic Beverage Sales; Tobacco Products; Estate and Other Taxes. Overall revenue and non-tax revenues decreased by 9.0 percent and by 11.5 percent, respectively. Overall expenditures declined by 3.8 percent in fiscal year 2009, compared to a 6.6 percent increase in fiscal year 2008. Individual and family service expenditures decreased by $243.0 million, or 5.7 percent, and education expenditures increased by $223.2 million, or 2.9 percent. General government expenditures decreased $120.5 million or 6.7 percent.

Of the $823.5 million fund balance as of June 30, 2009, $575.1 million was reserved as the Revenue Stabilization Fund (the "Fund"). During fiscal year 2009, a $490.0 million withdrawal was made from the Fund. The Fund is segregated from the General Fund and can be used only for constitutionally authorized purposes. Virginia law directs that the Fund be included as a component of the General Fund only for financial reporting purposes.

Under the provisions of Article X, Section 8 of the Constitution of Virginia, and based on fiscal year 2009 revenue collections, no deposits are required during fiscal year 2011. Section 2.2-1829(b) of the Code of Virginia, requires that if certain revenue criteria are met, then an additional deposit to the Fund equal to at least one-half the mandatory deposit must be included in the Governor's budget. The Code further requires that any such additional deposits to the Fund shall be included in the Governor's budget recommendations only if the estimate of General Fund revenues for the fiscal year in which the deposit is to be made is at least five percent greater than the actual General Fund revenues for the immediately preceding fiscal year. These conditions were not met for fiscal year 2009. The Constitutional maximum for the Fund remains at $1.4 billion for fiscal year 2010.

SUMMARY OF GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGETARY BASIS (in thousands)

	Fiscal Year Ended June 30,				
	2005	**2006**	**2007**	**2008**	**2009**
Revenues:					
Taxes					
Individual and Fiduciary Income	$8,352,366	$9,308,570	$9,787,592	$10,114,833	$9,481,109
State Sales and Use	3,093,725	3,029,949	3,274,286	3,302,181	3,116,831
Corporation Income	616,690	871,554	879,575	807,852	648,033
Deeds, Contracts, Wills and Suits	596,058	694,712	582,946	456,348	314,264
Premiums of Insurance Companies	373,571	373,781	384,894	396,858	255,019
Alcoholic Beverage Sales	144,466	152,963	161,845	168,862	173,227
Tobacco Products	113,120	187,084	186,920	183,946	183,750
Estate	149,962	160,407	152,864	153,378	6,006
Public Service Corporations	88,309	89,992	87,961	96,390	91,340
Other Taxes	41,677	27,424	19,229	15,459	28,230
Total Taxes	13,569,944	14,896,436	15,518,112	15,696,107	14,297,809
Rights and Privileges	60,975	65,212	68,407	67,449	67,426
Sales of Property and Commodities	11,778	7,026	-	2,460	1
Assessments and Receipts for Support of Special Services	333	332	224	461	396
Institutional Revenue	9,198	8,235	7,169	7,590	6,402
Interest, Dividends, Rents	102,794	142,429	229,007	252,284	134,400
Fines, Forfeitures, Court Fees, Penalties, and Escheats	181,116	145,189	193,280	195,716	197,875
Receipts from Cities, Counties, and Towns	9,446	9,999	10,281	10,091	10,265
Private Donations, Gifts and Contracts	1	-	16	31	118
Tobacco Master Settlement	52,126	47,852	50,087	53,684	58,966
Other	142,978	81,353	60,894	63,844	102,568
Total Revenues	14,140,689	15,404,063	16,137,477	16,349,717	14,876,226
Expenditures:					
General Government	1,484,308	1,342,711	1,750,274	1,789,768	1,669,257
Education	6,242,886	6,767,114	7,592,975	7,822,396	8,045,614
Transportation	44	43	44	25,971	11,863
Resources and Economic Development	234,857	280,689	308,657	329,729	288,877
Individual and Family Services	3,348,455	3,652,319	3,919,109	4,255,474	4,012,450
Administration of Justice	2,042,773	2,221,646	2,220,203	2,424,790	2,300,008
Capital Outlay	25,368	85,952	175,713	370,552	47,421
Total Expenditures	13,378,691	14,350,474	15,966,975	17,018,680	16,375,490
Revenues Over (Under) Expenditures	761,998	1,053,589	170,502	(668,963)	(1,499,264)
Other Financing Sources (Uses):					
Transfers In	636,063	651,262	611,041	634,513	664,141
Transfers Out	(642,289)	(680,173)	(716,463)	(700,861)	(561,192)
Total Other Financing Sources (Uses)	(6,226)	(28,911)	(105,422)	(66,348)	102,949
Revenues and Other Sources Over (Under) Expenditures and Other Uses	755,772	1,024,678	65,080	(735,311)	(1,396,315)
Fund Balance, July 1:					
Reserved	432,482	738,767	1,085,538	1,420,528	1,127,908
Unreserved	677,089	1,126,576	1,804,483	1,534,573	1,091,882
Total Fund Balance, July 1	1,109,571	1,865,343	2,890,021	2,955,101	2,219,790
Fund Balance, June 30:					
Reserved	738,767	1,085,538	1,420,528	1,127,908	662,489
Unreserved	1,126,576	1,804,483	1,534,573	1,091,882	160,986
Total Fund Balance, June 30	$1,865,343	$2,890,021	$2,955,101	$2,219,790	$823,475

Source: Department of Accounts.

**SUMMARY OF GENERAL FUND
REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND VARIANCE OF ACTUAL-BUDGETARY BASIS
(in thousands)**

	Fiscal Year Ended June 30,			
	2005		2006	
	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
Revenues:				
Taxes				
Individual and Fiduciary Income	$8,002,700	349,666	$9,170,400	138,170
State Sales and Use	3,096,100	(2,375)	3,006,300	23,649
Corporation Income	549,000	67,690	851,500	20,054
Public Service Corporations	87,400	909	90,600	(608)
Premiums of Insurance Companies	381,000	(7,429)	392,500	(18,719)
Other	965,300	79,983	1,230,500	(7,910)
Total Taxes	13,081,500	488,444	14,741,800	154,636
Rights and Privileges	57,300	3,675	62,500	2,712
Institutional Revenue	8,600	598	9,200	(965)
Interest, Dividends, Rents and Other Investment Income	80,182	22,612	118,579	23,850
Tobacco Master Settlement	50,500	1,626	52,978	(5,126)
Other [1]	310,501	35,151	243,699	200
Total Revenues	13,588,583	552,106	15,228,756	175,307
Expenditures:				
General Government	1,533,591	49,283	1,388,701	45,990
Education	6,283,117	40,231	6,858,325	91,211
Transportation	44	-	44	1
Resources and Economic Development	247,533	12,676	298,832	18,143
Individual and Family Services	3,402,280	53,825	3,693,804	41,485
Administration of Justice	2,065,812	23,039	2,239,874	18,228
Capital Outlay	63,755	38,387	143,292	57,340
Total Expenditures	13,596,132	217,441	14,622,872	272,398
Revenues Over (Under) Expenditures	(7,549)	769,547	605,884	447,705
Other Financing Sources (Uses):				
Transfers In	624,973	11,090	612,667	38,595
Transfers Out	(593,733)	(48,556)	(646,516)	(33,657)
Total Other Financing Sources (Uses)	31,240	(37,466)	(33,849)	4,938
Revenues and Other Sources Over (Under) Expenditures and Other Uses	23,691	732,081	572,035	452,643
Fund Balance, July 1	1,109,571	-	1,865,343	-
Fund Balance, June 30	1,133,262	732,081	2,437,378	452,643

[1] Note that under Revenues above, certain line items have been combined into the "Other" line item; they are: "Sales of Property and Commodities," "Assessments and Receipts for Support of Special Services," "Fines, Forfeitures, Court Fees, Penalties, and Escheats," "Receipts from Cities, Counties, and Towns," and "Private Donations, Gifts, and Contracts." The reason for this is consistency with the CAFR line items.

Source: Department of Accounts.

Fiscal Year Ended June 30,

2007 Final Budget	2007 Variance of Actual Favorable (Unfavorable)	2008 Final Budget	2008 Variance of Actual Favorable (Unfavorable)	2009 Final Budget	2009 Variance of Actual Favorable (Unfavorable)
$9,968,800	(181,208)	$10,171,300	(56,467)	$9,697,300	(216,191)
3,319,100	(44,814)	3,325,200	(23,019)	3,179,300	(62,469)
901,400	(21,825)	699,100	108,752	685,000	(36,967)
92,500	(4,539)	88,000	8,390	92,800	(1,460)
384,600	294	418,400	(21,542)	257,500	(2,481)
1,086,700	17,104	991,300	(13,307)	671,000	34,477
15,753,100	(234,988)	15,693,300	2,807	14,582,900	(285,091)
64,800	3,607	68,800	(1,351)	63,900	3,526
8,800	(1,631)	7,500	90	7,500	(1,098)
248,472	(19,465)	227,574	24,710	121,986	12,414
45,439	4,648	54,006	(322)	66,754	(7,788)
248,573	16,122	291,938	(19,335)	308,597	2,626
16,369,184	(231,707)	16,343,118	6,599	15,151,637	(275,411)
1,801,933	51,659	1,832,064	42,296	1,722,663	53,406
7,658,804	65,829	7,863,398	41,002	8,083,328	37,714
500,044	500,000	52,042	26,071	53,949	42,086
335,845	27,188	353,333	23,604	313,963	25,086
4,010,002	90,893	4,275,525	20,051	4,075,027	62,577
2,239,237	19,034	2,439,998	15,208	2,440,305	140,297
430,654	254,941	511,963	141,411	74,498	27,077
16,976,519	1,009,544	17,328,323	309,643	16,763,733	388,243
(607,335)	777,837	(985,205)	316,242	(1,612,096)	112,832
571,217	39,824	621,173	13,340	641,273	22,868
(708,579)	(7,884)	(702,134)	1,273	(556,413)	(4,779)
(137,362)	31,940	(80,961)	14,613	84,860	18,089
(744,697)	809,777	(1,066,166)	330,855	(1,527,236)	130,921
2,890,021	-	2,955,101	-	2,219,790	-
2,145,324	809,777	1,888,935	330,855	692,554	130,921

General Fund Revenues

Of total fiscal year 2009 tax revenue, 96.6 percent was derived from five major taxes imposed by the Commonwealth: Individual and Fiduciary Income Taxes, State Sales and Use Taxes, Corporate Income Taxes, Taxes on Premiums of Insurance Companies and Taxes on Deeds, Contracts, Wills and Suits.

Individual and fiduciary income taxes are the principal component of General Fund revenues. These revenues support a number of government functions, primarily education, individual and family services, public safety and general government. General Fund revenues are available for payment of debt service obligations of the Commonwealth.

Individual and Fiduciary Income Taxes: (66.3 percent of Total Taxes in fiscal year 2009) The individual and fiduciary income tax applies to income derived by resident and non-resident individuals and fiduciaries. The tax is based on a taxpayer's federal adjusted gross income with modifications, if applicable, and with deductions for personal exemptions and standard or itemized deductions. The following tax rates are applicable to net taxable income for the taxable year 2009:

PERSONAL TAX RATES

Taxable Income	**Rate**	**Of Excess Over**
$0 – $3,000	2.00%	
$3,001 – $5,000	$ 60 + 3.00%	$ 3,000
$5,001 – $17,000	$120 + 5.00%	$ 5,000
Over $17,000	$720 + 5.75%	$17,000

Source: Department of Taxation.

An individual income tax return for a taxable year must be filed by May 1 of the following year. Prepayment of the tax on most earnings is accomplished through withholdings by employers. Employers must transfer withholding taxes to the Department of Taxation quarterly, monthly or, in some cases, eight times a month. Individual income taxpayers are required to file a declaration of estimated tax for any income not subject to withholding and pay one-fourth of such estimated tax in quarterly installments.

State Sales and Use Taxes: (21.8 percent of Total Taxes in fiscal year 2009) A sales and use tax is imposed at the rate of 4.0 percent on the sale, rental, lease or storage for use or consumption of tangible personal property except food for home consumption. Food for home consumption is taxed at a rate of 2.5 percent. There are certain exclusions from the tax, including motor vehicles, aircraft and large watercraft, sales of gasoline and prescription medicines. One and one-eighth cents of the 4.0 percent sales tax is distributed to localities on the basis of school age population for use in public education.

Retail sellers collect the sales and use taxes from customers at the time of sale. Sellers are required to remit collected taxes either monthly or quarterly.

Corporation Income Taxes: (4.5 percent of Total Taxes in fiscal year 2009) The Commonwealth imposes a 6 percent income tax on the net income of all corporations having income from sources in the Commonwealth, whether domestic or foreign, with the exception of insurance companies, inter-insurance exchanges, state and national banks, banking associations, companies doing business on a mutual basis, credit unions and non-profit corporations. Commonwealth taxable income is based on federal income, with modifications. If a corporation is engaged in multi-state activities, and if its income is taxable both by the Commonwealth and another state, the Commonwealth permits the corporation to apportion its taxable income (other than dividends which are allocated according to the commercial domicile of the taxpayer) according to a three factor formula comprised of property, payroll and sales.

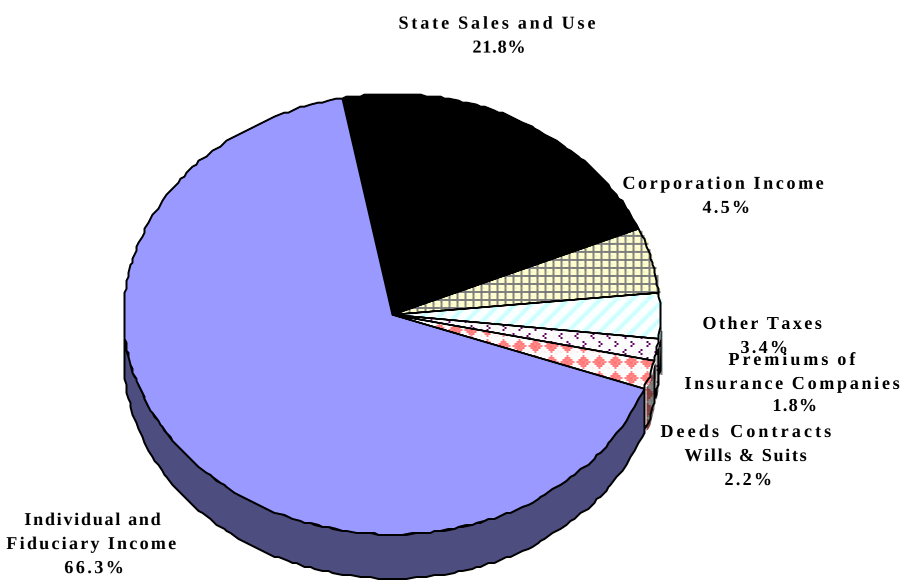
A corporation income tax return must be filed on or before the 15th day of the 4th month following the close of the corporation's taxable year. Corporations are required to make a declaration of estimated tax directly to the Department of Taxation and pay such estimated tax in such taxable year.

Taxes on Premiums of Insurance Companies: (1.8 percent of Total Taxes in fiscal year 2009) Insurance companies are required to pay an annual license tax measured by the gross premium income derived from business done in the Commonwealth. The rate of tax varies according to the type of company. Insurance companies subject to this state license tax must make a declaration of estimated tax and pay one-fourth of such estimated tax in quarterly installments.

Taxes on Deeds, Contracts, Wills and Suits: (2.2 percent of Total Taxes in fiscal year 2009) The Commonwealth taxes the admission to record of deeds, deeds of trust, mortgages, leases and contracts at the rate of 25 cents per $100 of consideration or value, whichever is greater. An additional tax is imposed on deeds or conveyances of real estate at the rate of 50 cents per $500 of consideration or value, exclusive of the value of any lien or encumbrance. A tax is also imposed on the probate of wills and grants of administration not exempt by law at the rate of 10 cents per $100 of the value of the probate estate. A tax ranging from $5 to $25 is imposed on the filing of various types of legal actions.

The following pie chart summarizes general revenue fund tax revenue by source.

COMPOSITION OF GENERAL FUND TAX REVENUES BY SOURCE
Fiscal Year Ended June 30, 2009



Collection of Delinquent Tax

When the Department of Taxation determines that taxes are delinquent, the taxpayer is sent a billing notice. A second notice is sent 30 days later demanding immediate payment within 10 days. If payment is not received at the end of that time, the Department of Taxation may take legal action to obtain payment including the placement of a lien on the taxpayer's wages or bank account. If the delinquency exceeds $100, the Department of Taxation may issue a memorandum of lien against the taxpayer's property. If subsequent to these actions satisfactory payment arrangements are not made, the Department of Taxation may execute the memorandum of lien or initiate court proceedings against the taxpayer.

Penalties for late payment or nonpayment of most taxes are assessed at the rate of 6 percent per month, not to exceed 30 percent of the delinquent tax liability. Interest on late or under payments is charged at an annualized rate of interest established pursuant to § 6621(a) (2) of the Internal Revenue Code, plus 2 percent.

The following table presents total outstanding collectible tax receivables for all tax types at the end of fiscal years 2005 through 2009:

OUTSTANDING COLLECTIBLE TAX RECEIVABLES

Fiscal Year Ended June 30,	Amount
2005	$178,255,909
2006	157,452,960
2007	150,090,049
2008	178,122,389
2009	259,893,992

Source: Department of Taxation.

General Fund Expenditures

General Fund expenditures relate to resources used for those services traditionally provided by a state government, which are not accounted for in any other fund. These services include general government, legislative, public safety, judicial, health and mental health, human resources, licensing and regulation, and primary and secondary education (See table on page B-5).

Education: (49.1 percent of Total Expenditures in fiscal year 2009) Expenditures for education support individuals in developing knowledge, skills and cultural awareness, including elementary and secondary education instruction, supervision and assistance.

Individual and Family Services: (24.5 percent of Total Expenditures in fiscal year 2009) Expenditures for individual and family services support programs to benefit the economic, social and physical well-being of the individual and family, including disease research, control and prevention.

Administration of Justice: (14.0 percent of Total Expenditures in fiscal year 2009) Expenditures for administration of justice relate to the activities of the civil and criminal justice systems. These activities encompass the apprehension, trial, punishment and rehabilitation of law violators, and the deterrence and detection of crime.

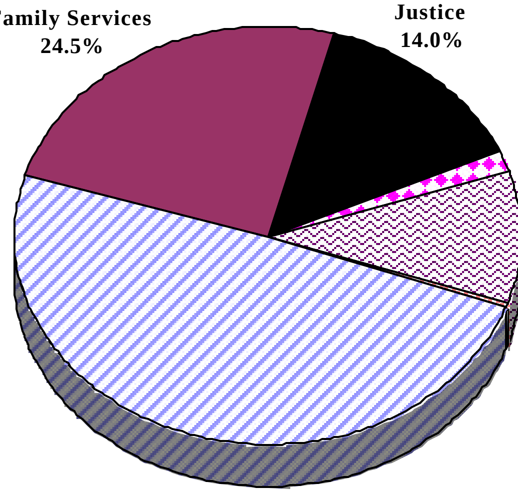
General Government: (10.2 percent of Total Expenditures in fiscal year 2009) General government expenditures support the general activities of state, regional and local levels of government. These activities include financial assistance to localities, enactment of legislative policy, intergovernmental projects, and payments to localities pursuant to the Personal Property Tax Relief Act of 1998.

Resources and Economic Development: (1.8 percent of Total Expenditures in fiscal year 2009) Resources and economic development expenditures support activities to develop the Commonwealth's economic base, including alternative natural resources, and to regulate this base with regard to the public interest of the Commonwealth.

Capital Outlay & Transportation: (0.4 percent of Total Expenditures in fiscal year 2009) Expenditures for capital outlay relate to the construction and renovation of state-owned buildings and facilities. Transportation expenditures relate to the movement by road, water or air of people, goods and services, and the regulation thereof.

The following pie chart summarizes the general fund expenditures by source:

DISTRIBUTION OF GENERAL FUND EXPENDITURES BY SOURCE
Fiscal Year Ended June 30, 2009



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General Fund Balance

The Commonwealth's General Fund unreserved fund balance for the last ten years is shown below:

UNRESERVED GENERAL FUND ENDING BALANCE
(in thousands)

Fiscal Year	Budgetary Basis	Modified Accrual Basis
2000	$1,109,843	$ 662,755
2001	200,953	(405,198)
2002	70,004	(749,102)
2003	241,626	(220,982)
2004	677,089	36,941
2005	1,126,576	520,546
2006	1,804,483	973,461
2007	1,534,573	563,367
2008	1,091,882	78,468
2009	160,986	927,977

Source: Department of Accounts.

2005. General Fund revenues and other sources exceeded expenditures and other uses by $755.8 million in fiscal year 2005. The General Fund unreserved balance on a budgetary basis increased by $449.5 million, or 66.4 percent, from fiscal year 2004 to fiscal year 2005 while reserved General Fund balances increased by 70.8 percent over fiscal year 2004. Total revenues and total expenditures increased by 17.4 percent and 14.1 percent, respectively. Transfers to the General Fund decreased by 8.9 percent while transfers out increased by 38.7 percent. Transfers to and from Component Units in fiscal year 2005 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2006. General Fund revenues and other sources exceeded expenditures and other uses by $1.0 billion in fiscal year 2006. The General Fund unreserved balance on a budgetary basis increased by $677.9 million, or 60.2 percent, from fiscal year 2005 to fiscal year 2006 while reserved General Fund balances increased by 46.9 percent over fiscal year 2005. Total revenues and total expenditures increased by 8.9 percent and 7.3 percent, respectively. Transfers to the General Fund increased by 2.4 percent while transfers out increased by 5.9 percent. Transfers to and from Component Units in fiscal year 2006 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2007. General Fund revenues and other sources exceeded expenditures and other uses by $65.1 million in fiscal year 2007. The General Fund unreserved balance on a budgetary basis decreased by $269.9 million, or 15 percent, from fiscal year 2006 to fiscal year 2007, while reserved General Fund balances increased by $335 million or 30.9 percent over fiscal year 2006. Total revenues and total expenditures increased by 4.8 percent and 11.3 percent, respectively. Transfers to the General Fund decreased by 6.2 percent while transfers out increased by 5.3 percent. Transfers to and from Component Units in fiscal year 2007 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2008. General Fund revenues and other sources were less than expenditures and other uses by $735.3 million in fiscal year 2008. The General Fund unreserved balance on a budgetary basis decreased by $442.7 million, or 28.8 percent, from fiscal year 2007 to fiscal year 2008 while reserved General Fund balances decreased by $292.6 million or 20.6 percent over fiscal year 2007. Total revenues and total expenditures increased by 1.3 percent and 6.6 percent, respectively. Transfers to the General Fund increased by 3.8 percent while transfers out decreased by 2.2 percent. Transfers to and from Component Units in fiscal year 2008 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2009. General Fund revenues and other sources were less than expenditures and other uses by $1.4 billion in fiscal year 2009. The General Fund unreserved balance on a budgetary basis decreased by $930.9 million, or 85.3 percent, from fiscal year 2008 to fiscal year 2009 while reserved General Fund balances decreased by $465.4 million or 41.3 percent during the same period. Total revenues and total expenditures decreased by 9.0 percent and 3.8 percent, respectively. Transfers to the General Fund increased by 4.7 percent while transfers out decreased by 19.9 percent. Transfers to and from Component Units in fiscal year 2009 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

Nongeneral Fund Revenues

Nongeneral fund revenues consist of all revenues not accounted for in the General Fund. Included in this category are special taxes and user charges earmarked for specific purposes, the majority of institutional revenues and revenues from the sale of property and commodities, and receipts from the federal government.

Approximately 50 percent of the nongeneral revenues are accounted for by grants and donations from the federal government, motor vehicle taxes and institutional revenues. Institutional revenues consist primarily of fees and charges collected by institutions of higher education, medical and mental hospitals and correctional institutions. Motor vehicle related taxes include the motor vehicle fuel tax, motor vehicle sales and use tax, oil excise tax, driver's license fee, title registration fee, motor vehicle registration fee and other miscellaneous revenues.

Below is a summary of revenues and expenditures for the largest of the Commonwealth's Special Revenue Funds, the Commonwealth Transportation Fund, prepared according to generally accepted accounting principles.

COMMONWEALTH TRANSPORTATION FUND
(in thousands)

	Fiscal Year Ended June 30,				
	2005	2006	2007	2008	2009
Total revenues	$ 3,070,632	$3,290,146	$3,401,633	$3,739,225	$3,461,872
Total expenditures	3,135,973	3,102,005	3,173,935	3,913,037	3,725,125
Revenues over (under) expenditures	(65,341)	188,141	227,698	(173,812)	(263,253)
Other sources (uses) net	117,060	281,493	(106,244)	64,576	(150,232)
Revenue and other sources (uses) over (under) expenditures	51,719	469,634	121,454	(109,236)	(413,485)
Beginning fund balance (adjusted)	1,310,025	1,361,744	1,831,378	1,952,832	1,843,596
Ending fund balance	$ 1,361,744	$ 1,831,378	$ 1,952,832	$ 1,843,596	$ 1,430,111

Notes: Included in the Commonwealth Transportation Fund (formerly Highway Maintenance and Construction Fund) is the activity of the Highway Maintenance and Operating Fund and the Transportation Trust Fund. The Transportation Trust Fund was created in September 1986 during a special session of the Virginia General Assembly.

Source: *Reports of the Comptroller, 2005-2009*.

The 2010 Amendments to the 2009 Appropriation Act

On December 18, 2009, Governor Kaine presented 2010 Amendments to the 2009 Appropriation Act affecting the remainder of the 2008-2010 biennium (House Bill 29/Senate Bill 29). The proposed amendments include an additional $344.6 million in general fund savings action for fiscal year 2010 and $154.9 million in new spending requirements.

The 2010 General Assembly convened on January 13, 2010 and on January 16, 2010 Robert F. McDonnell was sworn in as the new Governor of Virginia. During the 2010 session, the amendments to House Bill 29/Senate Bill 29 (also referred to as the Caboose bill) as proposed by former Governor Kaine were debated. On March 14, 2010, the General Assembly adjourned, having passed amendments to House Bill 29/Senate Bill 29 making technical corrections and without assuming any additional general fund revenues in fiscal year 2010. Some of the highlights include: a transfer of $6.2 million from the Transportation Trust Fund to the general fund to reflect the loss of revenues associated with conforming to the provisions of the American Recovery and Reinvestment Act as it relates to the income tax deduction for sales tax paid on car purchases; the transfer of $6.2 million and $3.6 million Water Quality Improvement Fund balances in the Department of Conservation and Recreation to the general fund; reversion of $4.6 million in capital outlay and excess balances to the general fund; and transfer of the June 2010 interest of $0.5 million from the Revenue Stabilization Fund to the general fund.

On April 13, 2010, Governor Robert F. McDonnell offered 14 amendments to House Bill 29/Senate Bill 29 to be considered at the reconvened session of the General Assembly on April 21, 2010. These amendments include: delaying the requirement for municipalities to reimburse the State Board of Elections for costs incurred by May elections; and restoring funding for general fund supplements to executive agency users of Virginia Information Technology Agency services.

The 2010 General Assembly reconvened on April 21, 2010 and accepted all but one of the Governor’s 14 amendments. On May 7, 2010, the 2010 amendments to the 2008-10 Appropriations Act were signed by Governor McDonnell and enacted as Chapter 872, 2010 Virginia Acts of Assembly.

2010 Amendments to the 2009 Appropriation Act (Chapter 872, 2010 General Assembly)

	FY 2009	FY 2010	Total
GENERAL FUND			
Revenue			
Unreserved Balance June 30, 2008	$ 1,114,413,217	$ -	$ 1,114,413,217
Additions to balance	(521,037,013)	(93,633,460)	(614,670,473)
Official revenue estimate	14,613,939,287	13,988,570,419	28,602,509,706
Revenue Stabilization Fund	490,000,000	293,400,000	783,400,000
Transfers	406,889,844	569,557,774	976,447,618
Total general fund resources available for appropriation	$ 16,104,205,335	$ 14,757,894,733	$ 30,862,100,068
Appropriations			
Legislative	$ 68,357,414	$ 68,309,414	$ 136,666,828
Judicial	407,925,587	407,312,317	815,237,904
Executive	15,715,910,870	14,309,089,599	30,025,000,469
Independent Agencies	275,464	222,718	498,182
State Grants to Nonstate Entities	-	23,750	23,750
Sub-total operating expenses	16,192,469,335	14,784,957,798	30,977,427,133
Capital Outlay	(249,450,000)	1,713,000	(247,737,000)
Total appropriations	$ 15,943,019,335	$ 14,786,670,798	$ 30,729,690,133
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2008	$ 5,285,343,724	$ -	$ 5,285,343,724
Official revenue estimate	20,534,761,089	23,355,028,764	43,889,789,853
Lottery Proceeds Fund	430,500,000	440,085,400	870,585,400
Bond proceeds	1,438,201,373	695,671,000	2,133,872,373
Total nongeneral fund revenue available for appropriation	$ 27,688,806,186	$ 24,490,785,164	$ 52,179,591,350
Appropriations			
Legislative	$ 3,988,634	$ 3,988,634	$ 7,977,268
Judicial	34,190,881	34,052,431	68,243,312
Executive Department	20,429,625,839	21,918,965,778	42,348,591,617
Independent Agencies	396,932,974	423,397,874	820,330,848
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	20,864,738,328	22,380,404,717	43,245,143,045
Capital Outlay	1,756,864,373	787,454,350	2,544,318,723
Total appropriations	$ 22,621,602,701	$ 23,167,859,067	$ 45,789,461,768

Source: Department of Planning and Budget.

The 2010-12 Appropriation Act

On December 18, 2009, Governor Kaine presented the Budget Bill for the 2010-2012 biennium (House Bill 30/Senate Bill 30) (the "2010 Budget Bill").

The 2010 Budget Bill as introduced included $30,461.8 million from the general fund in base spending, and total general fund resources of $30,470.5 million for the biennium. Recommendations for new spending totaled $2,879.3 million for the biennium, including $39.2 million for capital outlay funding. An additional $3.4 billion in general fund reductions from base spending assumption were recommended for the new biennium.

Major spending items introduced in the 2010 Budget Bill include $1,191.49 million to backfill the Medicaid program due to the loss of federal stimulus matching funds; $777.7 million to fund Medicaid utilization and inflation; $165.7 million to fund debt service requirements; and $143.8 million to rebenchmark Standards of Quality costs for elementary and secondary schools.

Facing unprecedented budget challenges and a historic shortfall of $4.2 billion, the 2010 General Assembly convened on January 13, 2010 and on January 16, 2010 Robert F. McDonnell was sworn in as the 71st Governor of Virginia. During the 2010 session, House Bill 30/Senate Bill 30 as introduced by former Governor Kaine was debated and amended.

On March 14, 2010 the General Assembly adjourned. House Bill 30/Senate Bill 30 as approved by the General Assembly was transmitted to the Governor for review. Highlights of the General Assembly's spending action for the 2010-2012 biennium include: $50 million for deposit to the Revenue Stabilization Fund in fiscal year 2012; $29.5 million to unfreeze the Local Composite Index (LCI) in fiscal year 2011; providing $174.1 over the biennium to those school divisions whose LCI is increasing; restoring $115.6 million to school divisions for VPSA technology grants; restoring $36.1 million in Medicaid waiver provider rates over the biennium; $43.8 million towards Governor McDonnell's economic development promotion package; providing $80.0 million over the biennium in general fund support for Route 58 debt service; restoring certain reductions for sheriffs and regional jails; and providing $22.3 million in additional funding for police departments in fiscal year 2011 and $10.3 million in fiscal year 2012.

Budget reductions over the biennium include: $250 million over the biennium in targeted K-12; $360.2 million over the biennium in health and human resources mitigated by the receipt of enhanced Federal Medical Assistance Percentage (FMAP) funds; $120 million in across the board reductions in aid to localities; $4.7 million from a reduction in inmate medical funding in fiscal year 2012; a net reduction of $40.5 million in general fund support for higher education; $23.3 million in general funds for capital outlay project planning; and $15.0 million in general funds for maintenance reserve projects.

On April 13, 2010, Governor Robert F. McDonnell offered 96 amendments to House Bill 30/Senate Bill 30 to be considered at the reconvened session of the General Assembly on April 21, 2010. These amendments addressed three overarching themes: economic development and job creation; the provision of critical services; and technical amendments. The spending amendments totaled $42.1 million and are offset by amendments that would result in $51.0 million in savings or additional revenue over the biennium.

The 2010 General Assembly reconvened on April 21, 2010 and Virginia legislators approved the majority of Governor McDonnell's amendments to the budget, including measures to: restore funding for the job-creating Governor's Opportunity Fund; reinstate a $10 million tax deduction for Virginia employers to help foster job growth; increase funding for Virginia's growing commercial spaceport at Wallops Island; restore funding for the Children's Hospital of the King's Daughters in Norfolk; and meet prior state commitments to major Commonwealth employers.

On May 17, 2010, the 2010 Budget Bill was approved by Governor McDonnell and enacted as the 2010-12 Appropriations Act (Chapter 847, 2010 Virginia Acts of Assembly). Chapter 847 becomes effective July 1, 2010.

The table on the following pages summarizes the 2010-12 Appropriation Act.

The 2010-12 Appropriation Act (Chapter 874, 2010 General Assembly)

	FY 2011	FY 2012	Total
GENERAL FUND			
Revenue			
Estimated Balance June 30, 2010	$ 132,209,935	$ -	$ 132,209,935
Adjustments to balance	253,759,646	269,313,899	523,073,545
Official revenue estimate	14,583,501,585	15,303,132,884	29,886,634,469
Lottery Proceeds Fund	-	-	-
Transfers	414,262,538	444,840,141	859,102,679
Total general fund revenue available for appropriation	$ 15,383,733,704	$ 16,017,286,924	$ 31,401,020,628
Appropriations			
Legislative	$ 69,012,458	$ 68,986,483	$ 137,998,941
Judicial	400,691,933	400,691,933	801,383,866
Executive	14,907,280,798	15,551,478,478	30,458,759,276
Independent Agencies	-	-	-
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	15,376,985,189	16,021,156,894	31,398,142,083
Capital Outlay	-	-	-
Total appropriations	$ 15,376,985,189	$ 16,021,156,894	$ 31,398,142,083
NONGENERAL FUNDS			
Revenue			
Estimated Balance June 30, 2010	$ 3,234,786,806	$ -	$ 3,234,786,806
Official revenue estimate	22,442,078,690	22,681,729,646	45,123,808,336
Lottery Proceeds Fund	435,200,000	435,200,000	870,400,000
Bond proceeds	439,373,293	1,198,750,000	1,638,123,293
Total nongeneral fund revenue available for appropriation	$ 26,551,438,789	$ 24,315,679,646	$ 50,867,118,435
Appropriations			
Legislative	$ 3,608,634	$ 3,608,634	$ 7,217,268
Judicial	32,259,713	32,258,858	64,518,571
Executive Department	21,940,255,201	21,305,542,948	43,245,798,149
Independent Agencies	513,894,257	531,501,909	1,045,396,166
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	22,490,017,805	21,872,912,349	44,362,930,154
Capital Outlay	683,439,293	1,203,685,000	1,887,124,293
Total appropriations	$ 23,173,457,098	$ 23,076,597,349	$ 46,250,054,447

Source: Department of Planning and Budget.

INDEBTEDNESS OF THE COMMONWEALTH

The Constitution of Virginia, in Section 9 of Article X, provides for the issuance of debt by or on behalf of the Commonwealth. Sections 9(a), (b) and (c) provide for the issuance of debt to which the Commonwealth's full faith and credit is pledged and Section 9(d) provides for the issuance of debt not secured by the full faith and credit of the Commonwealth, but which may be supported by and paid from Commonwealth tax collections subject to appropriations by the General Assembly. The Commonwealth may also enter into leases and contracts that are classified on its financial statements as long-term indebtedness. Certain authorities and institutions of the Commonwealth may also issue debt. This section discusses the provisions for and limitations on the issuance of general obligation debt and other types of debt of the Commonwealth and its authorities and institutions.

Section 9(a) Debt

Section 9(a) of Article X provides that the General Assembly may contract general obligation debt: (1) to meet certain types of emergencies, (2) subject to limitations on amount and duration, to meet casual deficits in the revenue or in anticipation of the collection of revenues of the Commonwealth and (3) to redeem a previous debt obligation of the Commonwealth. Total indebtedness issued pursuant to Section 9(a) (2) shall not exceed 30 percent of an amount equal to 1.15 times the annual tax revenues "derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the preceding fiscal year."

Section 9(b) Debt

Section 9(b) of Article X provides that the General Assembly may authorize the creation of general obligation debt for capital projects. Such debt is required to be authorized by an affirmative vote of a majority of the members elected to each house of the General Assembly and approved in a statewide referendum. The outstanding amount of such debt is limited in the aggregate to an amount equal to 1.15 times the average annual tax revenues "derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts," for the three immediately preceding fiscal years ("9(b) Debt Limit"). Thus, the amount of such debt that can be issued is the 9(b) Debt Limit less the total amount of such debt outstanding ("Debt Margin"). An additional 9(b) debt authorization restriction is calculated in order to determine the amount of such debt that the General Assembly may authorize for the current fiscal year. The additional borrowing authorization restriction is limited to 25% of the 9(b) Debt Limit less 9(b) debt authorized in the current and prior three fiscal years.

The phrase "taxes on income and retail sales" is not defined in the Constitution or by statute. The record made in the process of adopting the Constitution, however, suggests an intention to include only income taxes payable by individuals, fiduciaries and corporations and the state sales and use tax.

Section 9(c) Debt

Section 9(c) of Article X provides that the General Assembly may authorize the creation of general obligation debt for revenue producing capital projects for executive branch agencies and institutions of higher learning. Such debt is required to be authorized by an affirmative vote of two-thirds of the members elected to each house of the General Assembly and approved by the Governor. The Governor must certify before the enactment of the bond legislation and again before the issuance of the bonds that the net revenues pledged are expected to be sufficient to pay principal and interest on the bonds issued to finance the projects.

The outstanding amount of Section 9(c) debt is limited in the aggregate to an amount equal to 1.15 times the average annual tax revenues "derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts," for the three immediately preceding fiscal years ("9(c) Debt Limit"). While the debt limits under Sections 9(b) and 9(c) are each calculated as the same percentage of the same average tax revenues, these debt limits are separately computed and apply separately to each type of debt.

Effect of Refunding Debt

In general, when the Commonwealth issues bonds to refund outstanding bonds issued pursuant to Section 9(b) or 9(c) of Article X of the Constitution, the refunded bonds are considered paid for purposes of the constitutional limitations upon debt incurrence and issuance and the refunding bonds are counted in the computations of such limitations. Section 9(a)(3) provides that in the case of the refunding of debt incurred in accordance with Section 9(c) of Article X, the debt evidenced by the refunding bonds will be counted against the 9(c) Debt Limit unless the Governor does not provide the net revenue sufficiency certification, in which case the debt evidenced by the refunding bonds will be counted against the 9(b) Debt Limit.

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General Obligation Debt Limit and Debt Margin

Using individual and fiduciary income, corporate income and the state sales and use tax revenues, as of June 30, 2009, the debt limits pursuant to Article X, Section 9 of the Constitution of Virginia are as follows:

COMPUTATION OF LEGAL DEBT LIMITS
(in thousands)

Taxes	Fiscal Year Ended June 30, 2007	2008	2009
Individual and Fiduciary Income [1]	$ 9,787,592	$10,114,833	$ 9,481,109
Corporation Income [2]	879,575	807,852	648,033
State Sales and Use [3]	3,274,286	3,302,181	3,116,831
Total	$13,941,453	$14,224,866	$13,245,973
Average tax revenues for the three fiscal years			$13,804,097

Section 9(a)(2) General Obligation Debt Issuance Limit and Margin [4]:		
Debt Issuance Limit:		
30% of 1.15 times annual tax revenues for fiscal year 2009		$4,569,861
Less 9(a)(2) Bonds Outstanding at June 30, 2009:		0
Debt Margin for Section 9(a)(2) General Obligation Bonds		$4,569,861
Section 9(b) General Obligation Debt Issuance Limit and Margin:		
Debt Issuance Limit:		
1.15 times the average tax revenues for three fiscal years as calculated above		$15,874,712
Less 9(b) Bonds Outstanding at June 30, 2009:		
Public Facilities Bonds [6]	1,027,941	
Transportation Facilities Refunding Bonds [5] [6]	12,695	
Bond Anticipation Notes	0	
Total 9(b) Bonds Outstanding at June 30, 2009		1,040,636
Debt Margin for Section 9(b) General Obligation Bonds		$14,834,076
Debt Authorization Limit:		
25% of 1.15 times average tax revenues for three fiscal years as calculated above		$3,968,678
Less 9(b) debt authorized during the three prior fiscal years		0
Maximum additional 9(b) debt that may be authorized by the General Assembly (subject to referendum):		$3,968,678
Section 9(c) General Obligation Debt Issuance Limit and Margin:		
Debt Issuance Limit:		
1.15 times the average tax revenues for three fiscal years as calculated above		$15,874,712
Less 9(c) Bonds Outstanding at June 30, 2009:		
Parking Facilities [6]	6,526	
Transportation Facilities [6]	30,358	
Higher Educational Institutions [6]	573,550	
Bond Anticipation Notes	0	
Total 9(c) Bonds Outstanding at June 30, 2009		610,434
Debt Margin for Section 9(c) General Obligation Bonds		$15,264,278

[1] Includes taxes imposed pursuant to Articles 2 and 9 of Chapter 3, Title 58.1 of the Code of Virginia.
[2] Includes taxes imposed pursuant to Article 10 of Chapter 3, Title 58.1 of the Code of Virginia.
[3] Includes taxes imposed pursuant to Chapter 6, Title 58.1 of the Code of Virginia, less taxes identified in Sections 58.1-605 and 58.1-638.
[4] Debt limit applies only to debt authorized pursuant to Article X, Section 9(a) (2) of the Constitution of Virginia.
[5] These bonds refunded certain Section 9(c) debt and because the Governor did not certify the feasibility of the refinanced project, they must be applied against the Section 9(b) Debt Limit.
[6] Net of unamortized premium, discount and deferral on debt defeasance.

Source: Department of Accounts, Department of the Treasury.

Tax-Supported Debt – General Obligation

Tax-supported debt of the Commonwealth includes both general obligation debt and debt of agencies, institutions, boards and authorities for which debt service is expected to be made in whole or in part from appropriations of tax revenues.

Outstanding Section 9(b) debt as of June 30, 2009 includes the unamortized portion of (a) $613 million of general obligation bonds authorized and approved by the voters in November 1992, (b) $1,019.5 million in general obligation bonds authorized and approved by the voters in November 2002, and (c) various series of refunding bonds issued to advance refund certain series of bonds. Outstanding Section 9(c) debt as of June 30, 2009 includes various series of Higher Educational Institutions Bonds (including refunding bonds) issued from 1981 to 2009, one series of Transportation Facilities Bonds issued in 2006, and three series of Parking Facilities Bonds (including refunding bonds) issued between 2002 and 2004. Outstanding general obligation debt does not include 9(b) and 9(c) advance refunded bonds for which funds have been deposited in irrevocable escrow accounts in amounts sufficient to meet all required future debt service.

Other Tax-Supported Debt

Section 9(d) of Article X provides that the restrictions of Section 9 are not applicable to any obligation incurred by the Commonwealth or any of its institutions, agencies or authorities if the full faith and credit of the Commonwealth is not pledged or committed to the payment of such obligation.

There are currently outstanding various types of 9(d) revenue bonds issued by authorities, political subdivisions and agencies for which the Commonwealth's full faith and credit is not pledged. Certain of these bonds, however, are paid in part or in whole from revenues received as appropriations by the General Assembly from general tax revenues, while others are paid solely from revenues derived from enterprises related to the operation of the financed capital projects.

The debt repayments of the Virginia Public Building Authority, the Virginia College Building Authority 21st Century College and Equipment Programs, The Innovative Technology Authority, the Virginia Biotechnology Research Park Authority and several other long-term capital leases or notes have been supported all or in large part by General Fund appropriations.

The Commonwealth Transportation Board ("CTB") has issued various series of bonds authorized under the State Revenue Bond Act. These bonds are secured by and payable from funds appropriated by the General Assembly from the Transportation Trust Fund for such purpose. The Transportation Trust Fund was established by the General Assembly in 1986 as a special non-reverting fund administered and allocated by the Transportation Board for the purpose of increased funding for construction, capital and other needs of state highways, airports, mass transportation and ports. As of June 30, 2009, $908.6 million in CTB bonds were outstanding. During 2007, the CTB was authorized by the General Assembly to issue up to $3.0 billion in Capital Projects Revenue Bonds. In 2008, an additional $180 million was authorized. As of June 30, 2009, no bonds have been issued under this authorization.

The Virginia Port Authority ("VPA") has $201 million of bonds outstanding at June 30, 2009 which are payable from a portion of the Transportation Trust Fund. In 2008, the Authority was authorized to issue an additional $155 million in Commonwealth Port Fund Revenue Bonds. No bonds have been issued from that authorization.

Leases and Contracts

Capital Leases. The Commonwealth is involved in numerous agreements to lease buildings and equipment. For a detailed description, see "Notes to the Financial Statements" included in the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009. These lease agreements are for various terms, and each lease contains a nonappropriation clause indicating that continuation of the lease is subject to funding by the General Assembly. The principal balance of all tax-supported capital leases outstanding was $216.6 million as of June 30, 2009.

Installment Purchases. The Commonwealth also finances the acquisition of certain personal property and equipment through installment purchase agreements. The length of the agreements and the interest rates charged vary. In most cases, the agreements are collateralized by the personal property and equipment acquired. Installment purchase agreements contain nonappropriation clauses indicating that continuation of the installment purchase is subject to funding by the General Assembly. The principal balance of tax-supported installment purchase obligations outstanding was $218.2 million as of June 30, 2009.

Outstanding Tax-Supported Debt

The following table summarizes for the past five fiscal years the outstanding indebtedness of the Commonwealth, its agencies, institutions and authorities for which appropriated tax revenues are required to pay debt service. In certain instances, debt service may be paid with or payable from other non-tax sources (e.g., toll revenues, port revenues and user fees), but the underlying security remains the appropriation of tax revenues by the Commonwealth.

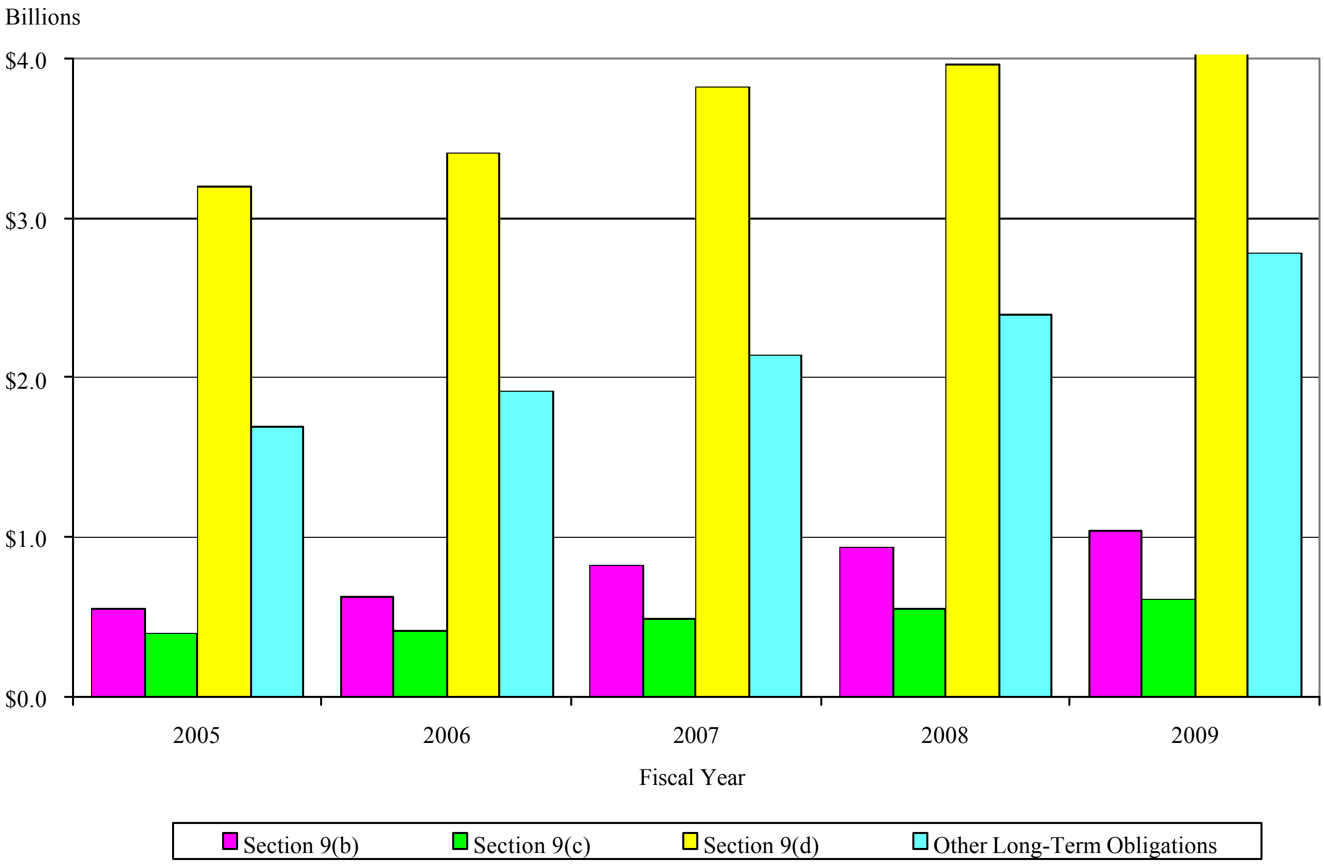
OUTSTANDING TAX-SUPPORTED DEBT
(in thousands)

	Fiscal Year Ended June 30,				
	2005	2006	2007	2008	2009
General Obligation Debt:					
Section 9(a)	-	-	-	-	-
Section 9(b) [1]	$ 555,447	$ 626,124	$ 821,563	$ 935,105	$ 1,040,636
Section 9(c)					
Higher Educational Institutions [1]	296,963	325,969	411,842	487,296	573,550
Transportation Facilities [1]	90,545	80,435	69,962	59,294	30,358
Parking Facilities [1]	11,040	9,939	8,804	7,590	6,526
Sub-Total Section 9(c)	398,548	416,343	490,608	554,180	610,434
Total General Obligation Debt	953,995	1,042,467	1,312,171	1,489,285	1,651,070
Section 9(d) Debt:					
Transportation [1]	1,041,397	1,021,172	987,550	948,507	908,601
Virginia Public Building Authority [1]	1,142,070	1,292,251	1,575,187	1,719,455	2,092,662
Virginia Port Authority [1]	265,518	251,219	236,300	218,596	200,886
Virginia College Building Authority-Equipment Leases	-	-	-	-	-
Virginia College Building Authority 21st Century/Equipment [1]	641,450	641,954	828,488	899,572	1,203,701
Innovative Technology Authority	8,635	7,935	7,145	6,270	5,415
Newport News Industrial Development Authority	27,100	23,160	19,010	14,640	10,025
Virginia Biotechnology Research Park Authority [1]	54,605	52,452	50,200	47,852	45,409
Virginia Public Broadcasting Board	15,775	13,485	11,070	8,520	5,830
Virginia Aviation Board	3,055	2,768	2,482	2,195	1,909
Fairfax County Economic Development Authority	-	100,592	100,387	96,992	93,442
Total Section 9(d) Debt	3,199,605	3,406,988	3,817,819	3,962,599	4,567,880
Other Long-Term Obligations:					
Transportation Notes Payable	12,325	12,325	12,325	12,325	8,000
Capital Leases	180,071	186,147	249,771	250,250	216,600
Installment Purchase Obligations	109,661	188,273	186,329	173,572	218,202
Compensated Absences	501,385	527,926	560,895	575,271	573,904
Regional Jail Financing Program	15,030	13,375	11,693	9,980	8,231
Pension Liability	860,432	969,574	1,105,031	1,237,460	1,410,513
Other Liabilities and Notes Payable	18,761	18,114	16,472	20,203	106,052
OPEB Liability	-	-	-	119,658	239,340
Total Other Long-Term Obligations	1,697,665	1,915,734	2,142,516	2,398,719	2,780,842
Total Tax-Supported Debt [2]	$ 5,851,265	$ 6,365,189	$ 7,272,506	$ 7,850,603	$ 8,999,792

[1] Net of deferral on debt defeasance, unamortized discounts and/or premiums.
[2] Numbers may not add to totals due to rounding.

Source: Department of the Treasury; Department of Accounts.

OUTSTANDING TAX-SUPPORTED DEBT
As of June 30, 2005-2009



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Outstanding Tax-Supported Debt Service

The following table summarizes annual debt service on outstanding tax-supported debt as of June 30, 2009. The table does not include debt service requirements for capital lease and installment purchase obligations payable from the General Fund of the Commonwealth.

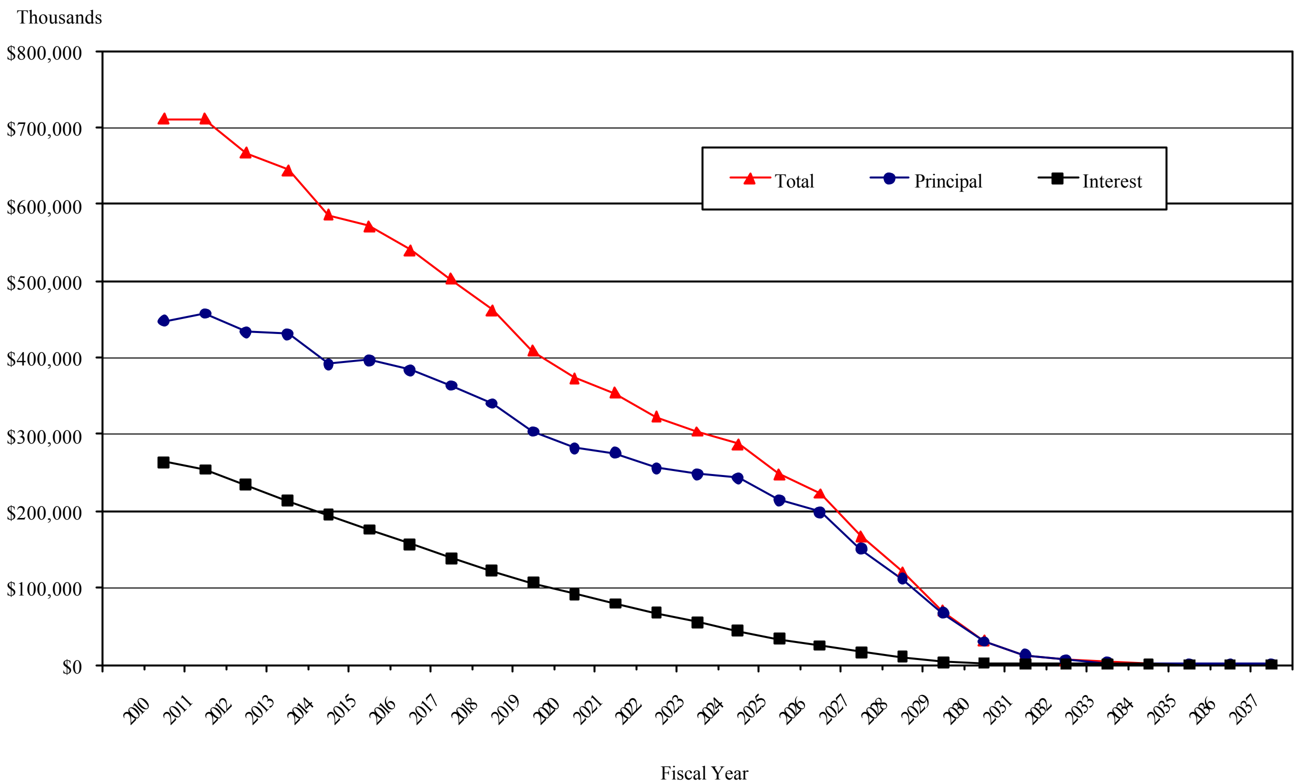
ANNUAL DEBT SERVICE REQUIREMENTS [1]
Tax-Supported Debt Outstanding at June 30, 2009
($ in thousands)

Fiscal Year Ending June 30	General Obligation Debt Sections 9(a), 9(b) and 9(c) Principal	Interest	Total	Other Tax-Supported Debt Section 9(d) [1] [2] Principal	Interest	Total	Total Principal	Interest	Total
2010	125,435	74,648	200,083	321,921	189,292	511,213	447,356	263,940	711,296
2011	123,742	69,375	193,117	334,111	184,656	518,767	457,853	254,031	711,884
2012	113,520	63,540	177,060	320,086	170,227	490,313	433,606	233,767	667,373
2013	114,110	58,028	172,138	316,989	155,792	472,781	431,099	213,820	644,919
2014	104,375	52,579	156,954	287,239	142,176	429,415	391,614	194,755	586,369
2015	100,655	47,507	148,162	295,893	128,224	424,117	396,548	175,731	572,279
2016	92,740	42,569	135,309	290,788	114,141	404,929	383,528	156,710	540,238
2017	83,935	38,114	122,049	279,600	100,652	380,252	363,535	138,766	502,301
2018	77,370	34,023	111,393	262,775	87,631	350,406	340,145	121,654	461,799
2019	76,065	30,543	106,608	227,406	75,449	302,855	303,471	105,992	409,463
2020	75,230	27,100	102,330	206,673	64,898	271,571	281,903	91,998	373,901
2021	76,855	23,638	100,493	198,281	55,600	253,881	275,136	79,238	354,374
2022	71,665	20,066	91,731	184,130	46,538	230,668	255,795	66,604	322,399
2023	71,335	16,657	87,992	177,205	38,382	215,587	248,540	55,039	303,580
2024	69,940	13,415	83,355	173,466	30,803	204,269	243,406	44,218	287,624
2025	60,625	10,193	70,818	153,944	23,311	177,255	214,569	33,504	248,073
2026	54,045	7,431	61,476	144,259	17,153	161,412	198,304	24,584	222,889
2027	44,345	4,960	49,305	106,571	11,348	117,919	150,916	16,308	167,224
2028	27,710	2,889	30,599	84,093	6,652	90,745	111,803	9,541	121,344
2029	11,305	1,604	12,909	55,334	1,674	57,008	66,639	3,278	69,917
2030	7,630	1,094	8,724	22,145	394	22,539	29,775	1,488	31,263
2031	6,135	749	6,884	5,897	204	6,101	12,032	953	12,985
2032	3,660	469	4,129	1,725	0	1,725	5,384	469	5,854
2033	2,595	293	2,888	0	0	0	2,595	293	2,888
2034	815	166	981	0	0	0	815	166	981
2035	855	128	983	0	0	0	855	128	983
2036	895	87	982	0	0	0	895	87	982
2037	935	44	979	0	0	0	935	44	979
Subtotal	1,598,522	641,909	2,240,431	4,450,531	1,645,197	6,095,728	6,049,053	2,287,106	8,336,159
Add Unamortized Premium & Accretion on Capital Appreciation Bonds	68,497	-	68,497	243,288	-	243,288	311,785	-	311,785
Less Unamortized Discount & Deferral on Debt Defeasance	(15,949)	-	(15,949)	(36,661)	-	(36,661)	(52,610)	-	(52,610)
TOTAL	$ 1,651,070	$ 641,909	$ 2,292,979	$ 4,657,158	$ 1,645,197	$ 6,302,355	$ 6,308,228	$ 2,287,106	$ 8,595,334

[1] Includes Virginia Biotechnology Research Park Authority, Fairfax County Economic Development Authority (Va. Dept. of Transportation Camp 30 Project), Innovative Technology Authority, Newport News Industrial Development Authority (VASIC Project) , Virginia Public Broadcasting Board, Virginia Aviation Board , Tax Refund Note, and Transportation Notes Payable. Does not include other capital leases, installment purchase obligations, regional jail reimbursement payments, compensated absences, pension liability or uninsured employer's fund.
[2] Includes notes payable of $ 8,000 (dollars in thousands) for the primary government.

Source: Department of the Treasury; Department of Accounts.

ANNUAL DEBT SERVICE REQUIREMENTS
TAX-SUPPORTED DEBT OUTSTANDING AT JUNE 30, 2009
(in thousands)



RATIOS OF OUTSTANDING TAX-SUPPORTED DEBT
TO POPULATION AND PERSONAL INCOME

Fiscal Year	Population [1]	Personal Income [2][3] (000's)	Outstanding Debt (000's)	Tax-Supported Debt/Capita	Debt/Income
2005	7,557,588	286,946,610	5,851,265	774.22	2.0%
2006	7,640,249	302,098,188	6,365,189	833.11	2.1%
2007	7,712,091	318,872,687	7,272,505	943.00	2.3%
2008	7,795,424	345,285,000	7,850,602	1,007.08	2.3%
2009	7,882,590	336,217,000	8,999,792	1141.73	2.7%

Sources: [1] U.S. Census Bureau.
[2] U. S. Department of Commerce, Bureau of Economic Analysis.
[3] 2009 personal income data is provisional

Authorized and Unissued Tax-Supported Debt

As of June 30, 2009, the following tax-supported debt had been authorized by the General Assembly and remained unissued:

Section 9(b) Debt:		
Higher Educational Institutions Bonds	$	30,803,135
Park and Recreational Facilities Bonds		22,770,358
Subtotal 9(b) Debt:	$	53,573,493
Section 9(c) Debt:		
Higher Educational Institutions Bonds	$	546,746,554
Parking Facility Bonds		16,000,000
Subtotal 9(c) Debt:	$	562,746,554
Section 9(d) Debt :		
Transportation Capital Projects Revenue Bonds	$	3,180,000,000
Northern Virginia Transportation District Program		97,100,000
Virginia Public Building Authority – Projects		886,039,252
Virginia Public Building Authority – Jails		277,749,431
Virginia Public Building Authority – Juvenile Detention Facilities		0
Virginia College Building Authority -- 21st Century Projects		1,481,006,508
Virginia College Building Authority -- 21st Century Equipment		116,798,956
Virginia Port Authority		155,000,000
Capital Lease Revenue Financings		
Subtotal 9(d) Debt:	$	6,193,694,147
Total	$	6,810,014,193

Source: Department of the Treasury; Department of Accounts.

Moral Obligation Debt

Bonds issued by the Virginia Housing Development Authority, the Virginia Resources Authority and the Virginia Public School Authority are designed to be self-supporting from their individual loan programs. However, certain of their bonds are secured in part by a moral obligation of the Commonwealth. The Commonwealth may fund deficiencies that may occur in debt service reserves for moral obligation debt. By the terms of the applicable statutes, the Governor is obligated to include in his annual budget submitted to the General Assembly the amount necessary to restore any such reported deficiency, but the General Assembly is not legally required to make any appropriation for such purpose. To date, these authorities have not reported to the Commonwealth that any such reserve deficiencies exist. The table below summarizes the Commonwealth's outstanding moral obligation indebtedness for the past five fiscal years.

OUTSTANDING MORAL OBLIGATION DEBT
(in thousands)

	Fiscal Year Ended June 30,				
	2005	**2006**	**2007**	**2008**	**2009**
Virginia Housing Development Authority [1]	$ 623,790	$ 498,314	$ 449,350	$391,691	$ --
Virginia Resources Authority [1]	695,099	704,477	678,600	681,886	726,416
Virginia Public School Authority [1]	--	--	--	--	--
Total	$ 1,318,889	$ 1,202,791	$1,127,950	$1,073,577	$726,416

[1] Net of unamortized discounts, premiums, deferral on debt defeasance and issuance costs.

Source: Department of the Treasury, Department of Accounts

Other Debt

There are several authorities and institutions of the Commonwealth that issue debt for which debt service is not paid through appropriations of state tax revenues and for which there is no moral obligation pledge to consider funding debt service or reserve fund deficiencies. A portion of the debt shown is additionally secured by a biennial contingent appropriation in the event available funds are less than the amount required to pay debt service. The following table summarizes for the past five fiscal years outstanding indebtedness of authorities and institutions whose debt falls into these categories.

OUTSTANDING OTHER DEBT
(in thousands)

	2005	**2006**	**2007**	**2008**	**2009**
Institutions of Higher Education [1]	$ 546,062	$ 840,779	$ 815,247	$ 1,147,172	$ 1,356,659
Virginia College Building Authority Public Higher Education Financing Program	662,889	724,640	850,870	1,037,650	1,289,525
Virginia College Building Authority Private College Program	390,620	385,105	471,750	455,295	532,530
Virginia Housing Development Authority [1]	4,003,396	4,656,701	5,548,833	6,487,296	6,754,384
Virginia Public School Authority [1]	2,449,447	2,689,512	2,860,310	3,030,087	3,258,258
Virginia Port Authority	142,650	141,118	230,817	292,982	223,541
Commonwealth Transportation Board Federal Highway Reimbursement Anticipation Notes [1]	746,877	918,494	800,538	677,297	548,695
Hampton Roads Sanitation District	138,509	144,450	143,658	359,904	360,136
Virginia Equine Center	15,540	15,320	--	--	--
Pocahontas Parkway Association	463,357	--	--	--	--
Total	$ 9,519,347	$10,516,119	$11,722,023	$13,487,683	$14,323,728

[1] Net of unamortized discounts, premiums, deferral on debt defeasance and issuance costs.

Source: Department of the Treasury.

Commonwealth Debt Management

Debt Capacity Advisory Committee

The Debt Capacity Advisory Committee (the "Committee") is charged by statute with annually estimating the amount of tax-supported debt, which may prudently be authorized, consistent with the financial goals, capital needs and policies of the Commonwealth. Such estimate is provided to the Governor and General Assembly. The Committee is also required to review annually the amount and condition of bonds, notes and other security obligations of the Commonwealth's agencies, institutions, boards and authorities which are either secured by a moral obligation pledge to replenish reserve fund deficiencies or for which the Commonwealth has a contingent or limited liability. The Committee provides its recommendations on the prudent use of such obligations to the Governor and the General Assembly.

The Committee also reviews the amounts and provisions of bonds, notes and other security obligations of the Commonwealth's agencies, institutions, boards and authorities which are neither tax-supported debt or obligations secured by a moral obligation pledge to replenish reserve fund deficiencies. The Committee may recommend limits, when appropriate, on these other obligations.

Capital Outlay Plan

The Department of Planning and Budget has prepared a Six-Year Capital Outlay Plan (the "Plan") for the Commonwealth. The Plan lists proposed capital projects, and it recommends how the proposed projects should be financed. More specifically, the Plan distinguishes between immediate demands and longer-term needs, assesses the state's ability to meet its highest priority needs, and outlines an approach for addressing priorities in terms of costs, benefits and financing mechanisms. The 2002 General Assembly set out new requirements for the funding of capital projects at a level not less than 2 percent of the General Fund revenues for the biennium, and the portion of that amount that may be recommended for bonded indebtedness.

RETIREMENT PLANS

The Commonwealth contributes to four defined benefit pension plans each of which is administered by the Virginia Retirement System ("System"). The System acts as a common investment and administrative agent for the Commonwealth, local school boards and political subdivisions in Virginia. The plans administered by the System consist of the Virginia Retirement System ("VRS"), the State Police Officers Retirement System ("SPORS"), the Virginia Law Officer's Retirement System ("VaLORS") and the Judicial Retirement System ("JRS"). Membership in the VRS consists of Commonwealth employees, public school teachers and employees of political subdivisions that have voluntarily joined the system. Membership in SPORS consists of Commonwealth state police officers. Membership in VaLORS consists of law enforcement and corrections officers of the Commonwealth other than state police officers, and membership in JRS consists of judges in the Commonwealth's Circuit Courts, General District Courts, Court of Appeals and Supreme Court. Membership in the applicable retirement plans is mandatory for all eligible employees. VRS is the largest of four systems covering 334,673 active Commonwealth employees, school teachers and covered employees of local governments as of June 30, 2009, as compared with 12,256 active members of SPORS, VaLORS, and JRS combined. In addition, the four plans combined had approximately 33,567 inactive vested members who are no longer contributing but have not withdrawn previous contributions and may be eligible for a retirement benefit in the future.

ACTIVE MEMBER DISTRIBUTION OF PENSION AND RETIREMENT PLANS

	Fiscal Year Ended June 30	
	2008	2009
State Employees (VRS)	81,206	80,808
Teachers (VRS)	147,149	148,461
Employees of Political Subdivisions (VRS)	104,803	105,404
State Police Officers (SPORS)	1,840	1,826
Virginia Law Officers (VaLORS)	10,330	10,014
Judges (JRS)	409	416

Source: Virginia Retirement System.

The System's Board of Trustees administers all four plans pursuant to statute. Each plan provides retirement, disability and death benefits. In addition, most members of all four plans are covered by group term life insurance.

Members of VRS and JRS attain service retirement at age 65, or age 50 with 30 years of service, with the right to elect a reduced retirement at age 55 after five years of creditable service. Normal and early retirement ages for SPORS and VaLORS are generally five years lower. An optional reduced retirement benefit is available to members of VRS, SPORS, and VaLORS at age 50 with ten years of creditable service. Members of all four plans, except Commonwealth employees covered by the Virginia Sickness and Disability Program ("VSDP"), may qualify for disability retirement at any age prior to the normal retirement age. Members covered under VSDP would receive disability benefits under that program. Subject to statutory variations, minimum retirement guarantees and maximum retirement limitations, a member's normal service retirement allowance is the number of years of such member's creditable service multiplied by 1.7 percent of the member's average final compensation ("AFC"). Effective July 1, 2007, the multiplier was increased from 1.7 percent to 1.85 percent for members of SPORS and sheriffs. Political subdivisions covered under VRS may also elect the higher multiplier for their employees in hazardous duty positions. AFC is based on the highest consecutive 36 months of pay. Adjustments to the benefits of retired members are made annually to reflect increases in the Consumer Price Index, reflecting the full amount of any such increase up to 3 percent and one-half of any additional increase up to 7 percent, with the maximum annual benefit increase being limited to 5 percent.

Unless the member has otherwise elected, each member or beneficiary is entitled on retirement, death or termination to receive the full amount of the member's contributions plus interest (currently at the rate of 4 percent per year) as a minimum benefit.

Following is a summary of additions and deductions of the four retirement plans, including additions and deductions attributable to VRS members who are employees of local school boards and political subdivisions. The political subdivisions have voluntarily joined the VRS, and the Commonwealth is responsible only for administration of the programs.

RETIREMENT SYSTEMS
ADDITIONS AND DEDUCTIONS
(in thousands)

	Fiscal Year Ended June 30,				
	2005	**2006**	**2007**	**2008**	**2009**
Additions:					
Member Contributions	$ 64,856	$ 39,771	$ 30,165	$ 25,304	$ 20,543
Employer Contributions	1,403,405	1,526,908	1,913,605	2,122,864	2,076,860
Net Investment Income (net of expenses)	666,193	822,534	1,156,556	981,838	752,986
Other	743	440	509	584	9,324
Total Additions	2,135,197	2,389,653	3,100,835	3,130,590	2,859,713
Deductions:					
Benefits	1,945,471	2,101,785	2,313,489	2,536,268	2,733,223
Refunds	84,731	91,230	95,765	102,935	91,348
Administrative Expenses	18,706	20,348	24,521	25,522	31,701
Other	-	258	178	298	668
Total Deductions	2,048,908	2,213,621	2,433,953	2,665,023	2,856,940
Excess of Additions over Deductions [before net appreciation (depreciation) in fair value of investments]	86,289	176,032	666,882	465,567	2,773
Net appreciation (depreciation) in fair value of investments	3,934,527	4,390,789	8,596,608	(3,756,138)	(12,253,992)
Net Assets Held in Trust at the End of the Year	$ 43,059,892	$ 47,626,713	$ 56,890,203	$ 53,599,632	$ 41,348,413

Source: Virginia Retirement System.

Each employer contributes an amount for any period equal to the sum of the normal cost and amortization of the unfunded actuarial accrued liability, if any. The Commonwealth's liability is determined, at a minimum, every two years by the System's Board of Trustees on the basis of studies by the consulting actuary. With respect to teachers, the Commonwealth pays a share of the employer contributions on the compensation of teachers who are employees of local school boards with the Commonwealth's portion determined by a formula that uses the student/teacher ratio, average teachers' salaries and the source of revenue used for salary. Employees contribute 5 percent of their creditable compensation unless the contribution is assumed by the employer as in the case of Commonwealth employees, judges, state police officers, and state law enforcement and correctional officers other than state police officers.

Employer contributions are calculated under an entry age normal cost method, and the unfunded actuarial accrued liability is amortized as a level percentage of payroll within 30 years or less. The entry age normal cost method is designed to produce level normal costs over the working lifetime of the participating employees and to permit the amortization of any unfunded liability over a period of years. The unfunded liability arises because normal costs based on the current benefit provisions have not been in effect throughout the working lifetime of current employees and because of actuarial losses. Post-retirement benefit adjustments are pre-funded during the employees' working lifetime.

The Commonwealth's contribution rate for the 2009 fiscal year was determined in accordance with the actuarial valuation as of June 30, 2007. In calculating the Commonwealth's contribution rate for the 2009 fiscal year, the actuary assumed a 7.5 percent net investment yield compounded annually, a 2.5 percent inflation allowance in the salary scale, a 20-year amortization period for the Unfunded Actuarial Accrued Liability (UAAL) and valued the assets using a modified market basis.

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The normal contribution and accrued liability cost rates (expressed as percentages of covered compensation) recommended by the actuaries are as follows:

RETIREMENT SYSTEMS CONTRIBUTIONS, ACCRUED LIABILITY AND SUPPLEMENTARY COSTS (1997-1998 biennium through 2009 fiscal year) [1]

	State Employees	School Teachers	State Police	Virginia Law Officers' [2]	Judges
Normal contribution rate:					
1997-98	2.73	3.51	9.39	-	15.12
1998-99	3.56	4.54	8.72	-	17.34
1999-00	4.18	5.09	10.52	4.18	18.74
2000-01	4.24	5.83	8.92	8.92	27.85
2001-02	4.00	6.03	7.45	7.91	26.11
2002-03	4.00	6.03	7.99	8.51	22.27
2003-04	4.00	6.03	7.99	8.51	22.27
2004-05	4.00	6.03	7.99	8.51	22.19
2005-06	4.00	6.03	7.99	8.51	22.19
2006-07	2.80	4.45	7.47	8.06	24.49
2007-08	2.80	4.45	8.35	8.06	24.49
2008-09	2.93	4.71	8.84	8.24	25.13
Accrued liability rate:					
1997-98	2.08	3.77	3.99	-	13.98
1998-99	2.28	3.95	8.12	-	14.34
1999-00	1.85	3.95	8.68	1.85	15.51
2000-01	0.98	1.71	16.08	7.23	17.15
2001-02	0.24	(1.79)	17.55	17.09	18.89
2002-03	0.24	(1.79)	17.01	16.49	22.73
2003-04	0.24	(1.79)	17.01	16.49	22.73
2004-05	(0.11)	2.07	17.01	16.49	22.81
2005-06	(0.11)	2.07	17.01	16.49	22.81
2006-07	4.53	6.73	12.35	9.33	15.59
2007-08	4.53	6.73	14.34	9.33	15.59
2008-09	5.09	7.13	15.25	8.54	12.91
Total contribution rate:					
1997-98	4.81	7.28	13.38	-	29.10
1998-99	5.84	8.49	16.84	-	31.68
1999-00	6.03	9.04	19.20	6.03	34.25
2000-01	5.22	7.54	25.00	16.15	45.00
2001-02 [3]	4.24	4.24	25.00	25.00	45.00
2002-03 [4]	4.24	4.24	25.00	25.00	45.00
2003-04 [5]	4.24	4.24	25.00	25.00	45.00
2004-05 [6]	3.89	8.10	25.00	25.00	45.00
2005-06 [7]	3.89	8.10	25.00	25.00	45.00
2006-07 [8]	7.33	11.18	19.82	17.39	40.08
2007-08 [9]	7.33	11.18	22.69	17.39	40.08
2008-09 [10]	8.02	11.84	24.09	16.78	38.04

Source: Virginia Retirement System

[1] Rates for FY 2000 reflect "carve out" of a portion of the retirement rate for the Virginia Sickness and Disability Program.

[2] The Virginia Law Officers' Retirement System was established October 1, 1999.

[3] Contributions actually paid in FY 2002 were 2.12%, 3.60%, 12.50%, 8.07% and 22.50% for State, School Teachers, State Police, VaLORS and Judges, respectively.

[4] Contributions actually paid in FY 2003 were 0.00%, 3.77%, 11.05%, 12.00% and 29.00% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[5] Contributions actually paid in FY 2004 were 3.77%, 3.77%, 12.79%, 13.95% and 32.03% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[6] Contributions actually paid in FY 2005 were 3.91%, 6.03%, 16.49%, 16.99% and 30.55% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[7] Contributions actually paid in FY 2006 were 3.91%, 6.62%, 16.49%, 16.99% and 30.55% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[8] Contributions actually paid in FY 2007 were 5.74%, 9.20%, 16.71%, 14.96% and 36.47% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

[9] Contributions actually paid in FY 2008 were 6.15%, 10.30%, 20.76%, 15.86% and 38.01% for State, School Teachers, State Police, VaLORS, and Judges, respectively. State Police computed and paid rates reflect an increase of 2.87% resulting from and increase in the multiplier from 1.70% to 1.85%, effective July 1, 2007.

[10] Contributions actually paid in FY 2009 were 6.23%, 8.81%, 20.05%, 14.23% and 34.51% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

Effective October 1, 1983, the Commonwealth assumed the 5 percent employee contribution made by members of the VRS, SPORS, Va LORS and JRS. The total contribution rate being paid by the Commonwealth for Commonwealth employees, police, other law enforcement and corrections officers, and judges is, therefore, higher by that amount than is shown above in the summary. The above table reflects the plan as still described in the statutes.

The most recent actuarial valuation review of the Commonwealth's liability under the VRS, SPORS, VaLORS and JRS was performed by Cavanaugh Macdonald Consulting, LLC as of June 30, 2008. Below is the schedule of Funding Progress for the various pension plans. For further discussion of the funding status of the pension programs, see "Retirement and Pension Systems" in The Report of the Comptroller for the Fiscal Year Ended June 30, 2008.

SCHEDULE OF FUNDING PROGRESS
(dollars in millions)

Biennial Actuarial Valuation Date 6/30		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
Virginia Retirement System							
2008		$52,548	$62,554	$10,006	84.0%	$14,559	68.7%
2007		47,815	58,116	10,301	82.3%	13,834	74.5%
2006		42,669	52,822	10,153	80.8%	13,002	78.1%
2005	[1]	40,372	49,628	9,256	81.3%	12,212	75.8%
2004		39,691	43,958	4,267	90.3%	11,510	37.1%
2003		39,243	40,698	1,455	96.4%	10,885	13.4%
2002		38,957	38,265	(692)	101.8%	10,669	(6.5%)
State Police Officers Retirement System (SPORS)							
2008		$646	$844	$198	76.6%	$103	192.3%
2007		595	806	211	73.8%	101	209.4%
2006		539	730	191	73.8%	94	204.1%
2005	[1]	514	673	159	76.4%	91	174.8%
2004		510	656	146	77.8%	82	178.0%
2003		509	616	107	82.6%	79	135.4%
2002		508	595	87	85.4%	81	107.4%
Virginia Law Officer's Retirement System (VaLORS)							
2008		$873	$1,281	$408	68.2%	$368	110.8%
2007		766	1,166	400	65.7%	341	117.2%
2006		656	1,096	440	59.9%	321	137.0%
2005	[1]	575	980	405	58.7%	307	132.0%
2004		509	927	418	54.9%	298	140.3%
2003		458	854	396	53.6%	292	135.6%
2002		418	806	388	51.9%	306	126.8%
Judicial Retirement System (JRS)							
2008		$374	$495	$121	75.6%	$61	199.9%
2007		340	442	102	76.9%	58	177.3%
2006		302	424	122	71.3%	54	224.1%
2005	[1]	288	402	114	71.5%	52	220.7%
2004		285	366	81	78.0%	48	168.8%
2003		282	348	66	81.1%	48	137.5%
2002		281	352	71	79.8%	48	147.9%

[1] Revised economic and demographic assumptions due to experience study.
Source: Virginia Retirement System.

In addition to the defined benefit programs described above, the Commonwealth also makes contributions to a defined contribution retirement plan for political appointees. Contributions for this plan are based on 10.4% of each appointee's salary. At June 30, 2009, this plan covered 226 political appointees and had total assets of approximately $5,012,922.

OTHER LONG-TERM LIABILITIES

Employee Benefits Other than Pension Benefits

Employees of the Commonwealth accrue annual leave at a rate of four to nine hours semi-monthly, depending on their length of service. The maximum accumulation is dependent on years of service, but in no case may it exceed 42 days. All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program ("VSDP"). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the calendar year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the original sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the original sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave State service after a minimum of five years employment receive the lesser of 25 percent of the value of their disability credits or accumulated sick leave at the current earnings rate or $5,000. All employees leaving State service are paid for accrued annual leave up to the maximum calendar year limit at their current earnings rate.

The VSDP was established for all full-time, classified state employees, including state police officers, and other state law enforcement and correctional officers. Part-time, classified state employees who work at least 20 hours a week on a salaried basis and who accrue leave are also covered. After a seven calendar-day waiting period following the first incident of disability, the VSDP provides short-term disability benefits from 60% to 100% of compensation up to a maximum of 125 work days. After a 180 calendar day waiting period, eligible employees receive long-term disability benefits equal to 60% of compensation until they return to work, until age 65 (age 60 for state police officers and other state law enforcement and correctional officers), or until death.

In addition to providing pension benefits, the Commonwealth provides life insurance for active and retired employees and a retiree health insurance credit to offset a portion of the cost of health insurance premiums for qualifying state retirees under VRS, SPORS, JRS and VaLORS. The estimated costs of these benefits are funded over the working lives of the employees through employer contributions and investment income.

Self-Insurance

The Commonwealth provides several types of self-insurance for the benefit of state agencies and institutions. The Department of the Treasury, Division of Risk Management, administers self-insurance programs for general (tort) liability, medical malpractice and automobile liability. The Department of Human Resource Management administers the state employee health care self-insurance fund. At June 30, 2009, $514.0 million was reported as the combined estimated claims payable for self-insurance.

Medicaid Payable

The Department of Medical Assistance Services estimates, based on past experience, the total amount of claims that will be paid from the Medicaid program in the future which relate to services provided before year end. At June 30, 2009, the estimated liability related to normal operations totaled $698.9 million. Of this amount, $268.2 million is reflected in the General Fund and $430.7 million in the Federal Trust Special Revenue Fund.

For a more detailed explanation of Other Long-Term Liabilities, see "Notes to the Financial Statements" in The Report of the Comptroller for the Fiscal Year Ended June 30, 2009.

Other Post Employment Benefits (OPEB) – Financial Statement Reporting

The Commonwealth currently has five postemployment benefit programs other than the retirement plans described above ("OPEB Programs"). They are: Retiree Health Insurance Credit, Group Life Insurance, Virginia Sickness and Disability Plan, Pre-Medicare Retiree Health Insurance Program and Line of Duty Death and Health Insurance Benefit.

The Governmental Accounting Standards Board (GASB) issued accounting and reporting standards for other postemployment benefits. The VRS implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan*, in their published financial statements for the fiscal year ended June 30, 2007. The Commonwealth, as an employer, implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the fiscal year ended June 30, 2008.

The Commonwealth's OPEB programs promise benefits to individuals who perform services for government today to be paid following the conclusion of their service. Historically, the Commonwealth and most other government employers financed other post employment benefit programs on a pay-as-you-go basis. The new reporting standards require expenses associated with these programs to be calculated and reported on an actuarial basis even though payment is deferred until after an individuals' service ends. As of June 30, 2009, the Commonwealth's estimated annual required OPEB contribution is $335.0 million and the estimated unfunded actuarial liabilities are $3.7 billion.

LABOR RELATIONS

It is against public policy for Commonwealth or local officials to recognize any labor union as a representative of public employees or to engage in collective bargaining with any labor union. Public employees of the Commonwealth do not have a legal right to strike, and no strike by employees of the Commonwealth has ever taken place. Any such employee who engages in any organized strike or willfully refuses to perform his duties shall, according to state law, be deemed to have terminated his employment. The General Assembly has rejected several recent legislative proposals to authorize public employees to engage in collective bargaining.

LITIGATION

The Commonwealth, its officials and employees are named as defendants in legal proceedings which occur in the normal course of governmental operations, some involving claims for substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Commonwealth with respect to these lawsuits. However, any ultimate liability resulting from these suits is not expected to have a material adverse effect on the financial condition of the Commonwealth.

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TOBACCO SETTLEMENT

The Commonwealth is a party to the national tobacco settlement (the “Settlement”) between leading United States tobacco product manufacturers, 45 other states, the District of Columbia and 5 territories. The Settlement provides that tobacco companies pay a total of $206 billion to the participating states by the year 2025; significantly curb their advertising; and disband industry trade groups. The Commonwealth’s share of the total amount to be paid to states through 2025 would be approximately $4.1 billion. The exact dollar amount is contingent upon certain adjustments as set forth in the Settlement. Under the Settlement, the tobacco companies will make three types of payments. Tobacco companies made five “initial payments” totaling approximately $13 billion over the six year period ending in January 2003. In addition, the tobacco companies make “annual payments” that began on April 15, 2000. Such payments will be paid annually into perpetuity and will be adjusted annually based on inflation and volume adjustments as determined by future sales of cigarettes. Approximately $8.6 billion of the Settlement will be deposited into a strategic contribution fund and allocated based on the states' contribution toward resolving the Settlement. The “strategic contribution payments” will be made in equal installments over a 10-year period beginning in 2008.

The Commonwealth created the Tobacco Indemnification and Community Revitalization Commission and Fund (the “TICR Commission” and “TICR Fund,” respectively). Fifty percent of the annual amount received by the Commonwealth from the Settlement (the “TICR Commission Allocation”) has been deposited into the TICR Fund. The TICR Commission distributes moneys in the TICR Fund to (i) provide payments to tobacco farmers as compensation for the elimination or decline in tobacco quotas and (ii) promote economic growth and development in tobacco dependent communities.

In 2002, the General Assembly authorized the securitization of the TICR Commission Allocation and created the Tobacco Settlement Financing Corporation (the “Corporation”). The Corporation was established to carry out the financing, purchasing, owning and managing of the portion of the TICR Commission Allocation that may be sold by the Commonwealth from time to time. On May 16, 2005, the Corporation issued $448,260,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2005 (the “Series 2005 Bonds”) backed by 25% of the annual amount of Settlement payments to be received by the Commonwealth. Net proceeds of the sale were deposited to the Tobacco Indemnification and Community Revitalization Endowment established pursuant to Section 3.1-1109.1 of the Code of Virginia to fund economic development projects throughout Southside and Southwest Virginia. On May 3, 2007, the Corporation issued $1,149,273,283 of its Tobacco Settlement Asset-Backed Bonds, Series 2007 (the “Series 2007 Bonds”). A portion of the proceeds of the Series 2007 Bonds were used to defease and refund the outstanding Series 2005 Bonds. The Series 2007 Bonds are backed solely by 50% of the annual amount of Settlement payments to be received by the Commonwealth. Tobacco Bonds issued by the Corporation are not obligations of the Commonwealth or any instrumentality other than the Corporation.

The Commonwealth also created the Virginia Tobacco Settlement Foundation (“the Foundation”) to coordinate and finance efforts to restrict the use of tobacco products by minors through such means as educational and awareness programs on the health effects of tobacco use on minors and laws restricting the distribution of tobacco products to minors. Ten percent of the annual amount received by the Commonwealth from the Settlement is allocated to the Foundation (the “Foundation Allocation”). Chapter 345 of the 2007 Virginia Acts of Assembly, which became effective on July 1, 2007, authorizes the securitization of the Foundation Allocation, however no securitization of the Foundation Allocation has occurred. The remaining forty percent of unallocated Settlement payments are deposited to the General Fund.

The allocation and expenditures of the annual amounts received by the Commonwealth from the settlement are subject to appropriation by the General Assembly.

APPENDIX C

COMMONWEALTH OF VIRGINIA DEMOGRAPHIC AND ECONOMIC INFORMATION

APPENDIX C
TABLE OF CONTENTS

INTRODUCTION

The following demographic and economic information is provided by the Commonwealth of Virginia, its agencies, institutions and authorities (the "Commonwealth"). The data were compiled by the Department of the Treasury and were not independently verified; however, the Department of the Treasury has no reason to believe that such material is not true and correct.

DEMOGRAPHIC CHARACTERISTICS

General

The Commonwealth is divided into five distinct regions -- a coastal plain cut into peninsulas by four large tidal rivers, a piedmont plateau of rolling farms and woodlands, the Blue Ridge Mountains, the fertile Shenandoah Valley and the Appalachian plateau region extending over the southwest corner of the Commonwealth. Approximately one-third of all land in Virginia is used for farming and other agricultural services. This variety of terrain, the location of the Commonwealth on the Atlantic Seaboard at the southern extremity of the northeast population corridor and its close proximity to the nation's capital have had a significant influence on the development of the present economic structure of the Commonwealth.

The Commonwealth's 2009 population of 7,882,590 was 2.6 percent of the United States' total. Among the 50 states, it ranked twelfth in population. With 39,594 square miles of land area, its 2008 population density was persons 196.2 per square mile, compared with 95.66 persons per square mile for the United States.

Population Trends

From 1998 to 2009, Virginia's population increased 14.2 percent versus 11.3 percent for the nation. Population trends since 1998 for the Commonwealth and the United States are shown in the following table:

POPULATION TREND

	Virginia			United States	
Year	Population	Increase Over Preceding Year		Population	Increase Over Preceding Year
1998	6,900,918	-		275,854,104	-
1999	7,000,174	1.4	%	281,424,602	2.0
2000	7,104,992	1.5		282,194,308	0.3
2001	7,190,468	1.2		285,112,030	1.0
2002	7,281,659	1.3		287,888,021	1.0
2003	7,370,557	1.2		290,447,644	0.9
2004	7,464,033	1.3		293,191,511	0.9
2005	7,557,588	1.3		295,895,897	0.9
2006	7,640,249	1.1		298,754,819	1.0
2007	7,712,091	0.9		301,621,157	1.0
2008	7,795,424	1.1		304,347,846	0.9
2009	7,882,590	1.1		307,006,550	0.9

Source: U.S. Department of Commerce, Bureau of the Census.
* 2009 Data as of January 2010

AGE DISTRIBUTION OF POPULATION

Compared to the nation, a higher proportion of the Commonwealth's population is in the adult/working ages of 18 through 64. A lower proportion of Virginia's population is comprised of persons 65 and older and of persons age 5 through 17. In 2008 the population of the Commonwealth and of the United States was distributed by age as follows:

AGE DISTRIBUTION
2008

Age	Virginia	United States
Under 5 years	6.7%	6.9%
5 through 17 years	17.3	17.4
18 through 44 years	38.3	37.2
45 through 64 years	26.2	25.7
65 years and older	11.5	12.8
	100.0%	100.0%

Source: U.S. Department of Commerce, Bureau of the Census.

Note: Based on figures currently available.

GEOGRAPHIC DISTRIBUTION OF POPULATION

Like the nation as a whole, the Commonwealth has a high percentage of its citizens living in urban areas. Virtually all of the Commonwealth's population growth between 1950 and 1970 occurred in these areas. During the 1970s, however, non-metropolitan areas grew at a slightly faster rate than metropolitan areas. Since 1980, this trend has reversed with the metropolitan areas growing at three times the rate of the rest of the Commonwealth. Of the Commonwealth's population, 85.6 percent reside in eleven metropolitan statistical areas (MSAs).

The largest metropolitan area is the Northern Virginia portion of the Washington-Arlington-Alexandria MSA. This is the fastest growing metropolitan area in the Commonwealth and had a 2008 population of 5,358,130 (including Washington and Maryland's population of 1,768,234). Northern Virginia has long been characterized by the large number of people employed in both civilian and military work with the federal government. It is also one of the nation's leading high-technology centers for computer software and telecommunications.

Spanning Hampton Roads is the Virginia Beach-Norfolk-Newport News MSA, which has large military installations and major port facilities. It had a 2008 population of 1,658,292 and is an important center of manufacturing and tourism. The Richmond MSA is the third largest metropolitan area with a 2008 population of 1,225,626. The Richmond MSA is a leading center of diversified manufacturing activity including chemicals, tobacco, printing, paper, metals and machinery. Richmond is also the capital of the Commonwealth and its financial center which includes the Fifth District Federal Reserve Bank. The Roanoke MSA is the manufacturing, trade and transportation center for the western part of the Commonwealth. It had a 2008 population of 298,108. Also in the western part of the Commonwealth are the Lynchburg and Kingsport-Bristol-Bristol MSAs, which are both manufacturing centers, and had 2008 populations of 245,809 and 304,689, respectively. Located at the foot of the Blue Ridge Mountains is the Charlottesville MSA, a community with a 2008 population of 194,391 and home of The University of Virginia and significant manufacturing industries. The Danville MSA is located on the North Carolina border and had a 2008 population of 105,783.

In 2003, the federal Office of Management & Budget recognized three new Virginia MSAs -- Winchester, Harrisonburg and Blacksburg-Christiansburg-Radford. The Winchester MSA is located at the northernmost tip of Virginia and had a 2008 population of 122,369. This fast-growing community has become increasingly attractive for both business and residential development due to its location bordering the Washington-Arlington-Alexandria MSA.

The Harrisonburg MSA, a community with a 2008 population of 118,409, is located in west central Virginia. It is a major retail, service and manufacturing center in the Shenandoah Valley. With a 2008 population of 158,328, the Blacksburg-Christiansburg-Radford MSA is located in the New River Valley in southwestern Virginia. The town of Blacksburg is the home of Virginia Polytechnic Institute & State University, Virginia's largest university and one of the nation's leading research institutions.

2008 population figures for all eleven Commonwealth MSAs are shown below:

METROPOLITAN STATISTICAL AREA
POPULATION AND PER CAPITA INCOME

MSA	2008 Population	2008 Per Capita Income
Blacksburg-Christiansburg-Radford	158,328	$26,569
Charlottesville	194,391	42,343
Danville	105,783	27,733
Harrisonburg	118,409	29,372
Kingsport-Bristol-Bristol	304,689	30,691
Lynchburg	245,809	31,862
Richmond	1,225,626	41,021
Roanoke	298,108	35,531
Virginia Beach-Norfolk-Newport News	1,658,292	38,112
Washington-Arlington-Alexandria*	5,358,130	56,510
Winchester	122,369	32,677
Commonwealth of Virginia	7,769,089	$42,876

Source: US Dept of Commerce, Bureau of Economic Analysis.
* Washington-Arlington-Alexandria MSA includes Washington, DC and Maryland.

Distributed throughout Virginia are smaller urban areas, most of which historically have been trade centers for the surrounding areas and continue to be so today. These communities have attracted many of the new manufacturing facilities locating in the Commonwealth in recent years. The remainder of the Commonwealth's population lives in rural areas, including most of the towns and the remaining smaller cities.

ECONOMIC FACTORS

Taxable Retail Sales

Over the past ten years, taxable retail sales in Virginia increased by just under $30.0 billion, or 49.9 percent. This growth is much higher for the same period than the rate of inflation, which was 37 percent. The following table illustrates the changes in taxable retail sales for calendar years 1998 through 2008:

Calendar Year	Taxable Retail Sales	% Change
1998	$60,113,811,363	-
1999	64,068,575,397	6.6%
2000	68,661,581,258	7.2
2001	68,725,289,188	0.1
2002	70,645,312,671	2.8
2003	74,973,561,726	6.1
2004	81,291,117,472	8.4
2005	77,290,441,767	-4.9
2006	89,478,625,283	15.8
2007	92,043,248,947	2.9
2008	90,106,122,080	-2.1

Source: Department of Taxation.

Personal Income

According to the U.S. Department of Commerce, Virginians received over $334 billion in estimated personal income in 2008. In 2008, the Commonwealth had per capita income of $42,876, the highest of the Southeast region and greater than the national average of $39,751.

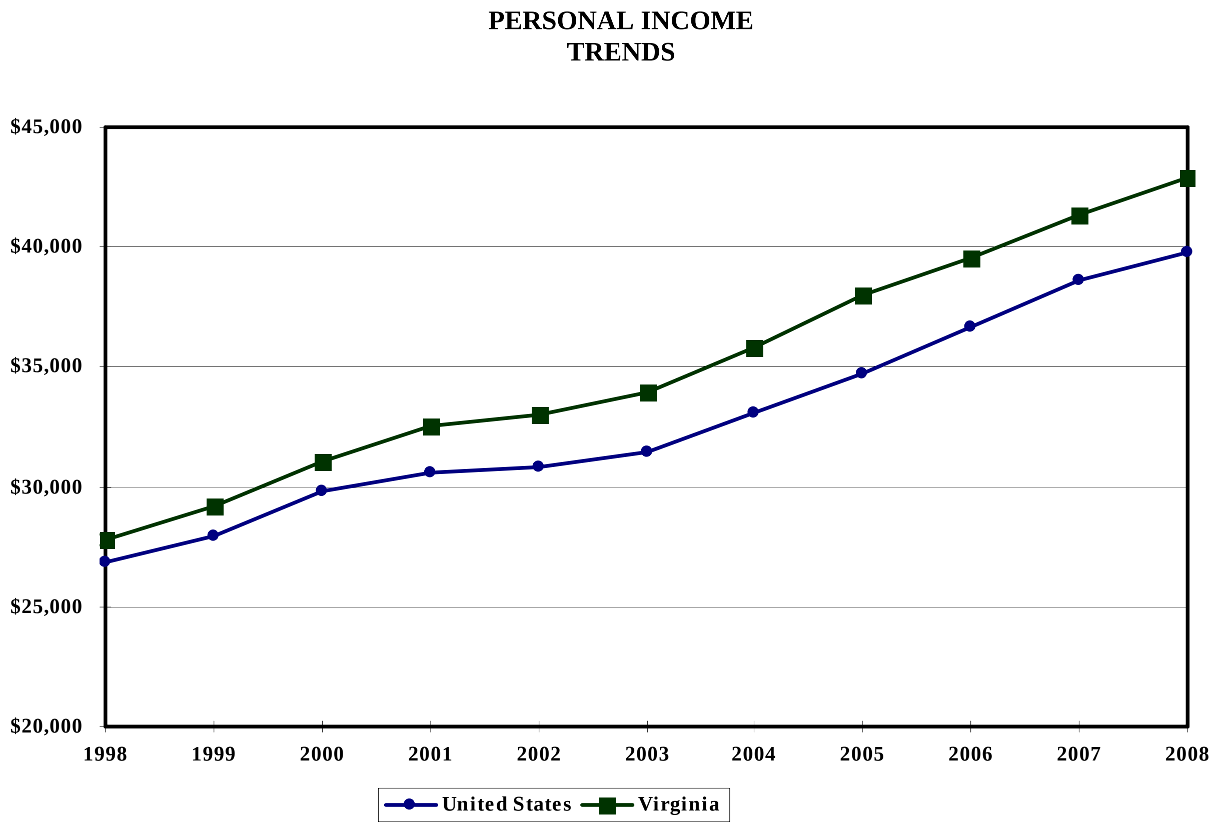
From 1998 to 2008, the Commonwealth's 4.4 percent average annual rate of growth in personal per capita income was more than the national average rate of growth of 4.0 percent. Virginia and United States per capita personal income are shown in the following table:

PERSONAL INCOME TRENDS

	Virginia		United States	
Year	Per Capita Personal Income	Increase Over Preceding Year	Per Capita Personal Income	Increase Over Preceding Year
1998	$27,780	-	$26,883	-
1999	29,226	5.2%	27,939	3.9%
2000	31,085	6.4%	29,843	6.8%
2001	32,501	4.6%	30,562	2.4%
2002	33,014	1.6%	30,795	0.8%
2003	33,976	2.9%	31,466	2.2%
2004	35,836	5.5%	33,072	5.1%
2005	37,974	6.0%	34,685	4.9%
2006	39,564	4.2%	36,629	5.6%
2007	41,347	4.5%	38,611	5.4%
2008	42,876	3.7%	39,751	3.0%

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Virginia and United States per capita personal income are shown in the following graph:



In 2008, the sources of personal income in the Commonwealth and the comparable sources of personal income for the United States are shown in the table and pie chart:

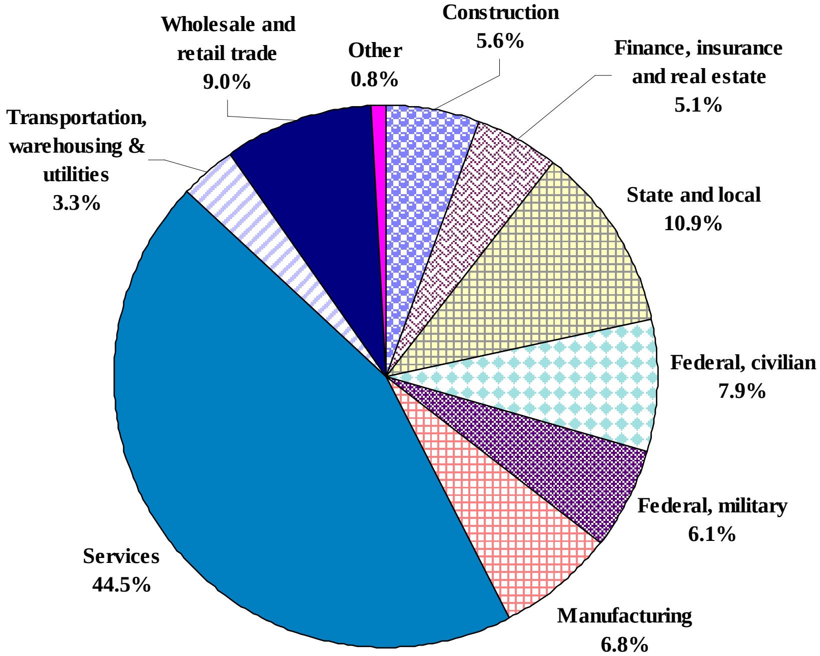
SOURCES OF PERSONAL INCOME
2008

	Virginia (in Millions)	Percentage of Personal Income Before Residence Adjustment: Virginia	Percentage of Personal Income Before Residence Adjustment: United States
Forestry, fisheries, related activities and other	$331	0.1 %	0.4 %
Construction	15,617	5.9	0.1
Farming	277	0.1	0.0
Finance, insurance and real estate	14,048	5.3	0.1
Government:		0.0	0.0
State and local	28,946	11.0	0.1
Federal, civilian	20,655	7.9	0.0
Federal, military	15,829	6.0	0.0
Manufacturing	17,362	6.6	0.1
Mining	1,028	0.4	0.0
Services	116,482	44.3	0.4
Transportation, warehousing & utilities	8,359	3.2	0.0
Wholesale and retail trade	24,073	9.2	0.1
Subtotal	$263,004	100.0%	100.0%
Less:			
Contributions for government social insurance	(28,342)		
Plus:			
Dividends, interest and rent	59,198		
Transfer payments	40,163		
Personal income before residence adjustment	$334,023		
Residence adjustment (1)	9,116		
Total Personal Income	$343,139		

(1) Total personal income is reported by place of residence. However, income by industry is shown by place of work. Thus, this adjustment was necessary to account for income earned by Virginia residents who worked outside the Commonwealth. These were primarily federal government employees who lived in Northern Virginia but worked in Washington, D.C.

Source: Bureau of Economic Analysis as of October 16, 2009

NONAGRICULTURAL SOURCES OF GROSS PERSONAL INCOME BY MAJOR INDUSTRY
2008



Residential Construction

Residential construction was concentrated in three of the state's eleven MSAs. The Virginia portions of the Washington-Arlington-Alexandria MSA, the Virginia Beach-Norfolk-Newport News MSA, and the Richmond MSA accounted for approximately 68.7 percent of the state total.

AGGREGATE VALUE OF AND BUILDING PERMITS ISSUED FOR RESIDENTIAL CONSTRUCTION IN VIRGINIA [1]

Year	Value of Construction in Current Dollars (in millions)	Percent Change from Preceding Year	Number of Permits Issued	Percent Change from Preceding Year
1998	$4,774.30	-	50,204	-
1999	5,142.20	7.7 %	53,151	5.87 %
2000	4,929.10	-4.1	48,678	-8.42
2001	5,739.70	16.4	53,475	9.85
2002	6,589.30	14.8	59,445	11.16
2003	6,863.50	4.2	55,996	-5.80
2004	8,050.30	17.3	62,579	11.76
2005	9,261.00	15.0	62,765	0.30
2006	7,266.80	-21.5	45,360	-27.73
2007	6,330.12	-12.9	38,319	-15.52
2008	4,106.78	-35.1	27,704	-27.70

[1] Value of construction excludes mobile homes.

Source: Annual Residential Building Permits. University of Virginia, Weldon Cooper Center for Public Service.

Assessed Value of Locally Taxed Property

The Constitution of Virginia provides that real estate, coal and other mineral lands and tangible personal property, except the rolling stock of public service corporations, are reserved for taxation by cities, counties, towns and other local government entities. Shown below is the assessed value of real estate and personal property as determined by the various taxing jurisdictions and the combined value of real estate and personal property for public utilities as determined by the State Corporation Commission. Cities and counties are required by law to assess real estate at 100 percent of market value.

ASSESSED VALUES OF REAL ESTATE AND TANGIBLE PERSONAL PROPERTY

Tax Year Ended 31-Dec	Real Estate	Public Service Corporation	Personal Property	Total
1998	$357,933,576,243	$24,278,814,303	$44,192,544,427	$426,404,934,973
1999	377,609,745,833	25,459,493,264	47,746,947,423	450,816,186,520
2000	404,571,768,890	27,194,732,245	52,842,420,797	484,608,921,932
2001	441,708,209,690	26,999,337,787	55,202,531,447	523,910,078,924
2002	495,156,975,902	29,239,165,763	57,949,553,914	582,345,695,579
2003	551,789,426,873	27,101,230,213	59,935,871,109	638,826,528,195
2004	617,559,007,920	27,379,304,201	61,349,533,127	706,287,845,248
2005	727,049,755,759	29,539,242,718	66,156,293,731	822,745,292,208
2006	900,079,538,628	28,843,374,447	69,815,543,837	998,738,456,912
2007	982,816,278,651	29,126,367,531	70,911,848,399	1,082,854,494,581
2008	1,023,753,282,458	32,362,873,335	73,386,249,542	1,129,502,405,335

Source: Department of Taxation.
Note: Based on figures currently available from Taxation 2009 Annual Report.

Employment

As of December 2009, more than 4.0 million residents of the Commonwealth were in the civilian labor force, which includes agricultural and nonagricultural employment, the unemployed, the self-employed and residents who commute to jobs in other states.

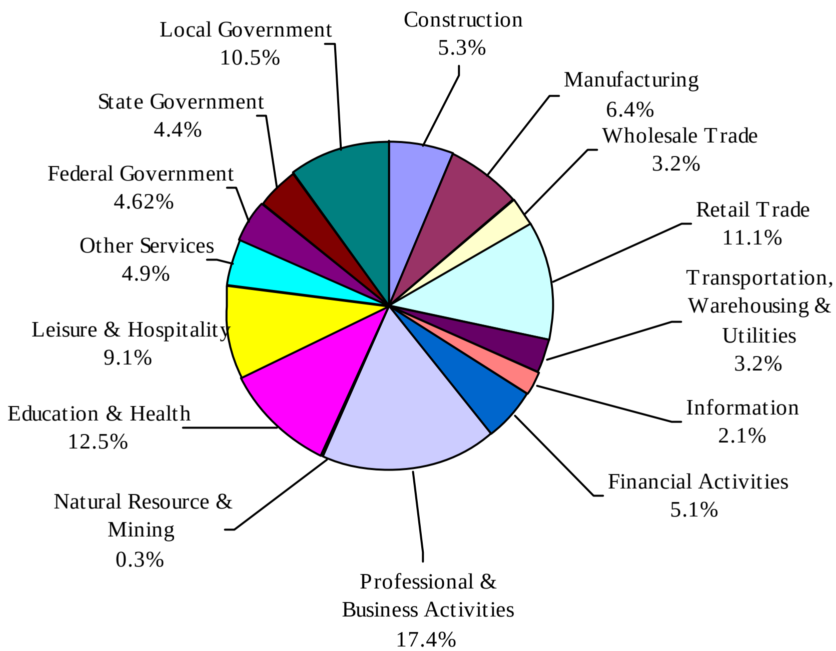
The following table indicates the distribution by category of nonagricultural employment in the Commonwealth and the comparative distribution in the United States.

DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT
2009

	Virginia	United States
Natural Resource & Mining	0.30%	0.50%
Construction	5.30	5.80
Manufacturing	6.43	10.20
Wholesale Trade	3.15	4.40
Retail Trade	11.13	11.30
Transportation, Warehousing & Utilities	3.20	3.30
Information	2.14	2.20
Financial Activities	5.07	6.10
Professional & Business Activities	17.36	13.20
Education & Health	12.47	13.20
Leisure & Hospitality	9.06	10.30
Other Services	4.90	4.10
Public Administration		
Federal Government	4.62	2.00
State Government	4.37	3.50
Local Government	10.50	9.80
	100.00%	100.00%

Source: U.S. Department of Labor, Bureau of Labor Statistics and Virginia Employment Commission.

DISTRIBUTION OF VIRGINIA NONAGRICULTURAL EMPLOYMENT BY MAJOR INDUSTRY 2009



NONAGRICULTURAL EMPLOYMENT

	2003	2004	2005	2006	2007	2008	2009	% Change 2003-2009
Natural Resource & Mining	10,100	10,300	10,700	11,300	10,900	11,200	11,100	**9.9%**
Construction	217,500	230,900	243,600	249,400	239,900	212,300	194,900	**-10.4**
Manufacturing	304,900	298,700	295,800	288,700	277,800	258,400	236,100	**-22.6**
Wholesale Trade	113,200	114,600	117,200	119,500	120,900	119,465	115,845	**2.3**
Retail Trade	403,100	412,700	418,500	423,700	427,500	421,835	409,055	**1.5**
Transportation & Warehousing	118,800	119,100	121,400	119,800	119,700	119,200	117,500	**-1.1**
Information	101,400	98,300	92,700	92,000	90,400	85,700	78,700	**-22.4**
Financial Activities	186,400	189,000	192,500	195,700	193,700	187,500	186,300	**-0.1**
Professional & Business Activities	549,300	578,500	606,100	627,400	646,300	654,800	637,900	**16.1**
Education & Health	370,000	381,300	393,500	404,700	420,500	446,700	458,100	**23.8**
Leisure & Hospitality	308,500	320,100	329,400	338,100	345,300	333,200	333,000	**7.9**
Other Services	176,600	179,400	181,000	181,600	185,500	188,700	179,900	**1.9**
Public Administration								
Federal Government	147,700	151,700	151,800	153,600	156,600	162,300	169,700	**14.9**
State Government	142,900	145,700	149,400	152,800	153,000	159,600	160,400	**12.2**
Local Government	346,900	353,600	360,700	367,800	373,400	387,200	385,800	**11.2**
Total	**3,497,300**	**3,583,900**	**3,664,300**	**3,726,100**	**3,761,400**	**3,748,100**	**3,674,300**	**7.6%**

Source: Virginia Employment Commission.

During 2009, employment in the **Information Services** sector decreased from 85,700 to 78,700 jobs. The **Professional and Business Services** sector declined by 16,900, or 2.6 percent in 2009. Reduction in this sector was mainly due to losses in the temporary employment service providers. The private **Education and Health** sector added 11,400 jobs in 2009 for a 2.6 percent increase. The **Leisure and Hospitality** industry lost 200 jobs (.1%) to 333,000 in 2009. **Financial Activities** employment was down 1,200 or 0.6 percent below 2008 levels.

Construction employment decreased to 194,900 or 8.2 percent below the 2008 average of 212,300. The losses occurred in all sectors including: specialty trade contracting, heavy and civil engineering construction and construction of buildings.

Total Government employment increased by 6,800 workers or .9 percent in 2009. **Wholesale and retail trade** had a decrease of 16,400 or 3.0 percent decrease from 2008. **Natural Resources and Mining employment** in Virginia decreased by 100 jobs or .9 percent to 11,100.

Manufacturing employment decreased by 22,300 jobs or 8.6 percent. The loss was mostly in the durable goods subsector where employment was down 13,000, or 8.6 percent. Employment in the non durable goods subsector was down 9,300 or 8.6 percent.

Largest Employers

The ten largest private and public sector employers in the Commonwealth, each of which employed 1,000 or more persons, are shown below.

TOP TEN PRIVATE SECTOR EMPLOYERS
2008

Rank	Name	Industry
1	Wal-Mart Associates, Inc.	Retail Trade-General Merchandise
2	Newport News Shipbuilding	Manufacturing-Transportation Equipment
3	Food Lion, LLC	Retail Trade-Food & Beverage
4	Sentara Healthcare	Health Care & Social Assistance-Hospital
5	Inova Health System	Health Care & Social Assistance-Hospital
6	Booz, Allen and Hamilton	Professional & Technical Services
7	Target Corporation	Retail Trade-General Merchandise
8	Science Applications International Corp	Professional & Technical Services
9	Lowe’s Home Centers, Inc	Building Material and Garden Supply Stores
10	United Parcel Service	Postal Shipping

Source: Virginia Employment Commission.

TOP TEN PUBLIC SECTOR EMPLOYERS
2008

Rank	Name	Industry
1	Department of Defense	Public Administration-Federal
2	Fairfax County Public Schools	Educational Services-Local
3	U.S. Postal Service	Transportation & Warehousing
4	County of Fairfax	Public Administration-Local
5	Virginia Beach City School Board	Educational Services-Local
6	Prince William County School Board	Educational Services-Local
7	University of Virginia Health Services	Educational Services-State
8	Loudoun County Public Schools	Educational Services-Local
9	Department Homeland Security	Public Administration-Federal
10	Department of Commerce	Public Administration-Federal

Source: Virginia Employment Commission.

Unemployment

The Commonwealth is one of 22 states with a Right-to-Work Law and has a record of good labor-management relations. The Commonwealth's favorable business climate is reflected in the relatively small number of strikes and other work stoppages it experiences.

The Commonwealth is one of the least unionized of the more industrialized states. Three major reasons for this situation are the Right-to-Work Law; the importance of manufacturing industries such as textiles, apparel, electric and electronic equipment and lumber which are not highly unionized in the Commonwealth; and the importance of federal civilian and military employment. Typically the percentage of nonagricultural employees belonging to unions in the Commonwealth has been approximately half the U.S. average.

As December 2009*, Virginia had job growth in four of its ten metropolitan areas. Those areas include; Danville, Lynchburg, Harrisonburg and Northern Virginia. The Richmond metropolitan area experienced the largest job loss down 11,300 jobs or 1.8 from 2008.

The following table shows the size of the Commonwealth's total civilian labor force from 1998 through 2009*, the percentage unemployed during this period and the comparable national unemployment rate.

UNEMPLOYMENT TRENDS

Year	Virginia's Civilian Labor Force	Unemployment in Virginia (1)	Unemployment in United States
1998	3,483,900	2.80%	4.50%
1999	3,536,409	2.70	4.20
2000	3,603,771	2.30	4.00
2001	3,641,231	3.20	4.70
2002	3,744,023	4.20	5.80
2003	3,805,178	4.10	6.00
2004	3,854,728	3.70	5.50
2005	3,933,949	3.50	5.10
2006	3,998,569	3.00	4.60
2007	4,059,170	3.20	4.80
2008	4,124,766	4.00	5.80
2009*	4,131,071	6.40	10.00

(1) Components of labor force are by place of residence.

Source: U.S. Department of Labor, Bureau of Labor Statistics and Virginia Employment Commission.
**2009 Preliminary Data as of January 25, 2010*

Other Economic Factors

Utilities: Adequate electric power is available throughout the Commonwealth mainly through the investor-owned utilities of Dominion Virginia Power (Dominion), Appalachian Power (APCO), Allegheny Power, and Kentucky Utilities. In addition, 13 electric cooperatives distribute power in rural districts and 16 municipalities have their own distribution systems with power purchased primarily from the previously mentioned companies. The electric utilities serving the Commonwealth are interconnected with neighboring utilities, both within and outside of the Commonwealth, for reliability of service.

Dominion has begun construction of a $1.8 billion clean-coal power station in Wise County, Virginia. The 585-megawatt Virginia City Hybrid Energy Center will use advanced technology designed to reduce emissions and protect the environment. If plans proceed as scheduled, the plant will be operational by 2012. As of June 2009, work on Dominion's Virginia City Hybrid Energy Center was roughly 30 percent complete.

Dominion is also taking steps toward constructing a third nuclear reactor at its North Anna Power Station in Louisa County. Dominion's application is currently under review by the Nuclear Regulatory Commission and if plans proceed as scheduled, the new unit would begin operating in 2015. Dominion has partnered with GE Hitachi Nuclear Energy and Bechtel Corporation on the 1,520-megawatt project, which could generate enough electricity for 375,000 homes at peak demand in Virginia. The company has not committed to build the new unit, but wants to maintain the option to do so to meet projected demand for electricity in Virginia in the next decade.

Dominion has partnered with BP Wind Energy to build and operate the Bluestone River Wind Farm in Tazewell County. It is expected to produce 60-100 megawatts and is estimated to be operational in 2012. Dominion is also partnering with BP Wind Energy on another wind energy project which would produce 60-150 megawatts in Wise County and will be completed around 2013.

In 2007 the General Assembly passed legislation to return Virginia to a cost-of-service regulation overseen by the State Corporation Commission (SCC). These actions reduce the possibility of "rate shock" by limiting the fuel adjustment to no more than 4 percent in residential rates. With few modifications, the SCC will have the powers it historically exercised before the deregulation process began. Virginia has also published The Virginia Energy Plan under which former Governor Kaine appointed an "Energy Czar" to coordinate conservation, new sources, and alternative energy development and research.

In addition to available electric power, the Commonwealth is also served by four major interstate natural gas transmission companies: Columbia Gas of Virginia, Dominion Transmission, Transcontinental Gas Pipe Line Corporation (Transco), and Eastern Tennessee Natural Gas.

With few exceptions, municipalities and several highly urbanized counties own their own waterworks systems. In some instances, the system of a municipality serves nearby communities and suburban areas. Some federal installations and many industrial plants have their own water supplies.

Larger municipalities usually depend on surface water supplemented by groundwater. There are approximately 2,900 active public water systems in Virginia, serving safe drinking water to more than 80% of Commonwealth's population. In addition, an estimated 7.4 million Virginians benefit from fluoridated drinking water, which represents 94 percent of the population served by public water systems.

All cities, many towns, and some counties have their own sewage collection systems. Existing or planned facilities provide wastewater treatment which meets, or will meet established federal and state water quality standards.

Transportation: There are more than 70,000 miles of interstate, primary, and secondary roads, including six major interstate routes: I-95, I-85, I-81, I-77, I-66, and I-64. More than a dozen railroad companies and services, including nine freight railroads, operate over 3,400 miles of railway in Virginia. The Commonwealth is a junction point between major north-south and east-west rail lines. CSX Corporation Railroad has offices in Richmond and Norfolk Southern Corporation is headquartered in Norfolk. Rail freight service is provided by these two Class I railroads, along with five local railroads, and two switching companies.

Virginia is served by 14 commercial airports (including those just across the state line at Bluefield, West Virginia; Blountville, Tennessee; as well as Greensboro and Raleigh-Durham, North Carolina; and Baltimore, Maryland). Scheduled commercial airline service is provided to over 140 non-stop destinations around the world. Dulles International and Ronald Reagan Washington National Airports offer daily international non-stop flights to approximately 40 destinations. The commercial airports are supplemented by 58 general aviation airports licensed for public use. Over the past five years, Washington Dulles International has been one of the fastest growing airports in the country. Ronald Reagan Washington National Airport, located in Arlington, historically has been one of the world's busiest airports.

The Port of Virginia is one of the largest natural harbors in the world, which is responsible for the Commonwealth's strong ties with international commerce. The Port of Virginia consists of three general cargo marine terminals - Norfolk International Terminal, Portsmouth Marine Terminal, and Newport News Marine Terminal. Additionally, the Virginia Inland Port in Front Royal serves as an intermodal collection point for containers from West Virginia, Ohio, Pennsylvania, Northern Virginia, and elsewhere. The Port of Virginia offers world-class shipping facilities, one of the largest intermodal networks on the East Coast, and the deepest channels on the U.S. East Coast (50 feet deep) which are critical since the newer generation of cargo vessels are requiring deeper drafts. In 2009, The Port of Virginia handled over 1.7 million twenty foot equivalent units (TEUs) with nearly 2000 vessel calls.

A monumental expansion project that will increase the cargo capacity in Virginia is the dredged material placement site, Craney Island, which will become the Virginia Port Authority’s fourth marine terminal. The first phase of Craney Island will be a 600-acre state-of-the-art terminal that is expected to be complete by 2020 with a capacity of 1.5 million TEUs. The full build-out of the terminal will be constructed as needed to accommodate demand. This will give Virginia another 5 million TEU capacity for a port-wide capacity of 10 million TEUs. No other port on the U.S. East Coast has land available to expand as well as authorization from the Army Corps of Engineers. On May 20, 2009, the White House approved $28.5 million in the federal budget to fund the Craney Island project this fiscal year. The Virginia Port Authority will match the federal dollars to make a total of $57 million dedicated to the expansion of the Port of Virginia, which will keep this project on track.

Craney Island Marine Terminal will compliment the A.P. Moller-Maersk (APM) terminal which opened in Portsmouth, Virginia in August 2007. With 285 acres complete in the first phase, this terminal currently has a 1 million TEU capacity and upon completion of the second phase, the APM terminal will boast a capacity of 2.1 million TEUs. This capacity will be necessary for the increase in cargo volumes that The Port of Virginia is estimating during the years in which Craney Island is being constructed.

In addition, Norfolk Southern’s Heartland Corridor rail project is expected to be complete in 3rd quarter 2010. This project will provide double-stack service between the ports in Virginia and Columbus, Ohio in one day and Chicago, Illinois in two days. Upon completion, the Heartland Corridor will eliminate 230 miles from the original route. With the increase in terminal capacity from the APM terminal and the future Craney Island, along with the increased rail connectivity from the Heartland Corridor, The Port of Virginia is poised to become the future U.S. East Coast hub.

Telecommunications: Virginia is one of the most connected states in the country with approximately 18.6 million access lines, over 6.2 million wireless telephone subscribers and more than 3.5 million high-speed lines. Telecommunications services are provided to the Commonwealth's communities by more than 60 local exchange carriers with the choice of a variety of long-distance plans. More than 97 percent of households in the Commonwealth have telephone service. The largest exchange carrier in Virginia is Verizon. There are a multitude of competitive providers with large scale national and international backbone networks in operation in the Commonwealth, including Level (3) Communications, AT&T, Qwest, Verizon Business, Sprint, COX Business Services and many regional network providers.

Customers in the Commonwealth have access to a full range of high quality, technologically advanced communication services. Virtually all major cities and towns are linked by fiber optic lines crisscrossing the Commonwealth, which, in turn, are tied into recently constructed national fiber optic networks.

Nationally renowned as a model for rural economic development, the Mid-Atlantic Broadband Cooperative Regional Backbone Initiative (RBI) was completed in 2006 and is already expanding. Through this initiative, 700 route miles of new 144 strand advanced fiber optic cable have been installed in Southside Virginia that has connected 4 cities, 20 counties, 60 industrial parks and is providing opportunities for the region to connect directly with major Tier 1 peering and carrier collocation centers. The Mid-Atlantic Broadband Cooperative, backed by money from the U.S. Department of Commerce's Economic Development Administration and $48 million from the Virginia Tobacco Indemnification and Community Revitalization Commission, will continually expand as other communities want to be included and as funds are available to fulfill the requests. Phase III is currently underway to connect Emporia to Wallops Island on the Eastern Shore.

Southwest Virginia will soon have the technological capabilities to be a key competitor in the high-tech economy. The Virginia Tobacco Indemnification and Community Revitalization Commission has funded more than $53 million since 2003 toward projects to establish backbone and last mile infrastructure in the Lenowisco and Cumberland Plateau Planning Districts and part of the Mt. Rogers and New River Planning Districts. The network, also funded by the U.S. Department of Commerce's Economic Development Administration, connects to the fiber-optic network in Southside Virginia. The backbone projects are ongoing in the majority of the counties in Southwest Virginia and most of the remaining work will focus on the completion of the last mile infrastructure. The network provides open access, affordable, high-speed, redundant connectivity to "long haul" national (and global) networks, in order to help attract technology-based companies and help existing companies grow.

Research and Development: The Commonwealth is home to many internationally recognized research and development (R&D) facilities. Federally funded R&D facilities, coupled with the research from Virginia universities, provide Virginia businesses access to leading researchers and technologies. Virginia is home to more than 210 private sector R&D operations and 29 federal R&D facilities, including 15 Department of Defense research centers, the new Homeland Security Institute, NASA Langley Research Center, and Department of Energy's Thomas Jefferson National Accelerator Facility. Eight unique university research parks across the state offer private companies opportunities for co-location and cooperative relationships with Virginia universities, federal labs and other research consortia.

In 2009, the Ignite Institute, a nonprofit medical research institute established by Inova Health System was announced in Fairfax County. The Institute is the first entity built around the application of personalized medicine innovation in the community health setting. The institute will fully integrate biomedical research, development, commercialization and clinical care.

The renowned private, non-profit Howard Hughes Medical Institute opened the Janelia Farm Research Campus in Loudoun County in 2006. The collaborative, interdisciplinary culture in this research community fosters scientific interaction so researchers can focus on creatively and intellectually probing fundamental biomedical questions.

Philip Morris completed a research and development center in the spring of 2007 at the Virginia Biotechnology Park in downtown Richmond. The new Phillip Morris Research and Technology center is now two-thirds developed. The Park features more than 1.2 million square feet of space in nine buildings, and employs more than 2,000 scientists, researchers, engineers and technicians in fields that include drug development, medical diagnostics, biomedical engineering, forensics and environmental analysis.

The NASA Langley Research Center and the National Institute of Aerospace Associates (NIAA) have joined forces to create the National Institute of Aerospace (NIA) for cutting-edge aerospace and atmospheric sciences research and graduate education. The NIA facility is housed on a new five building research and education campus in Hampton and operates through a consortium of research universities including Virginia Tech, University of Virginia, Old Dominion University, The College of William and Mary, Georgia Tech, University of Maryland and North Carolina State University.

SRI International, a world-class, nonprofit research institute based in Menlo Park, California, established in 2006 its new Center for Advanced Drug Research in the Shenandoah Valley. The Center is partnering with James Madison University and other Virginia universities to focus on advancing state-of-the-art drug research. SRI plans to add programs in areas such as homeland security, engineering, nanotechnology, energy, IT and education at this site.

Business Climate: Virginia is currently ranked #1 in three of the most comprehensive and impartial independent studies to date evaluating America's top states for business: Forbes.com, CNBC, and Pollina Corporate Real Estate.

According to the 2009 ranking of the *"Best States for Business"* by Forbes.com, Virginia has the best business climate in the country. This is the fourth consecutive year Virginia has achieved this ranking. The review examines multiple objective measurements, including business cost, regulatory climate, quality of the workforce, and economic growth.

Forbes.com is the official Internet site of the Forbes family of business publications. The Commonwealth took the lead in the quality of life ranking, took second place in the regulatory environment ranking, and ranked third in labor issues. Additionally, Virginia's growth prospects ranked 12th, economic climate ranked 18th, and business costs ranked 20th.

In 2009, Pollina Corporate Real Estate, a full-service brokerage and consulting firm representing corporations in real estate matters on a national and international basis designated Virginia as America's most business-friendly state in their annual independent study titled, *Pollina Corporate Top 10 Pro-Business States for 2009: Rebuilding Americans' Economic Power.* The study evaluates and ranks states based on 33 factors including taxes, human resources, right-to-work legislation, energy costs, infrastructure spending, workers compensation laws, economic incentive programs and state economic development efforts. Virginia did well in the Labor, Taxes, and Other Factors categories, and placed fourth overall. Strengths in college completion, low unemployment, right-to-work status, workers compensation rates, low corporate taxes, and low sales and gross receipts taxes, Virginia's corporate litigation environment, and low crime rates also attributed to this ranking. This leading label marks Virginia's third No. 1 ranking by Pollina. The Commonwealth ranked first in the Pollina study in 2003 and 2007, ranked second from 2004 to 2006 and dropped to third place in 2008.

Also in 2009, CNBC, a worldwide leader in business news, designated Virginia as its "Top State for Business." The network evaluated each state on 40 different measures of competitiveness in 10 categories: workforce, education, economy, business, quality of life, technology and innovation, cost of doing business, cost of living, transportation and infrastructure, and access to capital. According to CNBC, Virginia has the 7th best economy nationally in 2009, up from 17th in 2008. Virginia's reasonable sales, personal income and corporate tax rates were also noted as key contributors to Virginia's designation.

Local Government: As of June 30, 2009, local government was comprised of 95 counties, 39 incorporated cities and 36 incorporated towns. Cities and counties are units of general government that have traditionally provided all services not provided by the Commonwealth. The Commonwealth is unique in that cities and counties are independent and their land areas do not overlap. Cities and counties each levy and collect their own taxes and provide their own services. Towns, on the other hand, are units of local government are a part of the counties in which they are located. Towns levy and collect taxes for town purposes, but their residents are also subject to county taxes.

The largest expenditure by local governments in the Commonwealth is for public elementary and secondary education. Each county and city in the Commonwealth, with few exceptions, constitutes a separate school district. Counties, cities and towns typically also provide such services as police and fire protection, water and sewer services and recreational facilities.

According to figures prepared by the Auditor of Public Accounts of Virginia, the total outstanding debt of counties in the Commonwealth was approximately $14.4 billion as of June 30, 2009; over 50 percent was borrowed for public school construction. The outstanding debt for cities at that date was computed by the Auditor of Public

Accounts to be approximately $8.6 billion. The outstanding debt for towns, as of June 30, 2009, was calculated by the Auditor of Public Accounts to be approximately $534.9 million.

Education: The Constitution of Virginia vests the supervision of public elementary and secondary schools in local school boards. The State Board of Education is, however, required to prescribe standards of quality and has prescribed minimum competency tests for high school graduation.

The costs of elementary and secondary education are apportioned between the Commonwealth and the localities in the manner prescribed by the General Assembly. In the fiscal year ended June 30, 2008, the Commonwealth paid $5.8 billion of the approximately $13.2 billion cost of operating local schools. Of the remainder, $857.3 million was paid by the federal government and $6.6 billion was paid from local sources.

In the 2008-09 academic year, approximately 383,462 students enrolled in the Commonwealth's 39 public colleges, community colleges and universities. Approximately 175,481 of these students attended 23 community colleges on 40 campuses within the Virginia Community College System. A total of 1,236,546 students attended public elementary, secondary schools and post-secondary institutions of education. The following table illustrates enrollment levels for all educational levels for the last 10 academic years.

ENROLLMENT FOR PUBLIC AND PRIVATE INSTITUTIONS OF HIGHER EDUCATION AND PUBLIC PRIMARY AND SECONDARY SCHOOLS

Academic	Higher Education			Public Primary and
Year	Public	Private	Total	Secondary
1997-98	301,467	49,365	350,832	1,110,815
1998-99	305,455	50,179	355,634	1,124,022
1999-00	311,536	50,161	361,697	1,133,994
2000-01	313,781	49,951	363,732	1,144,913
2001-02	326,759	49,900	376,659	1,163,094
2002-03	337,302	52,522	389,824	1,176,128
2003-04	342,151	53,557	395,708	1,190,742
2004-05	343,550	58,395	401,945	1,203,697
2005-06	349,377	65,951	415,328	1,213,767
2006-07	357,857	70,785	428,642	1,221,939
2007-08	370,598	79,073	449,671	1,232,436
2008-09	383,462	83,631	467,093	1,236,546

Source: State Council for Higher Education in Virginia, Virginia Department of Education.

Natural Resources: Virginia's five physiographic provinces are underlaid by rocks of different ages, kinds, and character. Consequently, the state has a wide variety of mineral resources. Today, the value of mineral production in Virginia is nearly $3.3 billion. In terms of value, the most important commodity is bituminous coal. Seven counties in the Appalachian Plateau region constitute the Southwest Virginia Coal Field. According to *Virginia Economic Indicators* published by the Virginia Employment Commission (Vol. 40, No. 4), the mining industry is expected to follow energy markets. It is predicted that utilities will use more coal when oil prices are up.

Forestry and the wood products industry in the Commonwealth generate more than $23.4 billion in total industrial output annually and provide employment for more than 144,000 Virginians, according to a 2008 study by the Weldon Cooper Center for Public Service at the University of Virginia.

Virginia's geographic location contributes to its seafood industry's success. Its ports are rarely, if ever, closed in the winter. Its catch is widely diversified, preventing dependence on any one species. Among the 50 commercially valuable seafood species harvested from some 620,000 acres of water are sea scallops, clams, blue crabs, summer flounder, striped bass, croaker and spot. The Virginia Institute of Marine Science has reported the annual economic impact of Virginia's seafood industry to be over one half of a billion dollars. Dockside value to watermen in 2008 was

$95 million. Virginia is the nation's fourth largest marine products producer with a total of 354.2 million pounds in 2008 and is the largest such producer on America's Atlantic coast.

Agriculture: The agricultural industry has an economic impact of $55 billion annually and provides more than 357,000 jobs in the Commonwealth. Every job in agriculture and forestry supports 1.5 jobs elsewhere in the Virginia economy.

Production agriculture employs nearly 60,000 farmers and workers in Virginia and generates approximately $2.9 billion in total output. Value-added industries, those that depend on farm commodities, employ an additional 76,000 workers and generate $26 billion in total industrial output. Agriculture-related industries contribute an additional 221,000 jobs and nearly $26 billion in total output.

Tourism: Another of Virginia's most important economic assets is the travel and tourism industry. Tourism's economic contribution to Virginia in 2008 reached $19.2 billion. Approximately 210,600 Virginia jobs were directly supported by travel spending in 2008, including employment in such travel-related businesses as lodging establishments, restaurants, museums, amusement parks, retail stores and gasoline service stations. Tourism is also a significant source of government revenues and was responsible for $1.3 billion in combined state and local tax revenues in 2008.

APPENDIX D

COMMONWEALTH OF VIRGINIA AUDITED FINANCIAL STATEMENTS

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

December 14, 2009

The Honorable Timothy M. Kaine
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Virginia, as of and for the year ended June 30, 2009, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth of Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain components units of the Commonwealth discussed in Note 1.B., which represent 34.24 percent, 21.98 percent, and 10.16 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for certain component units discussed in Note 1.B. is based on the reports of the other auditors.

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. The financial statements of the Hampton Roads Sanitation District Commission, Science Museum of Virginia Foundation, Virginia Museum of Fine Arts Foundation, Library of Virginia Foundation, Danville Science Center, Inc, and Virginia Sesquicentennial of the American Civil War Commission, which were audited by other auditors upon whose reports we are relying, were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Virginia as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedule, funding progress for defined benefit pension plans, schedule of employer contributions for defined benefit pension plans, funding progress for other post-employment benefit plans, schedule of employer contributions for other post-employment benefit plans, and claims development information on pages 27 through 36 and 163 through 178 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Virginia's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section 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.

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

WALTER J. KUCHARSKI
AUDITOR OF PUBLIC ACCOUNTS

Management's Discussion and Analysis
(Unaudited)

The following is a discussion and analysis of the Commonwealth of Virginia's (the Commonwealth) financial performance, including an overview and analysis of the financial activities of the Commonwealth for the fiscal year ended June 30, 2009. Readers should consider this information in conjunction with the transmittal letter, which is located in the Introductory Section of this report, and the Commonwealth's financial statements, including the notes to the financial statements, which are located after this analysis.

Financial Highlights

Government-wide Highlights

The primary government's assets exceeded its liabilities at June 30, 2009, by $16.3 billion. Net assets of governmental activities decreased by $1.3 billion and net assets of business-type activities decreased by $685.9 million. Component units reported a decrease in net assets of $1.6 billion from June 30, 2008.

Fund Highlights

At the end of the fiscal year, the Commonwealth's governmental funds reported a combined ending fund balance of $2.75 billion, a decrease of $2.0 billion in comparison with the prior year. Of this total fund balance, $1.77 billion represents unreserved fund balance and the remaining $976 million represents amounts reserved for specific purposes, such as the Revenue Stabilization Fund. The enterprise funds reported net assets at June 30, 2009, of $216.6 million, a decrease of $685.6 million during the year.

The General Fund actual revenues for fiscal year 2009 were $1.5 billion less than the prior year. Additionally, the actual fiscal year 2009 revenues fell short of the final budgeted revenues by $361.2 million. This decrease, coupled with continued economic concerns, have contributed to projected budget shortfalls for the fiscal years 2008-2010 and 2011-2012 biennial budgets. See page 34 for additional information.

Long-term Debt

The Commonwealth's total debt rose during the fiscal year to $29.5 billion, an increase of $2.6 billion or 9.5 percent. During the fiscal year, the Commonwealth issued new debt in the amount of $782.5 million for the primary government and $3.9 billion for the component units. These debt issuances increased the debt balances to $8.7 billion for the primary government and $20.8 billion for component units.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Commonwealth's basic financial statements, which include three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. The report also contains additional required supplementary information and other information.

Government-wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Commonwealth's finances in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Commonwealth's financial position which helps readers determine whether the Commonwealth's financial position has improved or deteriorated during the fiscal year. These statements include all non-fiduciary financial activity on the full accrual basis of accounting. This means that all revenue and expenditures are reflected in the financial statements even if the related cash has not been received or paid as of June 30.

The Statement of Net Assets (pages 38 and 39) presents information on all of the Commonwealth's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate whether the financial position of the Commonwealth is improving or deteriorating.

The Statement of Activities (pages 40 through 42) presents information showing how the Commonwealth's net assets changed during fiscal year 2009. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the Statement of Net Assets and Statement of Activities report three separate activities. These activities are described as follows:

Governmental Activities – account for functions of the Commonwealth that are primarily supported by taxes and intergovernmental revenues. The majority of the Commonwealth's basic services, such as education, individual and family services, transportation, resources and economic development, administration of justice, and general government, fall within this category.

Business-type Activities – account for functions that are intended to recover all or a significant portion of their costs through user fees and charges. The major business-type activities of the Commonwealth include the State Lottery, Virginia College Savings Plan, and Unemployment Compensation Fund.

Discretely Presented Component Units – account for functions of legally separate entities for which the Commonwealth is financially accountable. The Commonwealth has 27 non-higher education component units and 22 higher education institutions that are reported as discretely presented component units. Information regarding the individual financial statements of the component units is presented in the notes to the financial statements.

This report includes two schedules (pages 46 and 50) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities on the appropriate government-wide statements (full accrual accounting). The following indicates some of the reporting differences between the government-wide financial statements and the fund financial statements.

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Long-term liabilities, unless due and payable, are not included in the fund financial statements. These liabilities are only included in the government-wide statements.
- Internal service funds are reported as governmental activities in the government-wide statements, but are reported as proprietary funds in the fund financial statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in the governmental fund statements, but not deferred in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but are reported as expenditures in the fund financial statements.
- Bond proceeds provide current financial resources on the fund financial statements, but are recorded as long-term liabilities in the government-wide financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the Commonwealth's funds can be divided into three categories: governmental, proprietary, and fiduciary. Each of these categories uses different accounting approaches. Fund financial statements begin on page 44 and provide detailed information about the major individual funds.

- **Governmental funds** – Most of the basic services provided by the Commonwealth are reported in the governmental funds. These statements provide a detailed, short-term view of the functions reported as governmental activities in the government-wide financial statements. The government-wide financial statements are reported using the full accrual basis of accounting, but the governmental fund financial statements are reported using the modified accrual basis of accounting. This allows the reader to focus on assets that can be readily converted to cash and determine whether there are adequate resources to meet the Commonwealth's current needs.

  Because the focus of governmental funds is more limited than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison can help readers better understand the long-term impact of the Commonwealth's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

  The Commonwealth reports 14 individual governmental funds. Information is presented separately in the governmental fund statements for the General, Commonwealth Transportation, Federal Trust, and Literary funds, which are all considered major funds. Data from the other 10 governmental funds are aggregated into a single column on the fund statements. Individual fund data for these nonmajor governmental funds is provided in the combining financial statements immediately following the required supplementary information.

- **Proprietary funds** – The Commonwealth maintains two different types of proprietary funds, enterprise and internal service. These funds report activities that operate more like those of private sector business and use the full accrual basis of accounting. Enterprise funds report activities that charge fees for supplies or services to the general public like the State Lottery. Enterprise funds are reported as business-type activities on the government-wide financial statements. The enterprise funds use the full accrual basis of accounting and the only differences between amounts reported on the government-wide statements and the enterprise fund statements are due to internal service fund activity (see reconciliations on pages 52 and 54). Internal service funds report activities that charge fees for supplies and services to other Commonwealth agencies, like Fleet Management. Internal service funds are reported as governmental activities in the government-wide statements because these types of services predominantly benefit governments rather than business-type functions.

  The Commonwealth reports 22 individual proprietary funds. Information is presented separately in the proprietary fund statements for the State Lottery Department, Virginia College Savings Plan, and Unemployment Compensation Funds, all of which are considered major funds. Data from the other enterprise funds are aggregated into a single column on the fund statements. All internal service funds are aggregated into a single column on the fund statements. Individual fund data for all nonmajor proprietary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Fiduciary funds** – These funds are used to account for resources held for the benefit of parties outside the government and use the full accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because the resources of these funds are restricted and cannot be used to finance the Commonwealth's operations. The Commonwealth's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 62.

  The Commonwealth's fiduciary funds are the:

  - Private-purpose Trusts, which reports the activities for 7 separate funds and accounts for transactions of trust arrangements in which the principal and income benefit individuals, private organizations, or other governments;
  - Pension and Other Employee Benefit Trusts, which reports the activities of 12 separate pension and other employment retirement plans for employees;
  - Investment Trust, which accounts for the activities of the external investment pool; and,
  - Agency, which accounts for assets held on behalf of others in 21 separate funds.

  Individual fund data for all fiduciary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Component Units** – The government-wide financial statements report information for all component units aggregated in a single column. Information is provided separately in the component unit fund statements for the Virginia Housing Development Authority, Virginia Public School Authority, University of Virginia, Virginia Polytechnic Institute and State University, and Virginia Commonwealth University, all of which are considered major component units. Data from the other component units are aggregated into a single column on the fund statements. Individual fund data for all nonmajor component units is provided in the combining financial statements immediately following the required supplementary information.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the component unit fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at June 30. It also includes information concerning the Commonwealth's funding progress for pension and other post-employment benefits, as well as trend information for Commonwealth-managed risk pools.

Other Information

The combining statements referred to earlier in connection with nonmajor funds and component units can be found beginning on page 179 of this report. The individual fund information is aggregated into a single total on the combining financial statements, which carries forward to the fund financial statements.

Government-wide Financial Analysis

The primary government's assets exceeded its liabilities by $16.3 billion during the fiscal year. The net assets of the governmental activities decreased $1.3 billion or 7.6 percent, primarily due to decreases in current and other assets offset by increases to capital assets as discussed further on page 35. Business-type activities had a decrease of $685.9 million or 76.1 percent, primarily due to decreases for the Virginia College Savings Plan and the Unemployment Compensation Fund. The government-wide beginning balance was restated primarily for the correction of prior year errors to arrive at a restated beginning balance of $18.3 billion.

Figure 10
Net Assets as of June 30, 2009 and 2008
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008 as restated	2009	2008	2009	2008 as restated
Current and other assets	$ 8,356,433	$ 10,312,003	$ 2,920,608	$ 3,640,278	$ 11,277,041	$ 13,952,281
Capital assets	19,691,571	18,615,827	25,740	30,673	19,717,311	18,646,500
Total assets	28,048,004	28,927,830	2,946,348	3,670,951	30,994,352	32,598,781
Long-term liabilities outstanding	6,469,039	5,964,751	2,239,130	2,257,431	8,708,169	8,222,182
Other liabilities	5,503,854	5,564,943	491,709	512,154	5,995,563	6,077,097
Total liabilities	11,972,893	11,529,694	2,730,839	2,769,585	14,703,732	14,299,279
Net assets:						
Invested in capital assets, net of related debt	16,208,688	15,262,095	22,856	26,592	16,231,544	15,288,687
Restricted	1,421,086	1,711,491	372,274	816,061	1,793,360	2,527,552
Unrestricted	(1,554,663)	424,550	(179,621)	58,713	(1,734,284)	483,263
Total net assets	$ 16,075,111	$ 17,398,136	$ 215,509	$ 901,366	$ 16,290,620	$ 18,299,502

The largest portion of the primary government's net assets (99.6 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, infrastructure, and construction in progress), less any related outstanding debt used to acquire those assets. These assets are recorded net of depreciation in the financial statements. The primary government uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the primary government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (**Figure 10**).

An additional portion of the primary government's net assets (11.0 percent) represents restricted net assets. These resources are subject to external restrictions or constitutional provisions specifying how they may be used. The remaining balance of ($1.7 billion) is unrestricted net assets (**Figure 10**).

Approximately 53.8 percent of the primary government's total revenue came from taxes. While the primary government's expenses cover many services, the largest expenses are for education and individual and family services. General revenues normally fund governmental activities. For fiscal year 2009, governmental activity expenses exceeded governmental program and general revenue by $1.9 billion. Expenses exceeded program revenues from business-type activities by $112.3 million. The following condensed financial information (**Figure 11**) was derived from the Government-wide Statement of Activities and provides detail regarding the change in net assets (see page 40).

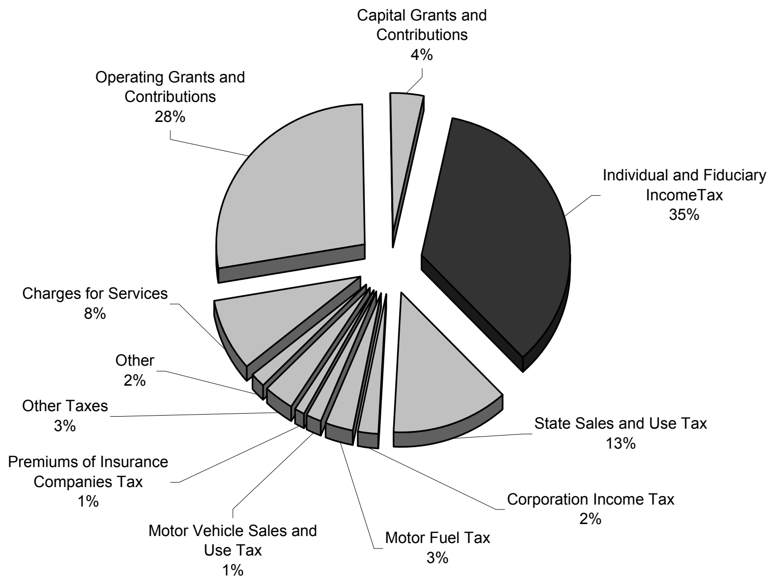
Figure 11
Changes in Net Assets for the Fiscal Years Ended June 30, 2009 and 2008
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008 as restated	2009	2008	2009	2008 as restated
Revenues:						
Program Revenues:						
Charges for Services	$ 2,294,236	$ 2,390,900	$ 2,517,206	$ 2,706,165	$ 4,811,442	$ 5,097,065
Operating Grants and Contributions	7,583,725	6,067,358	104,868	39,243	7,688,593	6,106,601
Capital Grants and Contributions	996,875	1,152,439	-	-	996,875	1,152,439
General Revenues:						
Taxes:						
Individual and Fiduciary Income	9,558,764	10,099,573	-	-	9,558,764	10,099,573
State Sales and Use	3,553,675	3,820,715	-	-	3,553,675	3,820,715
Corporation Income	545,800	772,323	-	-	545,800	772,323
Motor Fuel	889,245	923,894	-	-	889,245	923,894
Motor Vehicle Sales and Use	406,400	533,755	-	-	406,400	533,755
Deeds, Contracts, Wills, and Suits	350,614	456,984	-	-	350,614	456,984
Premiums of Insurance Companies	365,404	355,896	-	-	365,404	355,896
Alcoholic Beverage Sales Tax	109,643	105,655	-	-	109,643	105,655
Tobacco Products	182,484	182,850	-	-	182,484	182,850
Estate	3,569	135,781	-	-	3,569	135,781
Public Service Corporations	102,611	106,378	-	-	102,611	106,378
Beer and Beverage Excise	44,597	44,357	-	-	44,597	44,357
Wine and Spirits/ABC Liter	19,625	18,552	-	-	19,625	18,552
Bank Stock	21,323	13,724	-	-	21,323	13,724
Other Taxes	82,047	66,319	12,668	12,531	94,715	78,850
Unrestricted Grants and Contributions	60,001	53,709	-	-	60,001	53,709
Investment Earnings	142,557	348,446	4,550	11,743	147,107	360,189
Miscellaneous	237,423	224,072	599	910	238,022	224,982
Total Revenues	27,550,618	27,873,680	2,639,891	2,770,592	30,190,509	30,644,272
Expenses:						
General Government	2,540,812	2,470,234	-	-	2,540,812	2,470,234
Education	9,565,969	9,300,444	-	-	9,565,969	9,300,444
Transportation	2,786,165	3,053,704	-	-	2,786,165	3,053,704
Resources and Economic Development	1,002,873	877,905	-	-	1,002,873	877,905
Individual and Family Services	10,757,071	9,248,538	-	-	10,757,071	9,248,538
Administration of Justice	2,611,297	2,607,327	-	-	2,611,297	2,607,327
Interest and Charges on Long-term Debt	200,782	204,855	-	-	200,782	204,855
State Lottery	-	-	919,818	936,416	919,818	936,416
Virginia College Savings Plan	-	-	115,447	244,165	115,447	244,165
Unemployment Insurance	-	-	880,989	432,805	880,989	432,805
Alcoholic Beverage Control	-	-	466,734	456,986	466,734	456,986
Local Choice Health Care	-	-	231,215	202,318	231,215	202,318
Nonmajor	-	-	120,219	117,741	120,219	117,741
Total Expenses	29,464,969	27,763,007	2,734,422	2,390,431	32,199,391	30,153,438
Excess/deficiency before transfers	(1,914,351)	110,673	(94,531)	380,161	(2,008,882)	490,834
Transfers	591,326	593,223	(591,326)	(593,223)	-	-
Increase (Decrease) in net assets	(1,323,025)	703,896	(685,857)	(213,062)	(2,008,882)	490,834
Net assets, July 1, as restated	17,398,136	16,694,240	901,366	1,114,428	18,299,502	17,808,668
Net assets, June 30	$ 16,075,111	$ 17,398,136	$ 215,509	$ 901,366	$ 16,290,620	$ 18,299,502

Governmental Activities Revenues

Figure 12 is a graphical representation of the Statement of Activities revenues for governmental activities. Governmental activities revenues decreased by $323.1 million, or 1.2 percent. The net decrease is mainly attributable to overall decreases in revenue, primarily due to taxes, offset by increases in the Federal Trust Fund, which are discussed on pages 34 and 35.

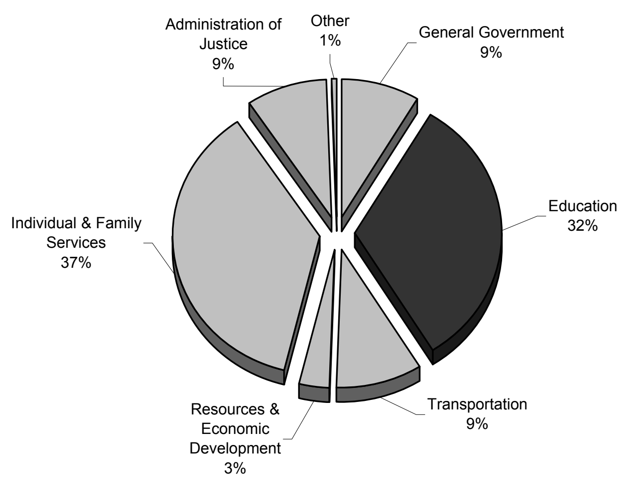
Figure 12
Revenues by Source – Governmental Activities
Fiscal Year 2009



Governmental Activities Expenses

Figure 13 is a graphical representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses increased by $1.7 billion or 6.1 percent. The majority of the increase is related to individual and family services expenses funded by increased federal support, which is discussed further on page 35.

Figure 13
Expenses by Type – Governmental Activities
Fiscal Year 2009



Net Assets of Business-type Activities

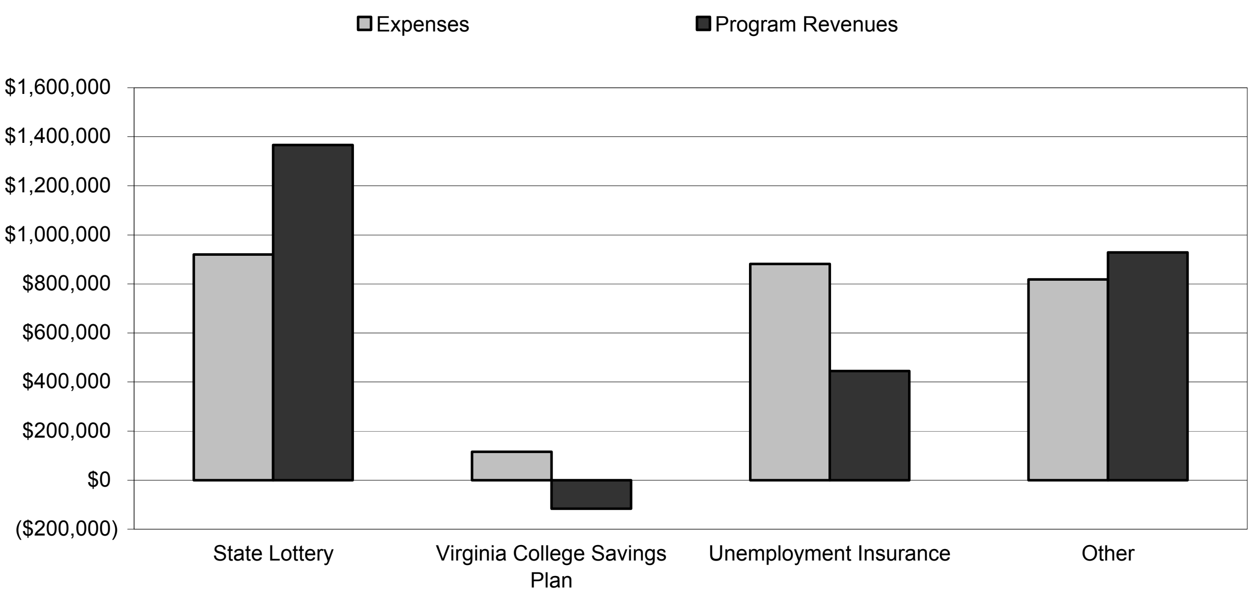
Net assets of business-type activities decreased by $685.9 million during the fiscal year. Highlights of the changes in net assets for the major enterprise funds were as follows:

- Lottery sales were $1.4 billion, consistent with the prior year. Net income was $451.6 million, a decrease of $13.5 million (2.9 percent) from fiscal year 2008. Sales of scratch games decreased by $4.5 million (0.7 percent) and online sales decreased by $16.3 million (2.4 percent). This is offset by a decrease of $14.8 million (1.6 percent) in total expenses, primarily attributable to the cost of sales and services.

- Virginia College Savings Plan's net assets decreased by $232.6 million (441.9 percent). This deterioration in financial position is primarily attributable to much worse than anticipated investment performance and a change in the tuition growth assumption that significantly increased the projected unfunded actuarial liability calculated by the Plan's actuary. The decrease in net assets was offset somewhat by revenue from new contract sales.

- Unemployment Compensation Fund net assets decreased by $443.8 million during fiscal year 2009 as a result of significant increases in benefit claim payments due to the rise of unemployment rates resulting from the recession. These decreases were offset by interest income of $27.6 million and federal distributions under the American Recovery and Reinvestment Act of $76.3 million for expanded unemployment benefits. For fiscal year 2009 the average employer assessment rate increased from 1.11 percent in fiscal year 2008 to 1.19 percent, but taxable employer wages decreased by approximately $400 million, contributing to an overall premium revenue decrease of $8.7 million. For benefit payments, which are reflective of Virginia's softening employment market, the overall average unemployment rate for fiscal year 2009 rose from 3.4 percent to 5.6 percent. The increase in the unemployment rate translated into an additional 352,633 benefit claimants for fiscal year 2009 over the prior year. Additionally, the average weekly benefit payment increased from $269 to $282 per week, a 4.8 percent increase, and the average claim duration also slightly increased from an average 12.5 weeks to 12.6 weeks. These multiple influences led to total increased benefit payments of $448.2 million over the prior year.

Figure 14
Business-type Activities
Program Revenues and Expenses
For the Fiscal Year Ended June 30, 2009
(Dollars in Thousands)



Fund Statements Financial Analysis

As of the end of the fiscal year, the primary government's governmental funds reported combined ending fund balances of $2.75 billion. Of this amount, $1.77 billion, or 64.5 percent, constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to a variety of other restricted purposes, such as the Revenue Stabilization Fund, outstanding debt and capital outlay.

General Fund Highlights

The General Fund is the chief budgetary operating fund of the primary government. At the end of the current fiscal year, unreserved fund balance of the General Fund was ($928.0) million and reserved fund balance was $669.5 million. As discussed in Note 5, the decrease in reserved fund balance is due largely to a withdrawal of $490.0 million from the Revenue Stabilization Fund during the fiscal year to offset declining revenue. When compared to the prior year, the net change in fund balance of the General Fund is a decrease of $680.6 million. Fiscal year 2009 General Fund revenues were 9.1 percent or $1.5 billion less than fiscal year 2008 revenues. This was primarily attributable to a $1.4 billion decrease (8.7 percent) in overall tax revenue. Fiscal year 2009 expenditures decreased $624.2 million as compared to fiscal year 2008. This was attributable to increases in education expenditures of $201.5 million, and decreases in capital outlay expenditures, general government expenditures, administration of justice expenditures, and individual and family services expenditures of $364.0 million, $149.3 million, $133.0 million, and $120.8 million, respectively. Net other financing sources and uses increased by $178.4 million which is due to both higher transfers in and lower transfers out.

Budget Highlights

The General Fund recognized decreases in overall growth when compared to 2008. Additionally, the economic conditions contributed to a decrease in the original revenue budget by $1.5 billion. This reduction was primarily attributable to decreases in the final budget for individual and fiduciary income tax revenue of $1.1 billion, sales and use tax revenue of $290.2 million, and deeds, contracts, wills, and suits tax revenues of $82.7 million. Total actual revenues were less than final budgeted revenues by $275.4 million.

Total final budget expenditures were less than original budget expenditures by $665.4 million or 3.8 percent, primarily due to actions taken to reduce spending as a result of declining revenue collections. Approximately $343.6 million of the decrease is related to individual and family services expenditures. Additionally, budgeted expenditures for education and capital outlay decreased by $236.5 and $85.4 million, respectively.

The Commonwealth spent less than planned so actual expenditures were $388.2 million or 2.3 percent lower than final budget expenditures. This General Fund variance was due mostly to a decrease in administration of justice expenditures of $140.3 million. Of this amount, $109.5 million was paid using State Fiscal Stabilization Funds received from the American Recovery and Reinvestment Act and is recorded in the Federal Trust Fund.

Budget Outlook

The economic climate for fiscal year 2010 revenue continues to reflect a slowing economy. Slower income growth, lower consumer confidence, and the downward trends in the housing market continue to drive shortfalls in withholding, sales, and recordation taxes. The two General Fund revenue sources most closely tied to current economic activity – payroll withholding and retail sales taxes – were significantly lower than the estimated revenue collections and growth rate for fiscal year 2009. The current economic climate, coupled with lower than anticipated revenue growth during fiscal year 2009, have contributed to a $1.2 billion reduction in the General Fund revenue forecast for fiscal year 2010. Based on the most recent General Fund revenue estimate, the fiscal year 2010 revenue is projected to decline by 1.6 percent from the fiscal year 2009 revenue collections. In addition, projected fiscal year 2010 revenue will be less than the actual revenue collected in both fiscal year 2008 and fiscal year 2009. Due to the downwardly revised estimated revenue collections, the Commonwealth will accordingly adjust the planned General Fund spending. The Governor instructed Cabinet Secretaries to prepare and submit plans for five, ten, and fifteen percent reductions in General Fund spending for the fiscal year 2010. The Governor will release his fiscal year 2010 budget reductions in conjunction with his amendments to the 2008-2010 biennial budget on December 18, 2009.

Major Special Revenue Fund Highlights

The Commonwealth Transportation Fund ended the fiscal year with a fund balance of $1.43 billion, a decrease of $413.5 million from the prior year. Approximately $2.2 billion is committed for various highway, public transportation, and rail preservation projects (see Note 18). The decrease in fund balance was primarily the result of the following activities: revenues and expenditures both decreased $277.4 million, or 7.4 percent and $187.9 million, or 4.8 percent, respectively, with expenditures exceeding revenues by approximately $263.3 million. This decreased activity is primarily due to decreased federal funds available for construction and decreases in secondary highway maintenance. Additionally, interest earnings decreased.

The Federal Trust Fund balance decreased by $32.4 million, or 37.4 percent. Federal Grants and Contracts revenue increased by approximately $1.59 billion, or 27.8 percent. This increase was offset with an increase in total expenditures of approximately $1.69 billion, or 29.5 percent. The increases in Federal Grants and Contracts revenue included $587.5 million in American Recovery and Reinvestment Act receipts, $214.0 million in food stamps, $191.9 million for the Virginia Employment Commission and $136.9 million for Medicaid funding due to the economic downturn to supplement individual and family services payments.

The Literary Fund's fund balance decreased by $95.3 million, or 32.4 percent, in fiscal year 2009 from fiscal year 2008. Net disbursements exceeded net receipts due to an increase of $112.7 million in disbursements for school employee retirement and social security contributions per Chapter 781, 2009 Acts of Assembly.

Capital Asset and Long-term Debt

Capital Assets. The primary government's investment in capital assets for its governmental and business-type activities as of June 30, 2009, amounts to $19.7 billion (net of accumulated depreciation totaling $11.5 billion). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction-in-progress. Infrastructure assets are items that are normally immovable such as roads, bridges, drainage systems, and other similar assets. As noted on page 30, decreases in current and other assets offset by increases to capital assets resulted in a decrease in net assets of the governmental activities of $1.3 billion or 7.6 percent. The increase in the primary government's investment in capital assets was primarily attributable to increases in infrastructure of $838.5 million related to transportation. The primary government reports equipment with a value of $50,000 or greater and an expected useful life of two or more years. The primary government capitalizes all land, buildings, and infrastructure that have a cost or value greater than $100,000 and an expected useful life of two or more years. Additional information on the primary government's capital assets can be found in Note 12, "Capital Assets."

Figure 15
Capital Assets as of June 30, 2009
(Net of Depreciation)
(Dollars in Thousands)

	Governmental Activities	Business-type Activities	Total
Land	$ 2,067,422	$ 1,977	$ 2,069,399
Buildings	2,019,713	7,190	2,026,903
Equipment	452,412	16,237	468,649
Infrastructure	11,887,962	-	11,887,962
Construction in Progress	3,264,062	336	3,264,398
Total	$ 19,691,571	$ 25,740	$ 19,717,311

Long-term Debt. The Commonwealth is prohibited from issuing general obligation bonds for operating purposes. At the end of the current fiscal year, the Commonwealth had total debt outstanding of $29.5 billion, including total tax-supported debt of $9.0 billion and total debt not supported by taxes of $20.5 billion. Bonds backed by the full faith and credit of the government and tax-supported total $1.7 billion. Debt is considered tax supported if Commonwealth tax revenues are used or pledged for debt service payments. An additional $726.4 million is considered moral obligation debt which is not tax-supported. The Commonwealth has no direct or indirect pledge of tax revenues to fund reserve deficiencies. However, in some cases, the Commonwealth has made a moral obligation pledge to consider funding deficiencies in debt service reserves that may occur. The remainder of the Commonwealth's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

During fiscal year 2009, the Commonwealth issued $4.7 billion of new debt for various projects. $782.5 million of the new debt was for the primary government and $3.9 billion for the component units. Additional information on the Commonwealth's outstanding debt can be found on page 132 in Note 24, "Long-Term Liabilities," as well as in the section entitled "Debt Schedules." The Commonwealth maintains a "triple A" bond rating for general obligation debt from the three rating agencies: Moody's Investors Service; Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc.; and Fitch, Inc.

State statutes limit the amount of general obligation debt the Commonwealth may issue for each specific type of debt. The 9(a) bonds, which may be issued to fund the defense of the Commonwealth; to meet casual deficits in revenue or in anticipation of the collection of revenues; or to redeem previous debt obligations, and are limited to 30 percent of 1.15 times the annual tax revenues for fiscal year 2009. The 9(b) bonds, which have been authorized by the citizens of Virginia through bond referenda to finance capital projects, are limited to 1.15 times the average of selected tax revenues for fiscal years 2007, 2008, and 2009. The 9(c) bonds, which have been issued to finance capital projects that will generate revenue upon their completion, are limited to 1.15

times the average of selected tax revenues for fiscal years 2007, 2008, and 2009. The current debt limitation for the Commonwealth is $4.6 billion, $14.8 billion, and $15.3 billion, respectively, for the 9(a), 9(b), and 9(c) general obligation bond issues. These limits significantly exceed the Commonwealth's outstanding general obligation debt. Currently, there is no 9(a) debt outstanding.

Figure 16
Outstanding Debt as of June 30, 2009
General Obligation Bonds
(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
General obligation bonds				
9(b)	$ 1,040,636	$ -	$ 1,040,636	$ -
9(c)	36,884	-	36,884	573,550
Total	$ 1,077,520	$ -	$ 1,077,520	$ 573,550

Economic Factors and Review

In fiscal year 2009, the nation experienced what many have called "the Great Recession" – the most severe economic downturn since the Great Depression of the 1930s. The Commonwealth was not immune to this economic downtrend. Virginia's nonfarm employment growth rate fell slightly; however the national growth rate fell even lower. The Commonwealth's personal income in current dollars grew by just 1.1 percent, by far the lowest growth in the four previous years. Although it increased sharply in fiscal year 2009, unemployment in the Commonwealth was only 5.6 percent, substantially lower than the national average, which was 7.6 percent. Taxable sales suffered a 4.1 percent decline in fiscal year 2009 following only a slight rise of 1.2 percent in fiscal year 2008. During fiscal year 2009, new housing in Virginia continued to fall by 31 percent. Compared to national averages, the Commonwealth generally faired better than the nation. For a more in-depth discussion on the Commonwealth's economy see "Economic Review" on page 8.

Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State Comptroller's Office, Commonwealth of Virginia, P. O. Box 1971, Richmond, Virginia 23218. This report is also available for download from the World Wide Web. Our Internet address is www.doa.virginia.gov.

The Commonwealth's component units issue their own separate financial statements. Contact information regarding each component unit is provided in Note 1.B.

Government-wide Financial Statements

Statement of Net Assets

June 30, 2009
(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and Cash Equivalents (Notes 1 and 6)	$ 3,414,957	$ 756,394	$ 4,171,351	$ 1,838,720
Investments (Notes 1 and 6)	1,673,492	1,704,720	3,378,212	8,457,539
Receivables, Net (Notes 1 and 7)	2,471,391	452,138	2,923,529	12,036,494
Contributions Receivable, Net (Notes 1 and 8)	-	-	-	308,163
Internal Balances (Note 1)	45,157	(45,157)	-	-
Due from Primary Government (Note 9)	-	-	-	56,454
Due from Component Units (Note 9)	252	-	252	88,859
Due from External Parties (Fiduciary Funds) (Note 9)	185	-	185	-
Inventory (Note 1)	135,298	50,030	185,328	81,459
Prepaid Items (Note 1)	62,352	2,321	64,673	98,242
Other Assets (Notes 1 and 10)	3,846	162	4,008	168,167
Loans Receivable from Primary Government (Notes 1 and 9)	-	-	-	172,160
Loans Receivable from Component Units (Notes 1 and 9)	23,812	-	23,812	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	525,691	-	525,691	2,692,263
Restricted Investments (Notes 6 and 11)	-	-	-	3,522,562
Other Restricted Assets (Note 11)	-	-	-	165,676
Nondepreciable Capital Assets (Notes 1 and 12)	5,331,484	2,313	5,333,797	2,658,707
Depreciable Capital Assets, Net (Notes 1 and 12)	14,360,087	23,427	14,383,514	9,157,433
Total Assets	28,048,004	2,946,348	30,994,352	41,502,898
Liabilities				
Accounts Payable (Notes 1 and 22)	871,674	45,627	917,301	901,325
Amounts Due to Other Governments	458,773	26,282	485,055	79,361
Due to Primary Government (Note 9)	-	-	-	252
Due to Component Units (Note 9)	56,454	-	56,454	88,859
Due to External Parties (Fiduciary Funds) (Note 9)	116	-	116	-
Unearned Revenue (Note 1)	113,893	4,797	118,690	315,460
Obligations Under Securities Lending Program (Notes 1 and 6)	1,580,357	286,765	1,867,122	161,440
Other Liabilities (Notes 1 and 23)	1,736,460	90,971	1,827,431	1,075,814
Loans Payable to Primary Government (Notes 1 and 9)	-	-	-	23,812
Loans Payable to Component Units (Notes 1 and 9)	172,160	-	172,160	-
Claims Payable:				
Due Within One Year (Notes 1 and 21)	167,240	28,152	195,392	63,346
Due in More Than One Year (Notes 1 and 21)	346,727	9,115	355,842	42,048
Long-term Liabilities:				
Due Within One Year (Notes 1, 19, and 24)	595,872	196,540	792,412	1,310,832
Due in More Than One Year (Notes 1, 19, and 24)	5,873,167	2,042,590	7,915,757	19,434,320
Total Liabilities	11,972,893	2,730,839	14,703,732	23,496,869

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

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Net Assets				
Invested in Capital Assets, Net of Related Debt	16,208,688	22,856	16,231,544	6,961,608
Restricted For:				
Nonexpendable:				
Higher Education	-	-	-	2,155,439
Permanent Funds	43,263	-	43,263	-
Other	-	-	-	92,791
Expendable:				
Higher Education	-	-	-	3,336,957
Permanent Funds	1,657	-	1,657	-
Revenue Stabilization Fund	575,064	-	575,064	-
Literary Fund	198,476	-	198,476	-
Gifts and Grants	100,995	-	100,995	14,541
Unemployment Compensation	-	372,087	372,087	-
Virginia Pooled Investment Program	-	-	-	6,990
Capital Projects/Construction/Capital Acquisition	398,211	187	398,398	1,565,958
Debt Service	102,456	-	102,456	72,693
Bond Indenture	-	-	-	1,970,640
Lottery Proceeds Fund	964	-	964	-
Other	-	-	-	50,717
Unrestricted	(1,554,663)	(179,621)	(1,734,284)	1,777,695
Total Net Assets	$ 16,075,111	$ 215,509	$ 16,290,620	$ 18,006,029

Statement of Activities

For the Fiscal Year Ended June 30, 2009
(Dollars in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	$ 2,540,812	$ 242,881	$ 149,609	$ 175
Education	9,565,969	372,851	787,445	370
Transportation	2,786,165	643,528	53,057	993,896
Resources and Economic Development	1,002,873	298,730	236,297	995
Individual and Family Services	10,757,071	415,138	6,320,191	734
Administration of Justice	2,611,297	321,108	37,126	705
Interest and Charges on Long-term Debt	200,782	-	-	-
Total Governmental Activities	29,464,969	2,294,236	7,583,725	996,875
Business-type Activities				
State Lottery	919,818	1,366,012	-	-
Virginia College Savings Plan (Note 1)	115,447	(116,992)	-	-
Unemployment Compensation	880,989	341,058	103,952	-
Alcoholic Beverage Control	466,734	572,795	916	-
Local Choice Health Care	231,215	225,747	-	-
Other	120,219	128,586	-	-
Total Business-type Activities	2,734,422	2,517,206	104,868	-
Total Primary Government	$ 32,199,391	$ 4,811,442	$ 7,688,593	$ 996,875
Component Units				
Virginia Housing Development Authority	$ 596,807	$ 542,091	$ 130,723	$ -
Virginia Public School Authority	164,640	149,937	-	-
Higher Education:				
Major	6,075,066	4,234,886	541,960	132,030
Nonmajor	4,073,007	1,648,247	463,089	268,650
Other Nonmajor (Note 1)	739,928	504,882	(22,305)	83,698
Total Component Units	$ 11,649,448	$ 7,080,043	$ 1,113,467	$ 484,378

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (2,148,147)	$ -	$ (2,148,147)	$ -
(8,405,303)	-	(8,405,303)	-
(1,095,684)	-	(1,095,684)	-
(466,851)	-	(466,851)	-
(4,021,008)	-	(4,021,008)	-
(2,252,358)	-	(2,252,358)	-
(200,782)	-	(200,782)	-
(18,590,133)	-	(18,590,133)	-
-	446,194	446,194	-
-	(232,439)	(232,439)	-
-	(435,979)	(435,979)	-
-	106,977	106,977	-
-	(5,468)	(5,468)	-
-	8,367	8,367	-
-	(112,348)	(112,348)	-
(18,590,133)	(112,348)	(18,702,481)	-
-	-	-	76,007
-	-	-	(14,703)
-	-	-	(1,166,190)
-	-	-	(1,693,021)
-	-	-	(173,653)
-	-	-	(2,971,560)

Continued on next page

For the Fiscal Year Ended June 30, 2009
(Dollars in Thousands)

	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
General Revenues				
Taxes				
Individual and Fiduciary Income	9,558,764	-	9,558,764	-
Sales and Use	3,553,675	-	3,553,675	-
Corporation Income	545,800	-	545,800	-
Motor Fuel	889,245	-	889,245	-
Motor Vehicle Sales and Use	406,400	-	406,400	-
Deeds, Contracts, Wills, and Suits	350,614	-	350,614	-
Premiums of Insurance Companies	365,404	-	365,404	-
Alcoholic Beverage Sales Tax	109,643	-	109,643	-
Tobacco Products	182,484	-	182,484	-
Estate	3,569	-	3,569	-
Public Service Corporations	102,611	-	102,611	-
Beer and Beverage Excise	44,597	-	44,597	-
Wine and Spirits/ABC Liter	19,625	-	19,625	-
Bank Stock	21,323	-	21,323	-
Other Taxes	82,047	12,668	94,715	-
Operating Appropriations from Primary Government	-	-	-	1,921,791
Unrestricted Grants and Contributions	60,001	-	60,001	42,188
Investment Earnings (Note 1)	142,557	4,550	147,107	(799,749)
Miscellaneous	237,423	599	238,022	50,638
Tobacco Master Settlement	-	-	-	13,974
Transfers	591,326	(591,326)	-	-
Contributions to Permanent Funds and Endowments	-	-	-	124,859
Total General Revenues and Transfers	17,267,108	(573,509)	16,693,599	1,353,701
Change in Net Assets	(1,323,025)	(685,857)	(2,008,882)	(1,617,859)
Net Assets - July 1, as restated (Note 2)	17,398,136	901,366	18,299,502	19,623,888
Net Assets - June 30	$ 16,075,111	$ 215,509	$ 16,290,620	$ 18,006,029

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

Governmental Funds

General Fund

The General Fund accounts for transactions related to resources received and used for those services traditionally provided by a state government, which are not accounted for in any other fund.

Special Revenue Funds

Special Revenue Funds account for specific revenue sources that are restricted to finance particular functions and activities of the Commonwealth.

The Commonwealth Transportation Fund accounts for the revenues and expenditures associated with highway operations, maintenance, construction, and other transportation related activities. Funding for these programs is provided from highway user taxes, fees, and funds received from the federal government.

The Federal Trust Fund accounts for all federal dollars received by the Commonwealth except those received by the Commonwealth Transportation Fund, the Unemployment Compensation Fund, and institutions of higher education. The entire fund is restricted pursuant to federal regulations. As such, a separate fund balance reservation is not reflected.

The Literary Fund accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings. The entire fund is constitutionally restricted for public schools. As such, a separate fund balance reservation is not reflected.

Nonmajor Governmental Funds include those Special Revenue, Debt Service, Capital Projects, and Permanent Funds listed on page 181 in the Combining and Individual Fund Statements and Schedules section of this report.

Balance Sheet – Governmental Funds

June 30, 2009
(Dollars in Thousands)

	General	Special Revenue: Commonwealth Transportation	Special Revenue: Federal Trust	Special Revenue: Literary
Assets				
Cash and Cash Equivalents (Notes 1 and 6)	$ 331,445	$ 1,524,840	$ 123,686	$ 67,134
Investments (Notes 1 and 6)	1,219,577	256,135	9,027	17,577
Receivables, Net (Notes 1 and 7)	1,028,725	293,322	715,832	339,094
Due from Other Funds (Note 9)	16,191	278	31	-
Due from External Parties (Fiduciary Funds) (Note 9)	27	-	-	-
Interfund Receivable (Note 9)	-	-	-	-
Inventory (Note 1)	47,368	51,699	15,384	-
Prepaid Items (Note 1)	46,114	7,311	751	-
Other Assets (Notes 1 and 10)	981	514	1,293	-
Loans Receivable from Component Units (Notes 1 and 9)	-	-	-	-
Restricted Cash and Cash Equivalents (Notes 1, 6, and 11)	-	68,435	-	-
Total Assets	$ 2,690,428	$ 2,202,534	$ 866,004	$ 423,805
Liabilities and Fund Balances				
Accounts Payable (Notes 1 and 22)	$ 269,957	$ 224,654	$ 143,959	$ 225
Amounts Due to Other Governments	253,326	799	127,863	-
Due to Other Funds (Note 9)	19,568	12,638	9,216	-
Due to Component Units (Note 9)	10,940	-	-	-
Due to External Parties (Fiduciary Funds) (Note 9)	-	-	-	-
Interfund Payable (Note 9)	-	-	4,197	-
Deferred Revenue (Note 1)	372,290	37,784	54,961	20,717
Unearned Revenue (Note 1)	-	21,922	14,393	-
Deferred Taxes (Note 1)	199,308	-	-	-
Obligations Under Securities Lending Program (Notes 1 and 6)	807,765	469,618	16,551	32,227
Other Liabilities (Notes 1 and 23)	1,015,159	4,869	440,533	-
Loans Payable to Component Units (Notes 1 and 9)	-	-	-	172,160
Long-term Liabilities Due Within One Year (Notes 1, 19, and 24)	582	139	76	-
Total Liabilities	2,948,895	772,423	811,749	225,329
Fund Balances Reserved for (Note 1):				
Revenue Stabilization Fund	575,064	-	-	-
Lottery Proceeds Fund	964	-	-	-
Inventory	47,368	51,699	15,384	-
Prepaid Items	46,114	7,311	751	-
Debt Service	-	-	-	-
Gifts and Grants	-	21,302	-	-
Capital Acquisition / Construction	-	66,724	-	-
Fund Balances Unreserved, Reported in (Note 1):				
General Fund	(927,977)	-	-	-
Special Revenue Funds	-	1,283,075	38,120	198,476
Capital Projects Funds	-	-	-	-
Permanent Funds	-	-	-	-
Total Fund Balances (Deficit) (Note 3)	(258,467)	1,430,111	54,255	198,476
Total Liabilities and Fund Balances	$ 2,690,428	$ 2,202,534	$ 866,004	$ 423,805

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 1,303,067	$ 3,350,172
91,839	1,594,155
65,171	2,442,144
7,909	24,409
158	185
43,478	43,478
4,840	119,291
7,705	61,881
954	3,742
23,812	23,812
-	68,435
$ 1,548,933	$ 7,731,704
$ 63,607	$ 702,402
1,445	383,433
6,765	48,187
13,259	24,199
116	116
-	4,197
14,925	500,677
8,851	45,166
-	199,308
108,733	1,434,894
5,520	1,466,081
-	172,160
270	1,067
223,491	4,981,887
-	575,064
-	964
4,840	119,291
7,705	61,881
102,456	102,456
28,317	49,619
-	66,724
-	(927,977)
805,717	2,325,388
331,487	331,487
44,920	44,920
1,325,442	2,749,817
$ 1,548,933	$ 7,731,704

Reconciliation of the Balance Sheet – Governmental Funds to the Government-wide Statement of Net Assets

June 30, 2009
(Dollars in Thousands)

Total fund balances - governmental funds (see Balance Sheet - Governmental Funds)	$	2,749,817
When capital assets (land, buildings, equipment, improvements, construction-in-progress, and/or infrastructure) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the primary government as a whole.		
Non Depreciable Capital Assets		5,330,672
Depreciable Capital Assets		14,301,444
Long-term liabilities applicable to the primary government's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Assets.		
Tax Note		(81,278)
Pension Liability		(978,157)
OPEB Liability		(115,751)
Capital Lease		(83,954)
Installment Purchases		(59,568)
Compensated Absences		(328,799)
Uninsured Employer's Fund		(22,302)
Regional Jails		(8,231)
Bonds		(4,627,478)
Notes		(15,739)
Accrued Interest Payable		(65,540)
Other Obligations		(104,629)
Pollution Remediation Liability		(2,472)
Internal service funds are used by the primary government to charge costs to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Assets.		(110,306)
Other long-term payables are not due and payable in the current period and, therefore, are not reported in the funds.		(203,295)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		500,677
Net assets of governmental activities (see Government-wide Statement of Net Assets)	$	16,075,111

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

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended June 30, 2009
(Dollars in Thousands)

	General	Special Revenue: Commonwealth Transportation	Special Revenue: Federal Trust	Special Revenue: Literary
Revenues				
Taxes	$ 14,248,875	$ 1,938,598	$ -	$ -
Rights and Privileges	67,362	549,598	-	243
Institutional Revenue	6,402	-	-	-
Interest, Dividends, Rents, and Other Investment Income (Note 1)	122,092	52,219	2,220	22,075
Federal Grants and Contracts	-	798,683	7,305,109	-
Other (Note 25)	345,698	122,774	77,654	173,467
Total Revenues	14,790,429	3,461,872	7,384,983	195,785
Expenditures				
Current:				
General Government	1,670,552	1,967	124,432	1,045
Education	8,027,334	2,377	886,446	303,306
Transportation	11,863	3,671,070	15,778	-
Resources and Economic Development	288,560	10,568	173,700	-
Individual and Family Services	4,071,473	-	6,052,896	-
Administration of Justice	2,286,639	8,637	149,012	-
Capital Outlay	10,659	30,506	14,682	-
Debt Service:				
Principal Retirement	-	-	-	-
Interest and Charges	-	-	-	-
Total Expenditures	16,367,080	3,725,125	7,416,946	304,351
Revenues Over (Under) Expenditures	(1,576,651)	(263,253)	(31,963)	(108,566)
Other Financing Sources (Uses)				
Transfers In (Note 30)	672,922	155,770	9,168	13,309
Transfers Out (Note 30)	(561,192)	(314,122)	(9,618)	-
Notes Issued	3,249	-	-	-
Insurance Recoveries	209	3,380	-	-
Capital Leases Initiated	77	787	-	-
Bonds Issued	-	-	-	-
Premium on Debt Issuance	-	-	-	-
Refunding Bonds Issued	-	-	-	-
Sale of Capital Assets	-	3,953	-	-
Payment to Refunded Bond Escrow Agents	-	-	-	-
Total Other Financing Sources (Uses)	115,265	(150,232)	(450)	13,309
Net Change in Fund Balances	(1,461,386)	(413,485)	(32,413)	(95,257)
Fund Balance, July 1, as restated (Note 2)	1,202,919	1,843,596	86,668	293,733
Fund Balance (Deficit), June 30 (Note 3)	$ (258,467)	$ 1,430,111	$ 54,255	$ 198,476

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 88,628	$ 16,276,101
271,688	888,891
402,435	408,837
19,145	217,751
8,859	8,112,651
380,481	1,100,074
1,171,236	27,004,305
90,702	1,888,698
40,758	9,260,221
5,213	3,703,924
517,451	990,279
639,467	10,763,836
86,946	2,531,234
555,865	611,712
416,460	416,460
207,005	207,005
2,559,867	30,373,369
(1,388,631)	(3,369,064)
719,467	1,570,636
(91,217)	(976,149)
17,885	21,134
4,399	7,988
-	864
645,995	645,995
46,347	46,347
68,203	68,203
37	3,990
(74,361)	(74,361)
1,336,755	1,314,647
(51,876)	(2,054,417)
1,377,318	4,804,234
$ 1,325,442	$ 2,749,817

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Government-wide Statement of Activities

For the Fiscal Year Ended June 30, 2009
(Dollars in Thousands)

Net Change in fund balances - total government funds (See Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds)	$	(2,054,417)
When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.		
Net Non-Depreciable Capital Assets		116,819
Net Depreciable Capital Assets		1,584,622
Net Depreciation Expense		(614,447)
Debt proceeds provide current financial resources to governmental funds by issuing debt, which increases long-term debt in the Statement of Net Assets.		
Debt Issuance		(645,995)
Capital Lease Proceeds		(863)
Bond Premiums		(46,347)
Refunding Bonds Issued		(68,203)
Installment Purchase Proceeds		(21,134)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Assets.		
Debt Service Fund Repayment of Debt Principal		416,460
Repayment of Debt Principal in Other Funds:		
Installment Purchases		17,392
Pollution Remediation Liability		525
Regional Jails		2,634
Payment to Refunded Bond Escrow Agent is an expenditure in the governmental funds, but the refunding reduces long-term debt in the Statement of Net Assets.		74,361
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		59,390
Increases/decreases of expenses associated with long-term debt reported in the Statement of Activities do not require the use of, or provide, current financial resources and, therefore, are not reported in the governmental funds.		
Increase in Pension Liability		(109,567)
Increase in OPEB Liability		(59,493)
Increase in Other LT Liabilities		(81,984)
Increase in Other Liabilities		(54,008)
Decrease in Compensated Absences		8,504
Decrease in Interest Expense, Amortization of Deferrals on Long-term Debt and accrued interest liability		6,224
Net Decrease in Due to Component Units for Capital and Other Projects resulting from appropriation reductions, which are not reported as expenditures in the fund statements.		222,548
The net revenue (expenses) of certain activities of internal service funds is reported within governmental activities.		(76,046)
Change in net assets of governmental activities (See Government-wide Statement of Activities)	$	(1,323,025)

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

Proprietary Funds

The Proprietary Funds account for operations that are financed and operated in a manner similar to private business enterprises. It is the intent that the cost of providing such goods or services will be recovered through user charges.

Major Enterprise Funds

The State Lottery accounts for all receipts and expenses from the operations of the State Lottery.

The Virginia College Savings Plan administers the Virginia Prepaid Education Program. The plan offers contracts, for actuarially determined amounts, guaranteeing full future tuition and mandatory fee payments at Virginia's higher education institutions and differing payouts at private or out-of-state institutions. The fund accounts for the actuarially determined contributions and payments for approved expenses.

The Unemployment Compensation administers the temporary partial income replacement payments to unemployed covered workers.

Nonmajor Enterprise Funds include those operations of state agencies which are listed on page 193 in the Combining and Individual Fund Statements and Schedules section of this report.

Internal Service Funds include those operations of state agencies which are listed on page 209 in the Combining and Individual Fund Statements and Schedules section of this report.

Statement of Net Assets – Proprietary Funds

June 30, 2009
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Assets				
Current Assets:				
Cash and Cash Equivalents (Notes 1 and 6)	$ 5,980	$ 188,225	$ 363,952	$ 198,237
Investments (Notes 1 and 6)	273,825	15,352	-	24,754
Receivables, Net (Notes 1 and 7)	53,104	74,921	70,924	34,370
Due from Other Funds (Note 9)	-	-	980	1,510
Inventory (Note 1)	-	-	-	50,030
Prepaid Items (Note 1)	288	-	-	2,033
Other Assets (Notes 1 and 10)	1	-	-	161
Total Current Assets	333,198	278,498	435,856	311,095
Noncurrent Assets:				
Investments (Notes 1 and 6)	232,102	1,158,686	-	1
Receivables, Net (Notes 1 and 7)	-	218,819	-	-
Nondepreciable Capital Assets (Notes 1 and 12)	-	-	-	2,313
Depreciable Capital Assets, Net (Notes 1 and 12)	7,221	2,975	-	13,231
Total Noncurrent Assets	239,323	1,380,480	-	15,545
Total Assets	572,521	1,658,978	435,856	326,640
Liabilities				
Current Liabilities:				
Accounts Payable (Notes 1 and 22)	8,723	2,480	278	34,146
Amounts Due to Other Governments	-	-	16,172	10,110
Due to Other Funds (Note 9)	9,012	26	507	8,515
Interfund Payable (Note 9)	-	-	-	28,537
Unearned Revenue (Note 1)	2,706	-	-	2,091
Obligations Under Securities Lending Program (Notes 1 and 6)	213,231	28,148	-	45,386
Other Liabilities (Notes 1 and 23)	43,922	177	46,625	247
Claims Payable Due Within One Year (Notes 1 and 21)	-	-	-	28,152
Long-term Liabilities Due Within One Year (Notes 1, 19, and 24)	61,968	130,311	-	4,261
Total Current Liabilities	339,562	161,142	63,582	161,445
Noncurrent Liabilities:				
Interfund Payable (Note 9)	-	-	-	-
Claims Payable Due in More Than One Year (Notes 1 and 21)	-	-	-	9,115
Long-term Liabilities Due in More Than One Year (Notes 1, 19, and 24)	237,300	1,783,059	-	22,231
Total Noncurrent Liabilities	237,300	1,783,059	-	31,346
Total Liabilities	576,862	1,944,201	63,582	192,791
Net Assets				
Invested in Capital Assets, Net of Related Debt	7,221	1,056	-	14,579
Restricted for Unemployment Compensation	-	-	372,087	-
Restricted for Capital Acquisition	-	-	187	-
Unrestricted	(11,562)	(286,279)	-	119,270
Total Net Assets (Deficit) (Note 3)	$ (4,341)	$ (285,223)	$ 372,274	$ 133,849

Some amounts reported for business-type activities in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included in business-type activities.
Net assets of business-type activities

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

Total	Governmental Activities Internal Service Funds
$ 756,394	$ 522,041
313,931	79,337
233,319	29,247
2,490	40,369
50,030	16,007
2,321	471
162	9,601
1,358,647	697,073
1,390,789	-
218,819	-
2,313	812
23,427	58,643
1,635,348	59,455
2,993,995	756,528
45,627	80,802
26,282	853
18,060	1,021
28,537	852
4,797	68,727
286,765	145,463
90,971	5,531
28,152	167,240
196,540	6,100
725,731	476,589
-	9,892
9,115	346,727
2,042,590	34,676
2,051,705	391,295
2,777,436	867,884
22,856	44,437
372,087	-
187	-
(178,571)	(155,793)
$ 216,559	$ (111,356)
(1,050)	
$ 215,509	

Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds

For the Fiscal Year Ended June 30, 2009
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Operating Revenues				
Charges for Sales and Services	$ 1,365,605	$ 130,826	$ 341,058	$ 908,946
Interest, Dividends, Rents, and Other Investment Income (Note 1)	-	(248,069)	-	-
Other (Note 25)	-	3	-	27,188
Total Operating Revenues	1,365,605	(117,240)	341,058	936,134
Operating Expenses				
Cost of Sales and Services	96,482	-	-	327,332
Prizes and Claims (Note 26)	767,722	-	880,989	218,772
Tuition Benefits Expense	-	103,679	-	-
Personal Services	21,062	5,831	-	102,945
Contractual Services	29,847	4,465	-	58,417
Supplies and Materials	546	110	-	21,794
Depreciation and Amortization (Note 27)	1,874	523	-	6,821
Rent, Insurance, and Other Related Charges	1,612	115	-	25,665
Interest Expense	-	-	-	-
Non-recurring Cost Estimate Payments to Providers	-	-	-	50,978
Other (Note 28)	-	423	-	4,622
Total Operating Expenses	919,145	115,146	880,989	817,346
Operating Income (Loss)	446,460	(232,386)	(539,931)	118,788
Nonoperating Revenues (Expenses)				
Interest, Dividends, Rents, and Other Investment Income (Note 1)	4,957	248	27,673	4,578
Other (Note 29)	192	(248)	76,279	(902)
Total Nonoperating Revenues (Expenses)	5,149	-	103,952	3,676
Income (Loss) Before Transfers	451,609	(232,386)	(435,979)	122,464
Transfers In (Note 30)	-	-	-	577
Transfers Out (Note 30)	(452,438)	(201)	(7,808)	(131,456)
Change in Net Assets	(829)	(232,587)	(443,787)	(8,415)
Total Net Assets (Deficit), July 1	(3,512)	(52,636)	816,061	142,264
Total Net Assets (Deficit), June 30 (Note 3)	$ (4,341)	$ (285,223)	$ 372,274	$ 133,849

Some amounts reported for business-type activies in the Statement of Activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.

Change in Net Assets of business-type activities

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

	Governmental Activities
Total	Internal Service Funds
$ 2,746,435	$ 1,502,417
(248,069)	-
27,191	-
2,525,557	1,502,417
423,814	62,307
1,867,483	1,028,381
103,679	-
129,838	54,734
92,729	324,199
22,450	9,599
9,218	14,899
27,392	70,826
-	253
50,978	-
5,045	16,022
2,732,626	1,581,220
(207,069)	(78,803)
37,456	14,120
75,321	(8,441)
112,777	5,679
(94,292)	(73,124)
577	1,061
(591,903)	(4,222)
(685,618)	(76,285)
902,177	(35,071)
$ 216,559	$ (111,356)

(239)
$ (685,857)

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended June 30, 2009
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Cash Flows from Operating Activities				
Receipts for Sales and Services	$ 1,361,560	$ 135,220	$ 335,754	$ 913,904
Receipts from Investments	-	-	-	1
Internal Activity-Receipts from Other Funds	-	-	4,612	13,591
Internal Activity-Payments to Other Funds	-	(239)	-	(5,652)
Payments to Suppliers for Goods and Services	(96,482)	(1,106)	-	(377,696)
Payments for Contractual Services	(18,963)	(3,871)	-	(57,609)
Payments for Prizes, Claims, and Loss Control (Note 33)	(842,402)	-	(859,920)	(211,443)
Payments for Tuition Benefits	-	(85,317)	-	-
Payments to Employees	(20,175)	(5,277)	-	(101,314)
Payments to Providers for Non-recurring Cost Estimates	-	-	-	(46,687)
Other Operating Revenue (Note 33)	-	3	-	5,877
Other Operating Expense (Note 33)	-	(22)	-	(1,243)
Net Cash Provided by (Used for) Operating Activities	383,538	39,391	(519,554)	131,729
Cash Flows from Noncapital Financing Activities				
Transfers In From Other Funds	-	-	-	525
Transfers Out to Other Funds	(443,800)	(201)	(7,808)	(287,607)
Other Noncapital Financing Receipt Activities (Note 33)	2,721	-	76,278	184,248
Other Noncapital Financing Disbursement Activities (Note 33)	(5,000)	-	-	(31,579)
Net Cash Provided by (Used for) Noncapital Financing Activities	(446,079)	(201)	68,470	(134,413)
Cash Flows from Capital and Related Financing Activities				
Acquisition of Capital Assets	(2,909)	(958)	-	(237)
Payment of Principal and Interest on Bonds and Notes	-	(428)	-	(817)
Proceeds from Sale of Capital Assets	-	-	-	33
Other Capital and Related Financing Receipt Activities (Note 33)	-	-	-	-
Other Capital and Related Financing Disbursement Activities (Note 33)	-	-	-	-
Net Cash Provided By (Used for) Capital and Related Financing Activities	(2,909)	(1,386)	-	(1,021)
Cash Flows from Investing Activities				
Purchase of Investments	(5,734)	(1,637,797)	-	-
Proceeds from Sales or Maturities of Investments	64,701	1,672,490	-	-
Investment Income on Cash, Cash Equivalents, and Investments	2,428	(45,104)	27,673	3,712
Net Cash Provided by (Used for) Investing Activities	61,395	(10,411)	27,673	3,712
Net Increase (Decrease) in Cash and Cash Equivalents	(4,055)	27,393	(423,411)	7
Cash and Cash Equivalents, July 1	9,568	148,036	787,363	177,759
Cash and Cash Equivalents, June 30	$ 5,513	$ 175,429	$ 363,952	$ 177,766
Reconciliation of Cash and Cash Equivalents				
Per the Statement of Net Assets:				
Cash and Cash Equivalents	$ 5,980	$ 188,225	$ 363,952	$ 198,237
Cash and Travel Advances	1	-	-	161
Less:				
Securities Lending Cash Equivalents	(468)	(12,796)	-	(20,632)
Cash and Cash Equivalents per the Statement of Cash Flows	$ 5,513	$ 175,429	$ 363,952	$ 177,766

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

	Total	Governmental Activities Internal Service Funds
	$ 2,746,438	$ 1,035,600
	1	-
	18,203	469,234
	(5,891)	(11,573)
	(475,284)	(140,240)
	(80,443)	(314,198)
	(1,913,765)	(964,799)
	(85,317)	-
	(126,766)	(52,954)
	(46,687)	-
	5,880	-
	(1,265)	(10,657)
	35,104	10,413
	525	1,061
	(739,416)	(4,383)
	263,247	954
	(36,579)	-
	(512,223)	(2,368)
	(4,104)	(5,136)
	(1,245)	(1,131)
	33	575
	-	49
	-	(632)
	(5,316)	(6,275)
	(1,643,531)	-
	1,737,191	-
	(11,291)	12,180
	82,369	12,180
	(400,066)	13,950
	1,122,726	442,069
	$ 722,660	$ 456,019
	$ 756,394	$ 522,041
	162	104
	(33,896)	(66,126)
	$ 722,660	$ 456,019

Continued on next page

Statement of Cash Flows – Proprietary Funds *(Continued from previous page)*

For the Fiscal Year Ended June 30, 2009
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Reconciliation of Operating Income				
To Net Cash Provided by (Used for)				
Operating Activities				
Operating Income (Loss)	$ 446,460	$ (232,386)	$ (539,931)	$ 118,788
Adjustments to Reconcile Operating				
Income to Net Cash Provided by (Used for)				
Operating Activities				
Depreciation and Amortization	1,874	523	-	6,821
Interest, Dividends, Rents, and Other Investment Income	(19,405)	247,197	-	-
Miscellaneous Nonoperating Income	-	-	-	-
Other Expenses	-	-	-	-
Change in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(4,692)	5,051	(2,833)	690
(Increase) Decrease in Due From Other Funds	-	-	241	1,064
(Increase) Decrease in Other Assets	-	-	-	-
(Increase) Decrease in Inventory	-	-	-	(2,425)
(Increase) Decrease in Prepaid Items	333	-	-	(349)
Increase (Decrease) in Accounts Payable	(657)	552	140	(1,770)
Increase (Decrease) in Amounts Due to Other Governments	-	-	7,191	4,951
Increase (Decrease) in Due to Other Funds	20	6	51	(135)
Increase (Decrease) in Due to Component Units	-	-	-	(2,373)
Increase (Decrease) in Interfund Payables	-	-	-	-
Increase (Decrease) in Unearned Revenue	647	-	-	(1,041)
Increase (Decrease) in Other Liabilities	(2,414)	60	15,587	(10)
Increase (Decrease) in Claims Payable: Due Within One Year	-	-	-	4,177
Increase (Decrease) in Claims Payable: Due in More Than One Year	-	-	-	632
Increase (Decrease) in Long-term Liabilities: Due Within One Year	(1,587)	17,528	-	(39)
Increase (Decrease) in Long-term Liabilities: Due in More Than One Year	(37,041)	860	-	2,748
Net Cash Provided by (Used for) Operating Activities	$ 383,538	$ 39,391	$ (519,554)	$ 131,729
Noncash Investing, Capital, and Financing Activities:				
The following transactions occurred prior to the statement of net assets date:				
Capital Assets Transferred from State Agencies	$ -	$ -	$ -	$ -
New Capital Leases	-	-	-	-
Trade-ins of Used Equipment on New Equipment	-	-	-	-
Change in Fair Value of Investments	-	(203,618)	-	-
Capital Asset Addition Included in Accounts Payable	-	-	-	-
Total Noncash, Investing, Capital, and Financing Activities	$ -	$ (203,618)	$ -	$ -

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

	Governmental Activities
Total	Internal Service Funds
$ (207,069)	$ (78,803)
9,218	14,899
227,792	-
-	490
-	(3,016)
(1,784)	8,743
1,305	1,151
-	(3,030)
(2,425)	493
(16)	247
(1,735)	22,767
12,142	184
(58)	39
(2,373)	-
-	(242)
(394)	3,823
13,223	(160)
4,177	11,209
632	29,593
15,902	(296)
(33,433)	2,322
$ 35,104	$ 10,413
$ -	$ 17,339
-	1,620
-	10
(203,618)	-
-	625
$ (203,618)	$ 19,594

Fiduciary Funds

Private Purpose Funds

Private Purpose Funds are trust arrangements that benefit individuals, private organizations, or other governments.

Pension and Other Employee Benefit Trust Funds

Pension and Other Employee Benefit Trust Funds reflect the activities of the retirement systems and postemployment benefits administered by the Virginia Retirement System or the Department of Accounts.

Investment Trust Fund

Investment Trust Fund reflects the external portion of the Local Government Investment Pool sponsored by the Commonwealth.

Agency Funds

Agency Funds report those funds for which the Commonwealth acts solely in a custodial capacity.

A listing of all Fiduciary Funds is located on pages 218-219 in the Combining and Individual Fund Statements and Schedules section of this report. Combining financial statements for all Fiduciary Funds begin on page 220.

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2009
(Dollars in Thousands)

	Private Purpose Trust Funds	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
Assets				
Cash and Cash Equivalents (Notes 1 and 6)	$ 101,632	$ 129,150	$ 1,600,954	$ 269,104
Investments (Notes 1 and 6):				
Bonds and Mortgage Securities	2	18,628,329	516,641	-
Stocks	206,576	12,100,811	-	-
Fixed Income Commingled Funds	-	1,811,139	-	-
Index and Pooled Funds	261,671	3,893,091	-	-
Real Estate	-	2,834,191	-	-
Private Equity	-	3,794,814	-	-
Mutual and Money Market Funds	21,688,363	-	-	-
Short-term Investments	-	84,493	1,582,299	70,703
Other	183,696	1,884,517	-	334,886
Total Investments	22,340,308	45,031,385	2,098,940	405,589
Receivables, Net (Notes 1 and 7):				
Accounts	19	-	-	148,879
Contributions	-	174,843	-	-
Interest and Dividends	1,086	158,695	3,324	-
Security Transactions	-	1,851,800	-	-
Other Receivables	-	791,892	-	-
Total Receivables	1,105	2,977,230	3,324	148,879
Due from Internal Parties (Governmental Funds and Business-type Activities) (Note 9)	-	-	-	116
Prepaid Items	174	-	-	-
Furniture and Equipment (Note 1)	-	6,440	-	-
Total Assets	22,443,219	48,144,205	3,703,218	823,688
Liabilities				
Accounts Payable and Accrued Expenses (Notes 1 and 22)	3,725	87,998	-	11,205
Amounts Due to Other Governments	-	-	-	301,102
Due to Internal Parties (Governmental Funds and Business-type Activities) (Note 9)	-	-	27	158
Obligations Under Securities Lending Program (Notes 1 and 6)	877	1,892,090	-	20,726
Other Liabilities (Notes 1 and 23)	206	860,433	-	489,902
Retirement Benefits Payable	-	212,561	-	-
Refunds Payable	-	6,624	-	-
Compensated Absences Payable (Notes 1 and 19)	235	1,851	-	-
Insurance Premiums and Claims Payable	-	48,431	-	595
Payable for Security Transactions	-	2,439,846	-	-
Pension Liability	551	4,920	-	-
Other Post Employment Benefits (OPEB) Liability	90	802	-	-
Total Liabilities	5,684	5,555,556	27	823,688
Net Assets Held in Trust for Pension/ Other Employment Benefits, Pool Participants, and Other Purposes	$ 22,437,535	$ 42,588,649	$ 3,703,191	$ -

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

Statement of Changes in Fiduciary Net Assets – Fiduciary Funds

For the Fiscal Year Ended June 30, 2009
(Dollars in Thousands)

	Private Purpose Trust Funds	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:			
Investment Income:			
Interest, Dividends, and Other Investment Income (Loss)	$ (5,627,970)	$ (11,525,654)	$ 48,726
Distributions to Shareholders from Net Investment Income	-	-	(48,726)
Total Investment Income (Loss)	(5,627,970)	(11,525,654)	-
Less Investment Expenses	20,737	297,619	-
Net Investment Income (Loss) (Note 1)	(5,648,707)	(11,823,273)	-
Proceeds from Unclaimed Property	117,935	-	-
Contributions:			
Participants	5,173,955	-	-
Member	-	871,378	-
Employer	-	1,588,201	-
Total Contributions	5,173,955	2,459,579	-
Shares Sold	-	-	6,132,742
Reinvested Distributions	-	-	48,795
Other Revenue (Note 25)	3	9,126	-
Total Additions	(356,814)	(9,354,568)	6,181,537
Deductions:			
Loan Servicing Payments	101	-	-
Educational Expense Benefits	1,296,052	-	-
Retirement Benefits	-	2,733,378	-
Refunds to Former Members	-	91,356	-
Retiree Health Insurance Credits	-	115,278	-
Insurance Premiums and Claims	24,141	159,912	-
Trust Payments	617	-	-
Administrative Expenses	25,161	35,203	-
Other Expenses (Note 28)	-	985	-
Shares Redeemed	1,952,182	-	5,967,770
Long-term Disability Benefits	-	28,016	-
Total Deductions	3,298,254	3,164,128	5,967,770
Transfers:			
Transfers In	-	403	-
Transfers Out	-	(403)	-
Total Transfers	-	-	-
Net Increase (Decrease)	(3,655,068)	(12,518,696)	213,767
Net Assets Held in Trust for Pension/ Other Employment Benefits, Pool Participants, and Other Purposes			
July 1, as restated (Note 2)	26,092,603	55,107,345	3,489,424
June 30	$ 22,437,535	$ 42,588,649	$ 3,703,191

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

Component Units

Component Units are organizations that are legally separate from the primary government. Each discrete component unit serves or benefits those outside of the primary government.

The Virginia Housing Development Authority provides investment in and stimulates construction of low to moderate income housing for the citizens of the Commonwealth.

The Virginia Public School Authority provides financing for capital construction of primary and secondary schools to cities and counties.

The Higher Education Institutions account for the resources received and used in the operation of the Commonwealth's institutions of higher education and medical teaching hospitals. Higher education institutions included in this section are:

University of Virginia, including the University of Virginia College at Wise, and the University of Virginia Hospital
Virginia Polytechnic Institute and State University
Virginia Commonwealth University, including the Virginia Commonwealth University Health System Authority

Nonmajor Component Units include those listed on pages 244-245 in the Combining and Individual Fund Statements and Schedules section of this report.

Statement of Net Assets – Component Units

June 30, 2009
(Dollars in Thousands)

	Virginia Housing Development Authority	Virginia Public School Authority	University of Virginia	Virginia Polytechnic Institute and State University
Assets				
Cash and Cash Equivalents (Notes 1 and 6)	$ 41,629	$ 1,085	$ 330,810	$ 159,570
Investments (Notes 1 and 6)	-	3,236,803	3,983,093	131,746
Receivables, Net (Notes 1 and 7)	8,201,734	62,820	212,994	92,138
Contributions Receivable, Net (Note 8)	-	-	80,744	67,747
Due from Primary Government (Note 9)	-	-	6,540	1,621
Due from Component Units (Note 9)	-	-	10,556	12,327
Inventory (Note 1)	-	-	21,516	18,844
Prepaid Items (Note 1)	-	-	18,348	11,939
Other Assets (Notes 1 and 10)	44,679	-	21,279	7,363
Loans Receivable from Primary Government (Notes 1 and 9)	-	172,160	-	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	936,902	94,379	188,332	141,497
Restricted Investments (Notes 6 and 11)	96,775	-	505,120	522,450
Other Restricted Assets (Note 11)	21,130	-	-	9,646
Nondepreciable Capital Assets (Notes 1 and 12)	4,584	-	442,076	217,226
Depreciable Capital Assets, Net (Notes 1 and 12)	19,870	-	2,127,459	922,955
Total Assets	9,367,303	3,567,247	7,948,867	2,317,069
Liabilities				
Accounts Payable (Notes 1 and 22)	4,448	36	235,614	120,917
Amounts Due to Other Governments	-	72,651	-	-
Due to Primary Government (Note 9)	-	-	-	-
Due to Component Units (Note 9)	-	-	533	-
Unearned Revenue (Note 1)	-	-	103,376	44,701
Obligations Under Securities Lending Program (Notes 1 and 6)	-	-	-	-
Other Liabilities (Notes 1 and 23)	132,547	63,993	491,504	60,616
Loans Payable to Primary Government (Notes 1 and 9)	-	-	-	-
Claims Payable (Notes 1 and 21):				
Due Within One Year	-	-	-	-
Due in More Than One Year	-	-	-	-
Long-term Liabilities (Notes 1, 19, and 24):				
Due Within One Year	469,790	265,777	99,659	49,463
Due in More Than One Year	6,641,105	3,164,641	1,390,417	549,385
Total Liabilities	7,247,890	3,567,098	2,321,103	825,082
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,135	-	1,531,794	732,162
Restricted For:				
Nonexpendable:				
Higher Education	-	-	840,533	306,655
Other	-	-	-	-
Expendable:				
Higher Education	-	-	2,089,314	393,588
Gifts and Grants	-	-	-	-
Virginia Pooled Investment Program	-	-	-	-
Capital Projects/Construction/Capital Acquisition	-	-	-	-
Debt Service	-	-	-	-
Bond Indenture	1,970,640	-	-	-
Other	-	-	-	-
Unrestricted	146,638	149	1,166,123	59,582
Total Net Assets	$ 2,119,413	$ 149	$ 5,627,764	$ 1,491,987

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

Virginia Commonwealth University	Nonmajor Component Units	Total
$ 395,193	$ 910,433	$ 1,838,720
385,349	720,548	8,457,539
299,085	3,167,723	12,036,494
28,394	131,278	308,163
2,653	45,640	56,454
9,933	56,043	88,859
16,003	25,096	81,459
5,685	62,270	98,242
17,875	76,971	168,167
-	-	172,160
59,633	1,271,520	2,692,263
395,075	2,003,142	3,522,562
14,754	120,146	165,676
155,618	1,839,203	2,658,707
1,204,650	4,882,499	9,157,433
2,989,900	15,312,512	41,502,898
129,653	410,657	901,325
-	6,710	79,361
-	252	252
-	88,326	88,859
37,325	130,058	315,460
11,568	149,872	161,440
94,973	232,181	1,075,814
1,450	22,362	23,812
63,346	-	63,346
42,048	-	42,048
72,202	353,941	1,310,832
776,508	6,912,264	19,434,320
1,229,073	8,306,623	23,496,869
656,535	4,038,982	6,961,608
186,042	822,209	2,155,439
-	92,791	92,791
237,958	616,097	3,336,957
-	14,541	14,541
-	6,990	6,990
-	1,565,958	1,565,958
-	72,693	72,693
-	-	1,970,640
-	50,717	50,717
680,292	(275,089)	1,777,695
$ 1,760,827	$ 7,005,889	$ 18,006,029

Statement of Activities – Component Units

For the Fiscal Year Ended June 30, 2009
(Dollars in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenue
Virginia Housing Development Authority	$ 596,807	$ 542,091	$ 130,723	$ -	$ 76,007
Virginia Public School Authority	164,640	149,937	-	-	(14,703)
Higher Education:					
University of Virginia	2,683,781	1,813,303	56,180	62,690	(751,608)
Virginia Polytechnic Institute & State University	1,095,206	514,938	276,134	36,213	(267,921)
Virginia Commonwealth University	2,296,079	1,906,645	209,646	33,127	(146,661)
Total Higher Education	6,075,066	4,234,886	541,960	132,030	(1,166,190)
Nonmajor Component Units:					
Higher Education	4,073,007	1,648,247	463,089	268,650	(1,693,021)
Other (Note 1)	739,928	504,882	(22,305)	83,698	(173,653)
Total Nonmajor Component Units	4,812,935	2,153,129	440,784	352,348	(1,866,674)
Total Component Units	$ 11,649,448	$ 7,080,043	$ 1,113,467	$ 484,378	$ (2,971,560)

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

General Revenues					
Operating Appropriations from Primary Government	Unrestricted Grants and Contributions	Investment Earnings (Note 1)	Miscellaneous	Tobacco Master Settlement	Contributions to Permanent / Term Endowments
$ -	$ -	$ 1,578	$ 58	$ -	$ -
-	-	1,516	20	-	-
168,187	-	(605,149)	2,739	-	49,212
253,636	3,649	(63,873)	20,252	-	20,892
210,692	6,890	(87,535)	3,208	-	7,593
632,515	10,539	(756,557)	26,199	-	77,697
1,221,637	25,991	(92,241)	23,744	-	41,394
67,639	5,658	45,955	617	13,974	5,768
1,289,276	31,649	(46,286)	24,361	13,974	47,162
$ 1,921,791	$ 42,188	$ (799,749)	$ 50,638	$ 13,974	$ 124,859

Continued on next page

For the Fiscal Year Ended June 30, 2009
(Dollars in Thousands)

	Changes in Net Assets	Net Assets July 1 as restated (Note 2)	Net Assets June 30
Virginia Housing Development Authority	$ 77,643	$ 2,041,770	$ 2,119,413
Virginia Public School Authority	(13,167)	13,316	149
Higher Education:			
University of Virginia	(1,136,619)	6,764,383	5,627,764
Virginia Polytechnic Institute & State University	(33,365)	1,525,352	1,491,987
Virginia Commonwealth University	(5,813)	1,766,640	1,760,827
Total Higher Education	(1,175,797)	10,056,375	8,880,578
Nonmajor Component Units:			
Higher Education	(472,496)	4,171,457	3,698,961
Other	(34,042)	3,340,970	3,306,928
Total Nonmajor Component Units	(506,538)	7,512,427	7,005,889
Total Component Units	$ (1,617,859)	$ 19,623,888	$ 18,006,029

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

Index to the Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

B. Reporting Entity

For financial reporting purposes, the Commonwealth of Virginia's (the "Commonwealth's") reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable (blended component units), and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government (discrete component units). The funds of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (GASB Statement No. 39) requires the inclusion of numerous organizations that raise and hold funds for the direct benefit of the primary government.

Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) describes the criteria for determining which organizations, functions, and activities should be considered part of the Commonwealth for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, and the Commonwealth's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

(1) Primary Government – A primary government consists of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, and departments are, for financial reporting purposes, part of the primary government.

(2) Blended Component Units – Though legally separate entities, these component units are, in substance, part of the primary government's operations. The blended component unit serves or benefits the primary government almost exclusively. Financial information from these units is combined with that of the primary government. The Commonwealth's only blended component unit is:

Virginia Public Building Authority (VPBA) (nonmajor governmental fund) – The Authority was created as a body politic and corporate and is fiscally independent. A government instrumentality, the Authority finances the acquisition and construction of buildings for the use of the Commonwealth and other approved purposes. The Governor appoints the seven-member board, and the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

(3) Discrete Component Units – Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discrete component units serve or benefit those outside of the primary government.

GASB Statement No. 39 generally requires any organization that raises and holds economic resources for the direct benefit of the reporting entity to be reported as a component unit, even if the reporting entity is not financially accountable for the organization. The entities are included in the Commonwealth's reporting entity as non-profit charitable organizations and exist solely to support the Commonwealth's higher education institutions, museums, and the Library of Virginia. The higher education institution non-profit organizations are included in the applicable higher education institution's column in the accompanying financial statements. The museum foundations, and the Library of Virginia Foundation, which are discretely presented, are more fully described later in this footnote. In all instances where separate disclosure of these non-profit organizations is required in the accompanying footnotes, the entities' totals are aggregated and disclosed as "foundations." Discretely presented component units are:

Higher Education Institutions – The Commonwealth's higher education institutions are granted broad corporate powers by state statutes. The Governor appoints the members of each institution's board of trustees. In addition to the annual appropriations to support the institutions' operations, the state provides funding for, and construction of, major academic plant facilities for the institutions. Institutions reported Operating Appropriations from Primary Government of approximately $1.85 billion from the primary government. Therefore, there is a financial benefit/burden to the primary government. The bonds issued to finance the construction of these facilities are obligations of the state. The major higher education institutions are: University of Virginia, including the University of Virginia Hospital and the University of Virginia's College at Wise; Virginia Polytechnic Institute and State University; and Virginia Commonwealth University, including the Virginia Commonwealth University Health System Authority. The nonmajor higher education institutions are: the College of William & Mary, including Richard Bland College and the Virginia Institute of Marine Science; Virginia Military Institute; Virginia State University; Norfolk State University; University of Mary Washington; James Madison University; Radford University; Old Dominion University; George Mason University; Virginia Community College System; Christopher Newport University; and Longwood University. The Southwest Virginia Higher Education Center, Roanoke Higher Education Authority, Institute for Advanced Learning and Research, Southern Virginia Higher Education Center, and New College Institute are also included as nonmajor higher education institutions. The colleges and universities are funded through state appropriations, tuition, federal grants, and private donations and grants. As previously noted, certain foundations are considered component units of the higher education institutions, and are included in the accompanying financial statements as well as the higher education institutions' individually published financial statements. The Auditor of Public Accounts (APA) does not audit the Roanoke Higher Education Authority, the Institute for Advanced Learning and Research, and the component units of the higher education institutions, including foundations, but relies on the reports issued by other auditors to render his opinion.

The APA audits the colleges and universities, and individual reports are issued under separate cover. Complete financial statements for each institution may be obtained from their respective administrative offices. The addresses for these institutions may be obtained from the Virginia Department of Accounts, 101 North 14th Street, Richmond, Virginia 23219-3638.

Virginia Housing Development Authority (VHDA) (major) – The Authority was created as a political subdivision and instrumentality of the Commonwealth and is granted both politic and corporate powers by the *Code of Virginia*. The Governor appoints a majority of the Authority's board members and the remaining board members are ex-officio. The Commonwealth may make grants to the Authority including, but not limited to, reserve funds, which is a potential financial benefit/burden to the primary government. The Commonwealth is not legally obligated by the debt of the Authority. The Authority was created in the public interest to provide investment in and stimulate construction of low to moderate income housing which benefits the citizens of the Commonwealth. The administrative offices of the Authority are located at 601 South Belvidere Street, Richmond, Virginia 23220. KPMG, LLP audits the Authority, and a separate report is issued.

Virginia Public School Authority (VPSA) (major) – The Authority was created as a public body corporate, and an agency and instrumentality of the Commonwealth to finance capital projects of city and county school boards. The Governor appoints the board members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Virginia Economic Development Partnership (VEDP) (nonmajor) – The Partnership was created as a body corporate and operates to encourage, stimulate, and support the development and expansion of commerce in the Commonwealth. The Governor appoints the 15-member board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

Virginia Outdoors Foundation (nonmajor) – The Foundation was created as a body politic and is administratively assigned to the Department of Conservation and Recreation (part of primary government) and charged with promoting preservation through the acceptance of donated conservation easements and raising funds for the purchase of preservation land. The Governor appoints the seven-member board of trustees, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 900 South Main Street, Blacksburg, Virginia 24060. Goodman and Company, LLP, audits the Foundation, and a separate report is issued.

Virginia Port Authority (VPA) (nonmajor) – The Authority was established as a corporate body and operates to serve the citizens and promote commerce through the harbors and ports of Virginia. The Governor appoints a majority of the 12-member board, and the primary government is able to impose its will on the Authority. There is also a financial benefit/burden to the primary government. The administrative offices of the Authority are located at 600 World Trade Center, Norfolk, Virginia 23510. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Resources Authority (VRA) (nonmajor) – The Authority was created as a statewide public body corporate political subdivision of the Commonwealth to provide financing of infrastructure projects for water supply, wastewater, storm water, solid waste treatment, airports, public safety, brownfields remediation and redevelopment, and recycling. The Governor appoints the 11-member board and the Executive Director of the Authority. The primary government is able to impose its will on the Authority, and there is a financial benefit/burden to the primary government. The Commonwealth does not guarantee any bonds issued by the Virginia Resources Authority. The administrative offices of the Authority are located at 1111 East Main Street, Suite 1920, Richmond, Virginia 23219. PBGH, LLP audits the Authority, and a separate report is issued.

Virginia Tourism Authority (nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority encourages, stimulates, and promotes tourism and film production industries of the Commonwealth. The Governor appoints all of the board members, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, 19th Floor, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Tobacco Settlement Foundation (nonmajor) – The Foundation was created as a body corporate and as a political subdivision of the Commonwealth. The Foundation was established to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund and to distribute monies in this fund for such efforts as restricting the use of tobacco products by minors and the enforcement of laws restricting the distribution of tobacco products to minors. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 501, Richmond, Virginia, 23219. The Auditor of Public Accounts audits the Foundation, and a separate report is issued.

Tobacco Indemnification and Community Revitalization Commission (nonmajor) – The Commission was created as a body corporate and as a political subdivision of the Commonwealth. The Commission was established to determine the appropriate recipients of the monies in the Tobacco Indemnification and Community Revitalization Fund. This fund is to provide payments to tobacco farmers as compensation for the adverse economic effects resulting from loss of investment in specialized tobacco equipment and barns, and lost tobacco production opportunities. It also provides monies to revitalize tobacco dependent communities. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 501, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Commission, and a separate report is issued.

Hampton Roads Sanitation District Commission (nonmajor) – The Commission was established as a political subdivision of the Commonwealth and a government instrumentality. The Commission, which is the governing board of the district, was granted corporate powers by the *Code of Virginia*. The Governor appoints the Commission members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Commission. The Commonwealth is not obligated by the debt of the Commission. The Commission was established to benefit the inhabitants of the district and operates a sewage system for 17 localities in the Chesapeake Bay area. The address for the administrative offices of the Commission is 1436 Air Rail Avenue, Virginia Beach, Virginia 23455. KPMG, LLP, audits the Commission, and a separate report is issued.

Virginia Biotechnology Research Partnership Authority (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in the development of a biotechnology research park. The Governor appoints the board members of the Authority, and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at 800 East Leigh Street, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Small Business Financing Authority (SBFA) (nonmajor) – The Virginia Small Business Financing Act of 1984 (Chapter 28, Title 9, *Code of Virginia*) established the Authority as a public body corporate and a political subdivision of the Commonwealth. The Governor appoints the 11-member board, and the primary government is able to impose its will on the Authority. The Authority was created to assist small businesses in the Commonwealth in obtaining financing for new businesses or the expansion of existing businesses. The Authority can provide financial assistance to small businesses by providing loans, guarantees, insurance, and other assistance, thereby encouraging the investment of private capital in small businesses in the Commonwealth. The Authority can loan money to local governments as defined by the *Code of Virginia* for economic development purposes. The Authority also guarantees loans made to small businesses by banks. The administrative offices of the Authority are located at 707 East Main Street, Suite 300, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia School for the Deaf and Blind Foundation (nonmajor) – The Foundation operates as a non-private educational and fundraising organization solely in connection with, and exclusively for the benefit of the Virginia School for the Deaf and Blind at Staunton (part of primary government), and within the jurisdiction and management of the Virginia Board of Education. The Foundation uses a December 31 calendar year-end. The administrative offices of the Foundation are located at the Virginia Department of Education, 101 North 14th Street, 25th Floor, Richmond, Virginia, 23219. The Auditor of Public Accounts audits the Foundation along with the audit of the Department of Education, and a separate report is issued.

Science Museum of Virginia Foundation (nonmajor) – The Foundation is a non-stock, non-profit corporation established to implement and fund programs, projects, and operations that are authorized and approved by the trustees of the Science Museum of Virginia (part of primary government). The administrative offices of the Foundation are located at the Science Museum of Virginia, Post Office Box 11624, Richmond, Virginia 23230. Cherry, Bekaert, & Holland, LLP, audits the Foundation, and a separate report is issued.

Virginia Commercial Space Flight Authority (VCSFA) (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to facilitate and coordinate scientific and technological research and development and to promote the industrial and economic development of the Commonwealth. The VCSFA became a discrete component unit of the Commonwealth in fiscal year 2009 because of the significant increase in debt for the Authority of $16 million. This increase in debt places a financial burden on the Commonwealth, changing the relationship from a related organization to a discrete component unit. The administrative offices of the Authority are located at 4111 Monarch Way, Suite 201, Norfolk, VA 23508. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Danville Science Center, Inc. (nonmajor) – The Center is non-profit corporation formed for the purpose of implementing and funding those programs, projects and operations which are authorized and approved by the trustees of the Science Museum of Virginia. The administrative offices of the Center are located at 657 Craghead Street, Post Office Box 167, Danville, Virginia 24541. Goodman and Company, LLP, audits the Center, and a separate report is issued.

Virginia Museum of Fine Arts Foundation (nonmajor) – The Foundation operates as a non-profit corporation under the laws of Virginia to fund exhibitions, programs, and capital asset expansion to ensure that the Virginia Museum of Fine Arts (part of primary government) has the space and resources for art to help improve the quality of life for many. The administrative offices of the Foundation are located at 200 North Boulevard, Richmond, Virginia 23220. Goodman and Company, LLP, audits the Foundation, and a separate report is issued.

A. L. Philpott Manufacturing Extension Partnership (nonmajor) – The Partnership has the mission to foster economic growth by enhancing the competitiveness of Virginia's manufacturers. The Partnership provides manufacturing firms with fee-based technology consulting services, access to business modernization resources, and support for interfirm collaboration. Further, the Partnership provides direct assistance to increase sales, decrease costs, and improve quality, productivity, and competitiveness. The Partnership has a 23-member board of trustees. The board consists of the presidents of two public four-year institutions of higher education; three community college presidents; the director of Virginia's Center for Innovative Technology; Virginia's Secretary of Commerce and Trade; and fifteen citizen members, representing manufacturing industries, appointed by the Governor. There is also a financial benefit/burden to the primary government. The administrative office is located at Patrick Henry Community College, 645 Patriot Avenue, Post Office Box 5311, Martinsville, Virginia 24115-5311. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

Virginia Horse Center Foundation (nonmajor) – The Foundation operates the Virginia Horse Center for the benefit of the equine and tourism industries. The Foundation is a discrete component unit of the Commonwealth due to the limited ability of the Foundation to incur additional debt without the Commonwealth's approval. In addition, the Governor appoints one member of the Foundation's board of directors, and this member must approve any changes to the Foundation's by-laws or conveyance of property. The address for the administrative offices of the Foundation is 487 Maury River Road, Lexington, Virginia 24450. The accounting firm of Raetz and Hawkins, P.C., audits the Foundation, and a separate report is issued.

Virginia University Research Partnership (nonmajor) – The Partnership was created as a non-profit, non-stock corporation to receive grant monies appropriated by the General Assembly and to oversee the administration of those grant payments for use by a non-profit, public benefit research institute that conducts research and development for government agencies, commercial businesses, foundations, and other organizations as well as commercializes technology. Due to the primary government being the sole source of funding, it is able to impose its will on the Partnership. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798.

Fort Monroe Federal Area Development Authority (nonmajor) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in formulating a reuse plan for Fort Monroe. The Governor appoints a majority of the 18-member board and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at Old Quarters #1, 151 Bernard Road, Fort Monroe, Virginia 23651. Creedle, Jones & Alga, PC, audits the Authority, and a separate report is issued.

Assistive Technology Loan Fund Authority (nonmajor) – The Authority was created as a political subdivision and public body corporate by the *Code of Virginia*. The Governor appoints the board of directors as directed by the *Code*. The Authority manages a fund to provide loans to individuals to acquire assistive technology, other equipment, or other authorized purposes designed to help disabled individuals become more independent. The administrative offices are located at 1602 Rolling Hills Drive, Suite 107, Richmond, Virginia 23229. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia National Defense Industrial Authority (nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority fosters and promotes business, technology, transportation, education, economic development and other efforts in support of the mission, execution, and transformation of the United States military and national defense activities located in the Commonwealth. The Governor appoints a majority of the 16-member board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia Sesquicentennial of the American Civil War Commission (nonmajor) – The Commission was established to prepare for and commemorate the sesquicentennial of Virginia's participation in the American Civil War. The Foundation was formed under the Virginia Nonstock Corporation Act. The economic resources received or held by the Commission are entirely or almost entirely for the direct benefit of the primary government. The administrative offices are located at 910 Capitol Street, Richmond, VA 23219. Brown, Edwards & Company, LLP, audits the Authority, and a separate report is issued.

Virginia Land Conservation Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (part of primary government) by acquiring interests in preservation land and providing grants to other entities to acquire interests in preservation land. The Governor appoints the 18-member board, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 203 Governor Street, Suite 302, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Department of

Conservation and Recreation and discloses its existence in that report.

Virginia Arts Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Virginia Commission for the Arts (part of primary government) by promoting the arts in the Commonwealth. The Governor appoints the board of trustees for the Virginia Commission for the Arts, which also serves as the board for the Virginia Arts Foundation. The Director of the Virginia Commission for the Arts serves as the board chairman. In addition, the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 223 Governor Street, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Virginia Commission for the Arts.

Library of Virginia Foundation (nonmajor) – The Foundation was created as a private, non-profit 501 (c) (3) corporation supporting the Library of Virginia. The Foundation was established upon receipt of a major bequest. The articles of incorporation stipulate that the Foundation shall at all times be operated solely in connection with, and exclusively for the benefit of the Library of Virginia. The Foundation is governed by a separate board of directors and promotes and supports the Library of Virginia in all activities. The administrative offices of the Foundation are located at 800 East Broad Street, Richmond, Virginia 23219. Barcalow & Hart, PLLC, audits the Foundation, and a separate report is issued.

Innovative Technology Authority (ITA) (nonmajor) – The Authority is granted corporate powers by the *Code of Virginia*. The Authority serves to facilitate the marketing, organization, and development of scientific research and technology by the state's institutions of higher education and private industry in the Commonwealth. In addition, the Authority serves to promote the economic development of the Commonwealth by attracting and retaining high technology jobs and businesses in Virginia. The Governor appoints the 13-member board, and there is a financial benefit/burden to the primary government. The Authority's combined financial statements include the accounts of the Center for Innovative Technology (CIT) after elimination of all significant intercompany balances and transactions. CIT is a non-stock, not-for-profit corporation, which acts as the operating arm of the Authority. The address for the administrative offices of the Authority is CIT Building, Suite 600, 2214 Rock Hill Road, Herndon, Virginia 20170-4228. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

Virginia College Building Authority (VCBA) (nonmajor) – The Authority was created as a public body corporate, a political subdivision, and an agency and instrumentality of the Commonwealth. The Governor appoints a majority of the board and members serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Authority finances certain capital projects and equipment purchases of state-supported colleges and universities. The Auditor of Public Accounts audits the Authority, and a separate report is issued from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218-1879.

Only the activity of the Authority that relates to the financing of capital projects and equipment purchases by state-supported colleges and universities is included in the financial statements. The state-supported colleges and universities reported revenue from the Authority of $345.9 million as Program Revenue Capital Grants and Contributions for the 21st Century Program and $58.4 million as Program Revenue Operating Grants and Contributions for equipment. The Authority assists private institutions of higher education in the financing and refinancing of a broad range of facilities. The Authority is authorized to issue obligations and lend the proceeds to private institutions; however, such financings or refinancings are not obligations of the primary government nor the Authority, but are payable solely from the revenues pledged by the respective private institution. This indebtedness, totaling $532.5 million, is not included in the financial statements.

(4) Related Organizations – Organizations for which the primary government appoints a majority of the board, but is not financially accountable, are related organizations. Related organizations are:

Tobacco Settlement Financing Corporation – The Corporation was created by the Tobacco Settlement Financing Corporation Act, Chapters 482 and 488 of the Acts of the General Assembly of the Commonwealth of Virginia (Commonwealth) during the 2002 General Assembly Session. The Corporation is a public body corporate entity and an independent instrumentality of the Commonwealth, managed by a six-member board, including the State Treasurer. The Corporation purchased all of the future tobacco settlement revenue allocated to the Tobacco Indemnification and Community Revitalization Commission, a discrete component unit of the Commonwealth. Neither the Commonwealth's nor the Virginia Tobacco Settlement Foundation's (component unit) tobacco revenue was securitized. The administrative offices of the Corporation are located at 101 N. 14th Street, 3rd Floor, Post Office Box 1879 Richmond, Virginia 23218-1879. PBGH, LLP audits the Corporation, and a separate report is issued.

Virginia Recreational Facilities Authority – The Authority was created as a political subdivision and instrumentality of the Commonwealth and given separate corporate powers by the *Code of Virginia*. The Governor appoints the 13-member board of directors. The Authority operates educational programs, tourism, and commerce in the Roanoke Valley. The address for the administrative offices of the Authority is 5204 Bernard Drive SW, Post Office Box 29800, Roanoke, Virginia 24018. Robinson, Farmer, Cox Associates audits the Authority, and a separate report is issued.

Jamestown-Yorktown Foundation, Inc. – The non-profit corporation was created by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The corporation board consists of five members selected from the Foundation's board of trustees. Several Commonwealth officials serve as ex-officio members of the Foundation's board, and the Governor appoints 12 members. The Corporation's basic activities consist of soliciting and collecting contributions, purchasing artifacts, sponsoring events and exhibits, and overseeing investments. The administrative offices of the Corporation are located at 2207 Colonial Parkway, Post Office Box 3605, Williamsburg, Virginia 23187. Cherry, Bekaert & Holland, LLP, audits the Corporation, and a separate report is issued.

Jamestown-Yorktown Educational Trust – The trust was created as a non-profit corporation by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The Trust board consists of six members selected from the Foundation's board of trustees. Several Commonwealth officials serve as ex-officio members of the Foundation's board, and the Governor appoints 12 members. The Trust operates the Jamestown Settlement and Yorktown Victory Centers' gift shops and café. The address for the administrative offices of the Trust is 2207 Colonial Parkway, Post Office Box 3605, Williamsburg, Virginia 23187. Goodman and Company, LLP, audits the Trust, and a separate report is issued.

Virginia Birth-Related Neurological Injury Compensation Program – The Program was created to provide a no-fault alternative for birth-related neurological injuries. The Governor appoints the seven-member board. The administrative offices of the Program are located at 7501 Boulders View Drive, Suite 210, Richmond, Virginia 23225. Cherry, Bekaert, & Holland, LLP, audits the Program, and a separate report is issued.

Chesapeake Bay Bridge and Tunnel Commission – The Commission was created to establish policy and administer operations of the Chesapeake Bay Bridge Tunnel District. Any of the 11 members of the Commission appointed or reappointed on or after July 1, 1998, shall be appointed by the Governor, subject to confirmation by each house of the General Assembly. The administrative offices of the commission are located at 32386 Lankford Highway, Cape Charles, Virginia 23310. KPMG, LLP, audits the Commission, and a separate report is issued.

C. Government-wide and Fund Financial Statements

The Government-wide Financial Statements, the Statement of Net Assets and the Statement of Activities, report information on all nonfiduciary activities of the primary government and component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Also, the primary government activity is reported separately from the legally separate component units for which the Commonwealth is financially accountable.

The Statement of Activities demonstrates the degree to which direct expenses of a specific function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit, as well as investment income generated by operations. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items properly excluded from program revenues are reported as general revenues.

Net assets are restricted when constraints are placed on them that are imposed by external parties or constitutional provisions. Designations solely imposed by the Commonwealth's management are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, the Commonwealth's policy is to use the restricted resources first. Some institutions of higher education may follow a different policy.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and component units. However, fiduciary funds are not included in the government-wide statements. Major governmental funds, enterprise funds, and component units are reported as separate columns in the fund financial statements, with nonmajor funds being aggregated into a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the primary government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year (or one year for Medicaid). Significant revenues subject to accrual include federal grants and income and sales taxes. Income tax revenues for tax underpayments are only recognized to the extent of the primary government's estimated refunds for tax overpayments received. Revenues that the primary government earns by incurring obligations are recognized in the same period as when the obligations are recognized.

Expenditures generally are recorded when a liability is incurred, as under full accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when the payment is due.

The primary government reports the following major governmental funds:

General Fund – Accounts for the transactions related to resources received and used for those services traditionally provided by a state government, and which are not accounted for in any other fund. These services include general government, legislative and judicial activities, public safety, health and mental health programs, resources and economic development, licensing and regulation, and primary and secondary education.

Commonwealth Transportation Special Revenue Fund – Accounts for the revenues and expenditures associated with highway operations, maintenance, construction, and other transportation related activities. Funding for these programs is received from highway user taxes, fees, and funds received from the federal government.

Federal Trust Special Revenue Fund – Accounts for all federal dollars received by the Commonwealth except those received by the Commonwealth Transportation Fund, the Unemployment Compensation Fund, and institutions of higher education.

Literary Fund Special Revenue Fund – Accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements – The financial statements of the proprietary funds, fiduciary funds, and component units are reported using the economic resources measurement focus and the full accrual basis of accounting. As with the government-wide statements, revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus since they only report assets and liabilities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides governments two options for reporting their enterprise funds (including component units reporting as business-type activities). All enterprise funds reported herein, with the exception of the State Lottery (major enterprise fund), Department of Alcoholic Beverage Control (nonmajor enterprise fund), Mental Health Local Funds (nonmajor enterprise fund), the Virginia Port Authority (nonmajor component unit), the A. L. Philpott Manufacturing Extension Partnership (nonmajor component unit), the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit), and the Innovative Technology Authority (nonmajor component unit) apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The State Lottery (major enterprise fund), Department of Alcoholic Beverage Control (nonmajor enterprise fund), Mental Health Local Funds (nonmajor enterprise fund), the Virginia Port Authority (nonmajor component unit), the A. L. Philpott Manufacturing Extension Partnership (nonmajor component unit), the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit), and the Innovative Technology Authority (nonmajor component unit) apply all of these pronouncements, and also apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Foundations' (component units) financial statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. The financial statements are prepared under FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. FASB rather than GASB pronouncements are followed. In some instances, activities of the foundations (component units) are reported separately within the footnotes because of the different reporting standards. Also, some foundations (component units) have a December 31st or March 31st year-end rather than a fiscal year-end. Foundations (component units) with different year-ends are included in these financial statements for the year ending December 31, 2008 or March 31, 2009. Significant intrafund activity/balances between each higher education institution and their foundations have been eliminated. However, Old Dominion University (nonmajor component unit) reported the following intrafund balances that could not be eliminated because of differing year-ends: institution assets of $78.1 million and liabilities of $73.2 million, and foundation assets of $62.7 million and liabilities of $77.1 million. Longwood University (nonmajor component unit) reported the following intrafund balances that could not be eliminated because of differing year-ends: institution expenditures of $2.7 million and foundation revenues of $6.2 million.

The primary government reports the following major enterprise funds:

State Lottery Fund – Accounts for all receipts and expenses of the State Lottery.

Virginia College Savings Plan Fund – Administers the Virginia Prepaid Education Program.

Unemployment Compensation Fund – Accounts for receipts from employers and expenses incurred to provide benefits to eligible unemployed workers.

Additionally, the primary government reports the following fund types:

Governmental Fund Types:

Special Revenue Funds – Account for transactions related to resources received and used for restricted or specific purposes.

Debt Service Funds – Account for transactions related to resources retained and used for the payment of interest and principal on long-term obligations.

Capital Project Funds – Account for transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental or proprietary funds. The primary resource for these funds is the proceeds of bond issues and energy performance contracts. Principal uses are for construction and improvement of state office buildings, correctional and mental health facilities, and parks.

Permanent Funds – Account for transactions of the Commonwealth Health Research Fund, the Prescription Monitoring Fund, and the Mental Health Endowment Funds whose principal must remain intact and whose income is used to benefit the Commonwealth's citizens and mental health patients.

Proprietary Fund Types:

Enterprise Funds – Account for transactions related to resources received and used for financing self-supporting activities of the primary government that offer products and services on a user-charge basis to external users.

Internal Service Funds – Account for transactions related to the financing and sale of goods or services provided by the agencies of the primary government to other agencies and institutions of the Commonwealth. Activities include the provision of information technology, manufacturing activities, insurance programs, fleet services, facilities and property management, and engineering services.

Fiduciary Fund Types:

Private Purpose Trust Funds – Account for transactions of all other trust arrangements in which the principal and income benefit individuals, private organizations, or other governments. These trusts include those for escheat property, educational savings plans, and others.

Pension and Other Employee Benefit Trust Funds – Account for transactions of the Commonwealth administered retirement systems and other employment benefits.

Investment Trust Fund – Accounts for the external portion of the Local Government Investment Pool that is sponsored by the Commonwealth.

Agency Funds – Account for amounts held in trust by the primary government for others. Agency funds include those funds established to account for the collection of taxes and fees for distribution to localities and other states, employee benefits, deposits of insurance carriers, child support collections and other miscellaneous accounts.

E. Budgetary Process

Budgetary amounts shown in the Required Supplementary Information and Combining and Individual Fund Statements and Schedules Sections represent the total of the original budgeted amounts and all supplemental appropriations. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the *Code of Virginia*, submits a budget composed of all proposed expenditures for the Commonwealth, and of estimated revenues and borrowing for a biennium, to the General Assembly. Budgets are adopted for the General and Special Revenue Funds, except for the Literary (major) – Special Revenue Fund. Formal budgetary integration is not employed for the Capital Projects (nonmajor), Debt Service (nonmajor), Permanent Funds (nonmajor), and the Literary – Special Revenue (major) because effective budgetary control is alternatively achieved through the General Fund and the remaining Special Revenue Funds.

The budget is prepared on a biennial basis; however, the budgets of the General and Special Revenue Funds contain separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor. For management control purposes, the budget is controlled at the program level. The Governor may transfer an appropriation within a state agency or from one state agency to another, provided that total fund appropriations, as contained within the budget, are not exceeded. Increases in General Fund appropriations must be approved by the General Assembly.

Appropriations for programs funded from Special Revenue Funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

F. Cash, Cash Equivalents, and Investments

Cash

In order to maximize the Commonwealth's earning potential, the majority of the primary government's cash balances are pooled together in the general account for investment purposes. The amounts required for operations are liquidated as needed. Since all amounts not required for operations are held in investment securities, it is possible that the cash balances could be negative due to timing differences in liquidating the investments.

As of June 30, 2009, the General Fund had a negative cash balance of $3.9 billion. In order to properly reflect the general account position, this negative cash balance has been eliminated in the accompanying statements and offset against the primary government's cash equivalents and investments (see Note 6).

Cash Equivalents

Cash equivalents are investments with an original maturity of 90 days or less.

Investments

Investments are principally comprised of monies held by component units, Pension and Other Employee Benefit Trust Funds, and monies held by the State Treasurer in both the general account and other fiduciary accounts.

Governmental and proprietary funds, both primary government and component units, report investments in money market and in the Commonwealth sponsored investment pools at amortized cost. All other investments are reported at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Investments administered by the Virginia Retirement System (the System) are reported at fair value. The cost of investments sold is the average cost of the aggregate holding of the specific investment sold. Investments in affiliated organizations are accounted for on the equity method of accounting and the System's share of their earnings (losses) for the period is included in investment income using the equity method.

Investments of higher education institutions (component units) are reported at fair value, except for money market investments and investments in the Commonwealth sponsored investment pools, which are reported at amortized cost.

Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes (see Note 6).

G. Receivables

Receivables in the governmental funds consist primarily of the accrual of taxes, as well as federal receivables of the primary government's Medicaid program. Receivables in the proprietary funds consist primarily of tuition contribution receivables. Receivables of fiduciary funds are primarily the accrual of member and employer contributions in the Pension and Other Employee Benefit Trust Funds and the accrual of local sales taxes in the Agency Funds. Receivables of the component units consist primarily of mortgage receivables, loan receivables, patient receivables, and student receivables. Receivables are recorded net of allowances for doubtful accounts (see Note 7).

H. Contributions Receivable, Net

Contributions Receivable reported by the foundations (component units) represents pledges or unconditional promises to give that have been discounted (see Note 8).

I. Internal Balances

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities (see Note 9).

J. Inventory

Inventories consist of materials and supplies and are reported as expenditures when consumed. These assets are offset by a fund balance reserve that indicates they are not available for spending. Inventories exceeding $1 million of the General and the Special Revenue Funds are maintained at cost using the first-in, first-out (FIFO) methodology, except for the following:

- Department of State Police (VSP)
- Virginia Department of Transportation (VDOT)
- Department of Health (VDH)
- Department for the Blind and Vision Impaired (DBVI)

VSP inventories are recorded in the General (major) and Other Special Revenue (nonmajor) Funds using the average cost methodology and are maintained at cost. VDOT inventories are recorded in the Commonwealth Transportation Fund (major) using the FIFO and average cost methodologies and are maintained at either cost or average cost. VDH inventories are recorded in the General (major), Health and Social Services Special Revenue (nonmajor), and Federal Trust (major) Funds. These inventories are maintained at cost based on either FIFO or the average cost methodology. DBVI inventories are maintained at cost or average cost based on the FIFO methodology and are recorded in the General (major) and Health and Social Services Special Revenue (nonmajor) Funds.

In addition to inventories maintained as stated above, the following agencies reported donated inventory on hand at June 30, 2009:

- Department of Agriculture and Consumer Services (VDACS)
- Department of Health (VDH)
- Department of Corrections (DOC)
- Department of Mental Health, Mental Retardation, and Substance Abuse Services (DMHMRSAS)
- Department of Juvenile Justice (DJJ)

Inventories maintained by Correctional Enterprises (internal service fund) are stated at the lower of cost or market using FIFO. Inventories maintained by the Virginia Museum of Fine Arts (nonmajor enterprise fund), the Science Museum of Virginia (nonmajor enterprise fund), the Consolidated Laboratory (nonmajor enterprise fund), and the Library of Virginia (nonmajor enterprise fund) are stated at cost using FIFO. Inventories maintained by the internal service funds except for Correctional Enterprises are stated at cost using FIFO.

Inventories maintained by the Department of Alcoholic Beverage Control (nonmajor enterprise fund) are stated at average cost using FIFO.

The Virginia Industries for the Blind (nonmajor enterprise fund) maintains inventories at cost using the average cost methodology.

Institutions of higher education (component units) use several methods for inventory valuations, including cost using FIFO, the lower of cost or market using FIFO, or weighted average methods. Inventories maintained by the Virginia Horse Center Foundation (nonmajor component unit) are stated at the lower of cost or market using FIFO. Inventories maintained by the Virginia Port Authority (nonmajor component unit) are reported using the moving average unit cost methodology.

K. Prepaid Items

Prepaid assets for rent, insurance, and similar items are recognized when purchased and expensed when used.

L. Interfund Loans Receivable/Payable

Loans Receivable/Payable represents working capital advances from one fund to another (see Note 9).

M. Other Assets

Other Assets include those balances of a miscellaneous nature that are not specifically classified elsewhere (see Note 10).

N. Capital Assets

Capital assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the Government-wide Statement of Net Assets. Capital assets of the other funds and component units are capitalized in the fund in which they are utilized. All depreciable capital assets are depreciated on the straight-line basis over their useful lives (see Note 12).

Capital assets are stated at historical cost or, in some instances, estimated historical cost. Donated capital assets from entities external to the reporting entity are stated at fair market value at the time of donation. Asset transfers or donations from within the reporting entity are recorded at the carrying value of the transferring entity as required by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The primary government capitalizes all equipment that has a cost or value greater than $50,000 and expected useful life of greater than two years. The capitalization of software is included in amounts reported for equipment. The primary government capitalizes all land, buildings and infrastructure that have a cost or value greater than $100,000 and an expected useful life of greater than two years. Selected agencies, business-type entities, and component units utilize a capitalization limit lower or higher than the primary government's established thresholds for various reasons. Accordingly, reported capital assets may include some items that cost less than those thresholds. Infrastructure, including highways, bridges, and rights-of-way, is capitalized using the historical approach and includes any assets acquired prior to fiscal year 1980.

The primary government's capitalization policy regarding works of art/historical treasures is that capitalization is encouraged, but not required, for works of art/historical treasures that meet the following conditions:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain;
- The collection is protected, kept unencumbered, cared for and preserved; and,
- The collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

The primary government capitalizes construction-in-progress when project expenditures exceed $100,000. Interest incurred during construction is not capitalized in governmental funds. Interest incurred during the construction of proprietary fund assets is included in the capitalized value of the asset. Expenditures are classified as construction-in-progress if:

(1) they extend the asset life, improve productivity, or improve the quality of service; and,

(2) they fall into the planning, acquisition, construction, improvement, renovation, repair, replacement, relocation or demolition phase of the asset life.

The estimated lives of capital assets are as follows:

	Years
Buildings	10-75
Equipment	2–50
Infrastructure	5–50

Selected agencies, business-type entities, and component units may utilize estimated lives and policies that differ from the above for various reasons.

O. Accounts Payable

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, accounts payable also includes payments for nonexchange transactions that met eligibility requirements prior to year-end (see Note 22).

P. Unearned and Deferred Revenue

Unearned revenue represents monies received or revenues accrued but not earned as of June 30, 2009. Deferred revenue represents revenues accrued but not available to finance expenditures of the current fiscal period. The majority of unearned revenue is reported by higher education institutions (component unit), where it is primarily composed of revenue for student tuition accrued in advance of the semester and advance payments on grants and contracts. In the General Fund (major), deferred revenue represents receivables that will be collected after August 31, 2009. In the Special

Revenue Funds, unearned revenue is composed primarily of federal grant money received but not spent. In the enterprise funds, a majority of unearned revenue represents on-line ticket monies received by the State Lottery (major) for which corresponding drawings have not been held and unearned revenues of Consolidated Laboratory (nonmajor). In the internal service funds, it represents primarily unearned premiums for the Risk Management Fund and prepaid rent and work orders for the Property Management Fund. Additionally, in the Virginia Information Technologies Agency internal service fund, unearned revenue relates to the transfer and purchase of assets for transition agencies and advanced customer receipts. Unearned revenues in the other component units consist primarily of the deferral of fees related to various activities.

Q. Deferred Taxes

Deferred taxes represent the deferral of income taxes withheld or received for the period January through June 2009. This amount is the estimate to be refunded (overpayments by taxpayers) reduced by the estimate to be received (underpayments from taxpayers) that will be finalized when income tax returns are filed in subsequent years. Individual income tax estimated overpayments total $729,190,360 and estimated underpayments total $529,882,256. This results in deferred taxes of $199,308,104.

Corporate income tax estimated overpayments total $42,958,430 and estimated underpayments total $59,470,376. When underpayments exceed overpayments, revenue on the fund statements is only recognized to the extent of estimated overpayments. Since underpayments exceed overpayments for corporate income taxes, the deferred tax amount is zero for the fiscal year.

R. Obligations Under Securities Lending Program

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, liabilities resulting from these transactions have been recorded as obligations under securities lending transactions.

S. Other Liabilities

Other liabilities represent amounts owed for various governmental and proprietary activities. Some of these amounts will be paid shortly after fiscal year-end (see Note 23).

Short-term debt results from borrowings from anticipation notes, lines of credit, and similar loans with parties external to the primary government. The primary government's policy is to disclose activity related to short-term borrowings occurring during the fiscal year. For fiscal year 2009, the primary government's agencies did not participate in short-term borrowings with external parties. Higher education institutions' foundations (component units) have short-term debt outstanding as of year-end that amount to approximately $66.7 million. Also, the University of Virginia (major component unit) reports $56.4 million and the Virginia Polytechnic Institute and State University (major component unit) reports $20.8 million of commercial paper that provides bridge financing for capital projects. The Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit) reports short-term debt of $13.5 million to meet certain cash reserve requirements. The Virginia Horse Center Foundation (nonmajor component unit) reported a $60,000 short-term note with a related party. The Virginia Port Authority (nonmajor component unit) reported a $65.9 million short-term Port Facilities Bond Anticipation Note Series 2009.

T. Claims Payable

Claims payable, reported in the proprietary funds of the primary government, represent both health and liability insurance claims payable at June 30, 2009. This includes both actual claims submitted, as well as actuarially determined claims incurred but not reported. Claims relating to the primary government's liability insurance programs are reported in the Risk Management – internal service fund and the Risk Management – nonmajor enterprise fund. Also, health insurance claims are reported in the Health Care – internal service fund and the Local Choice Health Care – nonmajor enterprise fund (see Notes 21.A. and 21.B.). Claims payable reported by the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – major component unit) represents estimated malpractice, workers' compensation, and medical claims payable amounts.

U. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. The governmental fund statements reflect the portion of long-term liabilities that will be paid from expendable resources that represent payments to employees for separations that occurred prior to June 30. The proprietary fund statements and discrete component unit statements reflect total long-term liabilities and distinguish between those portions payable within one year and those payable in future years (see Note 24).

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Expenditures for principal and interest payments for governmental fund general obligation bonds and revenue bonds are recognized in the Debt Service Fund (nonmajor) when due. In these fund statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures (see Note 24).

V. Reserved Fund Balances

Reserved fund balances indicate that portion of fund balance that is not available to fund operations or is legally segregated for specific future use. Fund balance reservations are not specifically denoted in instances where the nature of the fund dictates the entire amount is reserved.

W. Unreserved, Designated Fund Balances

Designations of fund balance, as shown in Note 4, are established to reflect tentative plans for future utilization of current financial resources. It is the policy of the primary government to designate the portion of fund balance set aside by the General Assembly through the Appropriation Act to fund tentative but approved future plans. Unexpended appropriations approved by the Governor to be used to fund expenditures of the ensuing fiscal year are also reflected through a designation of fund balance. It is the policy of the primary government to limit such designations in the event that their accumulation and presentation would cause a negative unreserved, undesignated fund balance to occur.

X. Unreserved, Undesignated Fund Balances

The unreserved, undesignated basis of budgeting fund balance is the amount of fund balance remaining from operations of the current and prior years, net of amounts established as reserved and designated fund balance described in Notes 1.V. and 1.W. above.

Y. Cash Management Improvement Act

Included in “Due to Other Governments” is the Commonwealth’s Cash Management Improvement Act (CMIA) interest liability to the federal government, which is calculated in accordance with the interest calculation and exchange provisions of the Federal Cash Management Improvement Act of 1990. The Commonwealth’s interest liability is subject to review and final confirmation by the Financial Management Service (FMS) of the U.S. Treasury. The payment is to be made on March 31, 2010. Payment will be made from a sum sufficient appropriation authorized for this purpose by the Appropriation Act. The CMIA interest rate of exchange is based by law on the average of the bond equivalent rates of 13-week Treasury Bills auctioned during the annual reporting period as calculated by FMS.

Z. Investment Income

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investment income reported in the accompanying financial statements include changes in the fair value of investments and the amount reported may be negative. Additionally, the Commonwealth’s policy is to record all unrealized gains or losses for the Treasurer’s Portfolio in the General Fund.

AA. Intrafund Eliminations

Eliminations have been incorporated into the report to eliminate intrafund transactions within the related fund type. These eliminations prevent overstatement of financial activity.

BB. Interfund Activity

Generally, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions.

In the fund financial statements, transfers represent the movement of resources between funds. For example, transfers are recorded when a fund receives revenue and subsequently disburses the resources to another fund for expenditure.

2. RESTATEMENT OF BEGINNING BALANCES

The government-wide beginning balance restatements resulted from the following:

GOVERNMENTAL ACTIVITIES:

- The Commonwealth implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* effective for the fiscal year ending June 30, 2009, which resulted in a restatement of pollution remediation liabilities of $2.9 million.

- Capital Asset balances were restated by $21.3 million regarding the understatement of capital assts due primarily to various agencies not recording assets at the time of acquisition.

- State Corporation Commission balances were restated due to prior years errors resulting in a $41.3 million understatement of accrued liabilities and a $12.9 million overstatement of accrued receivables.

COMPONENT UNITS

- The Belmont Bay Science Center Foundation modified its organizational structure during fiscal year 2009 and is no longer a component unit of the Commonwealth.

- The Commercial Space Flight Authority received significant bond proceeds from the Commonwealth during fiscal year 2009, and accordingly, now meets the component unit reporting criterion.

- The College of William and Mary's beginning balance has been restated by $11.7 million to correct prior year errors primarily related to capital assets and other accruals.

FUND STATEMENTS

The fund statement beginning balance restatements resulted from the following:

- The Nonmajor Special Revenue funds were restated due to a $12.9 million overstatement of accrued receivables.

- The Private Purpose Funds were restated by $21.5 million due to the omission of the Gas and Oil Board Escrow Account in prior years.

Beginning Balance Restatement

(Dollars in Thousands)

	Balance as of June 30, 2008	GASBS No. 49 Pollution Remediation	Correction of Prior Year Errors	Change in Reporting Entity	Balance June 30, 2008 as restated
Government-wide Activities:					
Primary Government:					
Governmental Activities	$ 17,433,955	$ (2,997)	$ (32,822)	$ -	$ 17,398,136
Business-type Activities	901,366	-	-	-	901,366
Total Primary Government	$ 18,335,321	$ (2,997)	$ (32,822)	$ -	$ 18,299,502
Component Units	$ 19,634,328	$ -	$ (11,736)	$ 1,296	$ 19,623,888
Fund Statements - Governmental Funds					
General	$ 1,202,919	$ -	$ -	$ -	$ 1,202,919
Special Revenue Funds:					
Commonwealth Transportation	1,843,596	-	-	-	1,843,596
Federal Trust	86,668	-	-	-	86,668
Literary	293,733	-	-	-	293,733
Nonmajor Governmental	1,390,171	-	(12,853)	-	1,377,318
Total Governmental	$ 4,817,087	$ -	$ (12,853)	$ -	$ 4,804,234
Fund Statements - Fiduciary Funds					
Private Purpose Funds	$ 26,071,085	$ -	$ 21,518	$ -	$ 26,092,603
Pension Trust Funds	$ 55,107,345	$ -	$ -	$ -	$ 55,107,345
Investment Trust Funds	$ 3,489,424	$ -	$ -	$ -	$ 3,489,424
Fund Statements - Component Units:					
Virginia Housing Development Authority	$ 2,041,770	$ -	$ -	$ -	$ 2,041,770
Virginia Public School Authority	13,316	-	-	-	13,316
University of Virginia	6,764,383	-	-	-	6,764,383
Virginia Polytechnic Institute and State University	1,525,352	-	-	-	1,525,352
Virginia Commonwealth University	1,766,640	-	-	-	1,766,640
Nonmajor Component Units	7,522,867	-	(11,736)	1,296	7,512,427
Total Component Units	$ 19,634,328	$ -	$ (11,736)	$ 1,296	$ 19,623,888

3. DEFICIT FUND BALANCES / NET ASSETS

The General Fund ended fiscal year 2009 with a deficit fund balance of $258.5 million on a modified accrual basis of accounting. This is due primarily to a significant decline in revenues resulting from the slowing economy as well as the effects of accrual items. These accruals generally result in decreases to fund balance and are similar in nature and amount to previous years.

The State Lottery (major enterprise fund) and Department of Alcoholic Beverage Control (nonmajor enterprise fund) ended the year with deficit net assets of $4.3 million and $12.6 million, respectively. This was solely attributable to the net pension obligation resulting from GASB Statement No. 27*, Accounting for Pensions by State and Local Governmental Employers* and the net other postemployment benefits (OPEB) obligation resulting from GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Since the Commonwealth is the employer, the agencies do not report this liability in their individually published financial statements.

The Virginia College Savings Plan (major enterprise fund) ended the year with a deficit net assets balance of $285.2 million. This decrease is mostly attributable to the projected unfunded actuarial liability calculated by the plan's actuary. The change in the projected tuition benefits payable liability is mostly attributable to investment losses and a change in the tuition growth assumption, offset somewhat by revenue from new contract sales.

The Library of Virginia (nonmajor enterprise fund) ended the year with a deficit net assets balance of $279,293. This is attributable to operating expenses exceeding revenues.

The Property Management Fund (internal service fund) ended the year with a deficit net assets balance of $12.1 million. This deficit was the result of the purchase of a leasehold interest in a state-owned building in fiscal year 2006. Also, the Property Management Fund incurred additional capital lease liabilities due to transfers of leases from other state agencies.

The Risk Management Fund (internal service fund) ended the year with a deficit net assets balance of $328.4 million. The deficit was the result of the Worker's Compensation Program having estimated claims payable exceeding the available equity in the fund. Claims are paid on a pay-as-you-go basis. To the extent that claims exceed current resources, they will ultimately become a liability of the fund from which the claim originated.

The Virginia College Building Authority (nonmajor component unit) ended the year with a deficit net assets balance of $1.15 billion. This deficit occurs because the Authority issues bonds for the 21st Century College and Equipment programs subject to future appropriations from the General Fund of the Commonwealth without any other security.

4. GENERAL FUND ANALYSIS – BASIS OF BUDGETING

The following schedule represents reservations and designations of General Fund balance on the basis of budgeting.

Reservations and Designations of Fund Balance
General Fund, Basis of Budgeting
June 30, 2009

(Dollars in Thousands)

Reserved Fund Balance:		
Revenue Stabilization Reserve Fund	$ 575,064	
Payroll Reserve for July 1, 2009 Payroll	86,461	
Lottery Proceeds Fund	964	
Total Reserved Fund Balance		662,489
Unreserved Fund Balance:		
Designated:		
Amount Required for Reappropriation of 2009 Unexpended Balances for Capital Outlay	10,805	
Central Capital Planning Fund	12,136	
Natural Disaster Sum Sufficient	14,184	
Amount Required by Chapter 781	51,769	
Amount Required for Mandatory Appropriation	72,092	
Total Designated Fund Balance		160,986
Fund Balance, June 30, 2009		$ 823,475

5. REVENUE STABILIZATION FUND

In accordance with Article X, Section 8 of the *Constitution of Virginia*, the amount estimated as required for deposit to the Revenue Stabilization Fund must be appropriated for that purpose by the General Assembly. During fiscal year 2009, in accordance with the provisions of Article X, Section 8 of the *Constitution* and Section 2.2-1830 of the *Code of Virginia*, a withdrawal of $490 million was made from the fund.

The *Constitution* requires a deposit based on growth in income and retail sales tax revenue and allows revenue growth from increases in tax rates or the repeal of exemptions to be excluded, in whole or part, from the deposit calculation for up to six years. A deposit is not required based on fiscal year 2009 revenue collections when revenue increases from tax reform were included or excluded, including those derived from estimates.

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the fund when specific criteria have been met. No such designation is required since the specified criteria were not met for fiscal year 2009.

The Revenue Stabilization Fund has principal and interest on deposit of $575 million reserved as a part of General Fund balance. The amount on deposit cannot exceed ten percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. The maximum amount allowed is $1.38 billion for fiscal year 2009 and fiscal year 2010.

6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2009, the carrying amount of cash for the primary government was $3,301,748,507 and the bank balance was $235,669,065. The carrying amount of cash for component units was $925,400,300 and the bank balance was $370,511,318. Cash equivalents are investments with an original maturity of 90 days or less. Cash and cash equivalents for foundations (component units) totaled $483,836,983 as of year-end. A portion of this amount and some balances during the year exceeded Federal Deposit Insurance Corporation (FDIC) insurance coverage. Foundation investments are disclosed in the Interest Rate Risk section of this note.

For purposes of this note, primary government includes governmental, business-type activities, and fiduciary funds. The deposits of the primary government and the component units, excluding foundations (component units), are secured in accordance with the provisions of the Virginia Security for Public Deposits Act, Section 2.2-4400 of the *Code of Virginia*. The act requires any public depository that receives or holds public deposits to pledge collateral to the Treasury Board to cover public deposits in excess of Federal deposit insurance. The required collateral percentage is determined by the Treasury Board and ranges from 50 percent to 100 percent of public deposits in the case of a bank and 100 percent to 110 percent for a savings institution. During the fiscal year, there was an unrealized loss of $12.6 billion and $6.4 billion attributable to Virginia Retirement System (the System) and the Virginia College Savings Plan, respectively. In addition, the Treasurer's Portfolio reported an unrealized loss of $75.0 million consisting of an unrealized loss of $82.0 million in securities lending which is offset by an unrealized gain of $7.0 million in other investments. As stated in Note 1.Z., unrealized gains or losses for the Treasurer's Portfolio are recorded in the General Fund.

Securities pledged by banks and savings institutions, under the act, are held by an approved escrow agent for the Treasury Board. In the event a depository bank defaults or becomes insolvent, the Treasury Board first assesses the collateral of the defaulting or insolvent institution and then assesses the collateral pledged by other public depositories on a statutory based ratio to the extent necessary to satisfy the assessment against the defaulting bank. The collateral pledged by all banks is sufficient to cover the uncollateralized public deposits of any single bank. Upon default or insolvency of a savings institution, the Treasury Board assesses the institution the amount of public funds on deposit in excess of FDIC insurance. The State Treasurer liquidates the necessary pledged collateral of the institution to reimburse public depositors to the extent of the institution's deposit liability to them. As a result, these deposits are considered insured.

Certain deposits are held by trustees in accordance with the Trust Subsidiary Act, Section 6.1–32.8 et seq. of the *Code of Virginia*. The act requires that cash held by trustees while awaiting investment or distribution is not to be used by an affiliate bank of the trustee in the conduct of its business unless the affiliate bank delivers securities to the trust department as collateral that is at least equal to the fair value of the trust funds held on deposit in excess of amounts insured by the FDIC.

The Commonwealth is authorized, in accordance with the guidelines set forth in Section 2.2-4500 et seq. of the *Code of Virginia*, to invest public funds in the following:

- U.S. Treasury and agency securities
- Corporate debt securities
- Asset–backed securities
- Mortgage–backed securities
- Municipal securities
- AAA rated obligations of foreign governments
- Bankers' acceptances and bank notes
- Negotiable certificates of deposit
- Repurchase agreements
- Money market funds

Permitted investments include agency mortgage-backed securities, corporate or private label mortgage-backed securities, and asset-backed securities which by definition usually expose the investor to prepayment risk.

Prepayment risk, or the prepayment option granted the borrower, can create uncertainty concerning cash flows, can affect the price of the security causing negative convexity, and can expose the investor to reinvestment risk. Similarly, many agency and corporate securities are callable after some predetermined date at a predetermined price. The call options in regular agency debentures and some corporate securities can be open ended and may significantly impact cash flows, security pricing, and reinvestment risks of these securities.

Public funds held by the Commonwealth, public officers, municipal corporations, political subdivisions, and any other public body of the Commonwealth shall be held in trust for the citizens of the Commonwealth. Any investment of such funds pursuant to the provisions of this chapter shall be made solely in the interest of the citizens of the Commonwealth and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Certain investments held in trust by the Treasurer of Virginia in accordance with bond indentures and resolutions may have more restrictive investment policies. Investment policies of institutions of higher education (component units) are established by the institutions' governing boards.

The Board of Trustees of the Virginia Retirement System (the System) (part of primary government) has full power to invest and reinvest the trust funds in accordance with Section 51.1–124.30 of the *Code of Virginia*, as amended. This section requires the Board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so. The System does not have investment policies that place specific restrictions on investments related to custodial risk, interest rate risk, credit risk, or foreign currency risk. The System investment portfolio is intended to be managed through diversification and prudent judgment, rather than through specific policy restrictions.

The information presented for the external investment pool was obtained from audited financial statements. Copies of the Local Government Investment Pool (LGIP) report may be obtained by writing the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218. Participation in this pool is voluntary.

Custodial Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commonwealth may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Policies related to credit risk pertaining to the Commonwealth's securities lending program are found in the securities lending section of this note.

As of June 30, 2009, the primary government had $483,513,624 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. The System had $478,383,000 of this amount that consisted of various types of debt and equity securities that were held by counterparties' trust departments or agents, but not in the System's name. Investments held by broker-dealers under securities loan for common and preferred stocks represented $396,256,000 and U.S. Treasury and agency securities represented $1,086,000 of the total. The remainder was for various types of debt and equity securities. The component units had $2,442,065 of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. U.S. Treasury and agency securities represented $1,164,480 and common and preferred stocks represented $722,460 of the total and the remainder was for various types of debt and equity securities.

As of June 30, 2009, the investments of the Pension and Other Employee Benefit Trust Funds were approximately 55 percent of the primary government investments, and 99 percent of those that were exposed to custodial risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Commonwealth has elected the Segmented Time Distribution method of disclosure.

The State Treasurer's guidelines limit the following maximum durations for any single security of the following investment types:

Security Type	Maximum Duration
Corporate Security	15 years
Asset-Backed Securities	5 years
Sovereign Government Obligations (excluding U.S.)	5 years
Negotiable Certificates of Deposit and Negotiable Bank Notes	5 years

The State Treasurer's guidelines further describe target durations for the overall general account portfolio of 1.6 years, with a 2.3 year maximum and a 0.4 year minimum duration.

The System manages the risk within the portfolio using the effective duration or option-adjusted methodology. It is widely used in the management of fixed income portfolios in that it quantifies, to a much greater degree, the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All of the System's fixed income portfolios are managed in accordance with the System's investment guidelines, most of which are specific as to the degree of interest rate risk that can be taken.

At June 30, 2009, the Commonwealth had the following investments and maturities:

Primary Government Investments

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 2,092,131	$ 624,731	$ 980,767	$ 296,939	$ 189,694
Corporate Notes	11,373,787	6,893,638	2,671,378	1,357,713	451,058
Corporate Bonds	3,367,827	1,815,182	1,152,618	304,975	95,052
Corporate Mortgage-Backed Securities	151,941	-	28,923	1,942	121,076
Commercial Paper	407,492	407,492	-	-	-
Negotiable Certificates of Deposit	25,028	25,023	5	-	-
Non-negotiable Certificates of Deposit	446,364	446,021	343	-	-
Reverse Repurchase Agreements	675,574	675,574	-	-	-
Repurchase Agreements	801,123	801,123	-	-	-
Municipal Securities	205,816	26,575	54,364	24,519	100,358
Asset-Backed Securities	1,298,437	422,084	452,394	42,758	381,201
Agency Mortgage-Backed Securities	2,782,119	206,485	2,165,840	121,469	288,325
Agency Unsecured Bonds and Notes	4,143,523	2,173,193	1,887,566	71,339	11,425
Mutual and Money Market Funds (Includes SNAP)	3,532,262	3,532,106	156	-	-
The Boston Company Pooled Employee Trust Fund	5,671	5,671	-	-	-
Guaranteed Investment Contracts	236,246	-	236,246	-	-
Fixed Income and Commingled Funds	1,825,088	61,060	1,625,166	138,862	-
Deposits with the U.S. Treasury for Unemployment Compensation	363,455	363,455	-	-	-
Investments held by broker-dealers under securities loans					
U. S. Government and Agency Securities	745,117	81,831	304,860	266,681	91,745
Corporate Notes	197,753	9,871	103,153	72,954	11,775
Corporate Bonds	12,735	631	6,771	4,306	1,027
Other	893,164	437,717	253,091	120,997	81,359
Total	$ 35,582,653	$ 19,009,463	$ 11,923,641	$ 2,825,454	$ 1,824,095

Component Unit Investments

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 506,535	$ 280,001	$ 86,900	$ 44,593	$ 95,041
Corporate Notes	56,932	11,937	36,369	6,618	2,008
Corporate Bonds	194,340	16,404	136,720	38,083	3,133
Corporate Mortgage Backed Securities	13,794	-	-	-	13,794
Commercial Paper	26,867	26,867	-	-	-
Negotiable Certificates of Deposit	213,617	211,373	2,244	-	-
Non-negotiable Certificates of Deposit	14,546	14,546	-	-	-
Repurchase Agreements	93,780	93,780	-	-	-
Municipal Securities	3,590,980	11,630	134,638	79,702	3,365,010
Asset Backed Securities	138,720	20,872	29,729	9,791	78,328
Agency Unsecured Bonds and Notes	135,519	79,766	53,690	2,063	-
Agency Mortgage Backed	189,418	6,665	26,053	8,811	147,889
Mutual and Money Market Funds (Includes SNAP)	1,966,444	1,907,367	42,144	14,899	2,034
Guaranteed Investment Contracts	245,998	-	36,206	-	209,792
Other	123,697	122,989	546	-	162
Total	$ 7,511,187	$ 2,804,197	$ 585,239	$ 204,560	$ 3,917,191

Foundation Investments

(Dollars in Thousands)

Investment Type	Fair Value
U.S. Treasury and Agency Securities	$ 642,971
Common & Preferred Stocks	1,334,304
Corporate Notes	11,729
Corporate Bonds	197,057
Commercial Paper	81,992
Negotiable Certificates of Deposit	17,705
Municipal Securities	3,695
Asset Backed Securities	4,227
Agency Mortgage Backed	7,794
Agency Unsecured Bonds and Notes	17,371
Mutual Funds	768,805
Real Estate	197,997
Index Funds	17,184
Hedge Funds	1,006,472
Partnerships and Other Joint Ventures	1,474,315
Others	761,732
Total	$ 6,545,350

Note: Foundations represent FASB reporting entities defined in Note 1.B. A portion of these amounts are reported at cost rather than fair value because fair value was not available or readily determinable.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Treasurer of the Commonwealth places emphasis on securities of high credit quality and marketability. At the time of purchase, the following limitations are in place:

- Bankers acceptances: P-1, Moody's and A-1, S&P
- Negotiable CDs and bank notes:
  - maturities of one year or less: P-1, Moody's and A-1, S&P
  - maturities over one year: Aa, Moody's and AA, S&P
- Commercial paper: P-1, Moody's and A-1, S&P
- Corporate Notes and Bonds and Busted Convertibles: A or better by two nationally recognized rating agencies, one of whom must be Moody's or S&P. However, each external investment manager may invest up to ten percent of their portfolio in Baa2/BBB rated bonds which, at a minimum, must be rated Baa2/BBB by two nationally recognized rating agencies (one of which must be either Moody's or S&P). Busted convertibles must be liquidated prior to conversion to equity. Also, to avoid holding equity-like securities, busted convertibles must be sold when they reach 105 percent of their bond value.
- Taxable Municipal Bonds: A or better by two nationally recognized rating agencies, one of whom must be Moody's or S&P
- Asset-backed securities: AAA or better by two nationally recognized rating agencies, one of whom must be Moody's or S&P
- Dollar denominated obligations of sovereign governments: Aaa, Moody's and AAA, S&P
- Commercial Mortgage-Backed Securities (CMBS), Collateralized Mortgage Obligations (CMOs), and Planned Amortization Classes (PACs): AAA or better by two nationally recognized rating agencies, one of whom must be Moody's or S&P

The following tables present the credit ratings for the majority of the investments of the primary government and component units as of June 30, 2009. The ratings presented below are using Standard & Poor's (S&P) and Moody's Investors Service (Moody's) rating scales. Within the primary government, the investments presented in the table represented 76.1 percent of the total debt securities, 12.7 percent of which were invested in corporate notes rated Aaa by Moody's. Within the component units, the investments presented in the table represented 88.8 percent of the total debt securities, 43.1 percent of which were invested in unrated Municipal Securities.

Credit risk for derivative instruments held by the Commonwealth results from counterparty risk assumed by the Commonwealth. This is essentially the risk that the borrower will be unable to meet its obligation. Information regarding the Commonwealth's credit risk related to derivatives is found in the Derivative Financial Instruments section of this note.

Policies related to credit risk pertaining to the Commonwealth's securities lending program are found in the Securities Lending section of this note.

Credit Rating - Primary Government

(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Corporate Notes	$ 4,533,803	Moody's	Aaa	12.74%
Agency Unsecured Bonds and Notes	3,483,912	Standard & Poor's	AAA	9.79%
Mutual and Money Market Funds (Include SNAP)	3,064,066	Standard & Poor's	AAA	8.61%
Agency Mortgage Backed Securities	2,416,156	N/A	N/A	6.79%
Corporate Bonds	2,225,807	Moody's	NR	6.26%
U. S. Treasury and Agency Securities	2,092,131	N/A	N/A	5.88%
Fixed Income and Commingled Funds	844,443	Moody's	Baa	2.37%
Asset Backed Securities	820,056	Standard & Poor's	AAA	2.30%
Investments held by broker-dealers under securities loans (U.S. Government and Agency Securities)	744,401	N/A	N/A	2.09%
Corporate Notes	681,288	Moody's	A2	1.91%
Reverse Repurchase Agreements	675,574	Moody's	NR	1.90%
Corporate Notes	614,192	Moody's	Ba3	1.73%
Corporate Notes	613,403	Moody's	A3	1.72%
Corporate Notes	597,604	Moody's	Baa2	1.68%
Fixed Income and Commingled Funds	591,254	Moody's	Aaa	1.66%
Repurchase Agreements	579,667	Standard & Poor's	A-1	1.63%
Corporate Notes	576,847	Moody's	Baa1	1.62%
Corporate Notes	573,478	Moody's	A1	1.61%
Corporate Notes	534,883	Moody's	B1	1.50%
Corporate Bonds	407,903	Moody's	Baa3	1.15%
Commercial Paper	407,492	Moody's	P-1	1.15%

Credit Rating - Component Units

(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Municipal Securities	$ 3,238,990	N/A	N/A	43.12%
Mutual and Money Market Funds (Include SNAP)	913,968	Standard & Poor's	AAA	12.17%
Mutual and Money Market Funds (Include SNAP)	812,812	Moody's	P-1	10.82%
U. S. Treasury and Agency Securities	506,535	N/A	N/A	6.74%
Negotiable Certificates of Deposit	213,617	N/A	N/A	2.84%
Mutual and Money Market Funds (include SNAP)	185,386	N/A	N/A	2.47%
Municipal Securities	166,231	Standard & Poor's	AAA	2.21%
Agency Mortgage Backed Securities	144,840	Standard & Poor's	AAA	1.93%
Guaranteed Investment Contracts	131,091	Standard & Poor's	AAA	1.75%
Other Debt Securities	122,989	Moody's	Aaa	1.64%
Repurchase Agreements	90,546	N/A	N/A	1.21%
Guaranteed Investment Contracts	74,618	Standard & Poor's	AA+	0.99%
Municipal Securities	66,693	Standard & Poor's	AA	0.89%

Concentration of Credit Risk

Concentration of credit risk is related to the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The Commonwealth holds no investment in the securities of a single issuer that is more than five percent of the total market value of its investments. In addition, the Treasury and the System have individual investment policies limiting the amounts that may be invested in any single issuer.

It is the State Treasurer's policy that each portfolio will be diversified with no more than five percent of the value of the fund invested in the securities of any single issuer. This limitation shall not apply to the U.S. Government, or agency thereof, or U.S. Government sponsored corporation securities and fully insured and/or collateralized certificates of deposit.

The System investment guidelines for each specific portfolio also limit investments in any corporate entity to no more than five percent of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents five percent or more of plan net assets available for benefits.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. All investments exposed to foreign currency risk were part of the System portfolio at June 30, 2009.

The System's currency risk exposure, or exchange rate risk, primarily exists in the international and global equity investment holdings. From time to time, the System's external managers may hedge their portfolios' foreign currency exposures with currency forward contracts. This will depend upon their views about a specific foreign currency relative to the U.S. dollar. The System's exposure to foreign currency risk is highlighted in the following table.

Currency Exposures by Asset Class
(Dollars in Thousands)

Currency	Cash & Cash Equivalents	Equity	Corporate Bonds	Private Equity	Real Estate	International Funds	Total
Euro Currency Unit	$ 17,660	$ 213,597	$ 1,095	$ 543,766	$ 22,061	$ -	$ 798,179
U. S. Dollar	15,796	-	-	-	-	682,089	697,885
Australian Dollar	3,589	487,998	-	-	20,651	-	512,238
Japanese Yen	5,594	368,645	(6,644)	-	50,749	-	418,344
Hong Kong Dollar	3,820	333,322	-	-	55,575	-	392,717
British Pound Sterling	4,860	333,049	3,818	2,345	10,015	-	354,087
South Korean Won	1,608	231,516	-	-	-	-	233,124
New Taiwan Dollar	12,120	213,006	-	-	-	-	225,126
Indian Rupee	1,267	165,894	-	-	-	-	167,161
Brazil Real	5,522	159,289	(74)	-	1,794	-	166,531
Canadian Dollar	2,049	135,723	(842)	-	1,404	-	138,334
S African Comm Rand	6,846	110,011	-	-	-	-	116,857
Mexican New Peso	371	76,223	8,355	-	-	-	84,949
Norwegian Krone	1,863	75,669	1,162	-	-	-	78,694
Thailand Baht	86	76,726	-	-	-	-	76,812
New Turkish Lira	4,091	57,988	-	-	-	-	62,079
New Zealand Dollar	197	49,255	7,448	-	-	-	56,900
Malaysian Ringgit	2,514	43,329	-	-	-	-	45,843
Singapore Dollar	1,086	32,973	-	-	7,137	-	41,196
Indonesian Rupian	345	23,434	-	-	-	-	23,779
Polish Zloty	593	21,452	-	-	-	-	22,045
Egyptian Pound	36	19,702	-	-	-	-	19,738
Israeli Shekel	548	12,478	-	-	-	-	13,026
Czech Koruna	533	9,724	-	-	-	-	10,257
Turkish Lira	7,189	-	-	-	-	-	7,189
Hungarian Forint	379	6,585	-	-	-	-	6,964
Danish Krone	386	4,074	-	-	-	-	4,460
Philippines Peso	855	3,387	-	-	-	-	4,242
Moroccan Dirham	43	1,515	-	-	-	-	1,558
Omani Rial	197	1,170	-	-	-	-	1,367
Pakistan Rupee	-	746	-	-	-	-	746
Chinese Yuan Renminbi	-	140	-	-	-	-	140
Russian Rubel (New)	3	-	-	-	-	-	3
Romanian Leu	3	-	-	-	-	-	3
Swedish Krona	1,735	(39,005)	-	1,707	1,588	-	(33,975)
Swiss Franc	3,109	(86,632)	-	-	1,841	-	(81,682)
Total	$ 106,893	$ 3,142,983	$ 14,318	$ 547,818	$ 172,815	$ 682,089	$ 4,666,916

Securities Lending

The State Treasury's securities lending program is managed by Dresdner Kleinwort a brand of Commerzbank AG (Dresdner Kleinwort), under a contract dated March 31, 2006. The enabling legislation for the securities lending program is Section 2.2-4506 of Chapter 45 of the *Code of Virginia*, as amended. No violations of legal or contractual provisions were noted during the year. The general account participated in a securities lending program for the entire year.

All securities lending loans are on an open-ended or one-day basis and may be terminated by Treasury with a 24-hour notice or are term loans with the right of substitution. Per the contract with Dresdner Kleinwort, all cash reinvestment securities attributable to loans made on the Commonwealth's behalf shall be maintained by Dresdner Kleinwort, and Treasury cannot pledge or sell such collateral absent a default.

The State Treasury's contract with Dresdner Kleinwort provides for loss indemnification against insolvency default in respect of lending transactions and in the case of reverse transactions as defined in the applicable Agency Securities Lending and Repurchase Agreement. Additionally, Dresdner Kleinwort AG is liable for any losses experienced from reinvestment of cash collateral in investments not authorized by the provisions of the investment guidelines for the Commonwealth of Virginia agreed upon by both parties and made a part of the Agency Securities Lending and Repurchase Agreement. There were no realized losses resulting from default during the reporting period, or recoveries of prior period losses during this reporting period.

When securities are loaned, the collateral received is at least 100 percent of fair value of the securities loaned and must be maintained at 100 percent or greater. There are no stated restrictions on the amount of securities that may be loaned, but the basic composition of the general account portfolio effectively restricts the maximum percentage of the portfolio that may be loaned. During the past fiscal year, approximately 35 percent of the general account securities were on loan.

During the past year, a combination of U.S. Treasury, agency, agency mortgage and corporate securities have been loaned, with the majority of the loaned securities being U.S. Treasury and agency securities. At June 30, 2009, all collateral received was in the form of cash.

Securities loaned for the Treasurer's cash collateral reinvestment pool, which consisted of 89.2 percent general account funds and 10.8 percent State Lottery funds as of June 30, 2009, had a carrying value of $2,006,197,809 and a fair value of $2,030,541,129. The fair value of the collateral received was $2,050,221,232 providing for coverage of 100.97 percent. As a result, the State Treasury assumes no credit risk on securities loaned. The carrying value of the cash collateral reinvestment pool received was $2,050,237,583 and the fair value of the investments purchased with the cash collateral was $1,968,179,404. As of June 30, 2009, the Treasurer's cash collateral reinvestment pool had an unrealized loss of $82.0 million, and is recorded in the General Fund as stated in Note 1.Z. This amount is included in the total Treasurer's Portfolio discussed earlier in this note.

Current cash reinvestment guidelines allow for a maximum weighted-average portfolio maturity of up to 60 days. At June 30, 2009, the cash reinvestment portfolio had a weighted average maturity of 17 days using the next interest reset date as the maturity date for floating rate securities. Using the expected maturity date, the weighted average maturity was 383 days and using the final maturity date, which assumes no pay downs on any asset-backed or mortgage-backed securities, the weighted average maturity was in excess of seven years.

Treasury's current cash reinvestment guidelines allow for investment in government securities, AAA rated sovereign governments, asset-backed (including mortgage-backed) securities, commercial paper and corporate notes, negotiable certificates of deposit, liquid master notes and promissory notes, bank notes, repurchase agreements and registered money market funds. At June 30, 2009, the majority of cash reinvestments were in overnight indemnified repurchase agreements, asset-backed (including mortgage-backed) floating rate securities and corporate floating rate notes. In order to ensure adequate liquidity and to reduce the reinvestment portfolio risk profile, all cash reinvestments made since August 2007 have been in overnight or very short-term indemnified repurchase agreements.

At June 30, 2009, $84 million or 4.1 percent of the total cash reinvestment portfolio was out of compliance with Treasury's securities lending cash collateral investment guidelines due to various security ratings downgrades during the past two years. Included in these out of compliance securities are $8.6 million or 0.4 percent of the total cash reinvestment portfolio that are in default. It is not known at this time what the recovery rate will be on this security. Approximately 89.2 percent of these out of compliance securities are part of the general account portion of the securities lending program and the other 10.8 percent is the State Lottery's portion of the securities lending program. The Commonwealth regularly evaluates these positions to determine the most beneficial course of action going forward.

Under authorization of the Board of Trustees, the Virginia Retirement System (the System) lends its fixed income and equity securities to various broker-dealers on a temporary basis. This program is administered through an agreement with the System's custodial agent bank. All security loan agreements are collateralized by cash, securities, or an irrevocable letter of credit issued by a major bank, and have a market value equal to at least 102 percent of the market value for domestic securities and 105 percent for international securities. Securities received as collateral cannot be pledged or sold by the System unless the borrower defaults. Contracts require the lending agents to indemnify the System if the borrowers fail to return the securities lent and related distributions, and if the collateral is inadequate to replace the securities lent. All securities loans can be terminated on demand by either the System or the borrowers. The majority of loans are open loans, meaning the rebate is set daily. This results in a maturity of one or two days on average, although securities are often on loan for longer periods. The maturity of loans generally does not match the maturity of collateral investments, which averages 36 days. At year-end, the System has no credit risk exposure to borrowers because the amounts it owes the borrowers exceed the amounts the borrowers owe it. The market value of securities on loan at June 30, 2009, was $2,536,121,000. The June 30, 2009, balance was composed of U.S. Government and agency securities of $744,402,000, corporate and other bonds of $209,435,000 and common and preferred stocks of $1,582,284,000. The value of collateral (cash and non-cash) at June 30, 2009, was $2,642,711,000.

Securities on loan are included with investments on the Statement of Net Assets. The invested cash collateral is included in the Statement of Net Assets as an asset and corresponding liability.

Derivative Financial Instruments

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indexes. They include futures, forwards, options, and swap contracts. Some traditional securities, such as structured notes, can have derivative-like characteristics. In this case, the return may be linked to one or more indexes and asset-backed securities such as collateralized mortgage obligations (CMO), which are sensitive to changes in interest rates and prepayments. Futures, forwards, options, and swaps generally are not recorded on the financial statements, whereas structured notes and asset-backed investments generally are recorded.

The System is a party, both directly and indirectly, to various derivative financial investments that may or may not appear on the financial statements and that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value resulting from fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements. Credit risk is the possibility that loss may occur from the failure of a counterparty to perform according to the terms of the contract. Market risk arises from adverse changes in market prices, interest rates and foreign exchange rates that may result in a decrease in the market value of a financial investment or an increase in its funding cost, or both.

In addition to risk exposure from directly held derivative financial instruments, the System may have indirect exposure to risk through its ownership interests in commingled investment funds that use, hold, or write derivative financial instruments. Indirect exposure also may arise from stock lending programs in which the commingled funds participate. Such programs usually reinvest a portion of their cash collateral holdings in derivative instruments. The System's pro rata share of the contractual or notional amounts of outstanding derivative transactions in commingled investment funds and their related security lending programs approximated $166,268,000 at June 30, 2009.

The University of Virginia (major component unit) from time to time may use, through its investments and through investments in pooled funds, a variety of derivative securities including futures, options, and forward foreign currency contracts. These financial instruments are used to modify market risk exposure. Futures contracts and options on futures contracts are traded on organized exchanges and require collateral or margin in the form of cash or marketable securities. The net change in the futures contract value, if any, is settled with a cash transaction on a daily basis. Holders of futures contracts look to the exchange for performance under the contract and not the entity holding the offsetting futures position. Accordingly, the amount of risk due to nonperformance of counterparties to the futures contracts is minimal. Foreign exchange contracts are used to protect the University's portfolio against fluctuations in the values of foreign currencies. The credit risk of forward currency contracts traded over-the-counter lies with the counterparty. Asset swap contracts are privately negotiated agreements between two participants to exchange the return stream derived from their assets to each other without exchanging underlying assets. The University uses asset swaps to gain exposure to certain market sectors in lieu of direct investment. The credit risk lies with the intermediary who arranges the asset swap. The University had no direct exposure to derivative instruments at June 30, 2009.

Forward, Futures, and Options Contracts

Forward contracts are contracts to purchase or sell, and futures contracts are contracts to deliver or receive financial instruments, foreign currencies or commodities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange-traded) and require initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk posed by nonperformance of counterparties to futures contracts is minimal. In contrast, forward contracts traded over-the-counter are generally negotiated between two counterparties. They are subject to credit risks resulting from nonperformance of one of the counterparties and to market risks resulting from adverse fluctuations in market prices, interest rates, and foreign exchange rates.

Options may be either exchange-traded or negotiated directly between two counterparties over-the-counter. Options grant the holder the right, but not the obligation, to purchase or sell a financial instrument at a specified price and within a specified period of time from the writer of the option. As a purchaser of options, the System typically pays a premium at the outset. This premium is reflected as an asset on the financial statements. The System then retains the right but not the obligation to exercise the option and purchase the underlying financial instrument. Should the option not be exercised, it expires worthless and the premium is recorded as a loss. A writer of options assumes the obligation to deliver or receive the underlying financial instrument on exercise of the option. Certain option contracts may involve cash settlements based on specified indexes such as stock indexes. As a writer of options, the System receives a premium at the outset. The premium is reflected as a liability on the financial statements, and the System bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

Forward, futures, and options contracts provide the System with the opportunity to build passive benchmark positions, manage portfolio duration in relation to various benchmarks, adjust portfolio yield curve exposure, and gain market exposure to various indexes in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange-traded or are exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates, and foreign exchange rates. At June 30, 2009, the System had purchased S & P, Russell Index, treasury bonds and notes and global indices futures and options with a notional value of $8,093,622,000 and sold treasury bonds and notes and global indices futures and options with a notional value of $1,099,711,000. At June 30, 2009, the System had pledged as collateral U.S. Treasury and U.S. Government agency securities with a total market value of $34,481,000 as the margin requirement for futures contracts.

In addition to unsettled purchases and sales, accounts receivable and accounts payable for security transactions at June 30, 2009, included receivables for deposits with brokers for securities sold short of $698,757,000 and payables for securities sold short and not covered with market values of $633,185,000.

Foreign Exchange Contracts

Foreign exchange contracts include forward, futures, and options contracts. They involve either the exchange of specific amounts of two currencies or the delivery of a fixed amount of a currency at a future date and specified exchange rate. Forward and futures contracts settle three or more business days from the contract date. Forward contracts are negotiated over-the-counter between two counterparties, while futures contracts are exchange-traded. Foreign currency options, which are either negotiated between two counterparties or are exchange-traded, grant the buyer the right, but not the obligation, to purchase or sell at a specified price, a stated amount of an underlying currency at a future date. At June 30, 2009, the System had sold foreign currency contracts with a notional value of $6,048,778,000 and had purchased foreign currency contracts with a notional value of $6,086,574,000.

Foreign exchange contracts are used by the System to effect settlements and to protect the base currency ($US) value of portfolio assets denominated in foreign currencies against fluctuations in the exchange rates of those currencies. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the-counter lies with the counterparty, and exposure is usually equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates.

Swap Agreements

Swaps are negotiated contracts between two counterparties for the exchange of payments at certain intervals over a predetermined timeframe. The payments are based on a notional principal amount and calculated using either fixed or floating interest rates or total returns from certain instruments or indices. During fiscal year 2009, the System entered into interest rate and total return swaps with a total notional value of $1,318,821,000. Swaps are used to manage risk and enhance returns. To reduce the risk of counterparty nonperformance, the System generally requires collateral on any material gains from these transactions.

7. RECEIVABLES

The following schedule (dollars in thousands) details the accounts, loans, interest, taxes, prepaid tuition contributions, security transactions, and other receivables presented in the major funds, aggregated nonmajor funds by type, internal service funds, fiduciary funds, major component units, and aggregated nonmajor component units, as of June 30, 2009:

	Accounts Receivable	Loans / Mortgage Receivable	Interest Receivable	Taxes Receivable	Prepaid Tuition Contributions Receivable
Primary Government:					
General	$ 727,149	$ 217	$ 477,642	$ 1,763,513	$ -
Major Special Revenue Funds:					
Commonwealth Transportation	137,231	29,263	-	155,276	-
Federal Trust	724,742	228	-	-	-
Literary	229,450	312,051	23,255	-	-
Nonmajor Governmental Funds	146,550	-	2,499	12	-
Major Enterprise Funds:					
State Lottery	53,104	-	-	-	-
Virginia College Savings Plan	5,244	-	3,610	-	284,886
Unemployment Compensation	94,900	-	-	-	-
Nonmajor Enterprise Funds	36,814	-	-	-	-
Internal Service Funds	29,508	-	-	-	-
Private Purpose	-	19	1,086	-	-
Pension and Other Employee Benefit Trust (1)	174,843	-	158,695	-	-
Investment Trust Fund	-	-	3,324	-	-
Agency Funds	84	-	-	219,926	-
Total Primary Government (2)	$ 2,359,619	$ 341,778	$ 670,111	$ 2,138,727	$ 284,886
Discrete Component Units:					
Virginia Housing Development Authority (3)	$ -	$ 8,143,151	$ 40,102	$ -	$ -
Virginia Public School Authority	-	-	62,820	-	-
University of Virginia	421,273	41,943	633	-	-
Virginia Polytechnic Institute and State University	61,479	32,347	1,129	-	-
Virginia Commonwealth University	323,585	29,320	181	-	-
Nonmajor Component Units	145,470	2,902,709	48,745	5,630	-
Total Component Units	$ 951,807	$ 11,149,470	$ 153,610	$ 5,630	$ -

Note (1): Other Receivables of the Pension and Other Employee Benefit Trust Fund of $791,892 (dollars in thousands) are made up of $784,566 (dollars in thousands) in pending investment transactions, including the offsetting entries for $797,844 (dollars in thousands) in the investment overlay and swaps, ($23,075) (dollars in thousands) in variation margin on futures, and $9,797 (dollars in thousands) in other investment receivable; as well as $7,326 (dollars in thousands) in other receivables related to benefit plans.

Note (2): Fiduciary net receivables in the amount of $3,130,538 (dollars in thousands) are not included in the Government-wide Statement of Net Assets.

Note (3): VHDA reports $8,108,786 (dollars in thousands) is Restricted Loans Receivable, $38,647 (dollars in thousands) is Restricted Interest Receivable, and $6,857 (dollars in thousands) is Restricted Other Receivables.

Security Transactions	Other Receivables	Allowance for Doubtful Accounts	Net Accounts Receivable	Amounts to be Collected Greater than One Year
$ -	$ -	$ (1,939,796)	$ 1,028,725	$ 6,917
-	-	(28,448)	293,322	29,295
-	-	(9,138)	715,832	258
-	-	(225,662)	339,094	286,248
-	-	(83,890)	65,171	1,063
-	-	-	53,104	-
-	-	-	293,740	218,819
-	-	(23,976)	70,924	-
-	-	(2,444)	34,370	-
-	-	(261)	29,247	-
-	-	-	1,105	-
1,851,800	791,892	-	2,977,230	-
-	-	-	3,324	-
-	-	(71,131)	148,879	125
$ 1,851,800	$ 791,892	$ (2,384,746)	$ 6,054,067	$ 542,725
$ -	$ 18,481	$ -	$ 8,201,734	$ 7,989,859
-	-	-	62,820	62,820
-	26,185	(277,040)	212,994	47,412
-	44	(2,861)	92,138	39,203
-	80,180	(134,181)	299,085	23,697
-	78,597	(13,428)	3,167,723	2,807,634
$ -	$ 203,487	$ (427,510)	$ 12,036,494	$ 10,970,625

8. CONTRIBUTIONS RECEIVABLE, NET

The following schedule details the contributions receivable for foundations[1] included with the major component units, and aggregated nonmajor component units, as of June 30, 2009:

(Dollars in Thousands)

	Due in Less Than One Year	Due Between One and Five Years	Due in More Than Five Years	Subtotal	Present Value Discount (2)	Allowance for Doubtful Accounts	Contributions Receivable, Net
Discrete Component Units:							
University of Virginia	$ 30,673	$ 60,997	$ 6,554	$ 98,224	$ (8,585)	$ (8,895)	$ 80,744
Virginia Polytechnic Institute & State University	27,889	38,367	6,143	72,399	(2,691)	(1,961)	67,747
Virginia Commonwealth University	13,033	17,958	842	31,833	(2,920)	(519)	28,394
Nonmajor Component Units	38,940	74,187	37,535	150,662	(14,516)	(4,868)	131,278
Total Component Units	$ 110,535	$ 191,509	$ 51,074	$ 353,118	$ (28,712)	$ (16,243)	$ 308,163

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.
Note (2): The discount rate used to determine present value ranges from 0.98 percent to 8.00 percent.

9. INTERFUND AND INTER-ENTITY ASSETS/LIABILITIES

Due from/to Other Funds

Due from Other Funds are amounts to be received from one fund by another fund for goods sold or services rendered. Due to Other Funds are amounts owed by one fund to another fund for goods purchased or services obtained.

Included in the category Due from Other Funds are "Due from Other Funds," "Due from Internal Parties (governmental funds and business-type activities)," and "Due from External Parties (fiduciary funds)." Included in the category Due to Other Funds are "Due to Other Funds," "Due to Internal Parties (governmental funds and business-type activities)," and "Due to External Parties (fiduciary funds)." The following schedule shows the Due from/to Other Funds as of June 30, 2009.

Schedule of Due from/to Other Funds

June 30, 2009

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 16,191	Major Enterprise Funds:	
		State Lottery	$ 8,897
		Unemployment Compensation	274
		Nonmajor Enterprise Funds	6,656
		Internal Service Funds	364
Major Special Revenue Funds:			
Commonwealth Transportation	278	Internal Service Funds	278
Federal Trust	31	Major Enterprise Funds:	
		Unemployment Compensation	31
Nonmajor Governmental Funds	7,909	Major Special Revenue Funds:	
		Commonwealth Transportation	7,325
		Major Enterprise Funds:	
		Unemployment Compensation	202
		Nonmajor Enterprise Funds	382
Major Enterprise Funds:			
Unemployment Compensation	980	General Fund	539
		Major Special Revenue Funds:	
		Commonwealth Transportation	115
		Federal Trust	101
		Nonmajor Governmental Funds	174
		Nonmajor Enterprise Funds	26
		Internal Service Funds	25
Nonmajor Enterprise Funds	1,510	General Fund	709
		Major Special Revenue Funds:	
		Commonwealth Transportation	482
		Federal Trust	119
		Nonmajor Governmental Funds	129
		Nonmajor Enterprise Funds	21
		Internal Service Funds	50
Internal Service Funds	40,369	General Fund	18,320
		Major Special Revenue Funds:	
		Commonwealth Transportation	4,716
		Federal Trust	8,996
		Nonmajor Governmental Funds	6,462
		Major Enterprise Funds:	
		State Lottery	115
		Virginia College Savings Plan	26
		Nonmajor Enterprise Funds	1,430
		Internal Service Funds	304
Total Primary Government	$ 67,268	Total Primary Government	$ 67,268

Schedule of Due from/to Internal/External Parties
June 30, 2009

(Dollars in Thousands)

Due From		Amount	Due To		Amount
Primary Government			**Primary Government**		
General Fund	$	27	Investment Trust	$	27
Nonmajor Governmental Funds		158	Agency		158
Agency		116	Nonmajor Governmental Funds		116
Total Primary Government	$	301	Total Primary Government	$	301

Interfund Receivables/Payables

Interfund Receivables/Payables are loans made by one fund to another.

The following schedule shows the Interfund Receivables/Payables for the primary government as of June 30, 2009. There were no Interfund Receivables/Payables for the component units as of June 30, 2009.

Interfund Receivables/Payables
June 30, 2009

(Dollars in Thousands)

Receivable From:		Amount	Payable To:		Amount
Primary Government			**Primary Government**		
Nonmajor Governmental Funds	$	43,478	Major Special Revenue Funds:		
			Federal Trust	$	4,197
			Nonmajor Enterprise Funds		28,537
			Internal Service		10,744
Total	$	43,478	**Total**	$	43,478

Due from/to Primary Government and Component Units

Included in this category is activity between the Commonwealth and its component units, as well as activity between component units.

The following due from primary government amounts represent General Fund appropriation available amounts that are due from the General Fund: University of Virginia (major component unit) - $6.4 million, Virginia Polytechnic Institute and State University (major component unit) - $1.5 million, Virginia Commonwealth University (major component unit) - $1.7 million, nonmajor component units - $22.5 million. The General Fund reports $2.4 million of the due to component units in the governmental funds and the entire amount of $32.1 million is reported in the government-wide financial statements.

The following due from primary government amounts represent amounts due from the General Fund related to interest/rebate allocations: University of Virginia (major component unit) - $0.1 million, Virginia Polytechnic Institute and State University (major component unit) - $0.1 million, Virginia Commonwealth University (major component unit) - $1.0 million, nonmajor component units - $7.3 million.

A $13.3 million due from primary government amount represents an amount due from a nonmajor governmental fund related to the Department of Treasury's reimbursement programs primarily to nonmajor component units.

A $2.6 million due from primary government amount represents an amount due from a nonmajor governmental fund related to the pledging of monies towards an acquisition for the Virginia Museum of Fine Arts Foundation (nonmajor component unit). The entire nonmajor governmental amount is reported in the government-wide financial statements.

A $0.3 million due from component unit represents monies owed for administrative expenses from the Science Museum of Virginia Foundation (nonmajor component unit) to a nonmajor governmental fund. The entire nonmajor governmental amount is reported in the government-wide financial statements.

The following due from component units amounts represent amounts due from the Virginia College Building Authority (nonmajor component unit) related to the Department of Treasury's reimbursement programs: University of Virginia (major component unit) - $10.6 million, Virginia Polytechnic Institute and State University (major component unit) - $12.3 million, Virginia Commonwealth University (major component unit) - $9.9 million, and nonmajor component units - $55.3 million. There is an additional due to component units of $0.5 million from the University of Virginia (major component unit) to the Virginia College Building Authority (nonmajor component unit) and a $0.2 million due to component units from the Virginia Economic Development Partnership (nonmajor component unit) to the Virginia National Defense Industrial Authority (nonmajor component unit).

Loans Receivable/Payable Between Primary Government and Component Units

The Virginia Commonwealth University (major component unit) loan of $1.4 million, the College of William and Mary (nonmajor component unit) loan of $0.8 million, and the Virginia College Building Authority (nonmajor component unit) loan of $7.9 million were used to fund programs until bonds were issued. The Virginia Community College System (nonmajor component unit) loan of $1.1 million and the George Mason University (nonmajor component unit) loan of $12.6 million were primarily used to advance fund federally-funded grant programs.

The $172.2 million in loans receivable from primary government represents loans from the Virginia Public School Authority (VPSA) to the Literary Fund. The VPSA makes grants to local school divisions to finance the purchase of educational technology equipment. The VPSA makes these grants using the proceeds of notes issued for that purpose which will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund.

10. OTHER ASSETS

The following table summarizes Other Assets as of June 30, 2009:

(Dollars in Thousands)

	Cash and Travel Advances	Unamortized Bond Issuance Expense	Other Assets	Total Other Assets
Primary Government:				
General	$ 981	$ -	$ -	$ 981
Major Special Revenue Funds:				
Commonwealth Transportation	514	-	-	514
Federal Trust	1,293	-	-	1,293
Nonmajor Governmental Funds	836	-	118	954
Major Enterprise Funds:				
State Lottery	1	-	-	1
Nonmajor Enterprise Funds	161	-	-	161
Internal Service Funds (1)	104	-	9,497	9,601
Total Primary Government	$ 3,890	$ -	$ 9,615	$ 13,505
Discrete Component Units:				
Virginia Housing Development Authority	$ -	$ 7,914	$ 36,765	$ 44,679
University of Virginia	1,507	520	19,252	21,279
Virginia Polytechnic Institute and State University	-	1,212	6,151	7,363
Virginia Commonwealth University	383	3,968	13,524	17,875
Nonmajor Component Units	5,243	51,024	20,704	76,971
Total Component Units	$ 7,133	$ 64,638	$ 96,396	$ 168,167

Note (1): The $9,497 (dollars in thousands) shown above represents a Virginia Information Technologies Agency interfund asset due from various governmental funds that will not be received within 60 days. This amount is reclassified to an internal balance on the Government-wide Statement of Net Assets.

11. RESTRICTED ASSETS

Restricted assets represent monies or other resources that must be used for specific legal or contractual requirements. The Commonwealth Transportation Fund (major special revenue) and Debt Service and Capital Projects (nonmajor governmental funds) reported $525.7 million in restricted assets related to bond agreements. The Virginia Housing Development Authority (major component unit) reported restricted assets totaling $1.1 billion. The Virginia Public School Authority (major component unit) reported restricted assets of $94.4 million. Both major component unit's assets are restricted for debt service under a bond indenture agreement or other agreements. The Virginia Port Authority (nonmajor component unit) reported restricted assets of $122.0 million. Of this amount, $43.1 million are assets placed in an escrow account for construction projects, $39.2 million for debt service under a bond indenture agreement, $3.6 million for securities lending transactions, $26.5 million reserved as part of the Port Facility Revenue Bond requirement, $2.5 million for current expenses, and $7.1 million for other restrictions. The Virginia Resources Authority (nonmajor component unit) reported restricted assets of $824.9 million. Of this amount, $818.0 million is restricted for loans to local governments, bond indentures, or federal and state regulations for various revolving funds, and $6.9 million is restricted for the Operating Reserve Fund for the Virginia Pooled Financing Program. Hampton Roads Sanitation District Commission (nonmajor component unit) reported restricted assets of $32.4 million. Of this amount, $7.5 million is for debt service and $24.9 million is revenue bond construction funds. The Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) reported restricted assets of $352.5

million to be used for financial aid to tobacco growers and to foster community economic growth.

The higher education institutions (component units) reported restricted assets totaling approximately $3.7 billion primarily for endowment and other contractual obligations. Included in this amount is approximately $2.7 billion of foundations' restricted assets. The two museum foundations, the Virginia Museum of Fine Arts Foundation (nonmajor component unit) and the Science Museum of Virginia Foundation (nonmajor component unit) had restricted assets of $167.9 million and $12.6 million, respectively, primarily for donor-imposed restricted endowments.

The remaining $20.3 million is spread among the Virginia Outdoors Foundation (nonmajor component unit), the Virginia Horse Center Foundation (nonmajor component unit), the Virginia Small Business Financing Authority (nonmajor component unit), the Virginia Arts Foundation (nonmajor component unit), the Fort Monroe Federal Area Development Authority (nonmajor component unit), the Library of Virginia Foundation (nonmajor component unit) and the Danville Science Center (nonmajor component unit).

12. CAPITAL ASSETS

The following schedule presents the changes in the Capital Assets:

Schedule of Changes in Capital Assets

Governmental Activities

(Dollars in Thousands)

	Balance July 1, as restated	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 1,944,505	$ 160,008	$ (37,091)	$ 2,067,422
Construction in Progress	3,270,214	1,542,880	(1,549,032)	3,264,062
Total Nondepreciable Capital Assets	5,214,719	1,702,888	(1,586,123)	5,331,484
Depreciable Capital Assets:				
Buildings	2,799,539	206,544	(8,259)	2,997,824
Equipment	922,545	53,581	(22,104)	954,022
Infrastructure	20,452,213	1,488,077	(136,979)	21,803,311
Total Capital Assets being Depreciated	24,174,297	1,748,202	(167,342)	25,755,157
Less Accumulated Depreciation for:				
Buildings	913,448	69,064	(4,401)	978,111
Equipment	457,041	59,699	(15,130)	501,610
Infrastructure	9,402,700	540,144	(27,495)	9,915,349
Total Accumulated Depreciation	10,773,189	668,907	(47,026)	11,395,070
Total Depreciable Capital Assets, Net	13,401,108	1,079,295	(120,316)	14,360,087
Total Capital Assets, Net	$ 18,615,827	$ 2,782,183	$ (1,706,439)	$ 19,691,571

Note: Beginning balances have been restated by $21,338 (dollars in thousands) due to prior year errors, as discussed in Note 2. Additionally, there have been reclassifications in the beginning balances of certain line items above.

Depreciation Expense Charged to Functions of the Primary Government

June 30, 2009

(Dollars in Thousands)

Governmental Activities:		
General Government	$	23,493
Education		10,605
Transportation		558,997
Resources and Economic Development		8,710
Individual and Family Services		14,117
Administration of Justice		38,087
Capital Assets held by the Internal Service Funds are charged to various functions		14,898
Total	$	668,907

Schedule of Changes in Capital Assets

Business-type Activities

(Dollars in Thousands)

	Balance July 1	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 1,977	$ -	$ -	$ 1,977
Construction in Progress	252	84	-	336
Total Nondepreciable Capital Assets	2,229	84	-	2,313
Depreciable Capital Assets:				
Buildings	18,320	-	-	18,320
Equipment	90,659	4,104	(266)	94,497
Infrastructure	1	-	-	1
Total Capital Assets being Depreciated	108,980	4,104	(266)	112,818
Less Accumulated Depreciation for:				
Buildings	10,584	546	-	11,130
Equipment	69,951	8,535	(226)	78,260
Infrastructure	1	-	-	1
Total Accumulated Depreciation	80,536	9,081	(226)	89,391
Total Depreciable Capital Assets, Net	28,444	(4,977)	(40)	23,427
Total Capital Assets, Net	$ 30,673	$ (4,893)	$ (40)	$ 25,740

Schedule of Changes in Capital Assets

Component Units

(Dollars in Thousands)

	Balance July 1 as restated	Increases	Decreases	Subtotal June 30	Foundations (1)	Total June 30
Nondepreciable Capital Assets:						
Land	$ 435,412	$ 26,486	$ (2,229)	$ 459,669	$ 231,096	$ 690,765
Construction in Progress (2)	1,697,882	1,636,299	(1,520,200)	1,813,981	60,863	1,874,844
Inexhaustible Works of Art / Historical Treasures	72,800	1,096	-	73,896	16,503	90,399
Livestock	578	58	-	636	2,063	2,699
Total Nondepreciable Capital Assets	2,206,672	1,663,939	(1,522,429)	2,348,182	310,525	2,658,707
Depreciable Capital Assets:						
Buildings (2)	7,511,859	1,365,672	(97,616)	8,779,915	841,379	9,621,294
Infrastructure (2)	1,928,860	161,326	(698)	2,089,488	2,019	2,091,507
Equipment (2)	2,448,353	287,550	(95,294)	2,640,609	110,718	2,751,327
Improvements Other Than Buildings (2)	356,312	19,087	(8,330)	367,069	51,231	418,300
Library Books	666,501	36,818	(7,878)	695,441	-	695,441
Total Capital Assets being Depreciated	12,911,885	1,870,453	(209,816)	14,572,522	1,005,347	15,577,869
Less Accumulated Depreciation for:						
Buildings (2)	2,518,529	248,952	(11,168)	2,756,313	163,025	2,919,338
Infrastructure (2)	974,218	64,342	(961)	1,037,599	1,371	1,038,970
Equipment (2)	1,474,274	216,582	(87,741)	1,603,115	74,531	1,677,646
Improvements Other Than Buildings (2)	186,386	15,859	(607)	201,638	19,792	221,430
Library Books	538,987	32,542	(8,477)	563,052	-	563,052
Total Accumulated Depreciation	5,692,394	578,277	(108,954)	6,161,717	258,719	6,420,436
Total Depreciable Capital Assets, Net	7,219,491	1,292,176	(100,862)	8,410,805	746,628	9,157,433
Total Capital Assets, Net	$ 9,426,163	$ 2,956,115	$ (1,623,291)	$ 10,758,987	$ 1,057,153	$ 11,816,140

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Note (2): Beginning balances have been restated for a change in reporting entity for the Virginia Commercial Space Flight Authority (nonmajor component unit) and for the correction of prior year errors for the College of William and Mary (nonmajor component unit). Additionally, there have been reclassifications in the beginning balances of certain line items above.

13. RETIREMENT AND PENSION SYSTEMS

A separately issued financial report that includes financial statements and required supplemental information for each of the individual plans discussed below is publicly available. Copies may be obtained by writing to Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

A. Administration

The Virginia Retirement System (the System) is an independent agency of the Commonwealth that administers defined benefit pension plans, other employee benefit plans and other funds for Commonwealth employees, teachers, political subdivision employees, and other qualifying employees. The Board of Trustees is responsible for the general administration and operation of the plans. The Board consists of five members appointed by the Governor and four members appointed by the Joint Rules Committee, all subject to confirmation by the General Assembly. The Board of Trustees appoints a director to serve as the chief administrative officer of the System and a chief investment officer to direct, manage and administer the investment of the System's funds. The Board of Trustees has appointed Mellon Trust as the custodian of designated assets of the System.

The System administers four defined benefit pension plans: the Virginia Retirement System (VRS); State Police Officers' Retirement System (SPORS); Virginia Law Officers' Retirement System (VaLORS); and the Judicial Retirement System (JRS). In addition to the pension plans, the System administers three Other Employee Benefit Plans: Group Life Insurance Fund; Retiree Health Insurance Credit Fund; and the Virginia Sickness and Disability Program (VSDP).

B. Summary of Significant Accounting Policies (Virginia Retirement System)

Basis of Accounting

The financial statements of the pension and other employee benefit trust funds are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Employee and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as earned by the plans. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investments

Investments are reported at fair value as determined by the System's master custodian, Mellon Trust, from its Global Pricing System. This pricing system assigns a price source, based on asset type and the vendor pricing products to which the master custodian subscribes, for every security held immediately following its acquisition. Prices supplied by these sources are monitored on a daily basis by the master custodian.

When a pricing source is unable to provide a price, quotes are sought from major investment brokers and market-making dealers; or internal calculations are applied if feasible. As a last resort, the master custodian will contact investment managers for a price. The master custodian prices commingled funds, partnerships, and real estate assets from statements received from the funds, partnerships, or investment managers.

The pricing sources utilized by the master custodian provide daily prices for equity securities, corporate, government and mortgage-backed fixed income securities, private placement securities, futures and options on futures, open-ended funds, and foreign exchange rates. Depending on the vendor, collateralized mortgage obligations (CMOs), adjustable rate mortgages (ARMs) and asset-backed securities are priced either daily, weekly or twice a month and at month-end. Municipal fixed income securities and options on Treasury/Government National Mortgage Association securities are priced at month-end.

The System's investment guidelines for each specific portfolio limits investments in any corporate entity to no more than 5.0 percent of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents 5.0 percent or more of plan net assets available for benefits.

C. Plan Description

Retirement Plans

The Virginia Retirement System is a qualified governmental retirement plan that provides defined benefit coverage for state employees, public school board employees, employees of participating political subdivisions and other qualifying employees. VRS is a mixed-agent and cost-sharing, multiple-employer retirement plan. The plan's accumulated assets may legally be used to pay all plan benefits provided to any of the plan members or beneficiaries. Contributions for fiscal year 2009, were $2.0 billion with a reserve balance available for benefits of $39.9 billion. At June 30, 2009, the VRS had 821 contributing employers.

Single-employer Retirement Plans

The Commonwealth administers the following single-employer retirement plans:

- State Police Officers' Retirement System (SPORS)
- Virginia Law Officers' Retirement System (VaLORS)
- Judicial Retirement System (JRS)

All full-time, salaried permanent employees of VRS participating employers are automatically covered under VRS, SPORS, VaLORS or JRS with the following exceptions: (1) certain full-time faculty and administrative staff of public colleges and universities; and (2) eligible classified employees of the two state teaching hospitals. These employees have the option to elect not to participate in the Virginia Retirement System. Benefit provisions and all other requirements are established by Title 51.1 of the *Code of Virginia*, as amended.

Benefits vest for all plans after five years of service. Vested VRS members are eligible for an unreduced retirement benefit at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit as elected by the employer. Vested SPORS and VaLORS members are eligible for an unreduced benefit at age 50 with at least five years of hazardous duty service credit or age 50 with at least 25 years of total service credit.

Annual retirement benefits are payable monthly for life in an amount equal to 1.7 percent of eligible members' average final compensation (AFC) for each year of service credit. AFC is the average of the member's 36 consecutive months of highest creditable compensation. The benefit for members of SPORS is calculated using a 1.85 percent multiplier. Members of SPORS also are eligible for a hazardous duty supplement, paid monthly, until they reach full Social Security retirement age.

Members of VaLORS hired before July 1, 2001, were allowed to make a one-time election to increase the multiplier from 1.7 to 2.0 percent instead of receiving a monthly hazardous duty supplement. VaLORS members who elected to retain the 1.7 percent multiplier are eligible for the supplement until age 65. Members of VaLORS hired after June 20, 2001, have their benefit computed using the 2.0 percent multiplier and are not eligible for the supplement.

Members of JRS receive weighted years of service credit for each year of actual service under JRS. VRS, SPORS, VaLORS, and JRS also provide death and disability benefits. Cost-of-living increases, based on changes in the Consumer Price Index and limited to 5.0 percent per year, are granted in the second year of retirement and in every year thereafter.

Benefits for all vested members are actuarially reduced if they retire before becoming eligible for an unreduced retirement benefit, provided they meet age requirements for a reduced retirement benefit.

As required by Title 51.1 of the *Code of Virginia*, as amended, members contribute 5.0 percent of their annual compensation to the defined benefits plans. Employers may assume the 5.0 percent member contribution. If a member leaves covered employment, the accumulated contributions plus earned interest may be refunded to the member. Each participating employer is required by state statute to contribute the remaining amounts necessary to fund the retirement plans using the entry age normal actuarial cost method adopted by the board of trustees. Contributions for fiscal year 2009, were $25.3 million, $69.1 million, $24.1 million and reserved balances available for benefits of $484.1 million, $690.6 million, and $283.9 million for SPORS, VaLORS and JRS, respectively. State statute may be amended only by the General Assembly.

D. Funding Policy

The funding policy of the retirement plans provides for periodic employer contributions at actuarially determined rates, which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the cost of all basic benefits when due. Contribution rates are developed using the entry age normal cost method for both normal cost and amortization of the unfunded actuarial accrued liability. Gains and losses are reflected in the unfunded actuarial accrued liability that is being amortized as a level percentage of payroll within 30 years or less.

The System's former actuary, Wachovia Retirement Services, computed the amount of contributions to be provided by state agency employers, state police and other Virginia law employers. The contribution rates for fiscal year 2009 were based on the actuary's valuation as of June 30, 2007. Employer contributions by the Commonwealth to VRS, SPORS, VaLORS, and JRS were 6.23 percent, 20.05 percent, 14.23 percent, and 34.51 percent, respectively, of covered payrolls.

In addition to determining contribution requirements, the actuarial computations present an estimate of the discounted present value of the prospective accrued liability contributions that employers will have to pay in the future so that such contributions, together with the assets on hand, the normal contributions to be made in the future by employers and members and the income earned by investing funds, will be sufficient to provide all benefits to be paid to present members in the future as well as the annuitants and their designated beneficiaries.

E. Annual Pension Cost and Net Pension Obligation

The following table (dollars in thousands) shows the Commonwealth's annual pension cost and net pension obligation to the VRS, SPORS, JRS, and VaLORS for the current and prior years.

	VRS			SPORS		
	2009	2008	2007	2009	2008	2007
Annual required contribution	$ 355,608	$ 316,649	$ 294,388	$ 31,894	$ 29,718	$ 25,488
Interest on net pension obligation	62,199	54,933	47,378	7,227	6,587	5,915
Adjustment to annual required contribution	(65,798)	(56,436)	(48,915)	(7,653)	(6,777)	(6,085)
Annual pension cost	352,009	315,146	292,851	31,468	29,528	25,318
Contributions made	(225,079)	(218,256)	(192,360)	(20,175)	(20,990)	(16,358)
Increase in net pension obligation	126,930	96,890	100,491	11,293	8,538	8,960
Net pension obligation, beginning of year	829,256	732,366	631,875	96,369	87,831	78,871
Net pension obligation, end of year	$ 956,186	$ 829,256	$ 732,366	$ 107,662	$ 96,369	$ 87,831
Percentage of annual pension cost contributed	63.9%	69.3%	65.7%	64.1%	71.1%	64.6%

	JRS			VaLORS		
	2009	2008	2007	2009	2008	2007
Annual required contribution	$ 28,427	$ 28,284	$ 26,768	$ 80,509	$ 79,420	$ 72,460
Interest on net pension obligation	4,985	4,553	4,094	19,313	17,589	15,814
Adjustment to annual required contribution	(5,279)	(4,684)	(4,211)	(20,450)	(18,096)	(16,270)
Annual pension cost	28,133	28,153	26,651	79,372	78,913	72,004
Contributions made	(21,000)	(22,387)	(20,530)	(50,932)	(55,929)	(48,338)
Increase in net pension obligation	7,133	5,766	6,121	28,440	22,984	23,666
Net pension obligation, beginning of year	66,472	60,706	54,585	257,506	234,522	210,856
Net pension obligation, end of year	$ 73,605	$ 66,472	$ 60,706	$ 285,946	$ 257,506	$ 234,522
Percentage of annual pension cost contributed	74.6%	79.5%	77.0%	64.2%	70.9%	67.1%

The amounts in the previous table include governmental and component unit activity for which the Commonwealth is considered the employer. It does not include the VRS liability for the Virginia Economic Development Partnership (component unit), the Virginia Tourism Authority (component unit), and the Virginia National Defense Industrial Authority (component unit) of $1.9 million, $977,972, and $71,027, respectively. The table also excludes the non-VRS pension liability of $73.0 million for all other component units and includes the fiduciary pension liability of $5.5 million.

The contribution rates were determined during the actuarial valuation conducted as of June 30, 2007. These valuations were prepared using the entry age normal cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return, per year compounded annually; (b) projected salary increases ranging from 3.5 percent to 5.6 percent, including a 2.5 percent inflation component; and (c) 2.5 percent per year COLA. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining closed amortization period at June 30, 2009, was 20 years. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

F. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009, was as follows:

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Virginia Retirement System (VRS)			
2008	$ 52,548	$ 62,554	$ 10,006	84.0%	$ 14,559	68.7%
			State Police Officers' Retirement System (SPORS)			
2008	$ 646	$ 844	$ 198	76.5%	$ 103	192.2%
			Virginia Law Officers' Retirement System (VaLORS)			
2008	$ 873	$ 1,281	$ 408	68.1%	$ 368	110.9%
			Judicial Retirement System (JRS)			
2008	$ 374	$ 495	$ 121	75.6%	$ 61	198.4%

Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plans and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

G. Defined Contribution Plan for Political Appointees

Officers appointed by the Governor, officers elected by popular vote or the General Assembly, and executive branch chief deputies and confidential assistants may participate in the deferred contribution plan for Political Appointees, rather than the VRS. This optional retirement plan is authorized by the *Code of Virginia* and offered through the ING Institutional Plan Services (ING). This is a defined contribution plan where the retirement benefits are based upon the Commonwealth's (6.23 percent) and the employee's (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2009, the total contributions to this plan were $752,634.

The summary of significant accounting policies for the plan is in accordance with those discussed in Note 13. B.

H. Defined Contribution Plan for Public School Superintendents

The Public School Superintendent Plan is a defined contribution pension plan that provides optional postemployment benefits for school superintendents. This plan is authorized by the *Code of Virginia*. The Board of Trustees of the System manages the investments of the fund as custodian. School boards may elect to offer this plan as an option to the standard VRS plan that is available for school board members. Contributions are provided by the school board for credit to the member. At June 30, 2009, there was one participant in this plan. Total contributions to the plan for fiscal year 2009 were $21,000.

I. Virginia Supplemental Retirement Plan

The Virginia Supplemental Retirement Plan is a defined contribution pension plan established by the Department of Education to provide an optional postemployment benefit plan for turnaround specialists in the public school system. This plan is utilized as an incentive to attract highly skilled teachers for participating public schools pursuant to the *Code of Virginia* by Title 51.1-617. The Board of Trustees of the System manages the investments of the fund as custodian. School boards may elect to offer this plan as an option to the standard VRS plan that is available for school board members. Contributions are provided by the school boards for credit to the members. At June 30, 2009, there were two participants in this plan. Total contributions to the plan for fiscal year 2009 were $20,127.

J. Higher Education Fund (Component Unit)

The Commonwealth's colleges and universities participate in the VRS, a mixed-agent and cost-sharing multiple-employer retirement plan. The System issues a separate stand-alone report that is publicly available as previously discussed.

In addition, full-time faculty and certain administrative staff of the Commonwealth's colleges and universities may participate in an optional retirement annuity program, rather than the VRS. Optional retirement plans are authorized by the *Code of Virginia* and provide retirement and death benefits. The optional retirement annuity programs are offered through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) Insurance Companies, Variable Annuity Life Insurance Company (VALIC), Fidelity Investments, Inc., Vanguard, and others. Overall, these are defined contribution programs where the retirement benefits received are based upon the Commonwealth's (5.4 percent) and employees' (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2009, the total contributions to these plans were:

TIAA-CREF	$	93,163,824
VALIC		2,869,250
Fidelity Investments		52,769,531
Vanguard		4,605,164
Others		1,035,883
Total	$	154,443,652

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – major) contributes to the VRS. The System issues a separate stand-alone report that is publicly available as previously discussed. Effective July 1, 1997, the Authority established the Virginia Commonwealth University Health System Authority Defined Contribution Plan (the plan). All employees, excluding house staff, working at least 20 hours per week in a benefit eligible position are eligible to participate in the plan. Per the plan document as approved by the Authority's Board of Directors, the Authority contributes up to ten percent of the participant's salary to the plan not to exceed the lesser of (a) the amount in accordance with Internal Revenue Code 415(d), or (b) 100 percent of the participant's compensation for such limitation year. Total contributions for the year ended June 30, 2009, were approximately $13,405,000. The Authority has the right at anytime, and without the consent of any party, to terminate the plan in its entirety. The Authority's Board of Directors must approve any changes to the provisions of the plan, including the contribution requirements, in writing. The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP plan). All persons hired as a health care provider on or after July 1, 1993, and prior to July 1, 1997, and working at least 35 hours of service per week were eligible to participate in the HCP plan. At June 30, 2009, there were five actively employed participants in the HCP plan. Total contributions to the HCP plan for the year ended June 30, 2009, were approximately $35,000.

Previously, the MCV Associated Physicians (MCVAP) (a component unit of the Authority) sponsored the MCVAP 403(b) Retirement Fund (the 403(b) Plan), a defined contribution plan which covered substantially all non-medical employees of MCVAP. As of January 1, 2002, no additional contributions were made to this plan.

MCVAP also sponsors the VCUHS 401(a) Retirement Plan a defined contribution plan which covers all non-medical employees of MCVP and the VCUHS 457(b) Retirement Plan, a salary reduction plan that represents employee contributions. These plans became effective on January 1, 2002, and replaced the MCVAP 403 (b) plan for all non-medical staff. The contributions to the VCUHS 401(a) for the period ended June 30, 2009, were approximately $1,787,000.

MCVAP also sponsors the MCVAP 401(a) Retirement Plan (the 401(a) plan), a noncontributory, defined contribution plan which covers substantially all benefit eligible clinical providers of MCVAP. Contributions to the 401(a) plan, as determined annually at the discretion of the board of directors were approximately $9,296,000 for the year ended June 30, 2009.

VA Premier (a component unit of the Authority) adopted a 401(k) plan sponsored by Fidelity Investments. Employees become eligible to participate in the plan after completing one year of service. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute one percent to 15 percent of their compensation. VA Premier will match 50 percent of the employees' contributions up to four percent of the employees' compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes three percent of the employee's compensation after each bi-weekly payroll effective when the employee begins employment.

Employees are fully vested after four years of service in which the employees have at least 1,000 hours of service each year. The total expense to VA Premier in fiscal year 2009 was approximately $549,000.

Effective June 2007, the Carolina Crescent Health Plan (a component unit of the Authority) (CCHP) adopted a 401(k) plan, for which Fidelity Investments is the trustee. All terms are consistent with the VA Premier 401(k) plan. CCHP's expense for its contributions to this plan was approximately $68,000 for the year ended June 30, 2009.

Effective January 1, 1997, James Madison University (nonmajor) established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. Since it is a governmental plan, the plan is not subject to the Employee Retirement Income Security Act of 1974 as amended. Since inception, 159 faculty members have elected to enroll in the plan. As of June 30, 2009, 50 participants remain, including 9 new participants who retired under this plan during fiscal year 2009 and 8 new participants who are scheduled to retire under this plan during fiscal year 2010. In order to satisfy IRS requirements, a trust fund has been established as a means to make the payments to the plan participants. The University prepaid $1,093,702 of the fiscal year 2010 plan contribution in 2009. The remaining 2010 plan contribution of $26,492 will be paid in 2010.

The Center for Innovative Technology (CIT) is a blended component unit of the Innovative Technology Authority (nonmajor). The CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, contributions are fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by TIAA-CREF. Contributions for the plan totaled $366,579 in fiscal year 2009.

K. Other Component Units

Note 1.B. outlines the component units included in the Commonwealth's reporting entity. The Virginia Public Building Authority (blended - primary government), the Virginia Public School Authority (major), the Virginia College Building Authority (nonmajor), the Virginia University Research Partnership (nonmajor), and the Virginia Schools for the Deaf and Blind Foundation (nonmajor) have no employees. The Virginia Economic Development Partnership, the Small Business Financing Authority, the Hampton Roads Sanitation District Commission, the Virginia Biotechnology Research Partnership Authority, the A. L. Philpott

Manufacturing Extension Partnership, the Virginia Tourism Authority, the Tobacco Indemnification and Community Revitalization Commission, the Virginia Tobacco Settlement Foundation, the Virginia Land Conservation Foundation, the Virginia Arts Foundation, the Virginia National Defense Industrial Authority, and the Library of Virginia Foundation (all nonmajor) contribute solely to the VRS, a mixed-agent and cost-sharing multiple-employer retirement plan. The System issues a separate stand-alone report that is publicly available as previously discussed.

Full-time employees of the Virginia Housing Development Authority (major) participate in a defined contribution employees' retirement savings plan administered by the Authority. This is a noncontributory plan where the Authority incurs employment retirement savings expense equal to eight percent of full-time employees' compensation. Total retirement savings expense under this plan was $1,855,824 in fiscal year 2009.

The Virginia Outdoors Foundation (nonmajor) maintains a 401(k) contribution plan and provides an employer contribution to all eligible employees of two percent of their salary. Employees can contribute to the plan up to the IRS limit and the Foundation will match up to four percent of an employees' contribution.

The Virginia Port Authority (nonmajor) contributes to the VRS. The Authority also sponsors two single-employer noncontributory defined benefit pension plans. The Virginia Port Authority Pension Plans are administered by the Authority and provide retirement, disability, and death benefits to plan members and beneficiaries. Benefit provisions and obligations are established and may be amended by the board of commissioners of the Authority. The plan was restated October 1, 2001, to ensure compliance with additional regulations.

The components of annual pension cost and prepaid pension obligation for the first single-employer noncontributory defined benefit pension plan are as follows:

Trend Information

	2009	2008	2007
Service cost - benefits earned during the year	$ 2,234,100	$ 2,136,300	$ 2,036,800
Interest cost on projected benefit obligation	3,976,700	3,660,500	3,316,900
Expected return on assets	(4,027,000)	(4,286,500)	(3,729,500)
Net amortization and deferral	1,446,200	779,200	941,500
Annual pension cost	3,630,000	2,289,500	2,565,700
Contributions made	(2,482,000)	(1,640,100)	(2,634,600)
Increase (Decrease) in prepaid pension obligation	1,148,000	649,400	(68,900)
Prepaid pension obligation, beginning of year	(8,740,800)	(9,390,200)	(9,321,300)
Prepaid pension obligation, end of year	$ (7,592,800)	$ (8,740,800)	$ (9,390,200)

Costs have been computed in accordance with the aggregate cost method. Changes in plan provisions and actuarial assumptions, and actuarial gains and losses are not separately amortized under this method. Rather the impact is spread through the nominal cost component over the future working lifetime of participants. The actuarial present value of accumulated plan benefits is determined by an actuary from New York Life Benefit Services, LLC using end of year benefit information as of September 30, 2008 and 2007, respectively, and is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money and the probability of payment between the valuation date and the expected date of payment.

The following table sets forth the plan's funded status and the related amounts recorded in the authority's balance sheets at June 30, 2009, 2008, and 2007.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2009	$ 3,630,000	68 %	$ (7,592,800)
2008	$ 2,289,500	72 %	$ (8,740,800)
2007	$ 2,565,700	103 %	$ (9,390,200)

In November 2001, the second plan was amended to provide benefits to sworn police officers that more closely resemble the new retirement benefits provided to members of the Virginia Law Enforcement Officers Retirement System. The effect of those changes is included in the accompanying pension data.

The components of annual pension cost and prepaid pension obligation for the second single-employer noncontributory defined benefit pension plan are shown in the following schedule.

Trend Information

	2009	2008	2007
Service cost - benefits earned during the year	$ 655,361	$ 642,254	$ 532,378
Interest cost on projected benefit obligation	435,006	356,456	299,507
Expected return on assets	1,096,215	260,403	(434,736)
Net amortization and deferral	(1,310,223)	(458,630)	387,386
Annual pension cost	876,359	800,483	784,535
Contributions made	(1,185,944)	(1,166,439)	(1,654,371)
Additional minimum liability	-	-	(1,402,080)
Increase (Decrease) in pension obligation	(309,585)	(365,956)	(2,271,916)
Pension obligation, beginning of year	(1,493,759)	(1,127,803)	1,144,113
Prepaid pension obligation, end of year	$ (1,803,344)	$ (1,493,759)	$ (1,127,803)

The annual pension cost for the current year was determined as part of the July 2009 actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. Actual value of assets was determined using market value. The discount rate used in determining the actuarial present value of the projected benefit obligation was 6.82 percent in 2009, 6.92 percent in 2008, and 6.25 percent in 2007. The expected long-term rate of return on assets used in determining net periodic pension cost was 8.00 percent.

The following table sets forth the plan's funded status and the related amounts recorded in the authority's balance sheets at June 30, 2009, 2008, 2007.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2009	$ 876,359	135 %	$ (1,803,344)
2008	$ 800,483	146 %	$ (1,493,759)
2007	$ 784,535	211 %	$ (1,127,803)

The Authority also sponsors two noncontributory supplemental plans covering certain key employees. The plans had assets of $2,898,113 and an accrued liability of $5,852,745. No contributions were made to the plans for the year ended June 30, 2009.

As of January 1, 2005, the Virginia Resources Authority began mandatory participation for all new employees and optional participation for then-current employees who chose to enroll in the VRS. For the year ended June 30, 2009, the Authority's annual pension cost of $96,905 was equal to the Authority's required and actual contributions.

The Virginia Horse Center Foundation has a defined contribution plan which covers all full-time employees of the Foundation who have one year of service and are age 21 or older. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974. Contributions to the plan are discretionary and the Foundation will determine the amount to contribute to the plan each year. No contributions were made on behalf of the employees for the fiscal year ended June 30, 2009. As of July 1, 2006, employees were able to make contributions to the plan, however, the contributions are not matched by the Foundation.

The Assistive Technology Loan Fund Authority sponsors a Simple Employee Plan (SEP) for all of its employees. The Authority contributes five percent of each employee's wages, which is paid into their account managed by American Funds each pay period.

Employees of the Virginia Museum of Fine Arts Foundation who are age 21 or older are eligible to participate in the Employee's Savings Plan (the plan), a 401(k) defined contribution profit sharing plan. Under the plan, the Foundation may make a discretionary contribution. For the plan years ended June 30, 2009, and 2008, the Foundation contributed 8.4 percent of employees' gross income to the plan. In addition, contributions made by an employee up to 4 percent of the employee's gross income are matched 50 percent by the Foundation. Employees may contribute up to 100 percent of gross income each year as long as it is within the IRS limitation. Contributions paid to the plan by the Foundation on behalf of its employees were $89,918 for the fiscal year ended June 30, 2009.

The Science Museum of Virginia Foundation has a 403(b) defined contribution pension plan through the Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) Retirement Plan for employees meeting age and service requirements. The Foundation contributes an amount not to exceed three percent of the regular salary of each participant. The Foundation's employer contributions totaled $5,502 in 2009. The Foundation also has a 457(b) plan through the Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF); employer contributions totaled $13,937 in 2009.

14. OTHER EMPLOYMENT BENEFITS

In addition to the pension plans, the Commonwealth participates in two other employment benefit plans, Group Life Insurance and Virginia Sickness and Disability Program, which are administered by the Virginia Retirement System (the System). The System administers a third other employment benefit plan, the Volunteer Firefighters' and Rescue Squad Workers' Fund, in which the Commonwealth does not participate, but may provide funding. The significant accounting policies for all three plans are the same as those described in Note 13 for pension plans. A separately issued financial report that includes financial statements for the Group Life Insurance and Virginia Sickness and Disability Program is publicly available. Copies may be obtained by writing to the Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Group Life Insurance

The Group Life Insurance Plan was established for Commonwealth employees, teachers, employees of political subdivisions participating in the VRS, state police officers, other state law enforcement and correctional officers, judges, and other qualifying employees. The program provides life insurance for natural death coverage equal to a members' annual compensation rounded to the next highest $1,000 and then doubled. Accidental death coverage is double the natural death benefit. The program also provides coverage for accidental dismemberment and accidental blindness, a safety belt benefit, a repatriation benefit, a felonious assault benefit and an accelerated death benefit for terminal conditions. Approximately 363,341 members participate in the program at June 30, 2009.

Participating employers and their covered employees are required by Title 51.1 of the *Code of Virginia*, as amended, to contribute to the cost of group life insurance benefits. Employers may assume the employees' contributions.

An optional Group Life Insurance Fund was established for members covered under the group life program as a supplement to that plan. Members may purchase optional life insurance coverage for themselves, their spouses and/or their dependent children. The optional program provides natural death coverage equal to one, two, three or four times the member's annual compensation rounded to the next highest $1,000, up to a maximum of $600,000. Spouse coverage is available for up to one-half of the member's optional insurance amount. Minor children who are at least 15 days old can be insured for $10,000, $20,000 or $30,000, depending on the option chosen by the member. An additional accidental death and dismemberment benefit is payable for death or bodily injuries. Approximately 65,330 members were covered under this program at June 30, 2009.

Optional group life insurance coverage ends for members when they retire or terminate their employment, or when their basic coverage ends. Members who retire on disability may continue their optional coverage until age 65 provided they continue to pay the required insurance premiums. Spouse coverage terminates should a couple divorce or when the member leaves employment. Children's coverage ends with the termination of the member's coverage or when the child marries or turns 21 years of age (25 years of age for full-time college students).

Employers of members who elect optional life insurance coverage deduct the premiums from the members' paychecks, as required by Title 51.1 of the *Code of Virginia*, as amended. Premiums are based on the member's age and determined by the Board of Trustees. Because optional life insurance is an insured product, the carrier bills each employer directly, and the employer makes the contribution payments to the carrier. Any differences and adjustments are settled between the employer and the carrier.

Virginia Sickness and Disability Program

The System administers the Virginia Sickness and Disability Program (VSDP) to provide income protection in the event of a disability for eligible state employees hired on or after January 1, 1999. State agencies are required by Title 51.1 of the *Code of Virginia* to contribute to the cost of providing long-term disability benefits and administering the program.

VSDP benefits include sick, family and personal leave and short-term and long-term disability benefits. After a seven-calendar day waiting period following the first day of disability, eligible employees receive short-term disability benefits from 60 percent to 100 percent of their compensation depending on their months of state service. After 125 work days of short-term disability, eligible employees receive long-term disability benefits equal to 60 percent of their compensation. If the employee's condition becomes catastrophic, income replacement increases to 80 percent until the condition is no longer catastrophic. Long-term disability benefits continue until employees either return to work, reach age 65 (age 60 for state police officers and other state law enforcement and correctional officers) or die.

Full-time permanent salaried state employees, including state police officers and other Virginia law and correctional officers, are automatically enrolled in the VSDP. Part-time permanent salaried state employees who work at least 20 hours a week and accrue leave also are automatically enrolled. Teaching, administrative and research faculty of Virginia public colleges and universities who elect VRS as their retirement plan must make an irrevocable election to participate in either the VSDP or the institution's disability program. If there is no institution program, the faculty member is covered under VSDP.

Eligible state employees and state police officers employed before January 1, 1999 had the option to elect to participate in the VSDP or remain under the Commonwealth's existing sick leave program and retain their eligibility for disability retirement benefits under VRS and SPORS. (Members of VaLORS have been automatically enrolled in the VSDP since October 1, 1999 when VaLORS was created.) Eligible employees enrolled in the VSDP are not eligible for disability retirement benefits under VRS, SPORS, or VaLORS. Approximately 74,752 members were covered under the program at June 30, 2009.

Volunteer Firefighters' and Rescue Squad Workers' Fund

Volunteer firefighters and rescue squad workers may participate in an optional employment benefit plan. This optional plan is authorized by the *Code of Virginia*. The Board of Trustees of the System manages the investments of the fund as custodian. Members of the plan contribute $30 per quarter. The Commonwealth will contribute an amount determined by the board and appropriated by the General Assembly, if such funds are appropriated, for a period not to exceed 20 years. For fiscal year 2009, $28,000 was appropriated for administration of the program. At June 30, 2009, there were 1,446 workers participating in the fund.

15. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

A. Virginia Retirement System (The System) Administered Plans

The Government Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which requires additional reporting and disclosures for OPEB plans. The statement became effective for System-administered OPEB plans beginning with the fiscal year ended June 30, 2007. The assets and actuarial accrued liabilities for the following other post-employment benefits were determined through an actuarial valuation performed as of June 30, 2008, by Cavanaugh Macdonald Consulting, LLC, and are presented in the Required Supplemental Schedule of Funding Progress for Other Post-Employment Benefit Plans. The significant accounting policies for all three plans are the same as those described in Note 13 for pension plans and a separately issued report is available as previously discussed.

Group Life Insurance Benefits

Employees who retire or terminate from service after age 50 with at least ten years of service credit or at age 55 with at least five years of service credit (age 50 for vested state police officers, other state law enforcement and correctional officers and hazardous duty employees of participating political subdivisions), or who retire because of disability, are entitled to post-employment group life insurance benefits. At retirement or termination, accidental death benefits cease and natural death coverage reduces at a rate equal to 25 percent on January 1 of the first full calendar year following retirement or termination and on January 1 of each year thereafter, until it reaches 25 percent of its original value. These group life insurance benefit provisions and requirements are established by Title 51.1 of the *Code of Virginia*. There were approximately 133,489 retirees in the program in fiscal year 2009.

Since 1960, when the group life insurance program was established, a portion of the premium contributions collected during members' active careers has been placed in an advance premium deposit reserve. This reserve was established to pre-fund death benefits to members after retirement.

Employers providing life insurance benefits are part of a cost-sharing pool. Therefore, separate measurements of assets and actuarial accrued liabilities are not made for individual employers participating in the program.

Retiree Health Insurance Credit Program

The Retiree Health Insurance Credit Fund was established on January 1, 1990, to provide benefits for retired state employees, state police officers, other state law enforcement and correctional officers and judges who have at least 15 years of service credit under the retirement plans. The program provides a credit reimbursement of $4 per month per year of service credit against the monthly health insurance premiums of eligible retirees.

A similar program was established on July 1, 1993, to provide a health insurance credit for retired teachers and employees of participating political subdivisions with at least 15 years of service credit under the retirement plans. Retired teachers are eligible for a monthly credit of $4 per month per year of service credit. Local government retirees may receive a maximum credit of $1.50 per month per year of service with a maximum monthly credit of $45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the *Code of Virginia*. The amount required to fund all credits is financed by the employers based on contribution rates determined by the system's actuary. Approximately 87,538 retired members were covered under this program at June 30, 2009. The Retiree Health Insurance Credit Program is a cost-sharing, multiple-employer defined benefit OPEB plan.

Disability Insurance Trust Fund

The Commonwealth provides OPEB disability insurance benefits, in accordance with state statutes, to eligible retired and terminated employees. State agencies are required by Title 51.1 of the *Code of Virginia* to contribute to the cost of providing long-term disability benefits and administering the program. There were approximately 2,483 former members receiving benefits from the program during fiscal year 2009. The Disability Insurance Trust Fund is a single-employer defined benefit OPEB plan.

B. Other Plans

The Commonwealth administers the following single-employer defined benefit OPEB plans.

Line of Duty Death and Disability

The Commonwealth provides death and health benefits to the beneficiaries of certain law enforcement and rescue personnel disabled or killed in the line of duty. A trust fund has been established to account for this activity. Benefit provisions and eligibility requirements are established by Title 9.1 Chapter 4 of the *Code of Virginia*. The significant accounting policies for this plan are the same as those described in Note 13 for pension plans. The Line of Duty Death and Disability is administered by the Department of Accounts. There were approximately 623 retirees and 605 other participants in the program in fiscal year 2009.

Pre-Medicare Retiree Healthcare

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the VRS or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

- be receiving (not deferring) the annuity or periodic benefit immediately upon retirement;
- have his or her last employer before retirement be the state;
- be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage); and,
- have submitted within 31 days of his or her retirement date an Enrollment Form to his or her Benefits Administrator to enroll.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund.

The significant accounting policies for this plan are the same as those described in Note 13 for pension plans. The Pre-Medicare Retiree Healthcare is administered by Department of Human Resource Management. There were approximately 8,319 retirees in the program in fiscal year 2009.

C. Annual OPEB Cost and Net OPEB Obligation

The Government Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which required additional reporting and disclosures for OPEB plans beginning with the fiscal year ending June 30, 2008. The Commonwealth calculated an OPEB liability as of June 30, 2009, for each of the five OPEB plans. The Retiree Health Insurance Credit Fund, Disability Insurance Trust Fund, Line of Duty Death and Disability, and Pre-Medicare Retiree Healthcare OPEB liabilities were $2.2 million, $27.8 million, $7.8 million, and $196.3 million, respectively.

The following table (dollars in thousands) shows the Commonwealth's annual OPEB cost and net OPEB obligation (asset) for the current and prior year.

	Group Life Insurance Fund		Retiree Health Insurance Credit Fund		Disability Insurance Trust Fund	
	2009	2008	2009	2008	2009	2008
Annual required contribution	$ 40,248	$ 48,000	$ 66,979	$ 62,387	$ 79,450	$ 97,689
Interest on net OPEB obligation	-	-	-	-	1,467	-
Adjustment to annual required contribution	-	-	-	-	(1,552)	-
Annual OPEB cost	40,248	48,000	66,979	62,387	79,365	97,689
Contributions made	(40,248)	(48,000)	(64,783)	(62,387)	(71,142)	(78,151)
Increase in net OPEB obligation	-	-	2,196	-	8,223	19,538
Net OPEB obligation (asset), beginning of year	-	-	-	-	19,538	-
Net OPEB obligation (asset), end of year	$ -	$ -	$ 2,196	$ -	$ 27,761	$ 19,538
Percentage of annual OPEB cost contributed	100.0%	100.0%	96.7%	100.0%	89.6%	80.0%

	Line of Duty Death and Disability		Pre-Medicare Retiree Healthcare	
	2009	2008	2009	2008
Annual required contribution	$ 16,523	$ 9,786	$ 131,654	$ 127,156
Interest on net OPEB obligation	(12)	-	4,733	-
Adjustment to annual required contribution	11	-	(4,489)	-
Annual OPEB cost	16,522	9,786	131,898	127,156
Contributions made	(8,511)	(10,026)	(30,722)	(32,056)
Increase in net OPEB obligation	8,011	(240)	101,176	95,100
Net OPEB obligation (asset), beginning of year	(240)	-	95,100	-
Net OPEB obligation (asset), end of year	$ 7,771	$ (240)	$ 196,276	$ 95,100
Percentage of annual OPEB cost contributed	51.5%	102.5%	23.3%	25.2%

The amounts in the previous table include Governmental and Component Unit activity for which the Commonwealth is considered the employer. It does not include the OPEB liability for the Virginia Economic Development Partnership (component unit), the Virginia Tourism Authority (component unit), Virginia Outdoors Foundation (component unit) and the Virginia National Defense Industrial Authority (component unit) of $315,798, $159,300, $613, and $11,568, respectively. The table also excludes non-Commonwealth sponsored OPEB liabilities of $8.8 million for all other component units and includes the fiduciary OPEB liability of $892,300.

The annual required contributions for the current year were determined during the actuarial valuations conducted as of June 30, 2008, for all but Pre-Medicare Retiree Healthcare for which the June 30, 2007, valuation was used, as that is the most recent report that reflects the current funding policies. For fiscal year 2009, employer contributions by the Commonwealth for Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance were 0.82 percent, 1.18 percent, and 1.79 percent, respectively, of covered payrolls. The valuations were prepared using the entry age normal cost method for all plans except for the Disability Insurance and Line of Duty Death and Disability trust funds for which the Projected Unit Credit actuarial cost method was used. The Line of Duty Death and Disability and Pre-Medicare Retiree Healthcare plans use a 4.97 percent investment rate of return, per year compounded annually, which approximates the projected rate of return on the Treasurer's Portfolio. The Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance use a 7.5 percent investment rate of return, per year compounded annually, The actuarial assumptions for all but the Pre-Medicare Retiree Healthcare plan included a projected salary increase of 3.0 percent, including a 2.5 percent inflation component. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five year period. The remaining closed amortization period at June 30, 2009, was 30 years. The actuarial assumptions for the Pre-Medicare Retiree Healthcare plan as to current claim cost, projected increases in health insurance costs, mortality, turnover, retirement, disability and discount rate include (a) projected salary increases ranging from 3.75 percent to 5.6 percent, including a 2.5 percent inflation component; and, (b) assumption that there is no liability associated with those retirees eligible for Medicare, as costs for members aged 65 and older are not subsidized by the active population (no implicit subsidy), participants pay 100 percent of the costs, and the liability associated with the health insurance credit is measured and held by the Virginia Retirement System. Initial healthcare costs trend rates used were 10 percent, 11 percent, and 6 percent for medical, pharmacy, and dental benefits, respectively. The ultimate trend rates used were 5 percent, 5 percent, and 4 percent for medical, pharmacy, and dental benefits, respectively. The remaining closed amortization period at June 30, 2009 is 30 years.

D. Funded Status and Funding Progress

The funded status of the plans as of June 30, 2009, was as follows:

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Group Life Insurance Fund			
2008	$ 975	$ 1,772	$ 797	55.0%	$ 16,267	4.9%
			Retiree Health Insurance Credit Fund			
2008	$ 261	$ 1,908	$ 1,647	13.7%	$ 12,986	12.7%
			Disability Insurance Trust Fund			
2008	$ 286	$ 363	$ 77	78.8%	$ 4,111	1.9%
			Line of Duty Death and Disability			
2008	$ 3	$ 185	$ 182	1.6%	$ N/A	-
			Pre-Medicare Retiree Healthcare			
2007	$ -	$ 982	$ 982	-	$ 2,931	33.5%

Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Amounts determined regarding the funded status of the plans and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

E. Higher Education Fund (Component Unit)

The University of Virginia (major) has a Retiree Health Plan that covers employees who retire before becoming eligible for Medicare until they reach age 65 and can then participate in the Commonwealth's Medicare Supplement Plan. Additional information on this plan can be found in the individually published financial statements of the University.

F. Other Component Units

The Virginia Housing Development Authority (major component unit) has a Retiree Health Care Plan, a single-employer defined benefit plan which is administered through the Virginia Housing Development Authority Retiree Health Care Plan Trust, an irrevocable trust to be used solely for providing benefits to eligible participants. Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service or at least 55 years of age with 10 years of service if employed by the Authority prior to such date. For the year ended June 30, 2009, the Authority's Annual OPEB cost was $891,013; the percentage of Annual OPEB Cost Contributed was 100 percent; and the ending Net OPEB asset was $110,636.

Hampton Roads Sanitation District Commission (nonmajor component unit) provides other post-employment benefits for its employees through a single employer defined benefit plan. The plan was established and may be amended by the Commission. The plan furnishes health and dental benefits for life for all employees with at least 15 years of service and who also qualify for an unreduced retirement benefit through the VRS. The plan allows the retiree at their expense to cover their spouse and dependent under the district's health care provider. Contribution requirements are actuarially determined and funding is subject to approval by the Commission. The current rate is 7.6 percent of annual covered payroll. For 2009, the Commission's annual OPEB cost was $2.9 million; the percentage of annual OPEB cost contributed was 64.8 percent; and the ending net OPEB obligation was $1.0 million.

The Virginia Port Authority (nonmajor component unit) offers post retirement medical and dental benefits to employees who retire under either VRS or the VPA pension plan. For employees and their spouses, who are participants in the VPA medical plan, not participants under the state health care plan VRS, benefit provisions and obligations are established and may be amended by the board of commissioners of the Authority. For the year ended June 30, 2009, the Authority's annual OPEB cost was $34,167; contribution towards OPEB cost was $7,398; the percentage of annual OPEB cost contributed was 21.7 percent; and the ending net OPEB obligation was $85,079.

16. DEFERRED COMPENSATION PLANS

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Virginia Retirement System (the System) administers the deferred compensation plan, pursuant to the Government Employees Deferred Compensation Plan Act, Section 51.1, Chapter 6 et seq. of the *Code of Virginia*. The System contracts with private corporations or institutions subject to the standards set forth in the *Code* to provide investment products as well as any other goods and services related to the administration of the deferred compensation plan. The Department of Accounts is responsible for the accounting, reconciliation, and record keeping associated with state employees' enrollment, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the System for investment. The plan provides a number of investment options and is designed so that each participant retains investment control of his/her individual account. The plan, available to all state employees, permits them to defer a portion of their salary until future years. The deferred compensation is held in trust for the exclusive benefit of plan participants and their beneficiaries and is not available to employees until termination, retirement, death, or unforeseeable emergency. Since the System has no fiduciary relationship with plan participants, plan assets of $994.3 million are not included in the financial statements.

In addition, the Commonwealth provides a cash match under Internal Revenue Code Section 401(a) for employees participating in the deferred compensation plan. The match amount for an employee was established at 50 percent of the voluntary contributions to the deferred compensation plan. During the current fiscal year, the maximum match was $20 per pay period or $40 per month. The fair value of assets in the cash match savings plan at June 30, 2009, was $154.9 million, which is also excluded from the financial statements.

The Virginia Housing Development Authority (major component unit) and the Virginia Resource Authority (nonmajor component unit) have deferred compensation plans available to all employees created in accordance with Internal Revenue Section 457. The plans permit participants to defer a portion of their salary or wage until future years. The deferred compensation is not available to employees until termination, retirement, or death. The assets of the plans are in irrevocable trusts with an external trustee and, accordingly, no assets or liabilities are reflected in the financial statements.

The Virginia Port Authority (VPA) (nonmajor component unit) offers three deferred compensation plans and two matching savings plans under Internal Revenue Code Sections 457 and 401(a), respectively. Employees who maintain status under VRS are covered under the deferred compensation plan administered by the System as discussed above. The VPA deferred compensation plan covers all employees hired after July 1, 1997, and those employees electing coverage under the authority's deferred compensation plan. The VPA also offers a matching savings plan that covers substantially all employees. The matching savings plan requires the VPA to match contributions in an amount equal to 50 percent of the first six percent of the participant's base pay contributed to the plan. VPA's total contribution to the matching savings plan was $158,322 for the fiscal year ended June 30, 2009. Further, the right to modify, alter, amend, or terminate the deferred compensation plan and matching savings plan rests with the VPA Board of Commissioners.

The third deferred compensation plan and second matching savings plan covers substantially all non-union employees with 90 days or more of service. The matching savings plan requires the VPA to match employee contributions in an amount equal to 50 percent of the first three percent of the participant's base pay contributed to the deferred compensation plan. VPA's total contribution to the matching savings plan was $349,123 for the fiscal year ended June 30, 2009.

17. STATE NON-ARBITRAGE POOL

The Commonwealth sponsors the Virginia State Non-Arbitrage Program (SNAP) for use by the Commonwealth and local governments to invest bond proceeds. The Commonwealth's responsibility is limited to hiring service providers to manage SNAP. The investment manager and the custodian have the fiduciary responsibility for SNAP.

The SNAP fund is a class of the PFM Funds Prime Series, a money market mutual fund registered with the Securities and Exchange Commission. PFM Funds is a diversified, open-end management investment company organized as a Virginia business trust. Shares of the SNAP fund are solely available to investors participating in the SNAP program. The PFM Funds Board of Trustees has overall responsibility for supervising the SNAP fund's business and affairs, including the oversight of organizations providing investment advisory, administration, and distribution services to the SNAP fund. PFM Asset Management LLC serves as the investment adviser of the SNAP fund. The SNAP individual investment portfolios are the responsibility of the SNAP investment manager and the governments investing proceeds in the portfolios. These investments are held solely in the SNAP participants' names. Since the Commonwealth has no fiduciary relationship with local governmental entities participating in the plan, these assets of $2.7 billion are not included in the financial statements.

18. COMMITMENTS

A. Construction Projects

Highway Projects

At June 30, 2009, the Department of Transportation (part of primary government) had contractual commitments of approximately $1.9 billion for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) federal funds – approximately 33 percent or $651.0 million, (2) state funds – approximately 63 percent or $1.2 billion, and (3) Proceeds from Bonds – approximately 4 percent or $87.0 million.

Mass Transit Projects

At June 30, 2009, the Department of Rail and Public Transportation (part of primary government) had contractual commitments of approximately $310.4 million for various public transportation, rail preservation, and rail enhancement projects. Funding of the future expenditures is expected to be as follows: (1) state funds - approximately 90 percent or $278.9 million, and (2) federal funds - approximately 10 percent or $31.5 million.

Wastewater Treatment Projects

At June 30, 2009, the Department of Environmental Quality (part of primary government) was committed to grant contracts with localities to reimburse a portion of construction costs for nutrient reduction facilities at wastewater treatment plants totaling $341.2 million.

Port Projects

At June 30, 2009, the Virginia Port Authority (nonmajor component unit) was committed to construction contracts totaling $216.5 million.

Sanitation District Project

At June 30, 2009, the Hampton Roads Sanitation District Commission (nonmajor component unit) was committed to construction programs totaling $24.8 million.

Higher Education Institutions

Colleges and universities (component units) had contractual commitments as of June 30, 2009, of approximately $942.3 million primarily for construction contracts. Higher education foundations' commitments total approximately $103.8 million and are primarily for construction contracts.

B. Operating Leases

The Commonwealth has entered into numerous agreements to lease land, buildings, and equipment. Most of the operating leases contain the provision that the Commonwealth may renew the operating leases at the expiration date of the lease on a month-to-month basis. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases of a similar nature. Rental expense for the primary government under these operating leases for the year ended June 30, 2009, was $75.2 million for governmental activities (including internal service funds) and $20.4 million for business-type activities. Rental expense for the discrete component units (excluding foundations) for the year ended June 30, 2009, was $97.9 million. The Commonwealth has, as of June 30, 2009, the following minimum rental payments due under the above leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-type Activities	Component Units (1)
2010	$ 60,662	$ 16,996	$ 60,979
2011	46,304	14,192	47,544
2012	38,275	10,369	36,477
2013	28,683	7,285	26,945
2014	21,369	3,546	16,144
2015-2019	53,012	1,695	40,927
2020-2024	5,099	-	6,845
2025-2029	2,295	-	823
2030-2034	551	-	823
2035-2039	571	-	823
2040-2044	-	-	823
2045-2049	-	-	823
2050-2054	-	-	164
Total	$ 256,821	$ 54,083	$ 240,140

Note (1): The above amounts exclude operating lease obligations of foundations.

	Foundations (2)
2010	$ 2,022
2011	1,614
2012	1,438
2013	1,226
2014	1,046
Thereafter	6,220
Total	$ 13,566

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Rental expense for the year ended June 30, 2009, was approximately $1.8 million.

Lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

C. Investment Commitments – Virginia Retirement System

The Virginia Retirement System extends investment commitments in the normal course of business, which, at June 30, 2009, amounted to $3.9 billion.

D. Tobacco Grants

The Tobacco Indemnification and Community Revitalization Commission (Commission) (nonmajor component unit) has $143.0 million in grant award commitments not reflected in these statements since eligibility requirements were not met as of June 30, 2009, in accordance with GASB Statement No. 33. The Commission awarded an additional $34.8 million in grants in July 2009 that are also not reflected in these statements.

The Virginia Tobacco Settlement Foundation (nonmajor component unit) has $20.0 million in grant commitments and outstanding contracts not reflected in these statements since eligibility requirements were not met as of June 30, 2009, in accordance with GASB Statement No. 33.

E. Other Commitments

The Virginia Land Conservation Foundation (nonmajor component unit) has $5.0 million in grant award commitments, which were not dispersed since eligibility requirements were not met as of June 30, 2009, in accordance with GASB Statement No. 33.

The Virginia University Research Partnership (nonmajor component unit) has $7.0 million in grant award commitments not reflected in these statements since eligibility requirements were not met as of June 30, 2009, in accordance with GASB Statement No. 33.

The Virginia Small Business Financing Authority (nonmajor component unit) has $2.5 million in loan commitments in the Federal Economic Development Loan Fund and in the Small Business Environmental Compliance Assistance Fund as of June 30, 2009, in accordance with GASB Statement No. 33.

19. ACCRUED LIABILITY FOR COMPENSATED ABSENCES

Employees accrue annual leave at a rate of four to nine hours semimonthly, depending on their length of service. The maximum leave accumulation is dependent upon years of service, but in no case may it exceed 432 hours. The maximum compensation for annual leave balances is also dependent upon years of service, but in no case may an employee be compensated for more than 336 hours.

All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program (VSDP) (see Note 14). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the calendar year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the original sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the original sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave state service after a minimum of five years employment receive the lesser of 25 percent of the value of their disability credits or accumulated sick leave at their current earnings rate or $5,000. All employees leaving state service are paid for accrued annual leave up to the maximum calendar year limit at their current earnings rate.

In conformance with Section C60 of the GASB Codification, the monetary value of accumulated annual and sick leave and disability credits payable upon termination is included in the accompanying financial statements. In the government-wide statements, proprietary fund statements, and discrete component unit fund statements, amounts are segregated into two components – the amount due within one year and the amount due in more than one year. In the governmental fund statements, amounts to be paid from expendable resources are recognized as fund liabilities in the applicable governmental fund types as long-term liabilities and represent payments to employees for separations that occurred prior to June 30. Amounts not payable from expendable resources are reflected in the governmental activities column in the Government-wide Statement of Net Assets (see Note 24). All amounts related to the fiduciary funds are recognized in those funds.

The liability at June 30, 2009, was computed using salary rates effective at that date, and represents vacation, compensatory and sick leave earned or disability credits held up to the allowable ceilings.

20. POLLUTION REMEDIATION OBLIGATIONS

The Commonwealth implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* during fiscal year 2009.

The Commonwealth has pollution remediation obligations of $2.5 million of which $1.1 million is due within one year. With the exception of the Department of Environmental Quality (DEQ), agencies estimated future obligations based on professional consultant estimates and/or historical project expenses of similar projects; however, there is the potential for change in estimates due to price increase or reductions, technology, or applicable laws and regulations. Remediations for DEQ are not estimates but contractual obligations between the Commonwealth and the U.S. Environmental Protection Agency (EPA), and any change due to a reconciliation of incurred costs requires mutual consent and contract amendment.

The estimated Commonwealth pollution remediation liability relates to the anticipated cost of hazardous waste removal, cleanup relating to leakage of underground storage tanks, soil and groundwater contaminations, dump site cleanups, asbestos abatement and remediation relating to superfund state contracts.

Agencies involved in remediation include:

- Department of Environmental Quality (DEQ)
- Department of Transportation (VDOT)
- Department of Corrections (VADOC)
- Department of Juvenile Justice (DJJ)
- Jamestown-Yorktown Foundation (JYF)

DEQ anticipates that during the next year there may be new obligating events resulting in two new Superfund State Support contracts, estimated to increase the Virginia Environmental Emergency Response Fund obligation by $6.0 million. A Facility Lead Agreement was signed between the EPA and VDOT to resolve an issue concerning the storage of lab wastewater in an outdoor lined surface impoundment that operated between 1979 and 1983 for which contamination is present in soil and groundwater. VDOT is expected to recover $150,000 to offset remediation costs related to a contaminated groundwater site. VADOC was fined by the EPA in September/October 2003. VADOC proposed to conduct a Supplemental Environmental Project (SEP) which included the formation of the Pollution Prevention Section of the Environmental Services Unit, disclosure of all environmental deficiencies to both the EPA and DEQ and corrections of those deficiencies. JYF and DJJ initiated pollution remediation projects to remove asbestos due to imminent endangerment.

The following pollution remediation outlays could not reasonably be estimated as of June 30, 2009:

- Department of Emergency Management (VDEM) relating to a fuel storage facility;
- Department of State Police (DSP) relating to asbestos abatement;
- Department of Corrections (VADOC) relating to soil and groundwater contamination, as well as dump site cleanups; and,
- Department of Mental Health, Mental Retardation, and Substance Abuse Services (DMHMRSAS) relating to groundwater contamination.

21. INSURANCE

A. Self-Insurance

The Commonwealth maintains two types of self-insurance plans. The first type of self-insurance is a health care plan administered by the Department of Human Resource Management for Commonwealth employees. The plan is accounted for in the Health Care – internal service fund. Interfund premiums are accounted for as internal activity receipts from other funds. At June 30, 2009, $104.9 million is reported as the estimated claims payable for this fund, which is undiscounted as nearly all health care claims are current in nature. The estimated liability is based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported as described in Note 1.T. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2008-2009	$ 97,631	$ 903,616	$ (896,336)	$ 104,911
2007-2008	$ 90,736	$ 863,346	$ (856,451)	$ 97,631

(1) Of the balance shown above, $104.9 million is due within one year.

The second type of plan, Risk Management, is administered by the Department of the Treasury, Division of Risk Management and the Department of Human Resource Management, Worker's Compensation Program. These plans are accounted for in the Risk Management - internal service fund. The Department of the Treasury administers risk management programs providing property, general (tort) liability, medical malpractice, automobile and surety bond exposures for the Commonwealth of Virginia as provided in Sections 2.2-1834 through 1838 and Section 2.2-1840 of the *Code of Virginia*. Established subject to the approval of the Governor, risk management plans provide state agencies with protection through purchased insurance, self insurance or a combination thereof. Interfund premiums for the fund are accounted for as internal activity receipts from other funds. The claims payable is an estimated liability based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported. At June 30, 2009, $409.0 million is reported as the estimated claims payable for the risk management plan. This amount is discounted to present value at a rate of three percent. Undiscounted claims payable at June 30, 2009, is $518.0 million. The estimated losses are based upon actual claims that have been submitted, as well as claims incurred but not reported. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2008-2009	$ 375,534	$ 99,680	$ (66,158)	$ 409,056
2007-2008	$ 281,489	$ 154,558	$ (60,513)	$ 375,534

(1) Of the balance shown above, $62.3 million is due within one year.

For workers' compensation, the Commonwealth assumes the full risk of claims filed. For tort and automobile, liability is assumed at a maximum of $2,000,000 per occurrence. Medical malpractice liability is assumed at the maximum of $2,000,000 per occurrence recovery limit stated in Section 8.01-581.15 of the *Code of Virginia*. Risk Management purchases commercial insurance to protect state-owned property with deductibles as stated in the insurance policies.

The Commonwealth has not had any insurance settlements exceed the coverage during the past three years.

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – major component unit) is self-insured for medical malpractice and provides for the liability on an undiscounted basis, based on the ultimate cost of known claims and claims incurred but not yet reported. The Authority is also self-insured for workers' compensation and provides for the liability on a blended discounted and undiscounted basis, based on the ultimate cost of known claims and claims incurred but not yet reported. These liabilities include assumptions and factors related to the frequency and severity of claims, claims development history, and claims settlement practices. Estimated losses on malpractice and workers' compensation claims for the current and prior fiscal years are as follows (dollars in thousands):

Estimated Malpractice Losses

	Balance July 1,	Claims Expense	Claims Settled	Balance June 30, (1)
2008-2009	$ 31,014	$ 1,176	$ (1,775)	$ 30,415
2007-2008	$ 30,898	$ 1,610	$ (1,494)	$ 31,014

(1) Of the balance shown above, $2.5 million is due within one year.

Estimated Workers' Compensation Losses

	Balance July 1,	Claims Expense	Claims Settled	Balance June 30, (1)
2008-2009	$ 17,802	$ 699	$ (2,167)	$ 16,334
2007-2008	$ 11,396	$ 8,505	$ (2,099)	$ 17,802

(1) Of the balance shown above, $2.2 million is due within one year.

In addition, expenses and liabilities arising from services rendered to VA Premier's and Carolina Crescent Health Plan's (component units of the Authority) HMO members are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable includes an estimate of claims that have been incurred but not reported. At June 30, 2009 the amount of these liabilities is $58,645,581 and is reported as Claims Payable – Due within One Year. This liability is VA Premier's best estimate based on available information.

Additional information on the claims payable amounts reported by the Authority can be found in the individually published financial statements of the Authority.

Virginia International Terminals, Inc., a component unit of the Virginia Port Authority (nonmajor component unit) is partially self-insured for certain workers' compensation claims. The authority maintains insurance coverage of $5,000,000 per claim, but is obligated to pay the first $1,000,000 of any individual's claims per incident. The Authority is also partially self-insured for employee health coverage. The Authority is responsible for actual claim costs up to $125,000 per individual per calendar year. Insurance coverage is maintained for claims in excess of the individual employee limit and for aggregate claims in excess of $5,205,857.

B. Public Entity Risk Pools

The Commonwealth administers two types of public entity risk pools for the benefit of local governmental units: health care and risk management insurance. The Local Choice Health Care plan was established to make comprehensive health care insurance available to localities and political subdivisions at affordable rates and with stable premiums. During the fiscal year, there were 262 local government units participating in the pool. This includes 28 school districts, 34 counties, 97 cities/towns, and 103 other subdivisions. This program is accounted for in the Local Choice Health Care Enterprise Fund (nonmajor).

The Department of Human Resource Management, under Section 2.2-1204 of the *Code of Virginia*, has the authority to design, set rates, and administer the Local Choice Health Care fund. The pool's standard contract period is one year. However, a member group may withdraw on the last day of any month with three month's written notice. Contributions are based on the current necessary contribution and the amortization of experience adjustments in the pool. At June 30, 2009, $23.6 million is reported as the actuarially determined estimated claims payable for this fund based on claims incurred but not reported.

The actuarial liability is determined for the membership pool in total and then adjusted for each locality based on individual historic and demographic data. If the pool's assets were to be exhausted, the program participants would share the responsibility for any liabilities or deficits.

The Department of the Treasury, Division of Risk Management administers risk management programs for political subdivisions, constitutional officers and others in accordance with Section 2.2-1839 of the *Code of Virginia*. These pools were established to provide an economical, low-cost alternative to the commercial insurance market for the Commonwealth's political subdivisions. These risk programs are accounted for in the Risk Management Enterprise Fund (nonmajor). The pool is established subject to approval by the Governor. It may be insurance, self-insurance, or any combination thereof, and must provide protection and legal defense against liability. Local participation is voluntary and open to any political subdivision. As of June 30, 2009, there were 542 units of local government in the pool, including 4 cities, 36 towns, and 32 counties. The remaining 470 units include a large variety of boards, commissions, authorities, and special districts.

The pool has a minimum membership period of one year. However, a member group can cancel their membership and withdraw from the plan on their coverage anniversary date or at the end of the fiscal year with 30 days notice.

The pool is actuarially valued annually and is considered sound. Investment income is considered in the anticipation of premium deficiencies. No excess insurance or reinsurance is provided, but a "stability fund" is incorporated into the actuarially determined required reserves. If, however, the plan assets and reserves were to be exhausted, the members would be responsible for any deficits or liabilities. For the liability insurance pool, local participation is voluntary and open to any political subdivision. The risk assumed by the local public entity pool for member liability is $1,000,000 per occurrence.

At June 30, 2009, $13.7 million is reported as estimated claims payable for these programs. This figure is actuarially determined for the fund in total and is reported at gross and does not reflect possible reimbursements for insurance recoveries.

The following schedule (dollars in thousands) shows the changes in claims liabilities for the past two fiscal years.

	Local Choice Health Care		Risk Management	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	$ 19,211	$ 16,549	$ 14,072	$ 13,450
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	211,904	184,578	448	1,413
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	(881)	(1,431)
Total Incurred Claims and Adjustment Expenses	211,904	184,578	(433)	(18)
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	207,508	181,916	300	493
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year	-	-	-	-
Total Payments	207,508	181,916	300	493
Change in Provision for Discounts	-	-	321	308
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted) (1) (2) (3)	$ 23,607	$ 19,211	$ 13,660	$ 13,247
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	$ 23,607	$ 19,211	$ 14,550	$ 14,072

Note (1): The entire balance for Local Choice Health Care, $23,607 (dollars in thousands) is due within one year.

Note (2): Of the balance shown above for Risk Management, $4,545 (dollars in thousands) is due within one year.

Note (3): The interest rate used for discounting is 3.0 percent.

22. ACCOUNTS PAYABLE

The following table (dollars in thousands) summarizes Accounts Payable as of June 30, 2009.

	Vendor	Salary/ Wage	Retainage	Other	Foundations (1)	Total
Primary Government:						
General	$ 165,399	$ 104,176	$ 382	$ -	$ -	$ 269,957
Major Special Revenue Funds:						
Commonwealth Transportation	184,330	36,762	3,562	-	-	224,654
Federal Trust	131,125	12,170	72	592	-	143,959
Literary	225	-	-	-	-	225
Nonmajor Governmental Funds	26,609	28,474	7,869	655	-	63,607
Major Enterprise Funds:						
State Lottery (2)	4,158	825	-	3,740	-	8,723
Virginia College Savings Plan (2)	601	334	-	1,545	-	2,480
Unemployment Compensation	278	-	-	-	-	278
Nonmajor Enterprise Funds	29,141	4,999	-	6	-	34,146
Internal Service Funds	77,412	3,390	-	-	-	80,802
Private Purpose	3,601	124	-	-	-	3,725
Pension and Other Employee Benefit Trust (3)	532	1,459	-	86,007	-	87,998
Agency Funds	2,153	4	-	9,048	-	11,205
Total Primary Government (4)	$ 625,564	$ 192,717	$ 11,885	$ 101,593	$ -	$ 931,759
Discrete Component Units:						
Virginia Housing Development Authority	$ 2,101	$ 2,197	$ 150	$ -	$ -	$ 4,448
Virginia Public School Authority	36	-	-	-	-	36
University of Virginia	124,533	62,784	6,380	1,429	40,488	235,614
Virginia Polytechnic Institute and State University	48,473	55,107	6,216	-	11,121	120,917
Virginia Commonwealth University	52,469	70,173	6,082	-	929	129,653
Nonmajor Component Units	192,065	157,123	37,586	7,134	16,749	410,657
Total Component Units	$ 419,677	$ 347,384	$ 56,414	$ 8,563	$ 69,287	$ 901,325

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Note (2): Other Accounts Payable for the State Lottery represents administrative costs payable. Other Accounts Payable for the Virginia College Savings Plan represents investment fees payable.

Note (3): Other Accounts Payable for the Pension and Other Employee Benefit Trust Fund consists of $46,708 (dollars in thousands) of other investment payables generally related to Futures and month-end rebalancing items, $26,230 (dollars in thousands) in investment management expense, $11,982 (dollars in thousands) in program benefit liabilities, and $1,087 (dollars in thousands) of investment interest payable.

Note (4): Fiduciary liabilities of $102,928 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. In addition, governmental fund liabilities of $88,470 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

23. OTHER LIABILITIES

The following table (dollars in thousands) summarizes Other Liabilities as of June 30, 2009.

	Primary Government				
	General	Commonwealth Transportation	Federal Trust	Nonmajor Governmental Funds	State Lottery
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ 43,922
Due to Program Participants, Escrows, and Providers	-	-	-	-	-
Medicaid Payable	268,153	-	430,701	-	-
Family Access to Medical Insurance Security Payable	5,294	-	9,832	-	-
Tax Refunds Payable	476,525	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	2,162	4,869	-	2,885	-
Car Tax Payable	263,025	-	-	-	-
Other Liabilities	-	-	-	2,635	-
Total Other Liabilities	$ 1,015,159	$ 4,869	$ 440,533	$ 5,520	$ 43,922

	Primary Government				
	Virginia College Savings Plan	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Funds
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ -
Due to Program Participants, Escrows, and Providers	177	46,625	-	-	206
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Tax Refunds Payable	-	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	-	-	179	250	-
Car Tax Refund Payable	-	-	-	-	-
Other Liabilities	-	-	68	5,281	-
Total Other Liabilities	$ 177	$ 46,625	$ 247	$ 5,531	$ 206

	Primary Government		
	Pension and Other Employee Benefit Trust Funds (1)	Agency Funds	Total Primary Government (2)
Lottery Prizes Payable	$ -	$ -	$ 43,922
Due to Program Participants, Escrows, and Providers	-	29,204	76,212
Medicaid Payable	-	-	698,854
Family Access to Medical Insurance Security Payable	-	-	15,126
Tax Refunds Payable	-	-	476,525
Insurance Carrier Surety Deposit	-	426,054	426,054
Deposits Pending Distribution	-	32,410	42,755
Car Tax Refund Payable	-	-	263,025
Other Liabilities	860,433	2,234	870,651
Total Other Liabilities	$ 860,433	$ 489,902	$ 2,913,124

Note (1): Other Liabilities of $860,433 (dollars in thousands) reported in pension and other employee benefit trust funds are made up of $23,219 (dollars in thousands) in funds held for the Commonwealth Health Research Fund; $4,725 (dollars in thousands) in other funds managed by the System; $831,117 (dollars in thousands) in pending investment transactions, including $797,844 (dollars in thousands) for investment overlay and swaps, $30,489 (dollars in thousands) for securities lending, and $2,784 (dollars in thousands) in other investment payables; and $1,372 (dollars in thousands) in other payable related to the System benefit plans.

Note (2): Fiduciary liabilities of $1,350,541 (dollars in thousands) are not included in the Government-wide Statement of Net Assets. Governmental fund liabilities of $264,848 (dollars in thousands) are included in the Government-wide Statement of Net Assets, but excluded from the above amounts.

	Component Units				
	Virginia Housing Development Authority	Virginia Public School Authority	University of Virginia	Virginia Polytechnic Institute & State University	Virginia Commonwealth University
Accrued Interest Payable	$ 114,846	$ 63,678	$ 1,196	$ 629	$ 5,006
Other Liabilities	10,921	315	67,760	26,250	49,628
Deposits Pending Distribution	6,780	-	314,130	12,927	26,839
Short-term Debt	-	-	108,418	20,810	13,500
Grants Payable	-	-	-	-	-
Total Other Liabilities	$ 132,547	$ 63,993	$ 491,504	$ 60,616	$ 94,973

	Component Units	
	Nonmajor Component Units	Total Component Units
Accrued Interest Payable	$ 77,928	$ 263,283
Other Liabilities	40,226	195,100
Deposits Pending Distribution	25,575	386,251
Short-term Debt	80,722	223,450
Grants Payable	7,730	7,730
Total Other Liabilities	$ 232,181	$ 1,075,814

Medicaid Payable

Medicaid Payable represents services rendered but not billed by providers and potential liability resulting from cost reports not settled as of year-end. Providers subject to cost settlement are paid in the interim based on established per diem or diagnosis related group rates for services.

The Department of Medical Assistance Services (DMAS) estimates, based on past experience, the total amount of Medicaid claims that will be paid from the Medicaid program in the future which relate to services provided before year-end. At June 30, 2009, the estimated liability related to Medicaid claims totaled $698.9 million. Of this amount, $268.2 million is reflected in the General Fund (major) and $430.7 million in the Federal Trust Special Revenue Fund (major).

Family Access to Medical Insurance Security Payable

DMAS estimates the total amount of claims that will be paid from the Family Access to Medical Insurance Security program in the future which relate to services provided before year-end. At June 30, 2009, the estimated liability related to claims totaled $15.1 million. Of this amount, $5.3 million is reflected in the General Fund (major) and $9.8 million in the Federal Trust Special Revenue Fund (major).

Tax Refunds Payable

Tax refunds payable represent refunds due on individual tax returns filed for the calendar year ended on or before December 31, 2008, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2009. The individual tax return filing deadline is May 1 of each year for the preceding calendar year. The corporate tax return filing deadline is the 15th day of the fourth month following the close of the corporate fiscal year.

Car Tax Refund Payable

During the year ended June 30, 1998, the General Assembly passed the Personal Property Tax Relief Act. Under the terms of this legislation, the Commonwealth assumed financial responsibility for a portion, ranging from 12.5 percent to 70.0 percent, of the personal property taxes assessed by localities.

During 2004, the General Assembly modified this legislation. Chapter 1 of Special Session 1 (2004) established a $950.0 million limit on the amount the Commonwealth would appropriate for personal property tax relief, beginning in tax year 2006. It further established that each county, city, and town would receive a fixed percentage of the $950.0 million, with payments to begin on or after July 1, 2006 (fiscal year 2007). The accrued liability amount of $263.0 million reflects payments owed to localities as of June 30 and paid in July.

Short-term Debt

Various higher education institutions' foundations (component units) have short-term debt. University of Virginia Foundations (major component unit) report $52.0 million and nonmajor component unit foundations report $14.7 million. This short-term debt is for working capital, property acquisition, construction costs, and operating costs. The University of Virginia (major component unit) has commercial paper of $56.4 million and the Virginia Polytechnic Institute and State University (major component unit) reports $20.8 million of commercial paper that provides bridge financing for capital projects. The Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University) reports short-term debt of $13.5 million to meet certain cash reserve requirements. The Virginia Horse Center Foundation (nonmajor component unit) has a $60,000 note with a related party. The Virginia Port Authority (nonmajor component unit) reported a $65.9 million short-term Port Facilities Bond Anticipation Note Series 2009.

The balance of Other Liabilities is spread among various other funds.

24. LONG–TERM LIABILITIES

Commonwealth bonds are issued pursuant to Section 9 of Article X of the *Constitution of Virginia*. Section 9(a) bonds have been issued to redeem previous debt obligations. Section 9(b) bonds have been authorized by the citizens of Virginia through bond referenda to finance capital projects. These bonds are retired through the use of state appropriations. Section 9(c) bonds are issued to finance capital projects which, when completed, will generate revenue to repay the debt. Section 9(a), 9(b), and 9(c) bonds are tax-supported general obligation bonds and are backed by the full faith, credit, and taxing power of the Commonwealth. No other long-term debt or obligations are backed by the full faith, credit, and taxing power of the Commonwealth.

Section 9(d) bonds are revenue bonds and are not backed by the full faith, credit and taxing power of the Commonwealth. These bonds are not general obligation bonds and are not deemed to constitute a legal liability of the Commonwealth. This debt may be supported by state appropriations in whole or in part, as in the case of certain debt of the VPA (nonmajor component unit). Other 9(d) revenue bonds are payable from general revenues of the component units, or from revenues of specific revenue-producing capital projects such as the teaching hospitals, dormitories, student centers, and dining halls at the various colleges and universities (component units). Additionally, the 9(d) Transportation Bonds (primary government) are payable solely from revenues or earnings, and other available sources of funds appropriated by the General Assembly.

Certain 9(d) bonds are considered, with 9(a), 9(b), and 9(c) bonds, to be tax-supported debt of the Commonwealth. Tax-supported debt includes all bond issues and short-term debt supported by tax revenues (net of sinking fund requirements), for which debt service payments are made or are ultimately pledged to be made from general governmental funds.

Other 9(d) revenue bonds are considered debt not supported by taxes. For this debt, the Commonwealth has no direct or indirect pledge of tax revenues. However, in some cases, the Commonwealth has made a moral obligation pledge. A government's moral obligation pledge provides a deficiency make-up for bondholders should underlying project revenues prove insufficient. The mechanics involve funding a debt service reserve fund when the bonds are issued. If a revenue deficiency exists, reserve fund monies are used to pay bondholders. The issuer then informs the legislative body requesting that it replenish the reserve fund before subsequent debt service is due. The legislative body may, but is not legally required to, replenish the reserve fund. These bonds are considered to be moral obligation debt.

The following schedule presents the total long-term liabilities of the Commonwealth, and the portion of these amounts which are due within one year, as reported on the Government-wide Statement of Net Assets.

Total Long-term Liabilities
June 30, 2009

(Dollars in Thousands)	**Balance At June 30**	**Amount Due Within One Year**
Primary Government:		
Governmental Activities:(1)		
General Obligation Bonds: (2)		
9(b) Transportation Facilities (3)	$ 12,695	$ 5,715
9(b) Public Facilities (3)	1,027,941	76,679
9(c) Parking Facilities (3)	6,526	1,047
9(c) Transportation Facilities (3)	30,358	1,900
Total General Obligation Bonds	1,077,520	85,341
Nongeneral Obligation Bonds - 9(d):		
Transportation Debt (3) (4)	1,457,296	176,790
Virginia Public Building Authority (3)	2,092,662	136,090
Total Nongeneral Obligation Bonds	3,549,958	312,880
Other Long-term Obligations:		
Pension Liability	989,517	-
OPEB Liability	117,604	-
Compensated Absences	336,072	162,720
Capital Lease Obligations	102,913	10,154
Pollution Remediation Obligations	2,472	1,094
Regional Jail Financing Payable	8,231	1,786
Notes Payable	97,017	3,126
Installment Purchase Obligations	61,966	6,581
Industrial Development Authority Obligations	10,025	4,875
Economic Development Authority Obligations (3)	93,442	3,515
Other Liabilities	22,302	3,800
Total Other Long-term Obligations	1,841,561	197,651
Total Governmental Activities (3)	6,469,039	595,872
Business-type Activities: (1) (5)		
Other Long-term Obligations:		
Pension Liability	21,368	-
OPEB Liability	2,973	-
Compensated Absences	8,955	4,533
Capital Lease Obligations	1,919	547
Installment Purchase Obligations	964	777
Tuition Benefits Payable	1,909,786	129,621
Lottery Prizes Payable	293,165	61,062
Total Other Long-term Obligations	2,239,130	196,540
Total Business-type Activities	2,239,130	196,540
Total Primary Government	8,708,169	792,412

Total Long-term Liabilities
June 30, 2009

(Dollars in Thousands)	Balance At June 30	Amount Due Within One Year
Component Units:		
General Obligation Bonds: (2)		
Higher Education Fund - 9(c) Bonds (3)	573,550	40,832
Nongeneral Obligation Bonds:		
Higher Education Institutions - 9(d) (3) (5)	1,356,659	23,840
Virginia College Building Authority (3)	1,203,701	96,746
Innovative Technology Authority	5,415	935
Virginia Port Authority (3) (6)	424,427	11,818
Virginia Housing Development Authority (3)	6,754,384	309,239
Virginia Resources Authority (3) (7)	2,466,426	75,882
Virginia Public School Authority (3) (5)	3,258,258	208,237
Hampton Roads Sanitation District Commission (5)	360,136	12,967
Virginia Biotechnology Research Park Authority (3) (8)	46,974	2,758
Foundations (5) (9)	853,831	16,360
Total Nongeneral Obligation Bonds	16,730,211	758,782
Other Long-term Obligations:		
Pension Liability (10)	420,996	-
OPEB Liability (11)	121,736	-
Compensated Absences	237,832	156,557
Capital Lease Obligations	113,687	8,188
Notes Payable (5)	1,649,031	234,801
Installment Purchase Obligations	156,236	18,585
Trust and Annuity Obligations (5) (12)	1,106	-
Other Liabilities (5)	300,535	61,487
Total Other Long-term Obligations (Excluding Foundations)	3,001,159	479,618
Other Long-term Obligations (Foundations): (5) (9)		
Pension Liability	62,020	-
OPEB Liability	7	-
Compensated Absences	9,548	5,746
Capital Lease Obligations	3,906	366
Notes Payable	210,740	16,795
Installment Purchase Obligations	12	11
Trust and Annuity Obligations (12)	73,061	2,877
Other Liabilities	80,938	5,805
Total Other Long-term Obligations - Foundations	440,232	31,600
Total Other Long-term Obligations	3,441,391	511,218
Total Component Units	20,745,152	1,310,832
Total Long-term Liabilities	$ 29,453,321	$ 2,103,244

1. Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.
2. Total general obligation debt of the Commonwealth is $1.65 billion.
3. Amounts are net of any unamortized discounts, premiums, and deferrals.
4. This debt includes $548.7 million that is not supported by taxes.
5. This debt is not supported by taxes.
6. This debt includes $224 million that is not supported by taxes.
7. This debt is not supported by taxes; however, $726.4 million from VRA is considered moral obligation debt.
8. This debt includes $1.6 million that is not supported by taxes.
9. Foundations represent FASB reporting entities defined in Note 1.B.
10. This includes pension obligations that do not relate to the Virginia Retirement System from Virginia Commonwealth University of $5.1 million and Virginia Port Authority of $5.8 million. It does not include pension obligations from fiduciary funds of $5.5 million.
11. This includes OPEB obligations that do not relate to the Virginia Retirement System from University of Virginia of $7.6 million, Hampton Roads Sanitation District Commission of $1.0 million, and Virginia Port Authority of $85,079. It does not include OPEB obligations from fiduciary funds of $892,315.
12. These generally represent split-interest agreements that represent donor contributed assets with the requirement that an annual distribution be made to the donor or specified beneficiary. The annual distributions are usually for a fixed dollar amount or a fixed percentage of the trust's fair market value. The present value of these commitments is reported as Trust and Annuity Obligations.

Primary Government

Transportation Facilities Debt

Transportation Facilities Bonds include $12,695,598 of Section 9(b) general obligation bonds, $30,358,010 of Section 9(c) general obligation bonds and $908,600,722 of Section 9(d) revenue bonds. The Transportation Facilities Section 9(d) debt of $1,457,295,750 includes $548,695,028 of outstanding Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes in addition to the outstanding Section 9(d) revenue bonds. 9(b) Principal and interest requirements for the current year totaled $6,272,000. 9(c) Principal and interest requirements for the current year totaled $37,691,106. 9(d) Principal and interest requirements for the current year totaled $233,549,494. The Section 9(b) Transportation Facilities bonds represent Powhite Refunding Bonds. The Section 9(c) Transportation Facilities Bonds were issued to fund the construction and improvement of the Omer L. Hirst - Adelard L. Brault Expressway and the George P. Coleman Bridge. The Section 9(d) Transportation Facilities Bonds were issued to fund the construction of State Route 28, U.S. Route 58, the Northern Virginia Transportation District Program, and the Oak Grove Connector (Chesapeake). The Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes were issued to finance various capital transportation projects throughout the Commonwealth. The interest rates for these bonds range from 2.00 percent to 7.25 percent and the issuance dates range from June 28, 1989, to February 15, 2007.

The following schedules detail the annual funding requirements necessary to amortize Transportation Facilities 9(b) and 9(c) bonds and 9(d) debt:

9(b) TRANSPORTATION FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2010	$ 5,715,000	$ 586,250	$ 6,301,250
2011	6,010,000	300,500	6,310,500
Less:			
Deferral on			
Debt Defeasance	(236,600)	-	(236,600)
Add:			
Unamortized Premium	1,207,198	-	1,207,198
Total	$ 12,695,598	$ 886,750	$ 13,582,348

9(c) TRANSPORTATION FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2010	$ 1,900,000	$ 1,288,600	$ 3,188,600
2011	1,975,000	1,212,600	3,187,600
2012	2,080,000	1,113,850	3,193,850
2013	2,185,000	1,009,850	3,194,850
2014	2,290,000	900,600	3,190,600
2015-2019	13,115,000	2,837,750	15,952,750
2020-2024	6,015,000	363,200	6,378,200
Less:			
Deferral on			
Debt Defeasance	(66,800)	-	(66,800)
Add:			
Unamortized Premium	864,810	-	864,810
Total	$ 30,358,010	$ 8,726,450	$ 39,084,460

9(d) TRANSPORTATION FACILITIES DEBT
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2010	$ 176,790,000	$ 62,494,074	$ 239,284,074
2011	185,490,000	53,622,681	239,112,681
2012	141,000,000	45,637,178	186,637,178
2013	145,655,000	38,593,144	184,248,144
2014	89,095,000	32,987,930	122,082,930
2015-2019	405,995,483	100,658,271	506,653,754
2020-2024	182,515,473	29,655,856	212,171,329
2025-2029	41,345,534	2,472,500	43,818,034
2030-2034	5,457,177	-	5,457,177
Less:			
Deferral on			
Debt Defeasance	(3,817,300)	-	(3,817,300)
Add:			
Accretion on Capital			
Appreciation			
Bonds	14,526,062	-	14,526,062
Unamortized Premium	73,243,321	-	73,243,321
Total	$ 1,457,295,750	$ 366,121,634	$ 1,823,417,384

Fairfax Economic Development Authority Obligations

In fiscal year 2006, the Fairfax County Economic Development Authority (EDA) issued Section 9(d) revenue bonds to pay for the Commonwealth's (VDOT) costs of the planning, design and construction of a transportation infrastructure and related public safety operations complex to be developed on the contiguous sites in the county commonly referred to as "Camp 30" for the joint use of VDOT and the county. The Commonwealth's obligation is set out in a payment agreement between Fairfax County EDA and the Commonwealth of Virginia, Department of Transportation, in which the Commonwealth agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 4.25 percent to 5.00 percent and the issue date was April 12, 2006. The principal and interest requirements for current year totaled $7,825,688. The following schedule details the annual funding requirements necessary to repay these bonds:

FAIRFAX COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2010	$ 3,515,000	$ 4,313,437	$ 7,828,437
2011	3,690,000	4,137,688	7,827,688
2012	3,875,000	3,953,188	7,828,188
2013	4,070,000	3,759,438	7,829,438
2014	4,270,000	3,555,937	7,825,937
2015-2019	24,790,000	14,354,437	39,144,437
2020-2024	31,145,000	7,996,575	39,141,575
2025-2026	14,625,000	1,030,850	15,655,850
Add:			
Unamortized Premium	3,461,650	-	3,461,650
Total	$ 93,441,650	$ 43,101,550	$ 136,543,200

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 1996 Refunding, Series 1997, Series 1998 Refunding, Series 1998, Series 1999A, Series 2002 Refunding, Series 2003A Refunding, Series 2004A, Series 2004B Refunding, Series 2005A, Series 2006A Refunding, Series 2006B, Series 2007A, Series 2007B, Series 2008A, Series 2008B Refunding, and Series 2009A. Bonds were issued to fund construction projects for higher educational institutions, mental health, and/or park facilities. The Series 2003A bonds were issued to advance refund outstanding Series 1993A and B, Series 1994, and Series 1996 bonds. The Series 2004B bonds were issued to advance refund outstanding Series 1997, Series 1998, and Series 1999A bonds. The Series 2006A bonds were issued to advance refund outstanding Series 1996 bonds. The Series 2009 Bonds were issued to advance refund outstanding Series 1998 bonds. Principal and interest requirements for the current year totaled $114,661,076. The interest rates for all bonds range from 2.0 percent to 5.5 percent and the issuance dates range from June 6, 1996, to June 25, 2009. The following schedule details the annual funding requirements necessary to repay these bonds:

9(b) PUBLIC FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2010	$ 76,678,685	$ 45,545,942	$ 122,224,627
2011	76,545,309	42,481,907	119,027,216
2012	76,356,071	38,948,204	115,304,275
2013	76,142,178	35,281,196	111,423,374
2014	71,100,000	31,671,313	102,771,313
2015-2019	269,495,000	112,946,888	382,441,888
2020-2024	229,805,000	55,893,506	285,698,506
2025-2029	107,955,000	11,115,094	119,070,094
Less:			
Deferral on			
Debt Defeasance	(7,456,300)	-	(7,456,300)
Add:			
Unamortized Premium	51,319,806	-	51,319,806
Total	$ 1,027,940,749	$ 373,884,050	$ 1,401,824,799

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, Series 1996, 2002 Refunding, 2003A, 2004A and 2006A Refunding. The Series 1996 bonds were issued to fund the renovation of the Seventh and Marshall Street parking deck. The Series 2002 Refunding bonds were issued to advance refund outstanding Series 1996 and Series 1993 Refunding bonds. The Series 2004A bonds were issued to fund the renovation of the Ninth and Franklin Street parking deck. The Series 2006A Refunding bonds were issued to advance refund outstanding Series 1996 outstanding bonds. The interest rates for these bonds range from 2.5 percent to 5.7 percent and the issuance dates range from June 6, 1996, to March 15, 2006. Current year principal and interest requirements totaled $1,357,202.

The following schedule details the annual funding requirements necessary to repay these bonds:

9(c) PARKING FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2010	$ 1,046,985	$ 307,004	$ 1,353,989
2011	1,068,102	254,655	1,322,757
2012	260,000	204,000	464,000
2013	270,000	191,000	461,000
2014	280,000	177,500	457,500
2015-2019	1,490,000	672,000	2,162,000
2020-2024	1,860,000	270,200	2,130,200
Less:			
Deferral on			
Debt Defeasance	(176,500)	-	(176,500)
Add:			
Unamortized Premium	427,943	-	427,943
Total	$ 6,526,530	$ 2,076,359	$ 8,602,889

Virginia Public Building Authority

Virginia Public Building Authority (VPBA) Section 9(d) bonds consist of Series 1992B, 1995A, 1996A Refunding, 1997A, 1998A Refunding, 1998B, 1999A, 1999B, 2000A, 2001A, 2002A, 2003A Refunding, 2004A Refunding, 2004B, 2004C Refunding, 2004D Refunding, 2005A Refunding, 2005B Refunding, 2005C, 2005D, 2006A, 2006B, 2007A, 2008A Refunding, 2008B, 2009A, 2009B, 2009C, and 2009D Refunding. All bonds were issued for the purpose of constructing, improving, furnishing, maintaining, and acquiring public buildings for the use of the Commonwealth and also to reimburse localities, regional jail authorities or other combination of localities under the Regional Jail Financing Program. The Series 2004C and 2005A bonds were issued to refinance certain capital lease obligations of the Commonwealth. The Series 2004D bonds were issued to advance refund outstanding Series 1997A, Series 1999B, and Series 2000A bonds. The Series 2005B bonds were issued to advance refund outstanding Series 1996A, Series 1998B, and Series 1999A bonds. The Series 2008A bonds were issued to advance refund outstanding series 1998A Refunding bonds. The Series 2009D bonds were issued to advance refund outstanding series 2001A and 2002A Revenue bonds.

The interest rates for all fixed rate bonds range from 2.5 percent to 6.6 percent and the issuance dates range from August 1, 1992, to June 3, 2009. The Series 2005D bonds are variable rate bonds and the rates are reset weekly by the remarketing agent. Current year principal and interest requirements totaled $202,524,429. The following schedule details the annual funding requirements necessary to repay these bonds:

9(d) VIRGINIA PUBLIC BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2010	$ 136,090,000	$ 86,410,056	$ 222,500,056
2011	151,085,000	84,742,413	235,827,413
2012	150,515,000	77,818,259	228,333,259
2013	151,825,000	70,535,563	222,360,563
2014	141,745,000	63,363,834	205,108,834
2015-2019	599,135,000	220,069,861	819,204,861
2020-2024	384,625,000	106,934,181	491,559,181
2025-2029	273,860,000	29,885,150	303,745,150
2030-2034	16,345,000	399,063	16,744,063
Deferral on Debt Defeasance	(26,517,882)	-	(26,517,882)
Unaccreted Capital Appreciation Bonds	(582,905)	-	(582,905)
Add: Unamortized Premium	114,537,529	-	114,537,529
Total	$ 2,092,661,742	$ 740,158,380	$ 2,832,820,122

Regional Jail Financing Program

The Regional Jail Financing Program of the Commonwealth of Virginia Treasury Board was created during the 1993 Session of the General Assembly to establish a method of reimbursing localities, regional jail authorities or other combination of localities for a portion of the capital and financing costs of a jail project, made pursuant to Sections 53.1-80, 53.1-81, or 53.1-82 of the *Code of Virginia*. The General Assembly, upon recommendation from the Department of Planning and Budget, may determine to reimburse localities for approved capital costs over time through a contractual reimbursement agreement between the localities or authority and the Treasury Board. The Board of Corrections determines the amount of reimbursable capital costs. If approved for reimbursement over time, the Treasury Board determines the amount of reimbursable financing costs and calculates the periodic reimbursement payments.

In 1996, the General Assembly adopted legislation that authorized funding of jail project reimbursements through bonds issued by the Virginia Public Building Authority (VPBA). As of June 30, 1998, all future jail reimbursements were approved for funding through the VPBA as opposed to the Treasury Board. All reimbursements whether up front or over time, are subject to appropriation by the General Assembly. Current year principal and interest requirements totaled $2,633,789.

The following schedule details the annual funding requirements necessary to repay these obligations:

REGIONAL JAILS FINANCING
Financial Obligations to Maturity

Calendar Year Obligations	Capital Costs	Financing Costs	Total
2010	$ 1,785,867	$ 847,422	$ 2,633,289
2011	1,827,477	808,212	2,635,689
2012	1,869,189	766,526	2,635,715
2013	1,911,009	725,511	2,636,520
2014	837,165	(646,926)	190,239
Total	$ 8,230,707	$ 2,500,745	$ 10,731,452

Industrial Development Authority Obligations

In fiscal year 2002, the Newport News Industrial Development Authority (IDA) issued Section 9(d) revenue bonds to pay a portion of the cost of construction and equipping of the Virginia Advanced Shipbuilding and Carrier Integration Center for use by the Newport News Shipbuilding and Dry Dock Company. The Commonwealth's obligation is set out in a payment agreement between Newport News IDA and the Treasury Board, in which the Treasury Board agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 2.75 percent to 5.03 percent and the issue date was July 27, 2000. Current year principal and interest requirements totaled $5,269,797. The following schedule details the annual funding requirements necessary to repay these bonds:

NEWPORT NEWS INDUSTRIAL DEVELOPMENT AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2010	$ 4,875,000	$ 417,313	$ 5,292,313
2011	5,150,000	141,625	5,291,625
Total	$ 10,025,000	$ 558,938	$ 10,583,938

Component Units

Higher Education Institution Bonds

Higher Education Institution Bonds are comprised of both 9(c) general obligation bonds and 9(d) revenue bonds. Section 9(d) bonds are from several sources as shown on the following schedule (dollars in thousands):

College and university bonds backed by pledge of general revenue or revenue from specific revenue-producing capital projects	$ 1,077,484
College and university debt backed exclusively by pledged revenues of an institution	279,175
Total Higher Education Institution 9(d) debt	$ 1,356,659

The interest rates for these bonds range from 0.32 percent to 9.25 percent and the issuance dates range from June 30, 1979 to November 25, 2008. The VCBA Series 2006B and 2006C bonds, the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University) Series 2005 and 2008 bonds, and the UVA Series 2003A bonds are variable rate bonds and the rates are reset weekly by the remarketing agent.

The following schedules detail the annual funding requirements necessary to amortize Higher Education Institution 9(c) and 9(d) bonds:

9(c) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2010	$ 40,094,331	$ 26,920,092	$ 67,014,423
2011	38,143,589	25,124,998	63,268,587
2012	34,823,929	23,274,046	58,097,975
2013	35,512,821	21,545,704	57,058,525
2014	30,705,000	19,829,788	50,534,788
2015-2019	146,665,000	76,299,682	222,964,682
2020-2024	127,345,000	44,349,325	171,694,325
2025-2029	90,075,000	15,962,269	106,037,269
2030-2034	20,835,000	2,770,725	23,605,725
2035-2039	2,685,000	258,875	2,943,875
Deferral on Debt Defeasance	(8,012,900)	-	(8,012,900)
Add:			
Unamortized Premium	14,677,795	-	14,677,795
Total	$ 573,549,565	$ 256,335,504	$ 829,885,069

9(d) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2010	$ 23,856,067	$ 38,902,228	$ 62,758,295
2011	24,514,726	38,075,123	62,589,849
2012	25,478,496	37,208,604	62,687,100
2013	26,492,380	36,223,320	62,715,700
2014	26,376,381	35,169,190	61,545,571
2015-2019	124,166,285	159,065,168	283,231,453
2020-2024	119,531,936	135,200,090	254,732,026
2025-2029	119,300,000	116,521,486	235,821,486
2030-2034	186,665,000	101,120,666	287,785,666
2035-2039	341,290,000	68,061,678	409,351,678
2040-2044	330,915,000	254,045,750	584,960,750
Less:			
Deferral on Debt Defeasance	(9,365,798)	-	(9,365,798)
Add:			
Unamortized Premium	17,438,965	-	17,438,965
Total	$ 1,356,659,438	$ 1,019,593,303	$ 2,376,252,741

9(d) VIRGINIA COLLEGE BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2010	$ 93,315,000	$ 45,523,052	$ 138,838,052
2011	86,905,000	46,022,393	132,927,393
2012	78,165,000	42,100,833	120,265,833
2013	63,125,000	38,568,809	101,693,809
2014	65,970,000	35,790,402	101,760,402
2015-2019	321,985,000	134,248,671	456,233,671
2020-2024	278,890,000	68,460,328	347,350,328
2025-2029	161,315,000	19,967,759	181,282,759
Less:			
Deferral on Debt Defeasance	(5,526,600)	-	(5,526,600)
Add:			
Unamortized Premium	59,557,435	-	59,557,435
Total	$ 1,203,700,835	$ 430,682,247	$ 1,634,383,082

Various higher education institutions' foundations (component units) and a museum foundation (component unit) have bonds outstanding as of year-end. The purpose of a majority of these bonds is for construction, property acquisition, and defeasance of prior debt. The following schedule details the future principal payments:

FOUNDATIONS' BONDS (1)
Debt Service Requirements to Maturity

Maturity	*Principal*
2010	$ 16,361,251
2011	13,786,887
2012	14,535,907
2013	16,233,817
2014	28,486,360
Thereafter	762,461,279
Mark-to-market estimate of bank swap transactions	1,965,604
Total	$ 853,831,105

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Innovative Technology Authority

The Innovative Technology Authority (ITA) has issued Taxable Lease Revenue Bonds, Series 1989, and Series 1997 Refunding. The Series 1989 bonds were issued to cover a portion of the costs related to the construction of a software development center and office building. Series 1997 bonds were issued to advance refund $11.2 million of the outstanding 1989 bonds.

The 1989 bonds had an average interest rate of 10.3 percent and the 1997 bonds have an average interest rate of 7.4 percent. The bonds were issued on March 1, 1989, and May 1, 1997, respectively. The following schedule details the annual funding requirements necessary to amortize ITA bonds:

9(d) INNOVATIVE TECHNOLOGY AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2010	$ 935,000	$ 407,208	$ 1,342,208
2011	1,015,000	336,896	1,351,896
2012	1,090,000	260,568	1,350,568
2013	1,155,000	178,600	1,333,600
2014	1,220,000	91,744	1,311,744
Total	$ 5,415,000	$ 1,275,016	$ 6,690,016

Virginia Port Authority

The Virginia Port Authority (VPA) has issued Section 9(d) revenue bonds and notes pursuant to powers provided to its board of commissioners by the *Code of Virginia*. The interest rates for these bonds range from 3.0 percent to 6.0 percent and the issuance dates range from October 23, 1996, to April 11, 2007. Series 1998 bonds were issued to advance refund $71.0 million of the outstanding Series 1988 bonds. Series 2006A bonds were issued to advance refund $22.9 million of outstanding Series 1996 bonds The following schedule details the annual funding requirements necessary to amortize VPA bonds:

9(d) VIRGINIA PORT AUTHORITY DEBT
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2010	$ 11,205,000	$ 22,694,675	$ 33,899,675
2011	11,760,000	21,426,491	33,186,491
2012	12,330,000	19,870,508	32,200,508
2013	12,935,000	19,280,908	32,215,908
2014	13,575,000	18,659,301	32,234,301
2015-2019	70,905,000	82,594,712	153,499,712
2020-2024	82,260,000	63,717,259	145,977,259
2025-2029	95,310,000	41,469,492	136,779,492
2030-2034	63,715,000	20,504,485	84,219,485
2035-2039	40,365,000	5,055,163	45,420,163
Less: Deferral on Debt Defeasance	(1,031,858)	-	(1,031,858)
Add: Unamortized Premium	11,098,426	-	11,098,426
Total	$ 424,426,568	$ 315,272,994	$ 739,699,562

Virginia Housing Development Authority

The Virginia Housing Development Authority (VHDA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 3.23 percent to 8.18 percent and the origination dates range from April 1, 1983, to June 17, 2009. The following schedule details the annual funding requirements necessary to amortize these bonds:

9(d) VIRGINIA HOUSING DEVELOPMENT AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2010	$ 309,238,820	$ 338,349,280	$ 647,588,100
2011	258,470,000	326,677,853	585,147,853
2012	284,140,000	315,798,754	599,938,754
2013	277,985,000	303,749,550	581,734,550
2014	277,210,000	291,430,760	568,640,760
2015-2019	1,373,445,000	1,259,816,499	2,633,261,499
2020-2024	1,246,475,000	911,358,134	2,157,833,134
2025-2029	1,072,315,000	599,901,109	1,672,216,109
2030-2034	891,778,097	340,625,961	1,232,404,058
2035-2039	669,365,057	128,633,852	797,998,909
2040-2044	71,985,000	7,561,428	79,546,428
Add: Unamortized Premium	21,977,000	-	21,977,000
Total	$ 6,754,383,974	$ 4,823,903,180	$ 11,578,287,154

Virginia Resources Authority

The Virginia Resources Authority (VRA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 1.36 percent to 8.70 percent and the origination dates range from December 1, 1985, to April 15, 2009. The following schedule details the annual funding requirements necessary to amortize these bonds:

9(d) VIRGINIA RESOURCES AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2010	$ 67,825,000	$ 108,766,780	$ 176,591,780
2011	85,030,000	107,378,537	192,408,537
2012	99,545,000	103,654,873	203,199,873
2013	110,745,000	99,227,867	209,972,867
2014	116,205,000	94,421,927	210,626,927
2015-2019	635,925,000	389,063,633	1,024,988,633
2020-2024	536,670,000	249,077,469	785,747,469
2025-2029	455,940,000	130,735,503	586,675,503
2030-2034	226,090,000	45,754,921	271,844,921
2035-2039	98,315,000	9,124,500	107,439,500
2040-2044	1,345,000	65,525	1,410,525
Less: Unaccreted Capital Appreciation Bonds	(45,623,851)	-	(45,623,851)
Add: Unamortized Premium	78,414,412	-	78,414,412
Total	$ 2,466,425,561	$ 1,337,271,535	3,803,697,096

Virginia Public School Authority

The Virginia Public School Authority (VPSA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 2.0 percent to 6.0 percent, and the origination dates range from November 20, 1997, to May 7, 2009. The following schedule details the annual funding requirements necessary to amortize these bonds:

9(d) VIRGINIA PUBLIC SCHOOL AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2010	$ 208,370,000	$ 151,099,270	$ 359,469,270
2011	217,235,000	142,404,273	359,639,273
2012	216,180,000	131,764,007	347,944,007
2013	204,110,000	121,463,860	325,573,860
2014	201,160,000	111,668,541	312,828,541
2015-2019	944,132,063	414,091,697	1,358,223,760
2020-2024	732,010,000	207,337,947	939,347,947
2025-2029	420,425,000	67,115,394	487,540,394
2030-2034	82,920,000	11,835,825	94,755,825
2035-2039	13,280,000	967,025	14,247,025
Less:			
Deferral on			
Debt Defeasance	(38,523,700)	-	(38,523,700)
Add:			
Unamortized Premium	56,959,724	-	56,959,724
Total	$ 3,258,258,087	$ 1,359,747,839	$ 4,618,005,926

Hampton Roads Sanitation District Commission

The Hampton Roads Sanitation District Commission issued bonds under a Master Trust Indenture and a Trust Agreement dated December 1, 1993, and March 1, 2003. The interest cost for these bonds range from 2.5 percent to 4.75 percent. The following schedule details the annual funding requirements necessary to amortize these bonds:

HAMPTON ROADS SANITATION DISTRICT COMMISSION
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2010	$ 12,967,000	$ 15,071,000	$ 28,038,000
2011	13,499,000	14,549,000	28,048,000
2012	13,952,000	14,038,000	27,990,000
2013	14,864,000	15,239,000	30,103,000
2014	15,337,000	14,652,000	29,989,000
2015-2019	60,789,000	64,432,000	125,221,000
2020-2024	55,389,000	52,873,000	108,262,000
2025-2029	58,066,000	38,763,000	96,829,000
2030-2034	58,789,000	23,475,000	82,264,000
2035-2039	56,484,000	7,234,000	63,718,000
Total	$ 360,136,000	$ 260,326,000	$ 620,462,000

Virginia Biotechnology Research Partnership Authority

The Virginia Biotechnology Research Partnership Authority issued Series 1996, 1998, 1999A, 1999B, and 2001 Commonwealth of Virginia Lease Revenue bonds. Coupon interest rates range from 4.0 percent to 6.4 percent. The Series 1996 Virginia Biotechnology Research Partnership Authority Lease Revenue Bonds were refinanced with VPBA Series 2005A bonds on March 1, 2005.

VIRGINIA BIOTECH RESEARCH AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2010	$ 2,730,000	$ 2,266,069	$ 4,996,069
2011	2,860,000	2,146,894	5,006,894
2012	3,005,000	2,010,057	5,015,057
2013	3,175,000	1,851,800	5,026,800
2014	3,355,000	1,682,829	5,037,829
2015-2019	18,285,000	5,681,646	23,966,646
2020-2024	13,225,000	1,014,375	14,239,375
Add:			
Unamortized Premium	339,227	-	339,227
Total	$ 46,974,227	$ 16,653,670	$ 63,627,897

Total principal outstanding at June 30, 2009, on all component unit bonds amounted to $17.3 billion.

In addition to the above obligations, the Virginia Small Business Financing Authority (nonmajor component unit) has issued Industrial Development Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector entity served by the bond issuance. Neither the Small Business Financing Authority, nor the Commonwealth is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities on the accompanying financial statements.

Total principal outstanding at June 30, 2009, of the Industrial Development Revenue Bonds is $539.1 million.

The following schedule summarizes the changes in long-term liabilities:

Schedule of Changes in Long-term Debt and Obligations (1) (2)

(Dollars in Thousands)

	Balance July 1, 2008 (as restated)	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30, 2009
Primary Government				
Governmental Activities:				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - 9(b) and 9(c):				
Public Facilities Bonds (3)	$ 877,400	$ 205,458	$ (98,781)	$ 984,077
Parking Facilities Bonds (3)	7,275	-	(1,000)	6,275
Transportation Facilities Bonds (3)	76,124	-	(34,839)	41,285
Add: Unamortized Premium	51,644	8,114	(5,939)	53,819
Less: Unamortized Discount	(183)	183	-	-
Deferral on Debt Defeasance	(10,271)	3,204	(869)	(7,936)
Total General Obligation Bonds	1,001,989	216,959	(141,428)	1,077,520
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Transportation Facilities Bonds (3)	1,536,304	-	(162,960)	1,373,344
Virginia Public Building Authority Bonds (3)	1,664,445	508,740	(167,960)	2,005,225
Regional Jails Financing Payable	9,980	-	(1,749)	8,231
Industrial Development Authority Obligations	14,640	-	(4,615)	10,025
Economic Development Authority Obligations (3)	93,325	-	(3,345)	89,980
Add: Unamortized Premium	172,645	38,233	(19,635)	191,243
Accretion on Capital Appreciation Bonds	12,049	2,477	-	14,526
Less: Unamortized Discount	(2,117)	1,535	-	(582)
Deferral on Debt Defeasance	(34,400)	8,861	(4,797)	(30,336)
Installment Purchase Obligations	54,761	21,833	(14,628)	61,966
Notes Payable - Virginia Public Broadcasting Board	8,520	-	(2,690)	5,830
Notes Payable - Transportation	12,325	-	(4,325)	8,000
Notes Payable - Aviation	2,195	-	(286)	1,909
Notes Payable - Tax Refund (5)	-	81,278	-	81,278
Compensated Absences	345,361	3,872	(13,161)	336,072
Capital Lease Obligations	113,477	2,483	(13,047)	102,913
Pension Liability	878,579	110,940	(2)	989,517
OPEB Liability	57,473	60,131	-	117,604
Pollution Remediation Liability (6)	2,997	-	(525)	2,472
Other	20,203	5,293	(3,194)	22,302
Total Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	4,962,762	845,676	(416,919)	5,391,519
Total Governmental Activities	5,964,751	1,062,635	(558,347)	6,469,039
Business-type Activities:				
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Installment Purchase Obligations	1,735	-	(771)	964
Capital Lease Obligations	2,347	-	(428)	1,919
Obligations:				
Compensated Absences	8,761	1,936	(1,742)	8,955
Pension Liability	18,887	2,481	-	21,368
OPEB Liability	1,551	1,422	-	2,973
Lottery Prizes Payable	332,726	5,734	(45,295)	293,165
Tuition Benefits Payable	1,891,424	104,447	(86,085)	1,909,786
Total Business-type Activities	2,257,431	116,020	(134,321)	2,239,130
Total Primary Government	$ 8,222,182	$ 1,178,655	$ (692,668)	$ 8,708,169

Foundations (4)	Balance June 30, 2009	Due Within One Year
$ -	$ 984,077	$ 76,679
-	6,275	1,047
-	41,285	7,615
-	53,819	-
-	-	-
-	(7,936)	-
-	1,077,520	85,341
-	1,373,344	176,790
-	2,005,225	136,090
-	8,231	1,786
-	10,025	4,875
-	89,980	3,515
-	191,243	-
-	14,526	-
-	(582)	-
-	(30,336)	-
-	61,966	6,581
-	5,830	2,840
-	8,000	-
-	1,909	286
-	81,278	-
-	336,072	162,720
-	102,913	10,154
-	989,517	-
	117,604	-
	2,472	1,094
-	22,302	3,800
-	5,391,519	510,531
-	6,469,039	595,872
-	964	777
-	1,919	547
-	8,955	4,533
-	21,368	-
-	2,973	-
-	293,165	61,062
-	1,909,786	129,621
-	2,239,130	196,540
$ -	$ 8,708,169	$ 792,412

Continued on next page

Schedule of Changes in Long-term Debt and Obligations (1) (2)
(continued)

(Dollars in Thousands)

	Balance July 1, 2008 (as restated)	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30, 2009
Component Units				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - Higher Education 9(c) (3)	$ 487,296	$ 152,783	$ (66,529)	$ 573,550
Long-term Debt / Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Bonds (3)	14,674,378	2,803,478	(1,601,476)	15,876,380
Installment Purchase Obligations (7)	119,242	66,150	(29,156)	156,236
Capital Lease Obligations	136,773	2,598	(25,684)	113,687
Notes Payable	1,293,035	651,370	(295,374)	1,649,031
Compensated Absences	229,910	190,783	(182,861)	237,832
Pension Liability	358,881	63,397	(1,282)	420,996
OPEB Liability	62,185	59,553	(2)	121,736
Trust and Annuity Obligations	1,003	103	-	1,106
Other	262,668	195,964	(158,097)	300,535
Total Component Units	$ 17,625,371	$ 4,186,179	$ (2,360,461)	$ 19,451,089

(1) Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.
(2) Payments on bonded debt that pertain to the Commonwealth's governmental activities are made through the debt service funds. Payments for installment purchases, compensated absences, capital leases, pension, and other obligations that pertain to the Commonwealth's governmental activities are made through the general and special revenue funds. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the total for governmental activities. Enterprise funds, or business-type activities, are self-supporting funds. Accordingly, long-term liabilities are paid from each respective fund.
(3) Amounts are net of any unamortized discounts, premiums, and deferrals.
(4) Foundations represent FASB reporting entities defined in Note 1.B.
(5) No proceeds received relate to the tax refund note.
(6) Beginning balance was increased as a result of the implementation of GASB Statement No. 49.
(7) Beginning balance was increased as a result of the College of William and Mary not reporting an installment purchase obligation in the prior year.

Foundations (4)	Balance June 30, 2009	Due Within One Year
$ -	$ 573,550	$ 40,832
853,831	16,730,211	758,782
12	156,248	18,596
3,906	117,593	8,554
210,740	1,859,771	251,596
9,548	247,380	162,303
62,020	483,016	-
7	121,743	-
73,061	74,167	2,877
80,938	381,473	67,292
$ 1,294,063	$ 20,745,152	$ 1,310,832

Bond Defeasance

Primary Government

In November 2008, the Commonwealth issued $270,865,000 of General Obligation Bonds, Series 2008B, $52,150,000 of which were for the purpose of refunding certain outstanding maturities ("Refunding Bonds"), pursuant to Sections 9(b) and 9(c) of Article X of the *Constitution*, with a true interest cost (TIC) of 4.3974 percent to refund $52,600,000 of outstanding Commonwealth of Virginia General Obligation Refunding Bonds, Series 1998 (the "Refunded Bonds"). The net proceeds from the sale of the Refunding Bonds of $53,974,604 (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the Refunded Bonds. The reacquisition price exceeded the net carrying amount of the old debt by $1,374,605. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. It will, however, reduce total debt service payments over the next six years by $2,142,922 resulting in an economic gain of $1,892,480 discounted at the rate of 3.5979 percent.

In June 2009, the Virginia Public Building Authority (blended component unit) issued $42,745,000 of Series 2009D Public Facilities Revenue Refunding Bonds. The bonds refunded with the Series 2009D refunding bonds were $21,640,000 of Series 2001A Public Facilities Revenue Refunding Bonds and $21,575,000 of Series 2002A Public Facilities Revenue Refunding Bonds. The net proceeds of $48,012,329 were deposited with escrow agents to provide for future debt service on the defeased bonds. The reacquisition price exceeded the net carrying amount of the old debt by $4,797,329. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. Total debt service payments over the life of the bonds will be reduced by $1,948,153 resulting in an economic gain of $1,730,522 discounted at the rate of 3.22 percent.

Component Units

In April 2009, the Virginia College Building Authority (nonmajor) issued $12,945,000 of Series 2009C 21st Century College Program refunding bonds. The bonds refunded with the series 2009C refunding bonds were $3,805,000 of series 1999, $4,710,000 of series 2001, and $4,450,000 of series 2002A 21st Century College Program bonds. The net proceeds from the sale of the refunding bonds of $13,806,649 were deposited in irrevocable trusts with escrow agents to provide for all future debt service on the defeased bonds. This defeasance resulted in an accounting loss of $781,000. Total debt service payments over the next 6 years will be reduced by $464,148 resulting in a present value savings of $458,610 discounted at the rate of 4.08 percent.

During the fiscal year, the Virginia Resources Authority (nonmajor) issued refunding bonds series 2009A and 2008B. The bonds that were refunded or partially refunded were $2,060,000 of series 1997F, $1,920,000 of series 1998B, $13,185,000 of series 1998D, $10,410,000 of series 2001A, and $19,260,000 of series 2001D. The refunding resulted in an economic gain of $2,898,048. A portion of the proceeds from the series 2009A bonds were also used to restructure some debt to extend certain maturity dates. The bonds that were restructured and are considered to be defeased were $6,435,000 of series 2001A and 2003, $1,265,000 of series 2001, $54,000,000 of series 2001B, 2001E, 2002D, 2002E, 2003B, 2003, 2004A, and 2004B, and $515,000 of series 2003C. This refunding resulted in an economic loss of $6,114,808.

GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of June 30, 2009, there were $244.6 million in bonds from the primary government that have been refunded and defeased in-substance from the governmental activities column by placing existing assets and the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments. In addition, there were $632.9 million in bonds outstanding considered defeased from the component units.

Arbitrage Rebate

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. Governmental issuers must comply with the rebate regulations in order for their bonds to maintain tax-exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, to be rebated to the federal government. Income earned on excess earnings is also subject to rebate. Rebate liability, if any, must be paid every five years over the life of the bonds. Governmental issuers may elect to pay a penalty in lieu of rebate. Some bonds may be exempt from the rebate requirements if they qualify for certain regulatory exceptions. If the issuer meets one of the exceptions, the issuer retains any arbitrage earnings. Rebate and penalty payments are calculated and paid as required by law on bond issues that do not qualify for an exception.

Although rebatable arbitrage need only be calculated for tax purposes every fifth year that debt is outstanding, and consistent with modified accrual basis of accounting, is not recognized as a liability in governmental funds until amounts actually become due and payable, a liability is recognized in accrual basis government-wide statements as soon as the underlying event has occurred. Accordingly, as of June 30, 2009, the Commonwealth has recognized a government-wide liability of $218,569 and the Virginia Resources Authority (nonmajor component unit) has recognized a liability of $3,186,799.

Amounts remitted to the federal government for rebate liability are generally paid from earnings derived from the issue. However, if all proceeds (including earnings) have been expended and depending on the type of issue, it may be necessary to use project revenues or general or nongeneral fund appropriations to satisfy any rebate liability. During the year, the Virginia College Building Authority (nonmajor component unit) remitted $1,354 to the federal government for rebate liability on its Series 2003A Pooled Bond Program issue. No rebate payments were owed during the year on the Commonwealth's general obligation bonds or bonds of the Virginia Public Building Authority.

Rebate liability on bonds of the Virginia Public School Authority (major component unit) is payable from earnings on related bond funds and from local issuers whose local school bonds were purchased by the VPSA. During the year, $24,437 was paid to the federal government for rebate on various VPSA school financing bonds.

Capital Leases

The Commonwealth leases buildings and equipment under various agreements that are accounted for as capital leases. The lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

Gross minimum lease payments, together with the present value of the net minimum lease payments as of June 30, 2009, are shown in the following table (dollars in thousands).

	Governmental Activities	Business-Type Activities	Component Units (1)
2010	$ 17,608	$ 547	$ 12,845
2011	17,246	560	11,362
2012	16,391	575	10,148
2013	15,892	589	10,124
2014	14,681	-	9,446
2015-2019	48,094	-	35,193
2020-2024	14,965	-	26,258
2025-2029	414	-	25,159
2030-2034	-	-	18,500
2035-2039	-	-	720
2040-2044	-	-	661
2045-2049	-	-	1,569
Total Gross Minimum Lease Payments	145,291	2,271	161,985
Less: Amount Representing Executory Costs	9,262	-	5
Net Minimum Lease Payments	136,029	2,271	161,980
Less: Amount Representing Interest	33,116	352	48,293
Present Value of Net Minimum Lease Payments	$ 102,913	$ 1,919	$ 113,687

Note (1): The above amounts exclude capital lease obligations of foundations.

	Foundations (2)
2010	$ 366
2011	355
2012	290
2013	276
2014	276
Thereafter	5,382
Net Minimum Lease Payments	6,945
Less: Amount Representing Interest	3,039
Present Value of Net Minimum Lease Payments	$ 3,906

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Land purchased under a capital lease for approximately $3.7 million is not included in the schedule below.

At June 30, 2009, assets purchased under capital leases were included in depreciable capital assets as follows (dollars in thousands). The amounts are net of accumulated depreciation where applicable. For a portion of these assets, ownership will pass to the Commonwealth at the end of the lease term.

	Buildings	Equipment	Total
Governmental Activities:			
Gross Capital Assets	$ 192,891	$ 1,711	$ 194,602
Less: Accumulated Depreciation	64,492	697	65,189
Total Governmental Activities	$ 128,399	$ 1,014	$ 129,413
Business-Type Activities:			
Gross Capital Assets	$ 2,347	$ -	$ 2,347
Less: Accumulated Depreciation	391	-	391
Total Business-Type Activities	$ 1,956	$ -	$ 1,956
Component Units:			
Gross Capital Assets	$ 161,388	$ 26,709	$ 188,097
Less: Accumulated Depreciation	21,341	19,473	40,814
Subtotal (excluding Foundations)	140,047	7,236	147,283
Foundations:			
Gross Capital Assets	-	567	567
Less: Accumulated Depreciation	-	324	324
Subtotal Foundations	-	243	243
Total Component Units	$ 140,047	$ 7,479	$ 147,526

Notes Payable

Notes Payable consist of several items as shown in the following schedule (dollars in thousands):

Primary Government	
Transportation Note	$ 8,000
Virginia Public Broadcasting Board Note	5,830
Aviation Note	1,909
Installment Notes	62,930
Tax Refund Note	81,278
Total Primary Government	159,947
Component Units	
Virginia Public School Authority	172,160
Virginia Housing Development Authority	122,605
University of Virginia	57,096
Virginia Polytechnic Institute and State University	119,223
Virginia Commonwealth University	222,451
Nonmajor Component Units	955,496
Installment Notes	156,236
Subtotal (excluding Foundations)	1,805,267
Foundations:	
Notes Payable	210,740
Installment Notes	12
Subtotal - Foundations	210,752
Total Component Units	2,016,019
Total Notes Payable	$ 2,175,966

The Transportation (primary government) Note listed above represents an interest free note payable to Chesterfield County, Virginia, of $8,000,000 for the repayment of the Powhite Parkway Extension Toll Road from surplus net revenues of the project prior to the retirement of all the bonds issued.

The Virginia Public Broadcasting Board (part of primary government) Note listed above represents a loan agreement entered into with the Harrisonburg Industrial Development Authority for $23,840,000. The purpose of the loan was to grant funds to Virginia's public television stations to assist with the cost of conversion to the Federal Communication Commission’s new digital standard. The agreement was entered into February 27, 2001, and has a variable rate of interest. The variable interest rates are reset weekly by the remarketing agent. The General Assembly authorized these grants in Chapter 1073 of the 2000 Appropriation Act.

The Aviation (primary government) Note listed above represents a loan agreement with the Virginia Resources Authority in the amount of $6,600,000. The purpose of the loan was to finance and refinance grants-in-aid made to the Peninsula Airport Commission to provide funding for capital improvements at the Newport News/Williamsburg International Airport. The principal amount shall be paid semi-annually with the final payment due in 2017.

The Tax Refund (primary government) Note listed above of $81,278,205 is owed to a taxpayer and will be paid in four equal annual installments. Variable interest not to exceed 4.0 percent will be included in the annual payments.

The Virginia Public School Authority (major component unit) notes of $172,160,000 are for the School Equipment Financing Notes Educational Technology program. The note proceeds were used to make grants to school divisions for the purchase of educational technology equipment. The notes will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund (major special revenue fund).

The Virginia Housing Development Authority (major component unit) has notes payable of $122,605,000. The $122,605,000 is a credit agreement with the Federal Home Loan Bank of Atlanta. The proceeds along with the bond proceeds are used to make mortgage loans.

The Virginia Resources Authority (nonmajor component unit) notes of $28,847,600 are Equipment and Term Financing loans.

An additional amount of $1,325,418,691 is comprised primarily of higher education (component unit) promissory notes with the Virginia College Building Authority (nonmajor component unit) to finance the construction of various higher education facilities. The VCBA principal amount net of unamortized accruals is $1,312,042,691. Interest rates range from 2.10 percent to 5.75 percent and shall be paid semi-annually. The final principal payment is due in 2039. The Virginia Biotechnology Research Partnership Authority has notes payable in the amount of $9,848,098 used for refunding the 1998 bonds issued for Biotech One, making tenant improvements to Biotech 6 and purchase two pieces of land.

The higher education institutions (component units) also have notes payable. The University of Virginia (major component unit) has notes payable of $221,500 for a GPS system. The College of William and Mary (nonmajor component unit) has notes payable of $308,868 with SunTrust Bank to partially finance the multi-year implementation of the administrative and financial system. This first note matured in 2008 and the second note has an interest rate of 3.75 percent and matures in 2011. Virginia State University (nonmajor component unit) has a note payable of $1,872,488, which is the result of a loan agreement with the U.S. Department of Housing and Urban Development to repair seven dormitories. The loan is to be repaid over 30 years at 3.0 percent interest per annum, and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. Norfolk State University (nonmajor component unit) has a note payable of $66,431, which is the result of an agreement with the City of Norfolk to purchase the Brambleton Center. The loan is payable in six full scholarships each year varying from $4,593 to $13,308 with the final amount due in 2019. The Radford University Property Acquisition Foundation (blended component unit of Radford University (nonmajor component unit)) has a notes payable of $1,059,972 to purchase land and a building. The original note was refinanced and the new terms include an interest rate of 5.53 percent, payable in monthly installments with a final payment in 2021.

Various foundations (component units) have notes outstanding as of year-end. The purpose of a majority of these notes is for property acquisition, working capital, and construction. Future principal payments as of June 30, 2009, are shown in the following table (dollars in thousands).

Foundations' Notes Payable (Component Units) (1)
June 30, 2009

Maturity	Principal
2010	$ 16,796
2011	73,237
2012	11,084
2013	12,183
2014	6,929
Thereafter	90,511
Total	$ 210,740

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Installment purchase obligations have been entered into by agencies and institutions of the Commonwealth. These agreements, other than those in the component units and certain institutions of higher education, contain nonappropriation clauses indicating that continuation of the installment purchase obligations is subject to funding by the General Assembly. Installment purchase obligations represent $219,166,010 of the total outstanding debt of the Commonwealth. The foundations (component units) had installment purchase obligations totaling $11,981 as of year-end. Presented in the following tables are repayment schedules for installment purchase obligations.

Installment Purchase Obligations - Governmental Funds
June 30, 2009

Maturity	Principal	Interest	Total
2010	$ 6,581,824	$ 1,739,223	$ 8,321,047
2011	6,080,343	1,921,341	8,001,684
2012	4,426,790	1,721,042	6,147,832
2013	4,014,571	1,570,100	5,584,671
2014	8,233,534	2,543,299	10,776,833
2015-2019	22,021,323	4,033,491	26,054,814
2020-2024	10,608,066	904,713	11,512,779
Total	$ 61,966,451	$ 14,433,209	$ 76,399,660

Installment Purchase Obligations - Business-type Activities
June 30, 2009

Maturity	Principal	Interest	Total
2010	$ 776,891	$ 20,579	$ 797,470
2011	186,944	1,963	188,907
Total	$ 963,835	$ 22,542	$ 986,377

Installment Purchase Obligations - Component Units (1)
June 30, 2009

Maturity	Principal	Interest	Total
2010	$ 18,584,734	$ 4,865,537	$ 23,450,271
2011	26,623,656	5,888,127	32,511,783
2012	17,341,002	3,705,292	21,046,294
2013	16,346,306	3,167,584	19,513,890
2014	14,994,183	2,639,974	17,634,157
2015-2019	51,741,221	6,840,825	58,582,046
2020-2024	10,553,245	937,721	11,490,966
2025-2029	51,377	2,826	54,203
Total	$ 156,235,724	$ 28,047,886	$ 184,283,610

Note (1): The above amounts exclude installment purchase obligations of foundations.

Installment Purchase Obligations - Foundations (2)
June 30, 2009

Maturity	Principal
2010	$ 11,028
2011	953
Total	$ 11,981

Note (2): Foundations represent FASB reporting entities defined in Note 1.B.

Lottery Prizes Payable

Lottery prizes are paid in 20, 25, 26, or 30 installments. The first installment is paid on the day the prize is claimed. The subsequent annual payments are funded with U.S. Treasury STRIPS purchased by the Virginia Lottery. For Life prizes payable represent estimated prizes payable monthly, quarterly or annually for the life of the winner based on life expectancy tables from the Virginia Bureau of Insurance, and funded with a pool of U.S. Treasury STRIPS.

Lottery prizes payable represent the future annual prize payments valued at cost plus accrued interest (present value of securities held to maturity) of the investment securities funding the payments.

Lottery prizes payable for the fiscal year ended June 30, 2009, are shown in the following table:

	Jackpot	Win For Life	Total
Due within one year	$ 57,540,195	$ 3,521,408	$ 61,061,603
Due in subsequent years	185,046,894	47,056,083	232,102,977
Total (present value)	242,587,089	50,577,491	293,164,580
Add: Interest to Maturity	75,319,311	39,148,509	114,467,820
Lottery Prizes Payable at Maturity	$ 317,906,400	$ 89,726,000	$ 407,632,400

Tuition Benefits Payable

The Virginia College Savings Plan administers the Virginia Prepaid Education Program (VPEP). VPEP offers contracts which, for actuarially determined amounts, provide for guaranteed full future tuition payments at state higher education institutions. The contract provisions also allow the benefits to be used for private or out-of-state institutions at a prorated amount based upon the amounts charged by the state's higher education institutions.

At June 30, 2009, tuition benefits payable of $1.9 billion have been recorded for the VPEP program on the balance sheet for the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the VPEP program. In addition, a receivable in the amount of $285.0 million has been recorded to reflect the actuarially determined present value of future payments anticipated from contract holders.

25. OTHER REVENUE

The following table (dollars in thousands) summarizes Other Revenue for the fiscal year ended June 30, 2009.

	Assessments and Receipts for Support of Special Services	Fines, Forfeitures, Court Fees, Penalties, and Escheats	Receipts from Cities Counties, and Towns	Private Gifts, Grants, and Contracts	Sales of Property
Primary Government:					
General	$ 372	$ 196,570	$ 10,265	$ 148	$ 1
Major Special Revenue Funds:					
Commonwealth Transportation	19,087	12,178	73,821	4,232	-
Federal Trust	-	36	-	-	122
Literary	-	63,949	-	-	-
Nonmajor Governmental Funds	93,560	63,592	78,161	11,819	26,242
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	-	-
Nonmajor Enterprise Funds	-	12,815	-	-	-
Private Purpose	-	-	-	-	-
Pension and Other Employee Benefit Trust	-	-	-	-	-
Total Primary Government	$ 113,019	$ 349,140	$ 162,247	$ 16,199	$ 26,365

	Tobacco Master Settlement	Taxes	Smart Tag	Other (1)	Total Other Revenue
Primary Government:					
General	$ 58,966	$ -	$ -	$ 79,376	$ 345,698
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	9,664	3,792	122,774
Federal Trust	-	-	-	77,496	77,654
Literary	-	-	-	109,518	173,467
Nonmajor Governmental Funds	-	-	-	107,107	380,481
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	3	3
Nonmajor Enterprise Funds	-	12,668	-	1,705	27,188
Private Purpose	-	-	-	3	3
Pension and Other Employee Benefit Trust	-	-	-	9,126	9,126
Total Primary Government	$ 58,966	$ 12,668	$ 9,664	$ 388,126	$ 1,136,394

Note (1): $100,000 (dollars in thousands) of the total amount recorded for the Literary fund is related to unclaimed property.

26. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2009.

(Dollars in Thousands)

	Insurance Claims	Lottery Prize Expense	Total Prizes and Claims
Proprietary Funds:			
Major Enterprise Funds:			
State Lottery	$ -	$ 767,722	$ 767,722
Unemployment Compensation	880,989	-	880,989
Nonmajor Enterprise Funds	218,772	-	218,772
Total Enterprise Funds	$ 1,099,761	$ 767,722	$ 1,867,483
Internal Service Funds	$ 1,028,381	$ -	$ 1,028,381

27. DEPRECIATION AND AMORTIZATION

The following table summarizes Depreciation and Amortization Expense for the fiscal year ended June 30, 2009.

(Dollars in Thousands)

	Depreciation	Amortization	Total Depreciation and Amortization
Proprietary Funds:			
Major Enterprise Funds:			
State Lottery	$ 1,874	$ -	$ 1,874
Virginia College Savings Plan	523	-	523
Nonmajor Enterprise Funds	6,684	137	6,821
Total Enterprise Funds	$ 9,081	$ 137	$ 9,218
Internal Service Funds	$ 14,899	$ -	$ 14,899

28. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2009.

(Dollars in Thousands)

	Grants and Distributions To Localities	Expendable Equipment/ Improvements	Other (1)	Total Other Expenses
Proprietary Funds:				
Major Enterprise Funds:				
Virginia College Savings Plan	$ -	$ 401	$ 22	$ 423
Nonmajor Enterprise Funds	84	3,643	895	4,622
Total Enterprise Funds	$ 84	$ 4,044	$ 917	$ 5,045
Internal Service Funds	$ 1,985	$ 6,574	$ 7,463	$ 16,022
Pension and Other Employee Benefit Trust (2)	$ -	$ -	$ 985	$ 985

Note (1): $6,677 (dollars in thousands) can be attributed to expenses related to closing cases in the Risk Management internal service fund.

Note (2): Fiduciary expenses of $985 (dollars in thousands) are not included in the Government-wide Statement of Activities.

29. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2009.

(Dollars in Thousands)

	Loss on Sale of Capital Assets	Expenses for Securities Lending Transactions	American Recovery and Reinvestment Act Receipts	Other (1)	Total Other Non-Operating Revenue/ Expenses
Proprietary Funds:					
Major Enterprise Funds:					
State Lottery	$ -	$ (407)	$ -	$ 599	$ 192
Virginia College Savings Plan	-	(248)	-	-	(248)
Unemployment Compensation	-	-	76,279	-	76,279
Nonmajor Enterprise Funds	(10)	(739)	-	(153)	(902)
Total Enterprise Funds	$ (10)	$ (1,394)	$ 76,279	$ 446	$ 75,321
Internal Service Funds	$ (499)	$ (1,855)	$ -	$ (6,087)	$ (8,441)

Note (1): $7,488 (dollars in thousands) is related to expenses associated with lease and asset transfers in the Property Management internal service fund.

30. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2009 (dollars in thousands).

Transfers Out (Reported In):	General	Commonwealth Transportation	Federal Trust	Literary Fund	Nonmajor Governmental Funds
	Transfers In (Reported In):				
Primary Government					
General	$ -	$ 147,370	$ -	$ -	$ 413,822
Major Special Revenue Funds:					
Commonwealth Transportation	23,909	-	718	-	289,165
Federal Trust	191	8,400	-	-	988
Nonmajor Governmental Funds	84,213	-	642	-	5,093
Major Enterprise Funds:					
State Lottery	439,138	-	-	13,300	-
Virginia College Savings Plan	201	-	-	-	-
Unemployment Compensation	-	-	7,808	-	-
Nonmajor Enterprise Funds	122,709	-	-	9	8,738
Internal Service Funds	2,561	-	-	-	1,661
Total Primary Government	$ 672,922	$ 155,770	$ 9,168	$ 13,309	$ 719,467

Transfers are used to (1) move revenues from the fund that the *Code of Virginia* or budget requires to collect them to the fund that the *Code of Virginia* or budget requires to expend them; (2) move receipts restricted for debt service from the funds holding the resources to the debt service fund as principal and interest payments become due; (3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; and (4) reimburse the General Fund for expenses incurred on behalf of nongeneral funds.

During the fiscal year, the following significant transfers were made that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

- Various nongeneral funds transferred approximately $62.1 million to the General Fund as required by Chapter 781, 2009 Acts of Assembly.
- The Department of Motor Vehicles transferred certain fees of approximately $5.0 million to the General Fund as required by Chapter 781, 2009 Acts of Assembly.

31. ON-BEHALF PAYMENTS

Higher education institutions (component units) recognized various foundation and association on-behalf payments for fringe benefits and salaries during fiscal year 2009 totaling $1.5 million. This activity was recorded as Program Revenue – Operating Grants and Contributions in the amount of $1.2 million; and Program Revenue – Charges for Services in the amount of $0.3 million, with corresponding expenses.

32. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions. The net appreciation available for expenditure is $692.9 million. Of this amount, $692.2 million is reported as restricted net assets and $0.7 million is reported as unrestricted net assets. The *Code of Virginia* authorizes acceptance of donations. The governing boards of these entities and the donor agreements determine whether net appreciation can be spent and the accepted spending rate. These policies are entity specific and vary with each institution.

Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
$ -	$ -	$ 561,192
-	330	314,122
39	-	9,618
538	731	91,217
-	-	452,438
-	-	201
-	-	7,808
-	-	131,456
-	-	4,222
$ 577	$ 1,061	$ 1,572,274

33. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2009.

	State Lottery	Virginia College Savings Plan	Unemployment Compensation
Cash Flows Resulting from:			
Payments for Prizes, Claims, and Loss Control:			
Lottery Prizes	$ (842,402)	$ -	$ -
Claims and Loss Control	-	-	(859,920)
Total	$ (842,402)	$ -	$ (859,920)
Other Operating Revenue:			
Other Operating Revenue	$ -	$ 3	$ -
Total	$ -	$ 3	$ -
Other Operating Expense:			
Other Operating Expenses (1)	$ -	$ (22)	$ -
Total	$ -	$ (22)	$ -
Other Noncapital Financing Receipt Activities:			
Advances/Contributions from the Commonwealth	$ -	$ -	$ -
Receipts from Taxes	-	-	-
Other Noncapital Financing Receipt Activities	2,721	-	76,278
Total	$ 2,721	$ -	$ 76,278
Other Noncapital Financing Disbursement Activities:			
Repayments of Advances/Contributions from the Commonwealth	$ (5,000)	$ -	$ -
Other Noncapital Financing Disbursement Activities	-	-	-
Total	$ (5,000)	$ -	$ -
Other Capital and Related Financing Receipt Activities:			
Other Capital and Related Financing Receipt Activities	$ -	$ -	$ -
Total	$ -	$ -	$ -
Other Capital and Related Financing Disbursement Activities:			
Disbursments for Capital Expenditures	$ -	$ -	$ -
Total	$ -	$ -	$ -

Note (1): $6,677 (dollars in thousands) can be attributed to disbursements related to closing cases in the Risk Management internal service fund.

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
$ -	$ (842,402)	$ -
(211,443)	(1,071,363)	(964,799)
$ (211,443)	$ (1,913,765)	$ (964,799)
$ 5,877	$ 5,880	$ -
$ 5,877	$ 5,880	$ -
$ (1,243)	$ (1,265)	$ (10,657)
$ (1,243)	$ (1,265)	$ (10,657)
$ 28,110	$ 28,110	$ -
156,031	156,031	-
107	79,106	954
$ 184,248	$ 263,247	$ 954
$ (31,494)	$ (36,494)	$ -
(85)	(85)	-
$ (31,579)	$ (36,579)	$ -
$ -	$ -	$ 49
$ -	$ -	$ 49
$ -	$ -	$ (632)
$ -	$ -	$ (632)

34. TOBACCO SETTLEMENT AND SECURITIZATION

On November 23, 1998, 46 states' Attorneys General and the major tobacco companies signed a proposed settlement that reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. The Commonwealth could receive approximately $4.1 billion over the next 25 years. The settlement was approved in a Consent Decree in December 1998. On March 29, 1999, the General Assembly enacted a law approving the establishment of the Virginia Tobacco Indemnification and Community Revitalization Commission (Commission), in compliance with the Consent Decree, to help communities in Virginia hurt by the decline of tobacco.

The Commission was established for the purposes of determining the appropriate recipients of monies in the Tobacco Indemnification and Community Revitalization Fund. The monies are to be used to provide payments to tobacco farmers as compensation for the tobacco equipment and barns and lost tobacco production opportunities associated with a decline in quota. The monies are also to be used to revitalize tobacco dependent communities.

The General Assembly also created The Virginia Tobacco Settlement Foundation (Foundation). The purpose of the Foundation is to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund. The Foundation will also be responsible for distributing monies for the purposes provided in the legislation. Disbursements can be made to assist in financing efforts to restrict the use of tobacco products by minors, through educational and awareness programs describing the health effects of tobacco use on minors, and laws restricting the distribution of tobacco products to minors. The Commission and the Foundation are included in the Comprehensive Annual Financial Report as component units.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies are accounted for in these funds and the General Fund. Fifty percent of the Settlement monies will be deposited into the Tobacco Indemnification and Community Revitalization Fund. Ten percent of the Settlement monies will be deposited into the Virginia Tobacco Settlement Fund. The remaining 40 percent will be reported in the General Fund.

In May 2005, pursuant to a Purchase and Sale Agreement with the Commonwealth, acting as an agent on behalf of the Tobacco Indemnification and Community Revitalization Commission (Commission), the Commonwealth sold to the Tobacco Settlement Financing Corporation (Corporation) 25 percent of its future right, title and interest in the Tobacco Settlement Revenues (TSRs). In May 2007, pursuant to a Purchase and Sale Agreement with the Commonwealth, acting as an agent on behalf of the Commission, the Commonwealth sold to the Corporation the remaining 25 percent of its future right, title and interest in the TSRs. Specifically, these rights include all of the 50 percent share of the TSRs received by the Commission starting May 15, 2005, and in perpetuity under the Master Settlement Agreement.

Consideration paid by the Corporation to the Commission for TSRs consisted of a cash amount deposited into an endowment to fund the long-term spending plan approved by the Commission. The bonds of the Corporation are asset-backed instruments secured solely by the TSRs, and the Corporation's right to receive TSRs is expected to produce funding for its obligations.

The Commission is a discrete component unit of the Commonwealth and the Corporation is disclosed as a related organization.

35. INFORMATION TECHNOLOGY INFRASTRUCTURE PARTNERSHIP – NORTHROP GRUMMAN

The Comprehensive Infrastructure Agreement (CIA) is a contract between the Commonwealth of Virginia (Commonwealth) acting through the Virginia Information Technologies Agency (VITA) and Northrop Grumman Information Technology, Inc (NG). The CIA began July 1, 2006, for an initial term of ten years, and the Commonwealth may renew the CIA for one three-year renewal term. The Commonwealth's primary goal is to significantly improve the Commonwealth's IT infrastructure and the manner in which such infrastructure is operated, supported, and maintained.

The services and activities required to provide the Commonwealth the appropriate level of service are provided in the following infrastructure service towers: Cross-Functional Services, Desktop Computing Services; Data Network Services; Voice and Video Telecom Services; Mainframe and Server Services; Help Desk Services; Messaging Services; Security Services; and, Application Services. Expenses associated with the CIA during the fiscal year totaled $227.4 million, including payments to Northrop Grumman of $164.0 million. The Commonwealth expects to spend an additional $1.7 billion over the next seven fiscal years.

The Commonwealth may terminate the CIA due to a variety of reasons including the Commonwealth's convenience; a significant change of control in the equity interests in NG; NG's failure to implement satisfactory improvements; or, NG's failure to prevent service interruption of 15 days or more. In these instances, the Commonwealth will be required to pay exit and resolution fees as outlined in the CIA. Additional causes for termination that do not require the payment of exit or resolution fees are NG's default on the CIA terms, including failure to complete Transition by June 30, 2009, the Commonwealth's lack of funds, or NG's incurrence of liabilities equal to or more than 75% of the direct damages cap. NG may terminate the CIA only if the Commonwealth owes an aggregate amount in excess of $100 million that is more than 30 days past due and not being disputed in good faith. The Commonwealth may be required to pay exit and resolution fees, as outlined in the CIA, if NG terminates the CIA. Any exit fees resulting from the termination of the agreement are expected to be significant to the Commonwealth. However, exit fees are subject to the appropriation, allocation and availability of government funds. Further, if the Commonwealth and NG terminate the business relationship at the conclusion of the CIA term, the Commonwealth will incur significant costs to obtain the IT infrastructure necessary to continue the Commonwealth's operations.

Due to problems with NG's performance under the contract, the Commonwealth has temporarily withheld amounts from its payments to NG. In July 2009, the Commonwealth declared approximately $5.8 million permanently withheld with an additional $1.8 million remaining temporarily withheld. Additionally, NG has informally asserted rights to additional payments under the contract for out-of-scope work that might reach as much as $95.5 million. At this time, NG has not followed contractual provisions to bill for these additional amounts.

36. CONTINGENCIES

A. Grants and Contracts

The Commonwealth has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the Commonwealth.

Institutions of higher education (component units) and other state agencies are required to comply with various federal regulations issued by the Office of Management and Budget, if such agencies are recipients of federal grants, contracts, or other sponsored agreements. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. It is believed that the ultimate disallowance pertaining to these regulations, if any, will be immaterial to the overall financial condition of the Commonwealth.

The U.S. Department of Health and Human Services (DHHS) Office of the Inspector General conducted a review and indicated that the Commonwealth's Statewide Indirect Cost Allocation Plan rates have allowed over-recoveries in the internal service funds. The U.S. DHHS has received the 2010 cost allocation plan, which is based on state fiscal year 2008 data. The Commonwealth believes this liability has the potential to total $691,334 as of June 30, 2009.

Virginia's combined overpayment and underpayment food stamp error rate for federal fiscal year 2008 was 5.75 percent. The national average combined error rate was 5.01 percent. A liability amount is established when, for the second or subsequent consecutive fiscal year, the USDA determines there is a 95 percent probability a State's payment error rate exceeds 105 percent of the national performance measure. Virginia fell within the tolerance level for 2008. Therefore, 2009 will not count as a first year of potential liability.

The Virginia Tourism Authority had unclaimed awards totaling $1,045,572 payable to awardees upon submission of proper claims for reimbursement for the Marketing Leverage Program.

B. Litigation

The Commonwealth is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations, some involving substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Commonwealth in respect to the various proceedings; however, it is believed that any ultimate liability resulting from these suits or investigations will not have a material, adverse effect on the financial condition of the Commonwealth.

C. Subject to Appropriation

Both the primary government and the discretely presented component units enter into agreements and issue debt secured solely by future appropriations from the General Fund of the Commonwealth. The primary government has leases and other agreements of such debt of $2.3 billion. The discretely presented component units have such debt of $1.2 billion.

D. Bailment Inventory

The Department of Alcoholic Beverage Control (ABC) houses and controls bailment inventory in the warehouse and is therefore responsible for the exercise of reasonable care to preserve the inventory until it is purchased by ABC or returned to the supplier. ABC uses the bailment system for payment of merchandise for resale. ABC initiates payments to the vendors based on shipments from the ABC warehouse to the retail stores, rather than receipt of invoice from the vendor. At June 30, 2009, the bailment inventory was valued at $37.8 million.

E. Loan Guarantees

The Virginia Small Business Financing Authority (nonmajor component unit) has a loan guaranty program which provides guarantees up to the lesser of $500,000 or 75 percent of a bank loan for lines of credit and short-term working capital loans for small businesses. As of June 30, 2009, the loan guaranty program has guarantees outstanding of

$4.0 million. In addition, the Department of Minority Business Enterprise fund provides loan guarantees up to 90 percent of a bank loan for lines of credit and short-term working capital loans for minority businesses. As of June 30, 2009, there was $158,783 in outstanding guarantees.

The Assistive Technology Loan Fund Authority (nonmajor component unit) has an alternative financing program which provides guarantees of loans issued by its financial partner, SunTrust Bank. As of June 30, 2009, there was approximately $894,892 of loans issued in which it was the guarantor.

37. SUBSEQUENT EVENTS

Primary Government

Other

Enterprise

Continuing high levels of unemployment benefit claims payments resulted in the depletion of available fund balances in the Unemployment Trust Fund during October 2009. Section 1201 of the Social Security Act provides for temporary loans from the Federal Unemployment Fund to those states whose trust funds are depleted to ensure the continuation of benefit payments to eligible claimants. Loans are repayable from future employer contributions. Interest accruing on outstanding balances is payable from general revenues each September 30. The American Recovery and Reinvestment Act of 2009 temporarily suspended interest on these loans through December 31, 2010. Short-term borrowing is expected to be necessary at various times through 2014, with maximum outstanding loan balances of approximately $800 million occurring during 2011.

Debt

On October 21, 2009, the Commonwealth issued a total of $332,480,000 in General Obligation Bonds comprised of Series 2009B, 2009C, 2009D, 2009E-1 and 2009E-2. The Series 2009B Bonds ($99,025,000) were issued to finance revenue-producing capital projects at various institutions of higher education and the Department of General Services pursuant to Article X, Section 9(c) of the Virginia Constitution. The Series 2009C and Series 2009D Bonds were issued to refinance $192,155,000 in General Obligation Bonds, Series 2001, 2002, 2004A, 2005A and 2006B for debt service savings. The Series 2009E-1 Bonds ($21,285,000) and Series 2009E-2 Bonds ($23,715,000) were issued to fund capital projects for educational facilities, parks and recreational facilities of the Commonwealth pursuant to Article X, Section 9(b) of the Virginia Constitution. The Series E-1 and E-2 Bonds were also the Commonwealth's first issuance of Build America Bonds (BABs). BABs were authorized under the American Recovery and Reinvestment Act of 2009 as an alternative to traditional tax-exempt bonds. BABs are issued on a taxable basis, and the issuer is eligible to receive a subsidy payment from the Federal government equal to 35% of each interest payment. Interest paid to bondholders on these bonds will be subject to federal income tax, but will be exempt from Commonwealth income tax.

On November 4, 2009, the Commonwealth Transportation Board issued its $72,195,000 Transportation Revenue Bonds (Northern Virginia Transportation District Program). The issue was comprised of $11,245,000 in tax-exempt Series 2009A-1 Bonds and $60,950,000 in Series 2009A-2 taxable BABs. The proceeds of these issues will fund a portion of the costs of the Northern Virginia Transportation District Program.

Component Units

Debt

On July 29, 2009, the Virginia Housing Development Authority (VHDA) borrowed $47,145,000 from the Federal Home Loan Bank, Atlanta.

On September 22, 2009, the Hampton Roads Sanitation District Commission (the Commission) authorized the issuance of up to $180 million in Senior Wastewater Revenue Bonds payable over a period not to exceed 30 years. The Commission anticipates selling these bonds in November 2009. During the fiscal year, the Commission was advised that $10.0 million and $24.2 million in loans were authorized by the Virginia Water Facilities Revolving Fund to partially fund improvements at the James River Treatment Plant and the development of an interceptor metering project, respectively. These 20-year loans are from the Virginia Resources Authority's recent Clean Water Revolving Fund Revenue Bond and each have an interest rate of 3.35 percent. The Commission has not yet closed on these loans.

On October 8, 2009, the Virginia College Building Authority (VCBA) issued its $52,420,000 Educational Facilities Revenue Bonds Series 2009D (21st Century College and Equipment Programs). The bonds were issued to finance the acquisition of equipment for public institutions of higher education. On this date the VCBA also issued its $134,000,000 Educational Facilities Revenue Refunding Bonds Series 2009E-1 and its $74,860,000 Educational Facilities Revenue Refunding Bonds Series 2009E-2. These two series refunded a portion of certain outstanding 21st Century College and Equipment Program bonds for debt service savings.

On October 27, 2009, the Virginia Public School Authority (VPSA) issued its $485,300,000 School Financing Bonds (1997 Resolution) Refunding Series 2009C to refinance certain of its Series 2001A, 2001B, 2001C, 2002A, 2002B, 2003A and 2003C bonds for debt service savings.

Also on October 27, 2009, the Virginia Biotechnology Research Partnership Authority issued its $36,740,000 Commonwealth of Virginia Lease Revenue Refunding Bonds, Series 2009. This issue refinanced its Series 2001 Bonds for debt service savings. Like the Series 2001 Bonds, the Series 2009 Bonds are secured by lease payments from the Commonwealth.

On November 13, 2009, VPSA issued its $61,120,000 School Tax Credit Bonds (Qualified School Construction Bonds) Series 2009-1. Qualified School Construction Bonds are a new type of tax credit bonds established under the ARRA. The bonds are issued to purchase general obligation school bonds issued by participating localities to finance capital projects for public school purposes.

On November 16, 2009, the Virginia Resource Authority issued $197.3 million in 30-year bonds with an interest rate of 3.85%. Proceeds form the bonds will be used for water, wastewater, regional and local jails, courthouses and other projects. Several existing projects will be refinanced. Also, effective July 1, 2009, the moral obligation of the Commonwealth increased from $900 million to $1.5 billion.

In December 2009, the VCBA plans to issue approximately $400 million in Educational Facilities Revenue Bonds, Series 2009F (21st Century College and Equipment Programs). These proceeds will finance capital projects which have been approved by the General Assembly.

On December 3, 2009, the VPSA issued $11,645,000 of School Financing Bonds (1997 Resolution) Series 2009D to purchase certain general obligation local school bonds to finance capital projects for public schools.

On December 9, 2009, the VCBA issued $235,945,000 in Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2009B. The VCBA will use the proceeds of the Bonds to acquire Institutional Notes from participating public institutions of higher education. Each participating institution will, in turn, use the proceeds of its Institutional Note to finance capital projects which have been approved by the General Assembly.

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds

Fiscal Year Ended June 30, 2009
(Dollars in Thousands)

	General Fund			
	Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
Revenues:				
Taxes:				
Individual and Fiduciary Income	$ 10,776,900	$ 9,697,300	$ 9,481,109	$ (216,191)
Sales and Use	3,469,488	3,179,300	3,116,831	(62,469)
Corporation Income	706,000	685,000	648,033	(36,967)
Motor Fuel	-	-	-	-
Motor Vehicle Sales and Use	-	-	-	-
Deeds, Contracts, Wills, and Suits	380,800	298,100	314,264	16,164
Premiums of Insurance Companies	294,800	257,500	255,019	(2,481)
Alcoholic Beverage Sales	175,000	174,900	173,227	(1,673)
Tobacco Products	182,100	182,100	183,750	1,650
Estate	-	-	6,006	6,006
Public Service Corporations	88,900	92,800	91,340	(1,460)
Other Taxes	24,300	15,900	28,230	12,330
Rights and Privileges	69,600	63,900	67,426	3,526
Sales of Property and Commodities	1,900	1,800	1	(1,799)
Assessments and Receipts for Support of Special Services	300	400	396	(4)
Institutional Revenue	7,500	7,500	6,402	(1,098)
Interest, Dividends, and Rents	123,567	121,986	134,400	12,414
Fines, Forfeitures, Court Fees, Penalties, and Escheats	201,600	205,200	197,875	(7,325)
Federal Grants and Contracts	-	-	-	-
Receipts from Cities, Counties, and Towns	10,300	10,100	10,265	165
Private Donations, Gifts and Contracts	-	900	118	(782)
Tobacco Master Settlement	55,699	66,754	58,966	(7,788)
Other	73,071	90,197	102,568	12,371
Total Revenues	16,641,825	15,151,637	14,876,226	(275,411)
Expenditures:				
Current:				
General Government	1,761,795	1,722,663	1,669,257	53,406
Education	8,319,880	8,083,328	8,045,614	37,714
Transportation	40	53,949	11,863	42,086
Resources and Economic Development	302,259	313,963	288,877	25,086
Individual and Family Services	4,418,613	4,075,027	4,012,450	62,577
Administration of Justice	2,466,671	2,440,305	2,300,008	140,297
Capital Outlay	159,919	74,498	47,421	27,077
Total Expenditures	17,429,177	16,763,733	16,375,490	388,243
Revenues Over (Under) Expenditures	(787,352)	(1,612,096)	(1,499,264)	112,832
Other Financing Sources (Uses):				
Transfers:				
Transfers In	621,607	641,273	664,141	22,868
Transfers Out	(465,580)	(556,413)	(561,192)	(4,779)
Total Other Financing Sources (Uses)	156,027	84,860	102,949	18,089
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(631,325)	(1,527,236)	(1,396,315)	130,921
Fund Balance, July 1	2,219,790	2,219,790	2,219,790	-
Fund Balance, June 30	$ 1,588,465	$ 692,554	$ 823,475	$ 130,921

See notes on page 167 in this section.

Special Revenue Funds			
Commonwealth Transportation Fund			
Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
$ -	$ -	$ -	$ -
603,206	514,500	478,501	(35,999)
-	-	-	-
920,918	879,238	864,877	(14,361)
649,043	430,100	406,401	(23,699)
96,600	60,600	35,703	(24,897)
134,500	132,300	132,286	(14)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
54,966	35,560	32,787	(2,773)
504,790	501,570	550,025	48,455
556	556	2,035	1,479
19,021	18,316	19,089	773
-	-	-	-
50,251	101,891	46,485	(55,406)
72,593	22,887	12,037	(10,850)
1,228,983	1,238,153	813,166	(424,987)
308,096	518,722	81,203	(437,519)
-	-	2,040	2,040
-	-	-	-
26,241	407	21,541	21,134
4,669,764	4,454,800	3,498,176	(956,624)
2,424	2,424	2,016	408
2,414	2,414	2,389	25
4,301,631	5,273,776	3,707,304	1,566,472
16,178	11,922	10,501	1,421
-	-	-	-
8,656	8,656	8,656	-
54,986	58,041	32,019	26,022
4,386,289	5,357,233	3,762,885	1,594,348
283,475	(902,433)	(264,709)	637,724
62,350	147,370	155,770	8,400
(307,193)	(351,045)	(314,122)	36,923
(244,843)	(203,675)	(158,352)	45,323
38,632	(1,106,108)	(423,061)	683,047
1,791,954	1,791,954	1,791,954	-
$ 1,830,586	$ 685,846	$ 1,368,893	$ 683,047

Continued on next page

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds *(Continued from previous page)*

Fiscal Year Ended June 30, 2009
(Dollars in Thousands)

	Special Revenue Funds			
	Federal Trust			
	Original Budget	**Final Budget**	**Actual**	**Final/Actual Variance Positive (Negative)**
Revenues:				
Taxes:				
Individual and Fiduciary Income	$ -	$ -	$ -	$ -
Sales and Use	-	-	-	-
Corporation Income	-	-	-	-
Motor Fuel	-	-	-	-
Motor Vehicle Sales and Use	-	-	-	-
Deeds, Contracts, Wills, and Suits	-	-	-	-
Premiums of Insurance Companies	-	-	-	-
Alcoholic Beverage Sales	-	-	-	-
Tobacco Products	-	-	-	-
Estate	-	-	-	-
Public Service Corporations	-	-	-	-
Other Taxes	-	-	-	-
Rights and Privileges	20	-	-	-
Sales of Property and Commodities	485	292	122	(170)
Assessments and Receipts for Support of Special Services	-	-	-	-
Institutional Revenue	-	-	-	-
Interest, Dividends, and Rents	2,463	2,817	1,994	(823)
Fines, Forfeitures, Court Fees, Penalties, and Escheats	384	286	17	(269)
Federal Grants and Contracts	5,498,236	6,833,635	6,986,599	152,964
Receipts from Cities, Counties, and Towns	-	-	-	-
Private Donations, Gifts and Contracts	-	-	62	62
Tobacco Master Settlement	-	-	-	-
Other	40,961	27,538	78,485	50,947
Total Revenues	5,542,549	6,864,568	7,067,279	202,711
Expenditures:				
Current:				
General Government	121,732	152,612	127,910	24,702
Education	911,638	1,051,668	891,938	159,730
Transportation	34,017	22,539	14,125	8,414
Resources and Economic Development	159,319	174,857	138,675	36,182
Individual and Family Services	4,241,506	5,259,468	5,730,868	(471,400)
Administration of Justice	60,872	175,178	148,936	26,242
Capital Outlay	13,422	28,203	14,377	13,826
Total Expenditures	5,542,506	6,864,525	7,066,829	(202,304)
Revenues Over (Under) Expenditures	43	43	450	407
Other Financing Sources (Uses):				
Transfers:				
Transfers In	-	-	9,168	9,168
Transfers Out	(43)	(43)	(9,618)	(9,575)
Total Other Financing Sources (Uses)	(43)	(43)	(450)	(407)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	-	-
Fund Balance, July 1	-	-	-	-
Fund Balance, June 30	$ -	$ -	$ -	$ -

See notes on page 167 in this section.

1. BASIS OF BUDGETING VS. MODIFIED ACCRUAL BASIS FUND BALANCE (1)

Since the presentation of financial data on the basis of budgeting differs from that presented under accounting principles generally accepted in the United States of America, a schedule reconciling the fund balance on a budgetary basis at June 30, 2009, to the fund balance on a modified accrual basis follows.

Fund Balance Comparison
Budgetary Basis to GAAP Basis
June 30, 2009

(Dollars in Thousands)

	General Fund	Commonwealth Transportation Fund	Federal Trust Fund
Fund Balance, Basis of Budgeting	$ 823,475	$ 1,368,893	$ -
Adjustments from Budget to Modified Accrual, Undesignated:			
Accrued Revenues:			
Taxes	593,173	125,409	-
Tax Refunds	(488,410)	-	-
Other Revenue/Other Sources	(20,595)	105,476	794,464
Deferred Taxes (2)	(199,308)	-	-
Medicaid Payable	(268,153)	-	(440,533)
Accrued Expenditures/Other Uses	(698,649)	(169,667)	(299,676)
Fund Balance, Modified Accrual Basis	$ (258,467)	$ 1,430,111	$ 54,255

1. As discussed in Note 1.E., the Literary Fund has no approved budget.
2. See also Note 1.Q.

2. APPROPRIATIONS

The amounts presented in the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds are principally on a cash basis and represent the original budget adopted by the General Assembly and all supplemental appropriations and transfers. The following schedule reconciles original appropriations to the final adjusted expenditure appropriations for the General Fund and Major Special Revenue Funds, at June 30, 2009, except the Literary Fund which has no approved budget.

(Dollars in Thousands)	General Fund (10)	Commonwealth Transportation Fund	Federal Trust Fund (11)
Appropriations (1)	$ 17,429,177	$ 4,386,289	$ 5,542,506
Supplemental Appropriations:			
Reappropriations (2)	804,929	59,986	26,056
Subsequent Executive (3)	27,305	401,511	492,464
Subsequent Legislative (4)	(987,330)	452,435	837,372
Capital Outlay and Operating Reversions (5)	(116)	(1,989)	(1,026)
Deficit (6)	78	-	-
Transfers (7)	(372,384)	150,123	(17,578)
Capital Outlay Adjustment (8)	(137,926)	(55,155)	(15,269)
Debt Service Adjustment (9)	-	(35,967)	-
Appropriations, as adjusted	$ 16,763,733	$ 5,357,233	$ 6,864,525

1. Represents the budget appropriated through Chapter 879, 2008 Acts of Assembly, as amended by Chapter 781, 2009 Acts of Assembly.
2. Actions taken to reappropriate any prior year unexpended balances per authority of the language in the Appropriation Act.
3. Actions taken by the Governor to carry forward any prior year unexpended balances, sum sufficient authority, and year 2 to year 1 reductions (General Fund) and actions taken to appropriate any additional revenues collected so that they can be legally spent (Special Revenue Funds).
4. Actions taken by the Governor and the General Assembly to adjust the budget.
5. Represents reversions of unexpended capital outlay and operating balances.
6. Represents additional appropriations authorized by the Governor to prevent agencies from incurring deficits. This deficit appropriation relates to the payment of operating expenses for the Department of Veterans Services and the Human Rights Council.
7. Represents transfers required by the Appropriation Act. Transfers out are reduced by approximately $1.6 billion (General Fund) and $0.9 million (Commonwealth Transportation Fund) for transfers to component units and fiduciary funds that have been reclassified as expenditures in accordance with GASB Statement No. 34.
8. Capital outlay appropriations cover the projects' lives and usually extend beyond the current fiscal year. These amounts have been adjusted to report the amount authorized for expenditure during the current fiscal year.
9. The Special Revenue Commonwealth Transportation Fund appropriations have been adjusted for debt service.
10. Budgetary reductions totaling $283 million are excluded since they were not available for disbursement during the current fiscal year.
11. Appropriations do not include food stamp issuances of $805 million since this is a noncash item; however, this amount is included in actual expenditures.

Funding Progress for Defined Benefit Pension Plans

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Virginia Retirement System (VRS) *			
2008	$ 52,548	$ 62,554	$ 10,006	84.0%	$ 14,559	68.7%
2007	47,815	58,116	10,301	82.3%	13,834	74.5%
2006	42,669	52,822	10,153	80.8%	13,002	78.1%
* 2005	40,372	49,628	9,256	81.3%	12,212	75.8%
2004	39,691	43,958	4,267	90.3%	11,510	37.1%
2003	39,243	40,698	1,455	96.4%	10,885	13.4%
2002	38,957	38,265	(692)	101.8%	10,669	(6.5%)
2001	37,968	35,384	(2,584)	107.3%	10,145	(25.5%)
* 2000	34,392	32,643	(1,749)	105.4%	9,529	(18.4%)
1999	29,804	31,419	1,615	94.9%	9,138	17.7%
			State Police Officers' Retirement System (SPORS)			
2008	$ 646	$ 844	$ 198	76.5%	$ 103	192.2%
2007	595	806	211	73.8%	101	208.9%
2006	539	730	191	73.8%	94	203.2%
* 2005	514	673	159	76.4%	91	174.7%
2004	510	656	146	77.7%	82	178.0%
2003	509	616	107	82.6%	79	135.4%
2002	508	595	87	85.4%	81	107.4%
2001	495	557	62	88.9%	83	74.7%
* 2000	441	513	72	86.0%	81	88.9%
1999	377	463	86	81.4%	77	111.7%
			Virginia Law Officers' Retirement System (VaLORS)			
2008	$ 873	$ 1,281	$ 408	68.1%	$ 368	110.9%
2007	766	1,166	400	65.7%	341	117.3%
2006	656	1,096	440	59.9%	321	137.1%
* 2005	575	980	405	58.7%	307	131.9%
2004	509	927	418	54.9%	298	140.3%
2003	458	854	396	53.6%	292	135.6%
2002	418	806	388	51.9%	306	126.8%
2001	393	628	235	62.6%	320	73.4%
*** 2000	307	680	373	45.1%	315	118.4%
			Judicial Retirement System (JRS)			
2008	$ 374	$ 495	$ 121	75.6%	$ 61	198.4%
2007	340	442	102	76.9%	58	175.9%
2006	302	424	122	71.2%	54	225.9%
* 2005	288	402	114	71.6%	52	219.2%
2004	285	366	81	77.9%	48	168.8%
2003	282	348	66	81.0%	48	137.5%
2002	281	352	71	79.8%	48	147.9%
2001	277	342	65	81.0%	47	138.3%
* 2000	245	330	85	74.2%	45	188.9%
1999	210	302	92	69.5%	42	219.0%

* Revised economic and demographic assumptions due to experience study.

** Change in benefit formula, unreduced early retirement age and actuarial amortization method.

*** The first actuarial valuation for the Virginia law Officers' Retirement System, established on October 1, 1999, was performed as of June 30, 2000.

See Notes on following page.

Valuation Date:	June 30, 2008
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	
State Employees	Level percent, closed
Teachers	Level percent, closed
Political Subdivision Employees	Level percent, closed
State Police / VA Law Officers / Judges	Level percent, closed
Payroll Growth Rate:	
State Employees	3.00%
Teachers	3.00%
Political Subdivision Employees	3.00%
State Police / VA Law Officers / Judges	3.00%
Remaining Amortization Period:	
State Employees	20 years
Teachers	20 years
Political Subdivision Employees	20 years
State Police / VA Law Officers / Judges	20 years
Asset Valuation Method:	5 year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return (1)	7.50%
Projected Salary Increases (1)	
State Employees	3.75% to 5.60%
Teachers	3.75% to 6.20%
Employees (Non-Hazardous Duty Employees)	3.75% to 5.60%
Political Subdivision Employees (Hazardous Duty Employees)	3.50% to 4.75%
State Police / VA Law Officers	3.50% to 4.75%
Judges	3.50%
Cost of Living Adjustments	2.50%

(1) Includes inflation at 2.50%.

Schedule of Employer Contributions – Defined Pension Plans

(Dollars in Thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Statutory Required Contribution	Percentage Contributed
		Virginia Retirement System (VRS)		
2009 *	$ 1,501,018	81.25%	$ 1,219,645	100.00%
2008 *	1,378,993	92.58%	1,276,645	100.00%
2007 *	1,299,606	85.89%	1,116,217	100.00%
2006 *	864,245	89.51%	773,553	100.00%
2005 *	810,944	85.26%	691,415	100.00%
2004 *	469,200	91.66%	430,064	100.00%
2003 *	450,766	67.61%	304,784	100.00%
2002 *	459,613	79.68%	366,239	100.00%
2001 *	630,458	99.99%	630,370	100.00%
2000 *	785,376	93.24%	732,273	100.00%
		State Police Officers' Retirement System (SPORS)		
2009 *	$ 24,241	83.23%	$ 20,175	100.00%
2008 *	22,941	91.49%	20,989	100.00%
2007 *	19,402	84.31%	16,358	100.00%
2006 *	23,132	65.96%	15,258	100.00%
2005 *	21,946	65.96%	14,475	100.00%
2004 *	20,187	51.16%	10,328	100.00%
2003 *	19,866	44.20%	8,781	100.00%
2002 *	20,190	50.00%	10,095	100.00%
2001	20,420	100.00%	20,420	100.00%
2000 *	17,684	85.07%	15,044	100.00%
		Virginia Law Officers' Retirement System (VaLORS)		
2009 *	$ 60,059	84.80%	$ 50,932	100.00%
2008 *	61,325	91.20%	55,929	100.00%
2007 *	56,190	86.03%	48,338	100.00%
2006 *	77,414	67.96%	52,611	100.00%
2005 *	74,301	67.96%	50,495	100.00%
2004 *	72,752	55.80%	40,596	100.00%
2003 *	72,699	48.00%	34,895	100.00%
2002 *	77,417	32.30%	25,006	100.00%
2001	51,072	100.00%	51,072	100.00%
2000	16,216	84.81%	13,753	100.00%
		Judicial Retirement System (JRS)		
2009 *	$ 23,148	90.72%	$ 21,000	100.00%
2008 *	23,599	94.86%	22,386	100.00%
2007 *	22,557	91.02%	20,530	100.00%
2006 *	23,871	67.89%	16,206	100.00%
2005 *	22,490	67.89%	15,269	100.00%
2004 *	21,341	71.18%	15,190	100.00%
2003 *	21,110	64.44%	13,604	100.00%
2002 *	21,282	50.00%	10,641	100.00%
2001	20,822	100.00%	20,822	100.00%
2000 *	15,075	99.07%	14,935	100.00%

* Contributions made by employers during the fiscal years ended June 30, 2000, through June 30, 2009, were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet statutory requirements.

Funding Progress for Other Post-Employment Benefit Plans

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Group Life Insurance Fund			
2008	$ 975	$ 1,772	$ 797	55.0%	$ 16,267	4.9%
2007	$ 880	$ 1,552	$ 672	56.7%	$ 14,822	4.5%
* 2006	$ 751	$ 1,436	$ 685	52.3%	$ 13,923	4.9%
			Retiree Health Insurance Credit Fund			
2008	$ 261	$ 1,908	$ 1,647	13.7%	$ 12,986	12.7%
2007	$ 198	$ 1,814	$ 1,616	10.9%	$ 10,571	15.3%
* 2006	$ 175	$ 1,316	$ 1,141	13.3%	$ 9,965	11.5%
			Disability Insurance Trust Fund			
2008	$ 286	$ 363	$ 77	78.8%	$ 4,111	1.9%
2007	$ 264	$ 451	$ 187	58.5%	$ 3,909	4.8%
* 2006	$ 192	$ 423	$ 231	45.4%	$ 3,716	6.2%
			Line of Duty Death and Disability			
2008	$ 3	$ 185	$ 182	1.6%	$ N/A	-
2007	$ -	$ 146	$ 146	-	$ N/A	-
* 2006	$ -	$ 99	$ 99	-	$ N/A	-
			Pre-Medicare Retiree Healthcare			
** 2007	$ -	$ 982	$ 982	-	$ 2,931	33.5%

* 2006 was the first actuarial valuation prepared using the required parameters of GASB Statement No. 43.
**2007 was the first actuarial valuation prepared for the Pre-Medicare Retiree Healthcare Fund.

See Notes on following page.

Notes for Funding Progress for Other Post-Employment Benefit Plans

	Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund	Line of Duty Death and Disability	Pre-Medicare Retiree Healthcare
Valuation Date	June 30, 2008	June 30, 2008	June 30, 2008	June 30, 2008	June 30, 2007
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Pay, Closed	Level Percent of Pay, Closed	Level Percent of Pay, Closed	Level Percent, Open	Level dollar, Open
Payroll Growth Rate:					
State Employees	3.00%	3.00%	3.00%	N/A	3.00%
Teachers	3.00%	3.00%	N/A	N/A	N/A
Political Subdivision Employees	3.00%	3.00%	N/A	N/A	N/A
State Police / VA Law Officers / Judges	3.00%	3.00%	3.00%	3.00%	3.00%
Judges	3.00%	3.00%	N/A	N/A	N/A
Remaining Amortization Period	28 years	28 years	28 years	30 years	30 years
Asset Valuation Method	5-Year, Smoothed Market	5-Year, Smoothed Market	Market Value	Market Value	Market Value
Actuarial Assumptions:					
Investment Rate of Return (1)	7.50%	7.50%	7.50%	7.50%	4.97%
Projected Salary Increases (1)					
State Employees	3.75% to 5.60%	N/A	3.75% to 5.60%	N/A	3.75% to 5.60%
Teachers	3.75% to 6.20%	N/A	N/A	N/A	N/A
Political Subdivision Employees (Non-Hazardous Duty	3.75% to 5.60%	N/A	N/A	N/A	N/A
Political Subdivision Employees (Hazardous Duty Employees)	3.50% to 4.75%	N/A	N/A	N/A	N/A
State Police / VA Law Officers / Judges	3.50% to 4.75%	N/A	3.50% to 4.75%	3.50% to 4.75%	3.50% to 4.75%

(1) Includes inflation at 2.50%.

Schedule of Employer Contributions – Other Post-Employment Benefit Plans

(Dollars in Thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Statutory Required Contribution	Percentage Contributed
		Group Life Insurance Fund		
2009*	$ 146,545	92.13%	$ 135,019	100.00%
2008	158,740	100.00%	158,740	100.00%
		Retiree Health Insurance Credit Fund		
2009*	$ 150,048	96.63%	$ 144,989	100.00%
2008	147,524	100.00%	147,524	100.00%
		Disability Insurance Trust Fund		
2009*	$ 78,120	91.33%	$ 71,344	100.00%
2008	97,975	80.00%	78,380	100.00%
		Line of Duty Death and Disability		
2009*	$ 16,523	51.51%	$ 8,511	100.00%
2008	9,786	102.45%	10,026	100.00%
		Pre-Medicare Retiree Healthcare		
2009*	$ 131,925	23.34%	$ -	-
2008	127,426	25.21%	-	-

* Contributions made by employers during the fiscal year ended June 30, 2009 were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet statutory requirements.

(Dollars in Thousands)

Comparison of Earned Revenues and Investment Income to Related Costs of Loss and Other Expenses

Fiscal and Policy Year Ended	2000	2001	2002	2003
1. Required contribution and investment revenue:				
Earned	$ 6,478	$ 5,814	$ 5,936	$ 5,740
Ceded (a)	-	-	-	-
Net earned	6,478	5,814	5,936	5,740
2. Unallocated expenses	1,223	1,863	902	918
3. Estimated incurred claims and expenses, end of policy year:				
Incurred	2,263	2,687	4,110	3,488
Ceded (a)	-	-	-	-
Net incurred	2,263	2,687	4,110	3,488
4. Net paid (cumulative) as of:				
End of policy year	196	336	550	380
One year later	2,688	1,628	1,979	1,894
Two years later	3,322	2,388	2,291	2,181
Three years later	3,369	2,490	2,556	2,375
Four years later	3,447	2,530	2,864	2,435
Five years later	4,042	2,616	2,900	2,454
Six years later	4,062	2,616	3,054	2,455
Seven years later	4,069	2,618	3,054	
Eight years later	4,080	2,618		
Nine years later	4,080			
5. Reestimated ceded claims and expenses (a)	-	-	-	-
6. Reestimated incurred claims and expenses:				
End of policy year	2,263	2,687	4,110	3,488
One year later	4,801	3,752	4,458	3,237
Two years later	4,467	3,318	4,196	2,910
Three years later	3,589	3,270	3,734	2,619
Four years later	3,575	3,186	3,299	2,447
Five years later	4,211	3,171	3,566	2,467
Six years later	4,236	3,171	3,240	2,457
Seven years later	4,212	3,168	3,191	
Eight years later	4,162	3,168		
Nine years later	4,080			
7. Increase (decrease) in estimated net incurred claims and expense from end of policy year	1,817	481	(919)	(1,031)

The Commonwealth provides errors and omissions liability insurance and law enforcement professional liability insurance for local governmental units, which went into effect in fiscal year 1987. For fiscal years 1992-2000, this insurance coverage was provided through the Department of General Services, Division of Risk Management. Effective July 1, 2000, this coverage was provided through the Department of the Treasury, Division of Risk Management.

See Notes on page 178 in this section.

2004	2005	2006	2007	2008	2009
$ 5,729	$ 5,788	$ 6,166	$ 6,560	$ 6,759	$ 6,197
-	-	-	-	-	-
5,729	5,788	6,166	6,560	6,759	6,197
1,209	1,068	1,008	1,047	1,307	1,272
2,861	2,790	1,539	2,060	3,330	3,681
-	-	-	-	-	-
2,861	2,790	1,539	2,060	3,330	3,681
161	227	177	106	493	300
1,072	1,699	745	1,051	1,697	
1,420	2,079	1,421	2,436		
1,539	2,332	2,087			
1,559	2,438				
1,569					
-	-	-	-	-	-
2,861	2,790	1,539	2,060	3,330	3,681
3,302	3,563	2,168	3,316	3,928	
2,306	3,418	2,494	3,224		
1,700	3,204	2,872			
1,697	2,783				
1,648					
(1,213)	(7)	1,333	1,164	598	-

Claims Development Information – Health Care

(Dollars in Thousands)

Comparison of Earned Revenues and Investment Income to Related Costs of Loss and Other Expenses

Fiscal and Policy Year Ended	**2000**	**2001**	**2002**	**2003**
1. Required contribution and investment revenue:				
Earned	$ 75,569	$ 88,313	$ 100,836	$ 118,825
Ceded (a)	-	-	-	-
Net earned	75,569	88,313	100,836	118,825
2. Unallocated expenses	6,997	7,203	6,225	6,171
3. Estimated incurred claims and expenses, end of policy year:				
Incurred	76,816	87,222	95,860	104,453
Ceded (a)	-	-	-	-
Net incurred	76,816	87,222	95,860	104,453
4. Net paid (cumulative) as of:				
End of policy year	68,336	74,579	80,974	99,443
One year later	-	-	-	-
Two years later	N/A	N/A	N/A	N/A
Three years later	N/A	N/A	N/A	N/A
Four years later	N/A	N/A	N/A	N/A
Five years later	N/A	N/A	N/A	N/A
Six years later	N/A	N/A	N/A	N/A
Seven years later	N/A	N/A	N/A	
Eight years later	N/A	N/A		
Nine years later	N/A			
5. Reestimated ceded claims and expenses (a)	-	-	-	-
6. Reestimated incurred claims and expenses:				
End of policy year	74,417	87,222	95,860	104,453
One year later	74,417	87,222	95,860	104,453
Two years later	N/A	N/A	N/A	N/A
Three years later	N/A	N/A	N/A	N/A
Four years later	N/A	N/A	N/A	N/A
Five years later	N/A	N/A	N/A	N/A
Six years later	N/A	N/A	N/A	N/A
Seven years later	N/A	N/A	N/A	
Eight years later	N/A	N/A		
Nine years later	N/A			
7. Increase (decrease) in estimated net incurred claims and expense from end of policy year	(2,399)	-	-	-

The Commonwealth, through its Department of Human Resource Management, provides health care insurance for local governmental units, which went into effect in fiscal year 1987.

See Notes on page 178 in this section.

2004	2005	2006	2007	2008	2009
$ 137,582	$ 157,959	$ 184,360	$ 202,366	$ 211,034	$ 222,498
-	-	-	-	-	-
137,582	157,959	184,360	202,366	211,034	222,498
6,271	10,655	11,899	13,782	16,215	16,400
124,887	144,976	152,289	163,787	185,117	214,411
-	-	-	-	-	-
124,887	144,976	152,289	163,787	185,117	214,411
99,656	140,452	147,534	159,769	181,566	204,655
-	-	-	-	-	
N/A	N/A	N/A	N/A		
N/A	N/A	N/A			
N/A	N/A				
N/A					
-	-	-	-	-	-
124,887	144,976	152,289	163,787	185,117	214,411
124,887	144,976	152,289	163,787	185,117	
N/A	N/A	N/A	N/A		
N/A	N/A	N/A			
N/A	N/A				
N/A					
-	-	-	-	-	-

Notes for Claims Development Information Tables

The tables on the previous four pages illustrate how the Risk Management and Health Care Claims Funds earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of each of the past several years. The rows of the tables are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

2. This line shows each fiscal year's other operating costs of the funds, including overhead and claims expense not allocable to individual claims.

3. This line shows the funds' gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

4. This section of rows shows the cumulative net amounts paid as of the end of successive years for each policy year.

5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.

6. This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)

7. This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years.

The columns of the tables show data for successive policy years.

Notes:

(a) During fiscal year 1997, the Commonwealth implemented GASB Statement No. 30, *Risk Financing Omnibus*. The Commonwealth has no reinsurers; therefore, the ceded amounts on lines 1, 3, and 5 are zero.

APPENDIX E

LITERARY FUND

APPENDIX E

LITERARY FUND

General

The Literary Fund is a permanent and perpetual school fund created in 1810 and established by the Constitution of Virginia as a depository for moneys derived by the Commonwealth from criminal fines and forfeitures, escheated property and income from the investment of moneys on deposit in the Literary Fund. The moneys therein are held by the State Treasurer and administered by the State Board of Education "for public school purposes, including the teachers retirement fund."

Article VIII, Section 8 of the Constitution of Virginia, as amended, provides:

> The General Assembly shall set apart as a permanent and perpetual school fund the present Literary Fund; the proceeds of all public lands donated by Congress for free public school purposes, of all escheated property, of all waste and unappropriated lands, of all property accruing to the Commonwealth by forfeiture except as hereinafter provided, of all fines collected for offenses committed against the Commonwealth, and of the annual interest on the Literary Fund; and such other sums as the General Assembly may appropriate. But so long as the principal of the Fund totals as much as eighty million dollars, the General Assembly may set aside all or any part of additional moneys received into its principal for public school purposes, including the teachers retirement fund.
>
> The General Assembly may provide by general law an exception from this section for the proceeds from the sale of all property seized and forfeited to the Commonwealth for a violation of the criminal laws of this Commonwealth proscribing the manufacture, sale or distribution of a controlled substance or marijuana. Such proceeds shall be paid into the state treasury and shall be distributed by law for the purpose of promoting law enforcement.
>
> The Literary Fund shall be held and administered by the Board of Education in such manner as may be provided by law. The General Assembly may authorize the Board of Education to borrow other funds against assets of the Literary Fund as collateral, such borrowing not to involve the full faith and credit of the Commonwealth.
>
> The principal of the Fund shall include assets of the Fund in other funds or authorities which are repayable to the Fund.

Literary Fund Loans

Pursuant to Chapter 10, Title 22.1, Code of Virginia, 1950, as amended, the Board of Education is empowered to make Literary Fund loans to local school jurisdictions for the construction, renovation and expansion of school buildings. When construction or renovation is completed or the amount of the loan commitment is reached, the local school jurisdictions issue "Literary Fund Obligations" which, at the request of the Authority, are no longer automatically transferred to the Authority but remain available to the Authority as supplemental security for the 1991 Resolution bonds in the event of and to the extent of a projected investment income deficiency in the debt service reserve fund under the 1991 Resolution. There are currently no bonds outstanding under the 1991 Resolution. The annual income on the Literary Fund Obligations is available for all purposes of the Literary Fund.

Income

In fiscal year 2009, the Literary Fund had gross receipts of approximately $238 million and disbursements of approximately $335 million. In fiscal year 2008, the Literary Fund had gross receipts of approximately $230 million and disbursements of $237 million. In fiscal year 2007, the Literary Fund had gross receipts of approximately $221 million and disbursements of $220 million. In fiscal year 2006, the Literary Fund had gross receipts of approximately $219 million and disbursements of $235 million. In fiscal year 2005, the Literary Fund had gross receipts of approximately $216 million and disbursements of approximately $237 million.

Appropriations from the Literary Fund

By the terms of the constitutional provision creating the Literary Fund, the General Assembly may appropriate Literary Fund moneys for "public school purposes, including the teacher retirement fund". Although, prior to 1990, Literary Fund moneys had been used primarily to make Literary Fund loans, the General Assembly has since appropriated a substantial portion of moneys from the Literary Fund to supplement appropriations from the Commonwealth's General Fund for teacher retirement benefits and for other educational related purposes. The 2007 Appropriation Act provided appropriations from the Literary Fund of approximately $116.0 million and $124.9 million respectively in fiscal years 2007 and 2008 for teacher retirement benefits. The 2009 Appropriation Act as amended provided appropriations of $228.7 and $195.0 million for fiscal years 2009 and 2010, respectively. In addition, the 2010 Appropriation Act provides appropriations of $138.0 million and $138.0 million for fiscal years 2011 and 2012, respectively for teacher retirement and the Commonwealth's share local school boards' Social Security costs.

In May 2006, the Authority issued $56.62 million School Educational Technology Notes, Series VI. In May 2007, the Authority issued $56.765 million School Educational Technology Notes, Series VII. In May 2008, the Authority issued $56.475 million School Educational Technology Notes, Series VIII. In May 2009, the Authority issued $55.395 million School Educational Technology Notes, Series IX. In May of 2010 the Authority issued $54.110 million School Educational Technology Notes, Series X. All five series of notes are payable from appropriations from the Literary Fund.

The 2010 Appropriation Act also directs the Authority to an additional $57,610,000 and $57,792,000 of notes in the 2011 and 2012 fiscal years, respectively. The 2010 Appropriation Act includes sufficient appropriations from the Literary Fund to pay debt service coming due during the biennium on the Authority's Series VI, VII, VIII, IX and X Technology Notes. See "THE AUTHORITY – Other Authority Financings – *School Equipment Financing Notes*" in the front portion of this Official Statement.

The following table reflects the financial activity of the Literary Fund for the year ended June 30, 2009, including the balances in the Authority's 1987 Reserve Fund. On March 26, 2009, the Authority approved the transfer to the Literary Fund of $9,531,945 from the General Fund of the Authority representing the release of the 1991 Resolution Debt Service Reserve Income Account.

Literary Fund
Report of Receipts, Disbursements and Changes in Fund Balance (Cash Basis)
Years Ended June 30

	2009	2008	2007	2006	2005
Beginning Fund Balance:					
Cash and Investments	$151,091,810	$146,283,509	$119,513,647	$ 70,654,629	$ 56,315,116
Temporary Loans Receivable	3,907,075	7,080,353	-	12,253,719	21,162,333
Permanent Loans Receivable	305,754,973	313,838,007	346,801,400	368,010,701	0
Total Beginning Balance	460,753,858	467,201,869	466,315,047	450,919,049	77,477,449
Receipts:					
Revenues:					
Interest on Temporary Loans	42,218	9,989	-	34,637	-
Interest on Permanent Loans	8,473,315	8,788,605	9,838,857	11,164,263	11,648,080
Interest on Investments	5,289,342	9,327,656	8,569,241	7,208,009	4,310,968
Principal Payments on Perm Loans	30,203,982	31,165,917	32,963,392	33,569,763	35,558,433
Total Revenues	44,008,857	49,292,167	51,371,490	51,976,672	51,517,481
Transfers from VPSA 1987 Reserve	9,531,945	10,070,375	-	-	232,774
Transfer Perm. Loans From VPSA	-	-	-	-	-
Transfer from VPSA (1)	-	-	-	-	3,626,638
Increase in Temporary Loans Receivable	-	-	-	-	-
Other Transfers In:					
Unclaimed Property Act	100,000,000	85,000,000	85,000,000	85,000,000	85,000,000
Escheats	3,892	38,692	(4,082)	7,298	207,550
Unclaimed Lottery Prizes	13,300,053	10,478,578	10,747,271	13,241,969	9,310,667
Fines, Fees and Forfeitures (2)	71,546,697	75,310,348	73,508,246	69,230,315	65,972,147
Total Transfers In	194,382,587	180,897,993	169,251,435	167,479,582	164,349,776
Total Receipts	238,391,444	230,190,160	220,622,925	219,456,254	215,867,257
Disbursements:					
Interest Rate Subsidy Program	11,075,204	16,411,729	7,645,764	13,331,568	4,929,287
Investment Fees	175,151	209,338	190,152	167,760	146,510
Temporary Loan Disbursements	32,592,925	19,909,605	7,080,353	106,742	256,739
Decrease in Temporary Loans Receivable	3,907,075	3,173,278	(7,080,353)	12,253,719	9,658,484
Decrease in Permanent Loans Receivable	(6,296,019)	8,083,033	32,963,392	21,209,301	25,643,209
Subtotal	41,454,336	47,786,983	40,799,308	47,069,090	40,634,229
Transfer Perm. Loans to VPSA Reserve				-	-
Other Transfers Out:					
Appropriations to Dept. of Education (3)	228,691,828	124,934,530	116,003,959	125,854,700	131,854,700
Transfers to the General Fund	-	-	-	-	-
To VPSA; Equipment Issues (4)	64,469,470	63,916,657	62,932,836	61,749,983	64,340,508
To VPSA; Cost of Issuance	-	-	-	-	-
Total Transfers Out	293,161,298	188,851,187	178,936,795	187,604,683	196,195,208
Total Disbursements	334,615,634	236,638,170	219,736,103	234,673,773	236,829,437
Ending Fund Balance:					
Cash and Investments	52,478,676	151,091,810	146,283,509	119,513,647	70,654,629
Temporary Loans Receivable	0	3,907,075	7,080,353	-	11,503,849
Permanent Loans Receivable	312,050,993	305,754,974	313,838,007	346,801,400	(25,643,209)
Ending Fund Balance	364,529,669	460,753,859	467,201,869	466,315,047	56,515,269
Less Encumbered Funds (5)	(22,399,122)	(49,171,338)	(17,353,669)	(8,100,242)	(3,798,346)
Available Fund Balance	$ 342,130,547	$ 411,582,521	$ 449,848,200	$ 458,214,805	$ 52,716,923

(1) The 2005 amount represents $1.1 million in annual savings returned to the Literary Fund from the refunding of the subsidy component of the Authority's Series 1999 B Bonds and $2.5 million of unspent proceeds from the School Educational Technology Notes, Series VI being returned from SNAP.
(2) Includes interest on Unclaimed Property balances and interest on fines, fees and forfeitures.
(3) Represents appropriations for teacher retirement benefits and other educational related purposes.
(4) Represents funds transferred to the Authority to pay debt service and cost of issuance on the Authority's School Educational Technology notes.
(5) Represents funds restricted for payment to localities for approved Literary Fund Loans and Interest Rate Subsidy Program amounts.

APPENDIX F

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CONTINUING DISCLOSURE UNDERTAKING OF THE VIRGINIA PUBLIC SCHOOL AUTHORITY PURSUANT TO THE SECOND SUPPLEMENTAL TRUST INDENTURE DATED AS OF JULY 1, 2010

Pursuant to the Second Supplemental Trust Indenture dated as of July 1, 2010 between the Virginia Public School Authority (the "Authority") and U.S. Bank National Association, as trustee, VPSA covenanted to the continuing disclosure undertaking as summarized herein. Defined terms used in such undertaking as contained in such Second Supplemental Indenture have been changed to reflect the defined terms used this Official Statement.

Continuing Disclosure Undertaking

(a) **Purpose**. This continuing disclosure undertaking is being made by VPSA with respect to the 2010-1 Bonds for the benefit of the holders and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). VPSA acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this undertaking.

(b) **Definitions**. In addition to the definitions elsewhere set forth in this Official Statement, the following capitalized terms shall have the following meanings:

"**Annual Report**" shall mean any Annual Report provided by VPSA pursuant to, and as described in, subsections (c) and (d) below.

"**Dissemination Agent**" shall mean VPSA, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by such Authority and which has filed with such Authority a written acceptance of such designation.

"**Fiscal Yea**r" shall mean the twelve-month period, at the end of which VPSA's financial position and the results of its operations for the preceding twelve months are determined. Currently VPSA's Fiscal Year begins July 1 and continues through June 30 of the next calendar year.

"[**H**]**older**" shall mean, for purposes of this undertaking, any person who is a record owner or beneficial owner of a Bond.

"**Listed Events**" shall mean any of the events listed in subsection (b)(5)(i)(C) of the Rule which are as follows:

principal and interest payment delinquencies

non-payment related defaults

unscheduled draws on debt service reserves reflecting financial difficulties

unscheduled draws on credit enhancements reflecting financial difficulties

substitution of credit or liquidity providers, or their failure to perform

adverse tax opinions or events affecting the tax-exempt status of the security

modifications to rights of security holders bond calls

defeasances

release, substitution, or sale of property securing repayment of the securities

rating changes

"**MOP**" shall mean (i) a Local Issuer that has outstanding Local School Bonds held to the credit of the General Pledge Fund in an aggregate principal amount that exceeds 10% of the aggregate principal amount of VPSA's outstanding Bonds and (ii) the Commonwealth.

"**Repository**" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"**Participating Underwriter**" shall mean any of the original underwriters of VPSA's 2010-1 Bonds required to comply with the Rule in connection with the offering of such Bonds.

"**Rule**" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Undertaking" shall mean the continuing disclosure undertaking assumed by VPSA in this undertaking.

(c) **Provision of Annual Reports; Audited Financial Statements.**

1. Not later than 10 months after the end of each Fiscal Year, commencing with the Fiscal Year ended June 30, 2011, VPSA shall, or shall cause the Dissemination Agent (if different from VPSA) to, provide to each Repository an Annual Report which is consistent with the requirements of (d) of this undertaking. Not later than 10 days prior to said date, VPSA shall provide the Annual Report to the Dissemination Agent (if applicable). In each case, the Annual Report (A) may be submitted as a single document or as separate documents comprising a package, (B) may cross-reference other information as provided in (d) of this undertaking, and (C) shall include such financial statements as may be required by the Rule.

2. The annual financial statements of VPSA shall be prepared on the basis of generally accepted accounting principles and will be audited by either the Auditor of Public Accounts or a firm of independent certified public accountants. Copies of the audited annual financial statements, which may be filed separately from the Annual Report, will be filed with the Repositories when they become publicly available.

3. If VPSA fails to provide an Annual Report to the Repositories by the date required in clause (i), or to file its audited annual financial statements when available as described in clause (ii), VPSA shall send an appropriate notice to the Municipal Securities Rulemaking Board in substantially the form attached hereto as Schedule 1.

(d) **Content of Annual Reports.** Each Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, the following information, all with a view toward assisting Participating Underwriters in complying with the Rule.

1. Updated information showing the expected "Local School Bond Payments Available to Pay Debt Service" as of the date of issuance of the most recent Series of Bonds issued during the period beginning July 1 and ending on the date of the Annual Report. In the event no Bonds were issued during the aforementioned time period, the updated information shall be as of the end of the preceding Fiscal Year.

2. Updated information showing the names of the Local Issuers and the principal amount of their Local School Bonds held in the General Pledge Fund and the principal and redemption premium of which are credited to the General Pledge Fund and an updated list showing the names of the Local Issuers who are MOPs as of the end of the preceding Fiscal Year, who have ceased to be MOPs during the preceding Fiscal Year and who were MOPs as of the date of issuance of the most recent Series of Bonds issued during the period beginning July 1 and ending on the date of the Annual Report. In the event no Bonds were issued during the aforementioned time period, the updated information shall be as of the end of the preceding Fiscal Year.

3. A summary of receipts and disbursements for the Literary Fund for the preceding Fiscal Year.

4. A summary of information respecting appropriations made by the Virginia General Assembly from the Literary Fund for the current biennium.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of VPSA, which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. VPSA shall clearly identify each such other document so incorporated by reference.

(e) **Reporting of Listed Events.** VPSA will provide in a timely manner to the Repositories of any of the Listed Events with respect to the 2010-1 Bonds, if material. VPSA does not undertake to provide the above-described notice in the event of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of redemption are set forth in detail in the Official Statement, (ii) the only open issue is which 2010-1 Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Owners as required under the terms of the Master Indenture, and (iv) public notice of the redemption is given pursuant to 1934 Act Release No. 23856 of the SEC, even if the originally scheduled amounts may be reduced by prior optional redemptions or Bond purchases.

(f) **Expenditure of Available Project Proceeds**. VPSA will provide notice of the final expenditure of the Available Project Proceeds of the 2010-1 Bonds in the same manner required for material Listed Events.

(g) **Dissemination Agent**. VPSA may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its undertaking and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, VPSA shall be the Dissemination Agent.

(h) **Amendment**. Notwithstanding any other provision of the Indenture, VPSA may amend its undertaking as set forth in this undertaking if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws to the effect that such amendment is permitted or required by the Rule.

(i) **Additional Information**. Nothing in this undertaking shall be deemed to prevent VPSA from disseminating any other information, using the means of dissemination set forth in this undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this undertaking. If VPSA chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this undertaking, VPSA shall have no obligation under this undertaking to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

(j) **Default**. Any person referred to in section (k) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause VPSA to file its Annual Report or to give notice of a Listed Event. In addition, holders of not less than a majority in aggregate principal amount of the 2010-1 Bonds outstanding may take such actions as may be permitted by law to challenge the adequacy of any information provided pursuant to this Continuing Disclosure undertaking, or to enforce any other obligation of

VPSA hereunder. A default under this undertaking shall not be deemed an event of default under the Indenture or the 2010-1 Bonds, and the sole remedy under this undertaking in the event of any failure of VPSA to comply with its undertaking shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

(k) **Beneficiaries**. This undertaking shall inure solely to the benefit of VPSA, the Participating Underwriters, and holders from time to time of VPSA's 2010-1 Bonds, and shall create no rights in any other person or entity.

(l) **Obligated Persons**. VPSA has determined that the Commonwealth is an "obligated person", within the meaning of the Rule, that is or may be material to the 2010-1 Bonds, as evidenced by its inclusion in the definition of MOP. In addition, VPSA has established in the definition of a MOP the objective criteria that it will apply consistently, on a continuing basis, in determining whether a particular Local Issuer is an "obligated person", within the meaning of the Rule, that is or may be material to the 2010-1 Bonds. VPSA covenants that it will require each Local Issuer that is or may become a MOP to execute and deliver to VPSA an undertaking by which the Local Issuer will agree that if it becomes a MOP, it will, so long as it remains a MOP, file annually the financial information, operating data, and financial statements, and provide notices of Listed Events with respect to its bonds held in the General Pledge Fund if material, as required by the Rule.

(m) **Termination.** The obligations of VPSA pursuant to its undertaking with respect to the 2010-1 Bonds shall terminate upon the earlier to occur of the legal defeasance or final retirement of the 2010-1 Bonds.

SCHEDULE 1

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT
[AUDITED ANNUAL FINANCIAL STATEMENTS]

$___,___,___
VIRGINIA PUBLIC SCHOOL AUTHORITY
SCHOOL TAX CREDIT BONDS
(DIRECT PAYMENT QUALIFIED SCHOOL CONSTRUCTION BONDS)
SERIES 2010-1

CUSIP Number: **92817S [__]**

Dated: _________ 1, 2010

NOTICE IS HEREBY GIVEN that the Virginia Public School Authority ("VPSA") has not provided an Annual Report [Audited Annual Financial Statements] as required by Article VII of the Second Supplemental Indenture dated as of ______, 2010, between VPSA and U.S. Bank National Association, as trustee, which authorized the bonds described above. [VPSA anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by ___________________.]

Dated: _______________

VIRGINIA PUBLIC SCHOOL AUTHORITY

By_____________________________

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Commonwealth of Virginia (the "Commonwealth") in connection with the issuance by the Virginia Public School Authority (the "Authority") of $___,___,___ aggregate principal amount of its School Tax Credit Bonds (Direct Payment Qualified School Construction Bonds) Series 2010-1 (the "2010-1 Bonds") pursuant to the provisions of Master Trust Indenture dated as of October 1, 2009, between VPSA and U.S. Bank National Association, as trustee, as supplemented and amended from time to time. Proceeds of the 2010-1 Bonds are being used by VPSA to purchase general obligation bonds issued by local governments for capital school projects. VPSA has advised the Commonwealth that it has determined that the Commonwealth constitutes an "obligated person" within the meaning of the Rule in respect of the 2010-1 Bonds and the Commonwealth concurs in such determination. The Commonwealth represents that it has complied with its undertakings regarding the Rule. The Commonwealth hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Commonwealth for the benefit of the Holders of the Bonds and in order to assist the Participating Underwriters in complying with the Rule. The Commonwealth acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Commonwealth pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Dissemination Agent" shall mean the Commonwealth, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Commonwealth and which has filed with the Commonwealth a written acceptance of such designation.

"Fiscal Year" shall mean the twelve-month period, at the end of which the financial position of the Commonwealth and results of its operations for such period are determined. Currently, the Commonwealth's Fiscal Year begins July 1 and continues through June 30 of the next year.

"Holder" shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a 2010-1 Bond.

"Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of such Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) Not later than seven months following the end of each Fiscal Year of the Commonwealth, commencing with the Fiscal Year ending June 30, 2011, the Commonwealth shall, or shall cause the Dissemination Agent (if different from the Commonwealth) to, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than 10 days prior to said date, the Commonwealth shall provide the Annual Report to the Dissemination Agent (if applicable). In each case, the Annual Report (i) may be submitted as a single document or as separate documents comprising a package, (ii) may cross-reference other information as provided in Section 4 of this Disclosure Agreement and (iii) shall include such financial statements as may be required by the Rule.

(b) The annual financial statements of the Commonwealth shall be prepared on the basis of generally accepted accounting principles and will be audited. Copies of the audited annual financial statements, which may be filed separately from the Annual Report, will be filed with the Repositories when they become publicly available.

(c) If the Commonwealth fails to provide an Annual Report to the Repositories by the date required in subsection (a) hereof, or to file its audited financial statements with the Repositories when the become publicly available, the Commonwealth shall send appropriate notice to the Municipal Securities Rulemaking Board in substantially the form attached hereto as Schedule 1.

SECTION 4. Content of Annual Reports. Each Annual Report required to be filed hereunder shall include, at a minimum, the information referred to in Schedule 2 as it relates to the Commonwealth, all with a view toward assisting Participating Underwriters in complying with the Rule. Any and all of such information may be incorporated by reference from other documents, including official statements containing information with respect to the Commonwealth, which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Commonwealth shall clearly identify each such other document so incorporated by reference.

SECTION 5. Notice of Ratings Changes. The Commonwealth will provide in a timely manner to the Virginia Public School Authority notice of any changes in the ratings of the Commonwealth's general obligation bonds by the ratings agencies requested by the Commonwealth to rate such bonds.

SECTION 6. [Reserved.]

SECTION 7. Termination of Reporting Obligation. The obligations of the Commonwealth under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of the 2010-1 Bonds, and VPSA shall notify the Commonwealth promptly of the occurrence of either such event.

SECTION 8. Dissemination Agent. The Commonwealth may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Commonwealth shall be the Dissemination Agent.

SECTION 9. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the Commonwealth may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws to the effect that such amendment is permitted or required by the Rule.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Commonwealth from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice described in Section 5 above, in addition to that which is required by this Disclosure Agreement. If the Commonwealth chooses to include any information in any Annual Report or notice described in Section 5 above, in addition to that which is specifically required by this Disclosure Agreement, the Commonwealth shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice.

SECTION 11. Default. Any person referred to in Section 12 (other than the Commonwealth) may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligation of the Commonwealth to file its Annual Report or to give notice as described in Section 5 hereinabove. In addition, Holders of not less than a majority in aggregate principal amount of the 2010-1 Bonds outstanding may take such actions as may be permitted by law to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the Commonwealth hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under any applicable resolution or other debt authorization of the Commonwealth, and the sole remedy under this Disclosure Agreement in the event of any failure of the Commonwealth to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any Holder pursuant to the Securities Exchange Act of 1934, the rules or regulations promulgated thereunder, or other applicable laws deemed to restrict the rights or remedies of any Holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Commonwealth, VPSA, the Participating Underwriters, and Holders from time to time of the 2010-1 Bonds, and shall create no rights in any other person or entity.

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: _________________________, 2010

COMMONWEALTH OF VIRGINIA

By_____________________________

AGREED TO AND ACKNOWLEDGED:

VIRGINIA PUBLIC SCHOOL AUTHORITY

By: ___________________________________
Authorized Representative

SCHEDULE 1

NOTICE OF FAILURE TO FILE ANNUAL REPORT
[AUDITED ANNUAL FINANCIAL STATEMENTS]

COMMONWEALTH OF VIRGINIA

in connection with
$___,___,___
Virginia Public School Authority's
School Tax Credit Bonds
(Direct Payment Qualified School Construction Bonds)
Series 2010-1

CUSIP Numbers: **92817S [__]**

Dated: ______ 1, 2010

NOTICE IS HEREBY GIVEN that the Commonwealth of Virginia has not provided an Annual Report as required by Section 3 of the Continuing Disclosure Agreement, which was entered into in connection with the above-named bonds issued pursuant to that certain Master Trust Indenture dated as of October 1, 2009 between the Virginia Public School Authority and _________, as trustee. The Commonwealth anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by ___________________.

Dated: _______________

COMMONWEALTH OF VIRGINIA

By_____________________________
State Treasurer

SCHEDULE 2

CONTENT OF ANNUAL REPORT

General Fund. Information concerning revenues, sources of revenues, expenditures, categories of expenditures and balances of the General Fund of the Commonwealth for the preceding fiscal year.

Appropriation Act. A summary of the material budgetary aspects of the Appropriation Act for the current biennium.

Debt. Updated information respecting tax-supported and other outstanding debt of the Commonwealth including a historical summary of outstanding tax-supported debt; a summary of authorized but unissued tax-supported debt and a summary of annual debt service on outstanding tax-supported debt.

Retirement Plans. Updated information (to the extent not shown in the latest audited annual financial statements) respecting pension and retirement plans administered by the Commonwealth including a summary of membership, revenues, expenses and actuarial valuation(s) of such plans.

Litigation. A summary of material litigation pending against the Commonwealth.

Demographic Information. Updated demographic information respecting the Commonwealth such as its population and tax base.

Economic Information. Updated economic information respecting the Commonwealth such as income, employment, industry and infrastructure data.

In general, the foregoing will include information as of the end of the most recent fiscal year or as of the most recent practicable date. Where information for the fiscal year just ended is provided, it may be preliminary and unaudited. Where information has historically been provided for more than a single period, comparable information will in general be provided for the same number of periods where valid and available. Where comparative demographic or economic information for the Commonwealth and the United States as a whole is contemporaneously available and, in the judgment of the Commonwealth, informative, such information may be included. Where, in the judgment of the Commonwealth, an accompanying narrative is required to make data presented not misleading, such narrative will be provided.

Local Issuer Standard Form[2]

CONTINUING DISCLOSURE AGREEMENT

[This Continuing Disclosure Agreement will impose obligations on the Local Issuer if and only if the Local Issuer is or has become and remains a "Material Obligated Person", as defined below]

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the undersigned local issuer (the "Local Issuer") in connection with the issuance by the Virginia Public School Authority (the "Authority") of $ [principal amount] aggregate principal amount of its School Tax Credit Bonds (Qualified School Construction Bonds) Series [year][letter] (the "Series [year][letter] Bonds") pursuant to the provisions of a Master Trust Indenture dated as of October 1, 2009 between VPSA and U.S. Bank National Association, as trustee, as supplemented and amended from time to time. The Series [year][letter] Bonds and all other parity bonds heretofore or hereafter issued under the Indenture are collectively called the "Bonds." A portion of the proceeds of the Series [year][letter] Bonds is being used by VPSA to purchase general obligation school bonds (the "Local School Bonds") of the Local Issuer pursuant to a bond sale agreement between VPSA and the Local Issuer (the "Bond Sale Agreement"). Pursuant to Section [3] of the Bond Sale Agreement, the Local Issuer hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Local Issuer for the benefit of the holders of the Series [year][letter] Bonds and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). The Local Issuer acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Local Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Dissemination Agent" shall mean the Local Issuer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by such Local Issuer and which has filed with such Local Issuer a written acceptance of such designation.

"Filing Date" shall have the meaning given to such term in Section 3(a) hereof.

"Fiscal Year" shall mean the twelve-month period at the end of which financial position and results of operations are determined. Currently, the Local Issuer's Fiscal Year begins July 1 and continues through June 30 of the next calendar year.

"holder" shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a Series [year][letter] Bond.

"Listed Events" shall mean any of the events listed in subsection 5(b)(5)(i)(C) of the Rule.

[2] VPSA expects that this agreement, in substantially this form, will be executed by substantially every Local Issuer with Local School Bonds outstanding and pledged to Bonds issued under the Indenture.

"local school bonds" shall mean any of the Local School Bonds and any other bonds of the Local Issuer pledged as security for Bonds issued under VPSA's Indenture.

"Material Obligated Person" (or "MOP") shall mean the Local Issuer if it has local school bonds outstanding in an aggregate principal amount that exceeds 10% of the aggregate principal amount of all outstanding Bonds of VPSA.

"Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Participating Underwriter" shall mean any of the original underwriters of VPSA's Series [year][letter] Bonds required to comply with the Rule in connection with the offering of such Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Local Issuer shall, or shall cause the Dissemination Agent to, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Such Annual Report shall be filed on a date (the "Filing Date") that is not later than 12 months after the end of any Fiscal Year (commencing with its Fiscal Year ending June 30, [year]) as of the end of which such Local Issuer was a MOP, unless as of the Filing Date the Local Issuer is no longer a MOP.[3] Not later than ten (10) days prior to the Filing Date, the Local Issuer shall provide the Annual Report to the Dissemination Agent (if applicable) and shall provide copies to VPSA. In each case, the Annual Report (i) may be submitted as a single document or as separate documents comprising a package, (ii) may cross-reference other information as provided in Section 4 of this Disclosure Agreement and (iii) shall include the Local Issuer's audited financial statements prepared in accordance with applicable State law or, if audited financial statements are not available, such unaudited financial statements as may be required by the Rule. In any event, audited financial statements of such Local Issuer must be submitted, if and when available, together with or separately from the Annual Report.

(b) If the Local Issuer is unable to provide an Annual Report to the Repositories by the date required in subsection (a), the Local Issuer shall send a notice to the Municipal Securities Rulemaking Board substantially the form attached hereto as Exhibit A.

SECTION 4. Content of Annual Reports. Except as otherwise agreed, any Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, annual financial information relating to the Local Issuer, including operating data,

(i) updating such information relating to the Local Issuer as shall have been included or cross-referenced in the final Official Statement of VPSA describing VPSA's Series [year][letter] Bonds or

(ii) if there is no such information described in clause (i), updating such information relating to the Local Issuer as shall have been included or cross-referenced in any comparable disclosure document of the Local Issuer relating to its tax-supported obligations or

(iii) if there is no such information described in clause (i) or (ii) above, initially setting forth and then updating the information referred to in Exhibit B as it relates to the Local Issuer, all with a view toward assisting Participating Underwriters in complying with the Rule.

Any or all of such information may be incorporated by reference from other documents, including official statements of securities issues with respect to which the Local Issuer is an "obligated person" (within the meaning of

[3] VPSA will advise the Local Issuer within 60 days after the end of each Fiscal Year if such Local Issuer was a Material Obligated Person as of the end of such Fiscal Year. Upon written request, VPSA will also advise the Local Issuer as to its status as a MOP as of any other date.

the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Local Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Listed Events. Whenever the Local Issuer is a Material Obligated Person required to file Annual Reports pursuant to Section 3(a) hereof and obtains knowledge of the occurrence of a Listed Event, and if such Local Issuer has determined that knowledge of the occurrence of a Listed Event with respect to its local school bonds would be material, such Local Issuer shall promptly file a notice of such occurrence with the Repository, with a copy to VPSA.

SECTION 6. [Reserved.]

SECTION 7. Termination of Reporting Obligation. The Local Issuer's obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of all the Local School Bonds.

SECTION 8. Dissemination Agent. The Local Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Local Issuer shall advise VPSA of any such appointment or discharge. If at any time there is not any other designated Dissemination Agent, the Local Issuer shall be the Dissemination Agent. [The initial Dissemination Agent shall be _____________.]

SECTION 9. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the Local Issuer may amend this Disclosure Agreement, if such amendment has been approved in writing by VPSA and is supported by an opinion of independent counsel, acceptable to VPSA, with expertise in federal securities laws, to the effect that such amendment is permitted or required by the Rule.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Local Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Local Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, such Local Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. Any person referred to in Section 11 (other than the Local Issuer) may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Local Issuer to file its Annual Report or to give notice of a Listed Event. VPSA may, and the holders of not less than a majority in aggregate principal amount of Bonds outstanding may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the Local Issuer hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the applicable resolution or bonds of the Local Issuer, and the sole remedy under this Disclosure Agreement in the event of any failure of the Local Issuer to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of VPSA, the Local Issuer, the Participating Underwriters, and holders from time to time of VPSA's Bonds, and shall create no rights in any other person or entity.

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: ________________________, [year]

[NAME OF LOCAL ISSUER]

By____________________________

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT
[AUDITED FINANCIAL STATEMENTS]

Re: VIRGINIA PUBLIC SCHOOL AUTHORITY
SCHOOL TAX CREDIT BONDS (QUALIFIED SCHOOL CONSTRUCTION BONDS)
Series [year][letter]

CUSIP Numbers: 92817S ___ - 92817S ___

Dated: ________ [__], ____

Name of Local Issuer: [Name of Local Issuer]

NOTICE IS HEREBY GIVEN that the [Name of Local Issuer] has not provided an Annual Report as required by Section 3(a) of the Continuing Disclosure Agreement, which was entered into in connection with the above-named bonds issued pursuant to that certain Master Indenture of Trust dated as of October 1, 2009 between the Virginia Public School Authority and U.S. Bank National Association, as trustee, the net proceeds of which were used to purchase certain School Bonds of the [Local Issuer]. [The Local Issuer] anticipates that the Annual Report will be filed by _____________.] The [Local Issuer] is a material "obligated person" within the meaning of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, with respect to the above-named bonds of VPSA.

Dated: _______________

[Name of Local Issuer]

By____________________________

EXHIBIT B

CONTENT OF ANNUAL REPORT

Description of the Local Issuer. A description of the Local Issuer including a summary of its form of government, budgetary processes and its management and officers.

Debt. A description of the terms of the Local Issuer's outstanding tax-supported and other debt including a historical summary of outstanding tax-supported debt; a summary of authorized but unissued tax-supported debt; a summary of legal debt margin; a summary of overlapping debt; and a summary of annual debt service on outstanding tax-supported debt as of the end of the preceding fiscal year. The Annual Report should also include (to the extent not shown in the latest audited financial statements) a description of contingent obligations as well as pension plans administered by the Local Issuer and any unfunded pension liabilities.

Financial Data. Financial information respecting the Local Issuer including a description of revenues and expenditures for its major funds and a summary of its tax policy, structure and collections as of the end of the preceding fiscal year.

Capital Improvement Plan. A summary of the Local Issuer's capital improvement plan.

Demographic, Economic and Supplemental Information. A summary of the Local Issuer's demographic and economic characteristics such as population, income, employment, and public school enrollment and infrastructure data as of the end of the preceding fiscal year. The Annual Report should also include a description of material litigation pending against the Local Issuer.

APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL FOR THE 2010-1 BONDS

________, 2010

Virginia Public School Authority
Richmond, Virginia

$__________*
Virginia Public School Authority
School Tax Credit Bonds
(Direct Payment Qualified School Construction Bonds)
Series 2010-1

Ladies and Gentlemen:

We have served as Bond Counsel to the Virginia Public School Authority ("VPSA") in connection with the issuance of VPSA's $__________* School Tax Credit Bonds (Direct Payment Qualified School Construction Bonds), Series 2010-1 (the "2010-1 Bonds"). The 2010-1 Bonds have been authorized and issued under (i) Chapter 11, Title 22.1, Code of Virginia of 1950, as amended (the "Enabling Act"), (ii) a resolution adopted by VPSA's Board of Commissioners (the "VPSA Board") on March 25, 2010 (the "Resolution"), and (iii) a Master Trust Indenture dated as of October 1, 2009 (as previously supplemented, the "Master Indenture"), between VPSA and U.S. Bank National Association, as trustee (the "Trustee"), as supplemented by a Second Supplemental Indenture of Trust dated as of July 1, 2010 (the "Second Supplemental Indenture" and, together with the Master Indenture, the "Indenture"), between VPSA and the Trustee. VPSA has issued the 2010-1 Bonds and is using the proceeds thereof to (i) purchase general obligation school bonds (the "2010-1 Local School Bonds") issued by certain Virginia counties and cities (the "2010-1 Local Issuers") to finance capital projects for school purposes and (ii) pay the issuance cost of the 2010-1 Bonds. We refer you to the Resolution, the 2010-1 Bonds and the Indenture for a description of the terms of the 2010-1 Bonds and the security and the provisions for the payment of the principal of and premium and interest, if any, on the 2010-1 Bonds. Unless otherwise defined, each capitalized term used in this opinion has the meaning given it in the Indenture.

We have examined the Constitution of Virginia and the applicable laws of both the United States and the Commonwealth of Virginia (the "Commonwealth"), including without limitation the Internal Revenue Code of 1986, as amended (the "Code"), the Enabling Act, and such certified proceedings and other documents of the VPSA Board, VPSA and the 2010-1 Local Issuers as we deem necessary to render this opinion.

Without undertaking to verify them by independent investigation, as to questions of fact material to the opinions rendered below we have relied upon (i) representations of VPSA contained in the Indenture and related documents and the certified proceedings and (ii) representations and certifications of other public officials and entities furnished to us, including representations and certifications made by or on behalf of the 2010-1 Local Issuers.

We have assumed that all documents, certificates and instruments relating to this financing have been duly authorized, executed and delivered by all parties to them other than VPSA, and we have further assumed the due organization, existence and powers of such parties other than VPSA.

* Preliminary, subject to change.

Based on the foregoing, we are of the opinion that, under current law:

(1) VPSA is a public body corporate and an agency and instrumentality of the Commonwealth duly created by and existing pursuant to the Enabling Act.

(2) VPSA has the requisite authority and power under the Enabling Act to enter into the Indenture, to issue and sell the 2010-1 Bonds, and to apply the proceeds from the issuance and sale of the 2010-1 Bonds as set forth in the Indenture. All conditions precedent to the issuance of the 2010-1 Bonds as set forth in the Enabling Act, the Resolution and the Indenture have been fulfilled.

(3) The 2010-1 Bonds have been duly authorized, executed, and delivered in accordance with the VPSA Act and the Indenture and constitute valid limited obligations of VPSA.

(4) The 2010-1 Bonds and any additional Series of Bonds that may be hereafter issued from time to time under the Indenture, under the conditions, limitations and restrictions set forth in the Indenture, for the purpose of providing funds for the purchase of Local School Bonds and for the purpose of refunding Bonds issued under the provisions of the Indenture or other indebtedness of VPSA, are payable from certain funds of VPSA pledged to their payment, including (i) payments derived from the 2010-1 Local School Bonds and certain additional Local School Bonds credited to the General Pledge Fund, a special fund established under the Indenture in which certain Local School Bonds are held (the "General Pledge Fund"), (ii) payments of moneys derived from operation of the "State-Aid Intercept Provision" contained in Section 15.2-2659, Code of Virginia of 1950, as amended, in the event of default in payment of debt service on Local School Bonds credited to the General Pledge Fund, and (iii) appropriations by the General Assembly of the Commonwealth to VPSA to make up deficiencies in debt service. The Indenture requires that, if a payment default occurs on a Local School Bond and VPSA has not received the defaulted payment from the implementation of the State-Aid Intercept Provision, then VPSA shall file a warrant with the State Treasurer requesting that an amount equal to the deficiency be made available to VPSA from moneys appropriated by the General Assembly. The Indenture requires the Chairman of VPSA to notify the Governor on or before December 1 of each year of his estimate of total debt service during each fiscal year of the biennium on Bonds issued and projected to be issued under the Indenture. The Enabling Act requires the Governor to include such appropriations for the payment of debt service in his budget submission to the General Assembly each year. The General Assembly has the power, but is not legally obligated, to make appropriations in respect of the payment of such debt service. The 2010-1 Bonds do not constitute a debt of the Commonwealth or a pledge of the faith and credit of the Commonwealth, and neither the faith and credit nor the taxing power of the Commonwealth or of any political subdivision thereof is or shall be pledged to the payment of the principal of or the premium or interest, if any, on the 2010-1 Bonds.

(5) The Indenture has been duly authorized, executed and delivered by VPSA, constitutes the valid and binding obligation of VPSA, pledges the Revenues to the Trustee as security for the 2010-1 Bonds, and is enforceable against VPSA in accordance with its terms. The Second Supplemental Indenture is authorized and permitted by the Master Indenture.

(6) Interest on the 2010-1 Bonds is includible in the gross income of the owners of the 2010-1 Bonds for federal income tax purposes as required under Section 6431(f)(1)(D) of the Code.

(7) In accordance with Section 22.1-172 of the Enabling Act, the 2010-1 Bonds, their transfer and the income from them, including any profit made on their sale, are exempt from taxation by the Commonwealth and any municipality, county, or other political subdivision thereof. We express no opinion regarding (i) other Virginia tax consequences arising with respect to the 2010-1 Bonds or (ii) any consequences arising with respect to the 2010-1 Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth and its political subdivisions.

The rights of the registered owners of the 2010-1 Bonds and the enforceability of VPSA's obligations under the 2010-1 Bonds and the Indenture may be limited or otherwise affected by bankruptcy, insolvency, reorganization, moratorium, and similar laws now or hereafter in effect affecting creditors' rights. The enforceability of those rights and obligations is also subject to the exercise of judicial discretion in accordance with general principles of equity.

Our services as Bond Counsel have been limited to rendering the foregoing opinion based on our review of such legal proceedings as we deem necessary to approve the validity of the 2010-1 Bonds. The foregoing opinion is in no respect an opinion as to VPSA's business or financial resources or its ability to provide for the payment of the 2010-1 Bonds or the accuracy or completeness of any information, including VPSA's Preliminary Official Statement dated June 16, 2010, and Official Statement dated June __, 2010, that anyone may have relied upon in making the decision to purchase the 2010-1 Bonds.

IRS Circular 230 Disclosure: To comply with certain U.S. Treasury regulations, we inform you that, unless expressly stated otherwise, any U.S. federal tax advice contained in this communication, including attachments was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on such taxpayer by the Internal Revenue Service. In addition, if any such tax advice is used or referred to by other parties in promoting, marketing or recommending any partnership or other entity, investment plan or arrangement, then (i) the advice should be construed as written in connection with the promotion or marketing by others of the transactions(s) or matters(s) addressed in this communication and (ii) the taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

The opinions expressed herein are rendered as of the date hereof and based on an analysis of current laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur and we have no obligations to update this opinion.

Very truly yours,

McGuireWoods LLP

APPENDIX H

BOOK-ENTRY ONLY SYSTEM

THE INFORMATION IN THIS APPENDIX J CONCERNING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT VPSA AND THE UNDERWRITER BELIEVE TO BE RELIABLE, BUT VPSA AND THE UNDERWRITER TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for VPSA's School Tax Credit Bonds (Qualified School Construction Bonds), Series 2010-1 (the "2010-1 Bonds"). The 2010-1 Bonds will be executed and delivered as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for the single maturity of the 2010-1 Bonds in the principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the U.S. Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. Information on these websites is not incorporated herein.

Purchases of the 2010-1 Bonds must be made by or through Direct Participants, which will receive a credit for the 2010-1 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2010-1 Bonds as applicable, ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2010-1 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2010-1 Bonds, except in the event that use of the book-entry system for the 2010-1 Bonds is discontinued.

To facilitate subsequent transfers, all 2010-1 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2010-1 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2010-1 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2010-1 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2010-1 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2010-1 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of the 2010-1 Bonds may wish to ascertain that the nominee holding the 2010-1 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2010-1 Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the 2010-1 Bonds by VPSA will reduce the outstanding principal amount of 2010-1 Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the 2010-1 Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the 2010-1 Bonds for the Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the 2010-1 Bonds within an issue are being redeemed, redemption of the 2010-1 Bonds will be effected in $5,000 increments, so that any 2010-1 Bond redeemed in part will have a remaining notional amount of $5,000 or an integral multiple thereof. The Paying Agent will effect each redemption of the 2010-1 Bonds by redeeming *pro rata* from each person who is the Owner of a 2010-1 Bond to be redeemed on a redemption date, an amount of such 2010-1 Bonds determined by multiplying the principal amount of the 2010-1 Bonds to be redeemed on said redemption date by a fraction, the numerator of which is the principal amount of the 2010-1 Bonds owned by such Owner and the denominator of which is the principal amount of all the 2010-1 Bonds outstanding immediately prior to the date.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2010-1 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Paying Agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2010-1 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, interest and premium, if any, on the 2010-1 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from VPSA or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee) nor the Paying Agent or VPSA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal and premium, if any, of the 2010-1 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of VPSA or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

VPSA, THE PAYING AGENT OR THE UNDERWRITER CAN NOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL AND PREMIUM, IF ANY, OF THE 2010-1 BONDS PAID TO DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR WILL DISTRIBUTE ANY REDEMPTION NOTICES OR OTHER NOTICES, TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR WILL SERVE

AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. NONE OF VPSA, THE PAYING AGENT OR THE UNDERWRITER ARE RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC OR ANY PARTICIPANT TO MAKE ANY PAYMENT OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE 2010-1 BONDS OR AN ERROR OR DELAY RELATING THERETO.

VPSA may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2010-1 Bond certificates will be printed and delivered.

DTC may discontinue providing its services as depository with respect to the 2010-1 Bonds at any time by giving reasonable notice to VPSA or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, 2010-1 Bond, certificates are required to be printed and delivered.

In the event that the book entry system is discontinued as described above, the requirements of the Indenture will apply.

APPENDIX I

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following contains certain definitions and a brief summary of certain provisions contained in the Master Indenture and the Second Supplemental Indenture and does not purport to be a complete statement of all of the provisions of those documents. Reference is made to the Master Indenture and the Second Supplemental Indenture in their entirety for complete information on their terms and on the terms of the Bonds, including the 2010-1 Bonds, the applicable security provisions and the application of pledged revenues.

Definitions of Certain Terms

Unless defined above in this Official Statement, all capitalized terms used in this Appendix have the meanings set forth below.

"1987 Resolution" means the bond resolution adopted by the Board on August 13, 1987, as amended, authorizing the issuance of 1987 Resolution Bonds and of bonds to refund 1987 Resolution Bonds.

"1987 Resolution Bonds" means, collectively, the bonds issued and outstanding under the 1987 Resolution, including any bonds hereafter issued.

"1991 Resolution" means the bond resolution adopted by the Board on June 26, 1991, as amended and restated, authorizing the issuance of 1991 Resolution Bonds, including bonds to refund 1987 Resolution Bonds and 1991 Resolution Bonds.

"1991 Resolution Bonds" means, collectively, the bonds issued and outstanding under the 1991 Resolution, including any bonds hereafter issued.

"1997 Resolution" means the bond resolution adopted by the Board on October 23, 1997, as amended and restated on October 5, 1998, and as further supplemented and amended from time to time, authorizing the issuance of the 1997 Resolution Bonds and of bonds to refund 1997 Resolution Bonds.

"1997 Resolution Bonds" means, collectively, the bonds issued and outstanding under the 1997 Resolution, including any bonds hereafter issued.

"Account" means any account established pursuant to the terms of the Master Indenture or any Supplemental Indenture.

"Administrative Charge" means any fees or charges established by VPSA with respect to a Local School Bond, as the same shall be set forth in the Related Supplemental Indenture.

"Agreement" when used with respect to any Series of Bonds, means the bond sale, loan or similar agreement between a Local Issuer and VPSA, as modified, altered, amended and supplemented from time to time in accordance with its terms and the terms of the Master Indenture, which agreement will govern the acquisition by VPSA of the Related Local School Bond, among other things.

"Amortization Requirement," as applied to any Term Bonds of any maturity for any Bond Year, means the principal amount or amounts fixed by, or computed in accordance with the terms of, the Related Supplemental Series Indenture for the retirement of such Term Bonds by mandatory purchase or redemption on the Principal Payment Date or Dates established by such Supplemental Series Indenture.

"Authorized Denomination" means $5,000 or any integral of $5,000.

"Board" means the Board of Commissioners of VPSA.

"Bond" or "Bonds" means any or all of the bonds of VPSA issued pursuant to the Master Indenture, which are expected to be in the form of School Tax Credit Bonds.

"Bond Counsel" means (i) McGuireWoods LLP or (ii) other counsel selected by VPSA which is nationally recognized as experienced in matters relating to tax credit obligations issued or incurred by states and their political subdivisions.

"Bond Credit Facility" means a line of credit, letter of credit, standby bond purchase agreement, municipal bond insurance or similar credit enhancement or liquidity facility established to provide credit or liquidity support for all or any portion of a Series of Bonds as provided in the Related Supplemental Indenture.

"Bond Credit Provider" means, as to all or any portion of a Series of Bonds, the Person providing a Bond Credit Facility, as designated in the Related Supplemental Indenture in respect of such Bonds.

"Business Day" means any Monday, Tuesday, Wednesday, Thursday or Friday on which commercial banking institutions generally are open for business in New York and Virginia.

"Code" means the Internal Revenue Code of 1986, as amended, as in effect upon the issuance of and thereafter applicable to any Series of Bonds and the regulations of the U.S. Department of the Treasury promulgated thereunder as in effect upon the issuance of and thereafter applicable to any Series of Bonds.

"Commonwealth" means the Commonwealth of Virginia.

"Current Interest Bonds" means Bonds the interest on which is payable currently on the Interest Payment Dates provided therefor in the Related Supplemental Series Indenture.

"Custodian" means a bank or trust company that is (i) organized and existing under the laws of the United States or any of its states and (ii) acceptable to the Trustee.

"Debt Service Fund" means the Debt Service Fund established pursuant to the Master Indenture.

"Defeasance Obligations" means non-callable and non-prepayable Government Obligations and the obligations described in clause (a)(ii) of the definition of "Investment Obligations."

"Deposit Day" means the last Business Day preceding each Payment Date (or for any series of Bonds any other day that may be designated in the Related Supplemental Indenture as a "Deposit Day").

"Depository" means one or more banks or trust companies duly authorized to engage in the banking business.

"Enabling Act" means Chapter 194 of the Acts of Assembly of Virginia of 1962 (as presently codified and amended, being Sections 22.1-162 through 22.1-175, inclusive, of Chapter 11, Title 22.1 of the Virginia Code).

"Escrow Fund" means an escrow fund relating to a Series of Refunding Bonds that may be established pursuant to the Related Supplemental Indenture.

"Event of Default" means any of the events enumerated in the section of the Master Indenture entitled "Events of Default; No Acceleration."

"Fitch" means Fitch, Inc., its successor and assigns, and in the event such corporation ceases to rate municipal bonds, any other nationally recognized rating service designated by VPSA.

"Fund" means any fund established pursuant to the terms of the Master Indenture or any Supplemental Indenture.

"General Fund" means the Virginia Public School Authority 1987 General Fund, a special fund created by the 1987 Resolution.

"General Pledge Fund" means the General Pledge Fund established by the Master Indenture.

"Government Obligations" means direct obligations of, or obligations the timely payment of the principal of and the interest on which is unconditionally guaranteed, by, the United States of America, Interest Components of Resolution Funding Corporation Bonds and, if permitted by law, evidences of indirect ownership of such obligations.

"Indebtedness" means Bonds and Other Indebtedness.

"Interest Payment Date" means a date specified in a Supplemental Indenture on which interest on the Related Series of Bonds is scheduled to be paid.

"Interest Requirement" for any Interest Payment Date, as applied to all of the Current Interest Bonds or a portion thereof, means the total of the interest regularly scheduled to become due on such Bonds, if any, on such Interest Payment Date. Interest expense shall be excluded from the definition of Interest Requirement to the extent that proceeds of any Bonds are held by the Trustee to pay such interest. Unless VPSA shall otherwise provide in a Supplemental Indenture, interest expense on Bond Credit Facilities drawn upon to purchase but not to retire Bonds, to the extent such interest exceeds the interest otherwise payable on such Bonds, shall not be included in the determination of an Interest Requirement.

"Investment Obligations" means, to the extent permitted by law:

(a) (i) Government Obligations, and (ii) obligations of state or local government municipal bond issuers, (A) provision for the payment of the principal of and interest on which shall have been made by deposit with an escrow agent or trustee of non-callable Government Obligations the principal of and interest on which when due will be sufficient to pay the principal of and interest on such state or local government municipal obligations when due, (B) which state or local government municipal obligations by their terms or pursuant to an irrevocable determination by the issuer thereof are not subject to redemption other than on a date determined at the time such provision for payment was made and (C) rated by Fitch, Moody's and S&P in the highest category based on the circumstances described in (A) and (B) above, and (iii) bonds, debentures, notes or other obligations issued or guaranteed by any of the following: Federal Farm Credit Banks, Federal Home Loan Banks, Export-Import Bank of the United States, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, or by any other agency which is controlled by or supervised by and acting as an instrumentality of the United States Government and the subject obligations of which are guaranteed as to full and timely payment by the United States of America or are rated by Fitch, Moody's and S&P in their highest rating category;

(b) any repurchase agreement that is with (i) a bank or trust company (including any Depository, Paying Agent and the Trustee and its affiliates), or (ii) a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, in both cases for obligations described in (a) above, a fair market value equal to at least one hundred percent (100%) of the amount of the repurchase obligation, determined not less than weekly, of the bank, trust company or dealer, provided, however, that such obligations purchased must be transferred to the Trustee, a Depository or a third party agent of the Trustee or such Depository by physical delivery or by an entry made on the records of the issuer of such obligations, (ii) the transferee of such obligations must have a perfected first security interest in the collateral, (iii) the collateral must be free and clear of third party liens and not acquired pursuant to another repurchase agreement or a reverse repurchase agreement, (iv) the transferee shall be required by the repurchase agreement to liquidate the collateral immediately should the counterparty fail on demand therefor to deposit additional collateral securities if the market value of the existing collateral falls below the required level; and (v) any investment in a repurchase agreement shall be considered to mature on the date the bank or trust company or dealer providing the repurchase agreement is obligated to repurchase the Investment Obligations;

(c) certificates of deposit issued by, and time deposits in, any bank or savings and loan association organized under the laws of the Commonwealth, any other state of the United States or the United States, including any Depository, any Paying Agent, any Credit Bank and the Trustee; provided that such certificates of deposit or time deposits are (i) insured by the Federal Deposit Insurance Corporation for the full face amount thereof or (ii) to the extent not so insured, collateralized, in the manner required and to the full extent permitted by the Virginia Security for Public Deposits Act (Chapter 23, Title 2 1 of the Virginia Code), such collateral to be held by VPSA, the Trustee or a Depository or a third party acting solely as agent for VPSA, the Trustee or a Depository;

(d) banker's acceptances drawn on and accepted by commercial banks (which may include the Trustee, any Depository and any Credit Provider and any Paying Agent) having a combined capital, surplus and undivided profits of at least $100,000,000;

(e) commercial paper rated by Fitch, Moody's and S&P, or any two of them if such obligations are unrated by the third, in the highest rating category (without regard to gradations or refinements such as "plus" and "minus");

(f) obligations of state or local government municipal bond issuers, the principal of and interest on which, when due and payable, have been insured by a bond insurance company the bonds insured by which are rated by Fitch, Moody's and S&P or any two of them if such obligations are unrated by the third, in one of the two highest rating categories (without regard to numerical or other gradations or refinements such as "plus" and "minus");

(g) obligations of state or local government municipal bond issuers that are rated by Fitch, Moody's and S&P, or any two of them if such obligations are unrated by the third, in one of the two highest rating categories (without regard to numerical or other gradations or refinements such as "plus" and "minus");

(h) investments pursuant to the Government Non-Arbitrage Investment Act, Article 7.1, Chapter 14, Title 2.1 of the Virginia Code; and

(i) provided it or the provider thereof is rated in one of the two highest rating categories by Fitch, Moody's and S&P, or any two of them if such obligations are unrated by the third, in one of the two highest rating categories (without regard to numerical or other gradations or refinements such as "plus" and "minus"), any other investment permitted for the type of money to be invested if VPSA is permitted by applicable law to make or enter into such investment.

Any investment in Investment Obligations described above may be made in the form of an entry made on the records of the issuer of such Investment Obligation. Any reference in the foregoing to a particular rating shall mean the rating as of the purchase date of the Investment Obligation. An investment shall not cease to be an Investment Obligation due to any downgrade of a rating after the purchase date.

"Literary Fund" shall mean the Literary Fund referred to in Article VIII, §8 of the Constitution of Virginia 1971, as amended.

"Local Account" means any Account established pursuant to a Supplemental Indenture in a Fund or Account with respect to a Local Issuer.

"Local Issuance Cost Fund" means the Local Issuance Cost Fund for a Series of Bonds to be established by the Related Supplemental Indenture as provided in the Master Indenture.

"Local School Bond Payments" means the amounts payable by each Local Issuer pursuant to the terms of its Local School Bond.

"Local School Bond Payments Available to Pay Debt Service" means in the case of each Payment Date:

(1) the amount of the principal and interest, if any, that is scheduled to become due and payable on the Local School Bonds during the Applicable Income Period,

plus (2) the amount, if any, of the principal and interest, if any, that is scheduled to become due and payable prior to the Applicable Income Period on the Local School Bonds and that is designated by VPSA, in a Treasurer's Certificate or an Officer's Certificate, for application to debt service on the Bonds in the Applicable Income Period,

less (3) the amount, if any, described in (1) above that has been designated by VPSA, in a Treasurer's Certificate or an Officer's Certificate, for application to debt service on the Bonds subsequent to the Applicable Income Period.

For the purposes of the definition of "Local School Bond Payments Available to Pay Debt Service," "Applicable Income Period" shall mean the period beginning, with respect to each Series of Bonds, on the later of their date of issue and the day after the previous Payment Date and ending on the date that is the applicable Payment Date or if such Date is not a Business Day, the Business Day next preceding such Payment Date.

"Local School Bond(s)" means the general obligation bonds or other obligations issued or entered into by a Local Issuer and acquired by the VPSA or the Trustee solely to finance or refinance Projects pursuant to the Related Agreement and financed with the proceeds of a Series of Bonds and/or other amounts on deposit in the Related Purchase Fund.

"Local Issuer(s)" means counties, cities and towns of the Commonwealth that issue Local School Bonds.

"Majority Owners" means the Owners of at least fifty-one percent (51%) of the aggregate principal amount of the Bonds Outstanding.

"Master Indenture" means this Master Trust Indenture dated as of October 1, 2009, between VPSA and the Trustee, as the same may be modified, altered, amended and supplemented in accordance with its terms by one or more Supplemental Indentures and other Supplemental Indentures.

"Moody's" means Moody's Investors Service, its successor and assigns, and in the event such corporation ceases to rate municipal bonds, any other nationally recognized rating service designated by VPSA.

"Officer's Certificate" means a certificate signed by a VPSA Representative and filed with the Trustee.

"Opinion" or "Opinion of Counsel" means a written opinion of any attorney or firm of attorneys, who or which may be Bond Counsel or counsel for VPSA or the Trustee.

"Optional Tender Bonds" means any Bonds issued under the Master Indenture a feature of which is an option on the part of the Owners of such Bonds to tender to VPSA, or to the Trustee, any Paying Agent or other fiduciary for such Owners, or to an agent of any of the foregoing, all or a portion of such Bonds for payment or purchase.

"Other Indebtedness" means all indebtedness of VPSA for borrowed money other than the Bonds; provided that unless VPSA shall otherwise provide in a Supplemental Indenture, obligations to reimburse Bond Credit Provider for amounts drawn under Bond Credit Facilities to pay the Purchase Price of Optional Tender Bonds shall constitute Other Indebtedness to the extent such obligations exceed the Principal and Interest Requirements with respect to the Bonds held by or pledged to or for the account of a Bond Credit Provider that shall have paid the Purchase Price of Optional Tender Indebtedness.

"Other Resolutions" means the 1987 Resolution, the 1991 Resolution, the 1997 Resolution and any other bond resolution or instrument pursuant to which the Authority shall have issued and there is outstanding Other Indebtedness.

"Outstanding" when used in reference to the Bonds and as of a particular date, means all Bonds authenticated and delivered under the Master Indenture except:

(a) Any Bond canceled or required to be canceled by the Trustee at or before such date;

(b) Any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered under the Master Indenture;

(c) Any Bond deemed paid under the Article entitled "Defeasance" of the Master Indenture except that any such Bond shall be considered Outstanding until its maturity or redemption date only for the purpose of actually being paid and for purposes of the articles entitled "General Terms and Conditions of Bonds" and "Redemption of Bonds" and the section entitled "Payment of Bonds" of the Master Indenture (or the corresponding provisions of the Related Supplemental Indenture, as the case may be); and

(d) Any Bond not deemed Outstanding under, but only to the extent provided for in, the section of the Master Indenture entitled "Supplemental Indentures Requiring Consent," which provides that Bonds owned or held by or for the account of VPSA or any Person controlling, controlled by or under common control with VPSA shall not be deemed Outstanding for the purpose of consent or any calculation of Outstanding Bonds provided for in the article of the Master Indenture entitled "Supplemental Indentures."

"Owner" means the registered owner of any Bond.

"Paying Agent" or "Paying Agents" means any paying agent(s) for the Bonds (which may include the Trustee) and any successor or successors as paying agent(s) appointed pursuant to the Master Indenture or the provisions of any Supplemental Indenture. Unless otherwise provided in a Supplemental Indenture, the Trustee shall be the Paying Agent.

"Payment Date" means a date that is an Interest Payment Date, or a Principal Payment Date or both.

"Person" means an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

"Principal" means the principal amount of a Bond payable in satisfaction of an Amortization Requirement, if applicable, or at maturity.

"Principal and Interest Requirements" for any Payment Date or for any period means the sum of the Principal Requirements and the Interest Requirements for such date or such period, respectively.

"Principal Payment Date" means the date upon which the principal amount of any Bond is stated to mature or upon which the principal of any Term Bond is subject to redemption in satisfaction of an Amortization Requirement as may be provided by the Related Supplemental Indenture.

"Principal Requirement" means for any Principal Payment Date, as applied to all Bonds or a portion thereof, the total of the principal regularly scheduled to become due on such Principal Payment Date.

"Project(s)" means capital projects for schools that qualify for School Tax Credit Bond financing.

"Purchase Fund" means the Purchase Fund for a Series of Bonds to be established by the Related Supplemental Indenture as provided in the Master Indenture.

"Purchase Price" means the purchase price established in any Supplemental Indenture for Optional Tender Bonds as the purchase price to be paid for such Bonds upon an optional or mandatory tender of all or a portion of such Bonds.

"Rating Agency" means, with respect to each Series of Bonds, Fitch, Moody's and S&P and any other nationally-recognized credit rating agency specified in the Related Supplemental Indenture, so long as any such rating agency, at the request of VPSA, rates such Bonds.

"Rebate Amount" means the rebate liability of VPSA and/or the Related Local Issuers under Sections 54A and 148 of the Code (including any "yield reduction payments") with respect to any Series of Bonds as may be calculated or specified (including with such reserves or error margin as VPSA may deem appropriate) in accordance with the Related Supplemental Indenture or the Related Tax Regulatory Agreement.

"Refunding Bonds" shall have the meaning set forth in the section of the Master Indenture entitled "Conditions of Issuing a Series of Bonds."

"Reimbursement Fund" means the Reimbursement Fund established by the Master Indenture.

"Reimbursement Obligations" means any reimbursement or payment obligations of VPSA for which moneys in the Reimbursement Fund are pledged or payable pursuant to the provisions of the Master Indenture or any Supplemental Indenture, and shall include the obligation to provide for the subrogation rights of the Literary Fund and the general fund of the Commonwealth and entitlement to the full recovery of any amounts paid to VPSA pursuant to Section 22.1-167.2 of the Virginia Code.

"Related," as the context may require, means related to a particular Series of Bonds.

"Revenue Fund" means the Revenue Fund established by the Master Indenture.

"Revenues" means (i) the Local School Bond Payments, (ii) any amounts obtained through the State Aid Intercept Provision invoked in connection with any Local School Bond, (iii) investment earnings on amounts in the Revenue Fund and the Debt Service Fund, (iv) any amounts received pursuant to any current Appropriation Act Provision, and (v) any or all other revenues that are identified and pledged as Revenues pursuant to a Supplemental Indenture and the Enabling Act.

"S&P" means Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc., its successor and assigns, and in the event such corporation ceases to rate municipal bonds, any other nationally recognized rating service designated by VPSA.

"School Tax Credit Bonds" means qualified zone academy bonds and qualified school construction bonds as defined in Sections 54E and 54F, respectively, of the Code.

"Secretary of Finance Certificate" means a certificate, signed by the Secretary of Finance of the Commonwealth, that (i) the current Appropriation Act Provision, (ii) any future Appropriation Act Provision, and (iii), if the date of the certificate is subsequent to December 20 of one year and prior to July 1 in the following calendar year, any Budget Bill contains a "sum sufficient appropriation" from the Literary Fund and, to the extent that funds are not available therein for such purpose, from the general fund of the Commonwealth, to pay the difference between Principal and Interest Requirements with respect to the Bonds in such fiscal year(s) covered by such Appropriation Act Provision or Budget Bill and the amount available to meet such Principal and Interest Requirements.

For purpose of the foregoing Certificate of the Secretary of Finance,

(a) "current Appropriation Act Provision" shall mean a sum sufficient appropriation contained in an Appropriation Act that has the force of law at the date of the certificate,

(b) "future Appropriation Act Provision" shall mean a sum sufficient appropriation contained in an Appropriation Act that will have the force of law on a future date,

(c) "Budget Bill" shall mean the bill or bills submitted by the Governor to the General Assembly (but not yet enacted into law) that would appropriate the public revenue of the Commonwealth for a biennium or amend provisions of a current Appropriation Act, as such bill or bills may exist on the date of the certificate, and

(d) "sum sufficient appropriation" shall mean in the case of any Appropriation Act or Budget Bill the appropriation of amounts sufficient, whether the amount is specified directly or indirectly or by formula or otherwise, that in the judgment of the Secretary of Finance are sufficient to cure any deficiency in the amounts received by VPSA from payments on the Local School Bonds and from the implementation of the State-Aid Intercept Provision, when compared to the Principal and Interest Requirements with respect to the Bonds on any Payment Date, in each of the fiscal years covered by the Appropriation Act or Budget Bill.

"Serial Bonds" means the Bonds of a Series that are stated to mature in semiannual or annual installments and that are so designated in the Related Supplemental Indenture.

"Series" means all of the Bonds of a particular series authenticated and delivered pursuant to the Master Indenture and the Related Supplemental Indenture and identified as such pursuant to such Supplemental Indenture, and any Bonds of such Series thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Master Indenture and such Supplemental Indenture, regardless of variations in maturity, interest rate, sinking fund installments or other provisions.

"Specified Tax Credit Bonds" means a specified tax credit bond as defined in Section 6431 of the Code.

"State-Aid Intercept Provision" means the state-aid intercept provided to holders of general obligation bonds of Virginia counties, cities and towns under Section 15.2-2659 of the Virginia Code.

"Supplemental Indenture" means any indenture supplementary or amendatory of the Master Indenture or any Supplemental Indenture, including a Supplemental Indenture providing for the issuance of a Series of Bonds, as such Supplemental Indenture may be modified, altered, amended and supplemented in accordance with the provisions of the Master Indenture.

"Tax Regulatory Agreement" means, with respect to any Series of Bonds, the Tax Certificate and Regulatory Agreement, dated the date of the issuance of the Related Series of Bonds, between VPSA and the Trustee, or any similar certificate, agreement or instrument as the same may be modified, altered, amended or supplemented pursuant to its terms.

"Term Bonds" means all or some of the Bonds of a Series, other than Serial Bonds, that shall be stated to mature on one or more dates and that are so designated in the Related Supplemental Indenture.

"Treasurer's Certificate" means a certificate, signed by the State Treasurer, setting forth with reference to each Payment Date to and including the last stated Principal Payment Date on the Bonds then outstanding and the Bonds then to be issued,

(a) the Local School Bond Payments Available to Pay Debt Service (excluding the principal and interest, if any, on the Local School Bonds the issuer of which is then, to the knowledge of the State Treasurer, in default in the payment of principal or interest, if any, on any general obligation bond), and

(b) the sum of (i) the Principal and Interest Requirements on account of the Bonds of each Series then outstanding under the Master Indenture, and (ii) the Principal and Interest Requirements for the Bonds then to be issued, and stating that the result of dividing the sum of the amounts described in paragraph (a) for each such Date by the sum set forth in paragraph (b) for the same Date is at least one hundred percent (100%) on each such Date.

"Trustee" means U.S. Bank National Association, and its successors serving in the same capacity under the Master Indenture.

"Variable Rate Bonds" means any Bonds the interest rate on which is not established, at the time such Bonds are issued, at a single numerical rate for the entire term of the Bonds.

"Virginia Code" means the Code of Virginia of 1950, as amended.

"VPSA" means the Virginia Public School Authority, a public body corporate and an agency and instrumentality of the Commonwealth of Virginia.

"VPSA Issuance Cost Fund" means the VPSA Issuance Cost Fund for a Series of Bonds to be established by the Related Supplemental Indenture as provided in the Master Indenture.

"VPSA Representative" means any of the Secretary/Treasurer or Assistant Secretary/Treasurer of VPSA and any other member, officer or employee of VPSA authorized by resolution of the Board to perform the action or sign the document in question.

Establishment of Trust

Security for Bonds. (a) In order to provide for the payment of the principal of and the premium and interest, if any, on the Bonds of all Series issued hereunder, and to secure the performance of all of the obligations of VPSA with respect to the Bonds, the Master Indenture and the Supplemental Indentures, subject to the terms thereof, VPSA pledges and grants to the Trustee a security interest in the following:

(i) All of the Revenues;

(ii) The Local School Bonds and Agreements;

(iii) The amounts, money, investments and Credit Facilities, if any, held by the Trustee and the Paying Agent pursuant to the terms of the Master Indenture in the Revenue Fund, the Debt Service Fund and the General Pledge Fund; and

(iv) All other property of any kind mortgaged, pledged or hypothecated as permitted under the Enabling Act to provide for the payment of or to secure the Bonds of any or all Series by VPSA or by anyone on its behalf and with its written consent at any time as and for additional security under the Master Indenture and the Supplemental Indentures in favor of the Trustee, which is authorized to receive all such property at any time and to hold and apply it subject to the terms of the Master Indenture and the Supplemental Indentures.

(b) Any of the Revenues, Funds and Accounts or other property described above that is received or held by the Trustee is to be held in trust for the equal and proportionate benefit and security of the Owners from time to time of the Bonds of all Series, except as otherwise provided in, and subject to its application in accordance with the terms of, the Master Indenture and the Supplemental Indentures.

License. Unless otherwise provided in the Related Supplemental Indenture in respect of a Series of Bonds, VPSA reserves the right and license to enjoy and enforce VPSA's rights under the Local School Bonds and Agreements so long as no Event of Default with respect to the Bonds shall have occurred and be continuing. So long as the license is extant and VPSA has not directed otherwise, the Trustee agrees to hold the Local School Bonds and receive the Local School Bond Payments and apply them in accordance with the Master Indenture and the Supplemental Indentures.

Bond Credit Facility. Any Bond Credit Facility which is given to secure some, but not all, of the Bonds, together with money drawn or paid under it, shall be held by the Trustee solely as security for the Bonds to which such Bond Credit Facility is Related. Neither such Bond Credit Facility nor any money drawn or paid under it will secure the payment of any other Bonds.

Issuance of Bonds

All Bonds of each Series issued and to be issued under the Master Indenture, respectively, are and are to be, to the extent provided in and subject to the Master Indenture and the Related Supplemental Indenture, equally and ratably secured by the Master Indenture and the Related Supplemental Indenture without preference, priority or distinction on account of the actual time or times of the authentication or delivery or maturity or redemption of the Bonds of such Series, or any of them. Therefore, subject to the provisions of the Master Indenture and the Related Supplemental Indenture, all Bonds of any Series at any time Outstanding under the Master Indenture and the Related Supplemental Indenture shall have the same right, lien and preference under and by virtue of the Master Indenture and the Related Supplemental Indenture and shall all be equally and ratably secured with all other Bonds of each Series with like effect as if they had all been simultaneously executed, authenticated and delivered.

In connection with the issuance of additional Bonds, VPSA is required to file, among other things, the following documents with the Trustee:

(a) An original executed counterpart of the Related Supplemental Indenture which may include provisions (i) authorizing the issuance, fixing the principal amount and setting forth the details of the Bonds of the Series then to be issued, the interest rate or rates, if any, and the manner in which the Bonds are to bear interest, if any, the Principal and Interest Payment Dates of the Bonds, the purposes for which the Bonds are being issued, the date and the manner of numbering the Bonds, the series designation, the denominations, the maturity dates and amounts, the Amortization Requirements or the manner for determining such Amortization Requirements, and any other provisions for redemption before maturity; (ii) for Bond Credit Facilities for the Series and for Local Accounts and other Accounts and subaccounts to be established with respect to the Bonds within the Funds and Accounts established under the Master Indenture; (iii) for the application of the proceeds of the Bonds of the Series; (iv) necessary or expedient for the issuance of Bonds constituting Variable Rate Bonds or Optional Tender Bonds, including without limitation, tender and remarketing provisions, liquidity facility provisions and provisions for establishing the variable rate and changing interest rate modes; (v) for such other matters as VPSA may deem appropriate;

(b) A certified copy of each resolution adopted by the Board authorizing the execution and delivery of the Related Supplemental Indenture and any Related Reimbursement Obligation and the issuance, sale, execution and delivery of the Series of Bonds then to be issued;

(c) Original executed counterparts of the Related Tax Regulatory Agreement, any Related Bond Credit Facility and any Related Reimbursement Obligation;

(d) A Treasurer's Certificate dated the date of delivery of the Bonds of the Series then to be issued;

(e) A Secretary of Finance Certificate dated the date of delivery of the Bonds of the Series then to be issued;

(f) If the Bonds of the Series then to be issued are to be issued to refund Bonds issued and Outstanding under the Master Indenture or Other Indebtedness ("Refunding Bonds"):

(1) Evidence satisfactory to the Trustee that VPSA has made provision as required by the Master Indenture for the payment or redemption of all Bonds or Other Indebtedness to be refunded; and

(2) A written determination by a knowledgeable professional, including VPSA's financial advisor but excluding any employee of VPSA, or by a firm of independent certified public accountants that the proceeds (excluding accrued interest) of the Refunding Bonds, together with any other money to be deposited for such purpose with the Trustee in the Related Escrow Fund or otherwise upon the issuance of the Refunding Bonds and the investment income to be earned on funds held by the Trustee for the payment or redemption of Bonds or Other Indebtedness to be refunded, will be sufficient to pay, whether upon redemption or at maturity, the principal of and premium, if any, and interest on the Bonds or Other Indebtedness to be refunded and the estimated expenses incident to the refunding.

(g) An opinion of Bond Counsel to the effect that the Bonds of the Series then to be issued have been duly authorized, that all conditions precedent to the issuance thereof have been fulfilled and, that the Bonds are valid and legally binding limited obligations of VPSA, and are secured by the Master Indenture and the Related Supplemental Indenture to the extent provided herein and therein;

(h) An Officer's Certificate, dated the date of delivery of the Bonds of the Series then to be issued, to the effect that to the best of the knowledge of the signatory, upon and immediately following such delivery, no Event of Default under the Master Indenture or any Supplemental Indenture with respect to any Series of Bonds Outstanding will have occurred and be continuing;

(i) A written order and authorization to the Paying Agent on behalf of VPSA, signed by a VPSA Representative, to authenticate and deliver the Bonds of the Series then to be issued to or upon the order of the purchaser or purchasers therein identified upon payment to the Trustee of the purchase price (including accrued interest, if any) of such Series of Bonds;

(j) an Opinion or Opinions of Counsel, which may be the Attorney General or an Assistant Attorney General of the Commonwealth, subject to customary exceptions and qualifications, to the effect that the issuance of such additional Bonds has been duly authorized, that all conditions precedent to the delivery of such Bonds have been fulfilled, and that no legislation that amends the provisions of the Enabling Act in a way that would adversely affect the power of VPSA to discharge its covenant in the section of the Master Indenture entitled "Covenant to Request Sum Sufficient Appropriation" has been enacted; and

(k) Any additional document or instrument specified in the Related Supplemental Indenture.

Modification of Certain Definitions. (a) In the case of the following described types of Bonds, the provisions for preparing and delivering a Treasurer's Certificate shall be modified as follows:

(1) Optional Tender Indebtedness. If any of the Outstanding Bonds or additional Bonds of the Series to be issued or of the outstanding Local School Bonds or Local School Bonds to be purchased constitute Optional Tender Bonds, then (i) for purposes of the amounts to be shown in accordance with subsection (e) of the section of the Master Indenture entitled "Conditions of Issuing a Series of Bonds," the options of the Owners of such Bonds to tender the same for payment prior to their stated maturity or maturities shall be ignored, (ii) if such Bonds also constitute Variable Rate Bonds, VPSA shall adjust such amounts to be shown in accordance with subsection (e) of the section of the Master Indenture entitled "Conditions of Issuing a Series of Bonds" as provided in paragraph (2) below, (iii) such additional Bonds shall have been rated in one of the three highest rating categories (without reference to gradations such as "plus" or "minus") by Fitch or Moody's or S&P, and (iv) any obligation VPSA may have, other than its obligation on such additional Bonds (which need not be uniform as to all Owners thereof), to reimburse any Person for its having extended a Bond Credit Facility or a bond insurance policy, or similar arrangement shall be subordinated to the obligation of VPSA on the Bonds and be payable in accordance with the provisions of the Master Indenture or from funds otherwise made available to VPSA.

(2) Variable Rate Indebtedness. If any of the Outstanding Bonds or Bonds of the Series then to be issued constitute Variable Rate Bonds, then for purposes of the amounts to be shown in accordance with subsection (e) of the section of the Master Indenture entitled "Conditions of Issuing a Series of Bonds," the interest rate used in such computation shall be (i) in the case of Bonds, the greater of (1) the interest rate on any additional Bonds being issued as Variable Rate Bonds for the first period of calculation of such interest and (2) the weighted average interest rate at which it is assumed that VPSA could reasonably expect to have borrowed on the date of issuance of such Bonds by issuing such Bonds with a fixed rate or rates of interest, such reasonable expectations being established by a certificate of the State Treasurer and a letter of a banking or investment banking or financial advisory institution knowledgeable in financial matters relating to VPSA, confirming the interest rate assumption as reasonable. The conversion of Bonds constituting Variable Rate Indebtedness to bear interest at fixed rate or rates or the conversion of such Bonds from Serial Bonds to Term Bonds or vice-versa, in accordance with their terms, shall not constitute a new issuance of Bonds under the Master Indenture.

(b) The requirements and provisions of the Master Indenture governing Treasurer's Certificates shall also be modified as set forth in subsection (a) above as may be necessary or appropriate for Local School Bonds that are or will be Related to Optional Tender Bonds or Variable Rate Bonds.

Establishment of Funds and Accounts

The following funds are established under the Master Indenture as follows:

Establishment and Custody of Pledged Funds for All Series of Bonds.

With respect to and for the benefit of all Bonds there is established to be held by the Trustee the Revenue Fund, in which there will be established a separate Account for each Series of Bonds pursuant to the Related Supplemental Indenture, the Debt Service Fund and the General Pledge Fund. As provided in the Master Indenture, the Revenue Fund, the Debt Service Fund and the General Pledge Fund are pledged, subject to the limitations of the Master Indenture, as security for all Bonds issued and Outstanding under the Master Indenture.

Establishment and Custody of Non-Pledged Funds for Each Series of Bonds. Unless otherwise provided in the Related Supplemental Indenture, the following Funds are to be established in the Related Supplemental Indenture and held by or at the direction of VPSA with respect to each Series of Bonds:

(1) VPSA Issuance Cost Fund;
(2) Local Issuance Cost Fund; and
(3) Purchase Fund.

Unless otherwise provided in the Related Supplemental Indenture, no Fund described in this section is pledged as security for payment of any Bonds of any Series.

Establishment and Custody of Certain Special Funds. There is established with the Trustee the Reimbursement Fund to be held and applied in accordance with the section of the Master Indenture entitled "Operation of General Fund." Amounts held to the credit of the Reimbursement Fund may be pledged to secure a Reimbursement Obligation pursuant to a Supplemental Indenture, but neither the Reimbursement Fund nor any amounts therein shall be pledged to secure the Bonds.

VPSA may establish with the Trustee or an escrow agent satisfactory to the Trustee in connection with the issuance of any Series of Refunding Bonds an Escrow Fund to provide for the application and investment of the portion of the proceeds of such Series to be used to refund the refunded Bonds or Other Indebtedness.

General Operation of Pledged Funds, Reimbursement Fund and General Fund

Operation of Revenue Fund. (a) The Trustee shall promptly deposit and hold in each Account of the Revenue Fund the Related Local School Bond Payments and any other amounts transferred to such Account from other Funds and Accounts or other sources as provided under the Master Indenture or the Related Supplemental Indenture. On each Deposit Day on any Series of the Bonds, the Trustee shall make transfers from the Related Account within the Revenue Fund in the amounts and in the order of priority set forth below:

(1) First, to the Debt Service Fund the amount, if any, required so that the balance therein shall equal the amount of principal, premium and interest due on the next succeeding Payment Date on the applicable Series of Bonds; and

(2) Second, to the Reimbursement Fund, such amount, if any, of any balance remaining in the Related Account of the Revenue Fund after making the deposit described under (1) above (or the entire balance if less than the required amount) as may be required by the Related Supplemental Indenture applicable to outstanding Reimbursement Obligations; and

(3) Third, as provided in the Related Supplemental Indenture or as requested by a VPSA Representative, to the General Fund the balance in the Related Account of the Revenue Fund less any amount required to be retained in such Related Account for application to debt service on the Bonds on future Payment Dates.

(b) If a payment default shall occur on any Local School Bond and if the amount of such defaulted payment shall not have been recovered from the invocation of the State-Aid Intercept Provision as of the date that is five Business Days prior to a Deposit Day, then the Treasurer of VPSA (i) shall file a warrant with the State Treasurer requesting that an amount equal to such deficiency be made available to VPSA from the moneys appropriated by the General Assembly and (ii) shall deposit such moneys immediately upon receipt thereof into the Related Account of the Reserve Fund.

(c) Notwithstanding anything to the contrary herein, VPSA may provide in a Supplemental Indenture Related to a Series of Bonds for the periodic credit to or disbursement of investment earnings on the Related Account of the Revenue Fund to the Related Local Issuers.

Operation of Debt Service Fund. The Trustee shall promptly deposit the following amounts in the Debt Service Fund:

(1) All amounts required to be transferred to the Debt Service Fund with respect to a Series of Bonds from the Related Account within the Revenue Fund pursuant to subsection (a)(1) of the section of the Master Indenture entitled "Operation of Revenue Fund;" and

(2) Any other amounts required to be paid to the Debt Service Fund or otherwise made available for deposit therein by any Local Issuer, the Commonwealth, or VPSA as provided in a Supplemental Indenture.

The Trustee shall pay out of the Debt Service Fund to the Paying Agents for the Bonds (i) on each Interest Payment Date, the amount required for the payment of interest on the Bonds then due and (ii) on any redemption date, the amount required for the payment of accrued interest on the Bonds to be redeemed unless the payment of such accrued interest shall be otherwise provided for, and such amounts shall be applied by the Paying Agents to such payment. The Trustee shall also pay out of the Debt Service Fund the accrued interest included in the purchase price of the Bonds of any Series purchased for retirement pursuant to the Master Indenture.

The Trustee shall pay out of the Debt Service Fund to the Paying Agents for the Bonds on each Principal Payment Date and redemption date for the Bonds, the amounts then required for the payment of such principal or redemption price, and such amounts shall be applied by the Paying Agents to such payments.

Operation of General Pledge Fund.

(a) All Local School Bonds that are

(1) Purchased from moneys held for the credit of a Purchase Fund, or

(2) If so provided by resolution of VPSA

(A) Purchased from moneys held for the credit of the General Fund, or

(B) Transferred from funds or accounts held under Other Resolutions

shall be delivered to, and held in trust by, the Trustee for the credit of the General Pledge Fund.

(b) Unless otherwise provided by resolution of VPSA, all principal, interest and redemption premium components of the Local School Bonds that are purchased from moneys held for the credit of a Purchase Fund shall be credited, pledged and assigned to the General Pledge Fund. VPSA grants security interests in favor of the holders from time to time of the Bonds issued and outstanding under the Master Indenture in such principal, interest and redemption premium components of such Local School Bonds, the receipts therefrom and the proceeds thereof. If so provided by resolution of VPSA, further grants and confirms security interest in favor of the holders from time to time of the Bonds issued and outstanding under the Master Indenture in the principal, interest and redemption premium components, the receipts and the proceeds of the Local School Bonds that are

(i) purchased from moneys held for the credit of the General Fund, or

(ii) transferred from funds or accounts held under Other Resolutions or from a special account within the General Pledge fund

and credited , pledged and assigned to the General Pledge Fund.

(c) VPSA may, by resolution, designate that all or a portion of the components of the Local School Bonds shall be credited, pledged and assigned to special subaccounts and may grant security interest in such portion or portions, the receipts therefrom and the proceeds thereof for the benefit of certain but not all the holders of Bonds or Series or maturities or Bonds within maturities thereof as shown on the records of the Trustee.

Operation of Reimbursement Fund. (a) Moneys held for the credit of the Reimbursement Fund shall be paid out by the Trustee pursuant to a Supplemental Indenture or at the direction of a VPSA Representative as necessary to enable VPSA to meet its Reimbursement Obligations.

(b) VPSA may, pursuant to a Supplemental Indenture, deem all or any portions of any potential Rebate Amount to be a Reimbursement Obligation and the Treasurer of VPSA may cause the Trustee to set aside in a special Account in the Reimbursement Fund all or any portion of such potential liability from any moneys credited to such Fund and not otherwise pledged.

Operation of General Fund. Subject to the provisions of the 1987 Resolution, moneys in the General Fund shall be disbursed only for the purposes of purchasing Local School Bonds or providing funds for any other authorized purpose of VPSA.

General Operation of Non-Pledged Funds

VPSA Issuance Cost Funds. There shall be deposited in each VPSA Issuance Cost Fund the portion of the proceeds of the Related Series of Bonds and such other amounts as may be specified in the Related Supplemental Indenture. VPSA shall use such amounts to pay costs of issuance incurred in connection with the issuance of the Related Series of Bonds. Upon the filing with the Trustee of an Officer's Certificate that no further costs of issuance are to be paid from a VPSA Issuance Cost Fund, VPSA shall transfer any amounts remaining on deposit in such Fund to the Revenue Fund, the Related Purchase Fund and/or another Fund or Account established hereunder as may be authorized or directed by the Related Supplemental Indenture or Tax Regulatory Agreement. Investment earnings on a VPSA Issuance Cost Fund may be transferred therefrom periodically as provided in the Related Supplemental Indenture and Tax Regulatory Agreement.

Local Issuance Cost Funds. There shall be deposited in each Local Issuance Cost Fund the portion of proceeds of the Related Series of Bonds and such other amounts as may be specified in the Related Supplemental Indenture. Each Related Locality may cause the Trustee to disburse amounts on deposit in such Local Issuance Cost Fund in accordance with the provisions of the Related Agreement. Upon the filing with the Trustee of an Officer's Certificate that no further costs of issuance are to be paid from a Local Issuance Cost Fund, VPSA shall transfer any amounts remaining on deposit in such Fund to the Revenue Fund, the Related Purchase Fund and/or another Fund or Account established hereunder as may be authorized or directed by the Related Supplemental Indenture or Tax Regulatory Agreement. Investment earnings on a Local Issuance Cost Fund may be transferred therefrom periodically as provided in the Related Supplemental Indenture and Tax Regulatory Agreement.

Purchase Funds; Purchase and Sale of Local School Bonds. (a) There shall be deposited into each Purchase Fund such portion of the proceeds of the Related Series of Bonds and other amounts as may be specified in the Related Supplemental Indenture. VPSA shall use amounts in each Purchase Fund to acquire Related Local School Bonds in accordance with the specific requirements of the Related Supplemental Indenture, Tax Regulatory Agreement and Related Agreements. Upon the filing with the Trustee of an Officer's Certificate that no additional Local School Bonds are to be acquired or principal advances made thereon from amounts in an Purchase Fund, VPSA shall transfer any amounts remaining on deposit in such Fund to the Revenue Fund and/or another Fund or Account established hereunder as may be authorized or directed by the Related Supplemental Indenture or Tax Regulatory Agreement. Investment earnings in a Purchase Fund may be transferred periodically therefrom as provided in the Related Supplemental Indenture and Tax Regulatory Agreement.

(b) The Treasurer of VPSA shall cause the purchase of the Related Local School Bonds from moneys held to the credit of each Purchase Fund, subject to the provisions of the Enabling Act, the Related Supplemental Indenture and the rules and regulations of VPSA. All Local School Bonds so purchased must constitute valid and binding general obligations of the Local Issuer for the payment of which the full faith and credit of such Local Issuer are pledged and all taxable property within the boundaries of the Local Issuer must be subject to the levy of an ad valorem tax, without limitation on rate or amount, for the payment of such Local School Bonds and the interest thereon. Such Local School Bonds must be accompanied by the approving opinion of a firm of recognized municipal bond attorneys acceptable to VPSA. No prepayment of such Local School Bonds shall be permitted except with the permission of VPSA, and such permission shall be in the sole discretion of VPSA.

(c) The Treasurer of VPSA may sell or otherwise dispose of Local School Bonds as the Board by resolution may authorize and direct, with such consideration or without consideration as the Board shall determine in such resolution to be in the best interest of VPSA, for the purposes, by way of illustration and not limitation, of financing the purchase of other Local School Bonds and redeeming any Bonds or Other Indebtedness as permitted by the Master Indenture provided, however, that no Local School Bonds shall be sold or otherwise disposed of unless, following such sale or other disposition, the Local School Bond Available for Debt Service on each Payment Date thereafter is not less than Interest Requirement, Principal Requirements or Principal and Interest Requirements, respectively, on each such Date. The proceeds (excluding accrued interest) from any such sale may be used for such lawful purpose of VPSA as the Board may by resolution provide.

Investments

All amounts deposited with VPSA or the Trustee under the Master Indenture in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency shall be continuously held in bank accounts which are secured for the benefit of VPSA and the Owners of the Bonds in the manner required and to the full extent permitted by the Virginia Security for Public Deposits Act, Chapter 44, Title 2.2 of the Virginia Code, or any successor provision of law; provided, however, that it shall not be necessary for the Paying Agent to give security for the deposit of any amounts with it for the payment of the principal of or premium, if any, or interest on any Bonds issued under the Master Indenture, or for any Person to give security for any investments described in the section titled "Permitted Investments" in the Master Indenture below purchased under the provisions of this section as an investment of such amounts.

Subject to the provisions of any Supplemental Indenture, any amounts held in any Funds and Accounts established by the Master Indenture or any Supplemental Indenture may be separately invested and reinvested by the Trustee, at the request of and as directed in writing by a VPSA Representative, in any investments which are at the time legal investments for public funds of the type to be invested under Virginia law, including without limitation the Act and the Investment of Public Funds Act, Chapter 45, Title 2.2 of the Virginia Code, or any successor provision of law.

Subject to the provisions of any Supplemental Indenture, all investments shall be held by or under the control of the Trustee or VPSA, as the case may be, and while so held shall be deemed a part of the Fund or Account in which the amounts were originally held. The Trustee and VPSA shall sell and reduce to cash a sufficient amount of investments whenever the cash balance in any Fund or Account is insufficient for its purposes.

Unless otherwise provided in a Supplemental Indenture, VPSA or the Trustee shall value the investments in each Fund and Account established under the Master Indenture or any Supplemental Indenture and held by it or at its direction as of the last Business Day of each month, at the lower of cost or fair market value of such investments, plus accrued interest.

The Trustee may make investments permitted by the section titled "Permitted Investments" in the Master Indenture through its own trust or bond department.

Particular Covenants.

Payment of Bonds. VPSA covenants to perform its obligations as provided in the Master Indenture, any Supplemental Indenture, each Series of Bonds and related documents and to pay the Bonds, but only from revenues, moneys and other property specifically pledged for such purposes.

Records and Accounts; Inspections and Reports. VPSA covenants that it will keep accurate records and accounts of the funds collected and of the application of such funds. Such records and accounts shall be open at all reasonable times to the inspection of the Bondholders and their agents and representatives.

VPSA further covenants that promptly after the close of each 12 months period ended June 30 it will exert its best efforts to cause an audit of the books and accounts of VPSA for the preceding such 12 months period to be made by the State Auditor of Public Accounts, if required by law, or by an independent firm of certified public accountants of recognized ability and standing to be chosen by VPSA with the approval of the State Treasurer. VPSA shall make available to the State Auditor of Public Accounts or to such accountants, as the case may be, all its books and records pertaining to VPSA. Prior to January 1 following each twelve months period ended June 30 reports of each such audit shall be filed with VPSA and the State Treasurer. Each such audit report shall set forth a brief description of any Bonds or other Indebtedness issued, incurred, paid, purchased or redeemed.

VPSA further covenants that, as often as may be requested, it will furnish to the owner of any Bond issued hereunder such other information concerning VPSA as any of them may reasonably request.

Covenants with Bond Credit Providers. VPSA may make such covenants as it may in its sole discretion determine to be appropriate with any Bond Credit Provider that shall agree to provide for Bonds of any one or more Series a Bond Credit Facility that shall enhance the security or the value of such Bonds and thereby reduce the Principal and Interest Requirements on such Bonds. Such covenants may be set forth in the Related Supplemental Indenture or other Supplemental Indenture and shall be binding on VPSA, the Trustee, the Paying Agents and the Owners of the Bonds the same as if such covenants were set forth in full in the Master Indenture.

Covenant to Request Sum Sufficient Appropriation. In order to provide additional assurance of the timely payment of the debt service on the Bonds, VPSA covenants that it will cause its Chairman, annually, on or before December 1, to make and deliver to the Governor and the Secretary of Finance, a certificate (i) setting forth an estimate of the total Principal and Interest Requirements in each of the next two fiscal years with respect to (A) Bonds issued and outstanding and (B) Bonds projected to be issued during such two fiscal years and (ii) requesting inclusion in the Budget Bill(s) be presented by the Governor to the next regular session of the General Assembly an appropriation from available monies in the Literary Fund and, to the extent that funds are not available therein for the purpose, from the general fund of the Commonwealth of a sum sufficient to pay the difference between (A) Principal and Interest Requirements with respect to the Bonds in the fiscal year(s) covered by such Bill(s) and (B) the amounts paid on, or realized from the invocation of the State-Aid Intercept Provision to, the Local School Bonds credited to the General Pledge Fund.

Covenant to Enforce State Aid Intercept. VPSA covenants that it will promptly take any and all action available to it under the laws of the Commonwealth, including invoking the State-Aid Intercept Provision, to secure payment of the principal of and the premium and interest, if any, on the Local School Bonds credited to the General Pledge Fund, if payment of such principal, premium and interest shall not be made when the same shall become due and payable.

Defeasance. If VPSA shall pay or provide for the payment of the entire indebtedness on all Bonds Outstanding in any one or more of the following ways: (1) by paying or causing to be paid the principal of and premium, if any, and interest on all Bonds Outstanding, as and when the same become due and payable; (2) by delivering all Bonds Outstanding to the Trustee for cancellation; or (3) by depositing with the Trustee (or an escrow agent acceptable to the Trustee), in trust, cash and/or Defeasance Obligations in such amount as will, together with the income or increment to accrue thereon (the "Defeasance Amount"), be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Bonds Outstanding at or before their respective maturity dates, without consideration of any reinvestment of the Defeasance Amount, as shall be verified to the Trustee's satisfaction; and if VPSA shall pay or provide for the payment of (on the date of defeasance or over time) all other sums payable hereunder by VPSA, and if any of the Bonds Outstanding are to be redeemed before their maturity, notice of such redemption shall have been given as provided in the Master Indenture (and the corresponding sections of the Supplemental Indentures) or provisions satisfactory to the Trustee shall have been made for the giving of such notice, the Master Indenture and the estate and rights granted hereunder (except for the provisions of the articles entitled "General Terms and Conditions of Bonds" and "Redemption of Bonds" and the section entitled "Payment of Bonds" of the Master Indenture) in the Master Indenture shall cease, determine, and become null and void. Thereupon the Trustee shall, upon receipt by the Trustee of an Officer's Certificate and an opinion of Bond Counsel, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Master Indenture as provided above have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Master Indenture except for the provisions, the corresponding sections of the Supplemental Indentures, and the lien thereof.

Provision for Payment of Particular Bonds. If VPSA shall pay or provide for the payment of the entire indebtedness on particular Bonds in any one or more of the following ways: (1) by paying or causing to be paid the principal of and premium, if any, and interest on such Bonds, as and when the same shall become due and payable; (2) by delivering such Bonds to the Trustee for cancellation; or (3) by depositing with the Trustee (or an escrow agent acceptable to the Trustee), in trust, cash and/or Defeasance Obligations in such amount as will, together with the income or increment to accrue thereon (the "Payment Amount"), be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on such Bonds at or before their respective maturity dates, without consideration of any reinvestment of the Payment Amount, as shall be verified to the Trustee's satisfaction; and if

VPSA shall also pay or provide for the payment of all other sums payable hereunder by VPSA with respect to such Bonds, and, if such Bonds are to be redeemed before their maturity, notice of such redemption shall have been given as provided in the article entitled "Redemption of Bonds" of the Master Indenture (or the corresponding provisions of the Related Supplemental Indentures) or provisions satisfactory to the Trustee shall have been made for the giving of such notice, such Bonds shall cease to be entitled to any lien, benefit or security under the Master Indenture. The liability of VPSA under such Bonds shall continue but their Owners shall thereafter be entitled to payment (to the exclusion of all other Owners) only out of the cash and/or Defeasance Obligations deposited with the Trustee (or an escrow agent acceptable to the Trustee) as aforesaid.

VPSA may at any time surrender to the Trustee for cancellation any Bonds previously authenticated and delivered that VPSA may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired as provided in the article titled "General Covenants and Provisions" in the Master Indenture.

The defeasance provisions of the Master Indenture may be modified by the Related Supplemental Indentures with respect to Bonds of any Series that constitute Variable Rate Bonds and/or Optional Tender Bonds.

Events of Default; No Acceleration. The occurrence and continuation of one or more of the following events shall constitute an Event of Default with respect to the Bonds:

(1) payment of the principal and of the redemption premium, if any, of any of the Bonds shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(2) payment of any installment of interest on any of the Bonds shall not be made when the same shall become due and payable; or

(3) VPSA shall for any reason be rendered incapable of fulfilling its obligations hereunder; or

(4) any proceeding shall be instituted, with the consent or acquiescence of VPSA, for the purpose of effecting a composition between VPSA and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from the funds of VPSA; or

(5) VPSA shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Master Indenture (other than the covenant set forth in the section of the Master Indenture entitled "Records and Accounts; Inspections and Records" or the Supplemental Indentures, on the part of VPSA to be performed, and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to VPSA by the Owner of any of the Bonds then Outstanding.

VPSA may, pursuant to a Supplemental Indenture, provide for a particular Series of Bonds different or additional Events of Default and remedies upon the occurrence thereof including, but not limited to, Events of Default upon the occurrence of events specified in any agreement entered into in connection with the delivery of a Bond Credit Facility and acceleration of the full principal amount of such Bonds.

No Acceleration. The principal of and interest on the Bonds is not subject to acceleration upon the occurrence and continuation of an Event of Default.

Other Remedies. (a) Upon the occurrence and continuation of an Event of Default, the Trustee may in its discretion, and shall at the written request of the Majority Owners of the Bonds Outstanding, and having been indemnified as provided in subsection (l) of the Master Indenture entitled "Acceptance of Trusts and Obligations," pursue any available remedy, at law or in equity, to enforce the payment of the principal of and premium and interest, if any, on the Bonds, to enforce any covenant or condition under the Master Indenture or the Supplemental Indentures or to remedy any Event of Default.

(b) (i) Notwithstanding anything in the Master Indenture or the Supplemental Indentures to the contrary, upon the occurrence and continuation of an Event of Default, the Majority Owners of the Bonds Outstanding will control and direct all actions of the Trustee in exercising such of the rights and powers conferred by this section on the Trustee or the Owners.

(ii) If there are no Bonds Outstanding, upon the occurrence and continuation of an Event of Default, and if requested so to do in writing by the Majority Owners of the Subordinate Bonds Outstanding, and having been indemnified as provided in subsection (l) of the section of the Master Indenture entitled "Acceptance of Trusts and Obligations," the Trustee will exercise such of the rights and powers conferred by this section as the Trustee, being advised by counsel, deems most effective to enforce and protect the interests of the Owners.

Restriction on Owners' Actions. In addition to the other restrictions on the rights of Owners to request action upon the occurrence of an Event of Default and to enforce remedies set forth in this the article of the Master Indenture entitled "Default Provisions and Remedies of Trustee and Owners," no Owner will have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Master Indenture or any remedy under the Master Indenture or any Supplemental Indenture or the Bonds, unless (i) an Event of Default has occurred and is continuing of which the Trustee has been notified as provided in subsection (h) of the section of the Master Indenture entitled "Acceptance of Trusts and Obligations," or of which by such section it is deemed to have notice; (ii) the Majority Owners of the Bonds have made written request of the Trustee to institute the suit, action, proceeding or other remedy, after the right to exercise the powers or rights of action, as the case may be, has accrued, and have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Master Indenture or to institute the action, suit or proceeding in its or their name; (iii) there has been offered to the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred as provided in subsection (l) of the section of the Master Indenture entitled "Acceptance of Trusts and Obligations;" and (iv) the Trustee has not complied with the request within a reasonable time. Such notification, request and offer of indemnity are declared, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Master Indenture or for any other remedy under the Master Indenture. It is intended that no one or more Owners will have any right to affect, disturb or prejudice the security of the Master Indenture, or to enforce any right under the Master Indenture or the Bonds, except in the manner provided for in the Master Indenture, and that all proceedings at law or in equity will be instituted, had and maintained in the manner provided in the Master Indenture and for the benefit of all Owners. Nothing in the Master Indenture will affect or impair the right of the Owners to enforce payment of the Bonds in accordance with their terms.

Waiver of Events of Default; Effect of Waiver. The Trustee will waive any Event of Default and its consequences at the written request of the Majority Owners of the Bonds Outstanding. If any Event of Default with respect to the Bonds has been waived as provided in the Master Indenture, the Trustee will promptly give written notice of the waiver to VPSA and by first class mail, postage prepaid, to all Owners if the Owners had previously been given notice of the Event of Default. No waiver, rescission and annulment will extend to or affect any subsequent Event of Default or impair any right, power or remedy available under the Master Indenture.

No delay or omission of the Trustee or of any Owner to exercise any right, power or remedy accruing upon any default or Event of Default will impair any such right, power or remedy or will be construed to be a waiver of or acquiescence in any such default or Event of Default. Every right, power and remedy given by the article of the Master Indenture entitled "Default Provisions and Remedies of Trustee and Owners" to the Trustee and to the Owners, respectively, may be exercised from time to time and as often as may be deemed expedient.

Application of Money. Anything in the Master Indenture to the contrary notwithstanding, if at any time moneys in the Debt Service Fund shall not be sufficient to pay the principal of and interest, if any, on the Bonds as they shall become due and payable, such moneys, along with amounts received by the Trustee pursuant to the article of the Master Indenture entitled "Default Provisions and Remedies of Trustee and Owners" will, after payment of the costs and expenses of the proceedings resulting in the collection of the money, the expenses, liabilities and advances incurred or made by the Trustee and the fees (whether ordinary or extraordinary) of the Trustee and expenses of VPSA in carrying out the provisions of the Master Indenture, be applied as follows:

(A) To the payment of the persons entitled to it of all installments of interest then due on the Bonds, in order of the maturity of the installments of such interest and, if the money available is not sufficient to pay in full any particular installment, then ratably, according to the amounts due on such installment, to the persons entitled to it, without any discrimination or privilege;

(B) To the payment of the persons entitled to it of the unpaid principal or Amortization Requirements of on any of the Bonds which have become due (other than Bonds matured or called for redemption for the payment of which money is held pursuant to the provisions of the Master Indenture), in the order of their due dates and, if the amount available is not sufficient to pay in full such Bonds due on any particular date, then ratably, according to the amount of principal due on such date, to the persons entitled to it without any discrimination or privilege;

Whenever money is to be applied pursuant to the provisions of this section, it will be applied at such times, and from time to time, as the Trustee determines, having due regard to the amount of money available for application and the likelihood of additional money becoming available for application in the future. Whenever the Trustee applies such money, it will fix the date on which payment is to be made, and interest on the amount of principal to be paid on such date will cease to accrue. The Trustee will give, by first class mail as it may deem appropriate, notice to the Owners of the fixing of such payment date.

Notice of Certain Defaults; Opportunity to Cure Such Defaults. Notwithstanding anything to the contrary in the Master Indenture, no default under the section titled "Events of Default" in the Master Indenture will constitute an Event of Default until actual notice of the default is given to VPSA by the Trustee or by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of all Outstanding Bonds, and VPSA has had (i) thirty (30) days after receipt of the notice with respect to any default in the payment of money or (ii) 90 days after receipt of the notice of any other default to correct the default or to cause the default to be corrected; provided, however, that if the default can be corrected, but cannot be corrected within the applicable period, it will not constitute an Event of Default if corrective action is instituted by VPSA within the applicable period and diligently pursued until the default is corrected.

Modification or Amendment of the Indenture

VPSA and the Trustee may, without the consent of, or notice to, any of the Owners of the Bonds, enter into such Supplemental Indenture or Supplemental Indentures as shall not be inconsistent with the terms and provisions of the Master Indenture or any Supplemental Indenture for any one or more of the following purposes:

(a) To cure or correct any ambiguity, formal defect, omission or inconsistent provision in the Master Indenture or in a Supplemental Indenture;

(b) To grant to or confer on the Trustee for the benefit of the Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred on the Owners or the Trustee or either of them;

(c) To subject to the lien and pledge of the Master Indenture additional revenues, properties or collateral;

(d) To provide for the issuance of coupon Bonds if authorized under the Related Supplemental Indenture;

(e) To amend certain provisions of the Master Indenture or any Supplemental Indenture in any manner consistent with the provisions of the Code applicable to the Bonds as in effect at the time of the amendment;

(f) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Master Indenture or any Supplemental Indenture, of the Revenues or any other moneys, property or Funds or Accounts;

(g) To modify, amend or supplement the Master Indenture or any Supplemental Indenture as required to permit its qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to permit the qualification of any of the Bonds for sale under the securities laws of any of the states of the United States, and, if VPSA and the Trustee so determine, to add to the Master Indenture or any Supplemental Indenture such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939, as amended, or similar federal statute;

(h) To add to the covenants and agreements of VPSA contained in this Indenture other covenants and agreements thereafter to be observed for the Owners' protection, including, but not limited to, additional requirements imposed by virtue of a change of law, or to surrender or to limit any right, power or authority therein reserved to or conferred upon VPSA;

(i) To amend, modify or change the terms of any agreements governing any book-entry-only system for any of the Bonds;

(j) In the case of Supplemental Indentures, to provide for the issuance of additional Series of Bonds (including Refunding Bonds, Optional Tender Bonds and Variable Rate Bonds) and to provide for such other related matters as may be required or contemplated by or appropriate under the Master Indenture;

(k) To make any changes necessary to comply with the requirements of a Rating Agency or of a Bond Credit Provider, that, as expressed in a finding or determination by VPSA (which shall be stated in the Supplemental Indenture and may be based on opinions or written advice from Bond Counsel, VPSA’s financial advisor and/or the Rating Agencies), would not materially adversely affect the security for the Bonds;

(l) To make any other changes that, as expressed in a determination or finding by VPSA (which shall be stated in the Supplemental Indenture, and may be based upon opinions or written advice of Bond Counsel, VPSA's financial advisor and/or the Rating Agencies) shall not prejudice in any material respect the rights of the Owners of the Bonds then Outstanding;

(m) To amend the Master Indenture to redefine "Local School Bonds" to include bonds issued by issuers (other than cities, counties and towns), including school districts and regional governments that may or may not have ad valorem taxing power and that pledge, to the extent that is constitutional for them so to do, their full faith and credit (i.e., all their resources) to their local school bonds; provided, however, that prior to making any such amendment to the Master Indenture, VPSA shall have obtained from each Rating Agency written advice to the effect that such proposed amendment will not result in such Rating Agency lowering its rating on such bonds, or

(n) To restate in one document the Master Indenture and all effective Supplemental Indentures and other Supplemental Indentures, which restatement shall then become the Master Indenture for all purposes, effective as of the date of the Master Indenture with respect to matters set forth therein and as of the date of any Supplemental Indenture included in the restatement as to matters set forth in any such Supplemental Indenture. Supplemental Indentures and the Bonds issued thereunder prior to a restatement shall be deemed to relate to the restated Master Indenture without any further action or amendment.

Supplemental Indentures Requiring Consent. Exclusive of Supplemental Indentures covered by the section titled "Supplemental Indenture Not Requiring Consent of Owners" in the Master Indenture and subject to the terms and provisions contained in this section, the Owners of a majority in aggregate principal amount of Bonds then Outstanding shall have the right from time to time, notwithstanding any other provision of this Indenture, to consent to and approve the execution by VPSA and the Trustee of such other Supplemental Indenture or Supplemental Indentures as VPSA shall deem necessary or desirable to modify, alter, amend, add to or rescind, in any particular, any of the terms or provisions contained in the Master Indenture or in any Supplemental Indenture; provided, however, that without the consent and approval of the Owners of all of the affected Bonds then Outstanding nothing in the Master Indenture shall permit, or be construed as permitting (i) an extension of the maturity of the principal of or the interest on any Bond, (ii) a reduction in the principal amount of any Bond or the rate of interest on it, (iii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds except as otherwise provided herein, or (iv) a reduction in the aggregate principal amount of Bonds required for consent to such Supplemental Indenture.

Second Supplemental Indenture

The Second Supplemental Indenture supplements the Master Indenture in the following ways.

Establishment of Funds and Accounts for the 2010-1 Bonds. In accordance with the Master Indenture, the 2010-1 VPSA Issuance Cost Fund, the 2010-1 Local Issuance Cost Fund, and the 2010-1 Purchase Fund are established with respect to the 2010-1 Bonds.

In accordance with the Master Indenture, (i) the 2010-1 Revenue Account is established in the Revenue Fund with respect to the 2010-1 Bonds and (ii) within the 2010-1 Revenue Account there is established the 2010-1 Reserve Account.

The Trustee is directed to establish a Local Account in the 2010-1 Local Issuance Cost Fund and the 2010-1 Purchase Fund for each 2010-1 Local Issuer.

2010-1 VPSA Cost of Issuance Fund. The Trustee shall apply the amounts in the 2010-1 VPSA Issuance Cost Fund to pay VPSA's issuance costs of the 2010-1 Bonds as VPSA shall direct pursuant to requisitions each of which shall be substantially in the form attached as an exhibit to the Master Indenture.

VPSA shall provide written notice of the Trustee as soon as reasonably practicable after all of VPSA's issuance costs to be paid from the 2010-1 VPSA Issuance Cost Fund have been paid. Upon receipt of the notice, the Trustee shall transfer any remaining balance in the 2010-1 VPSA Issuance Cost Fund to the Local Accounts of the 2010-1 Purchase Fund pro rata based on the amounts originally deposited into such Local Accounts.

2010-1 Local Issuance Cost Fund and 2010-1 Purchase Fund.

Purchase of Related Local Obligations. The allocation to each Local Account of the 2010-1 Local Issuance Cost Fund and the 2010-1 Purchase Fund of the respective amounts described in an exhibit to the Master Indenture shall be deemed to effect the purchase of the 2010-1 Local School Bonds.

Disbursements and Transfers from Local Account. Commencing on the Closing Date, each Locality may cause the Trustee to disburse amounts on deposit in its respective Local Accounts pursuant to its Bond Sale Agreement with VPSA.

2010-1 Revenue Account and 2010-1 Reserve Account. The Trustee shall deposit into the 2010-1 Revenue Account all payments of principal and premium and interest, if any, on the 2010-1 Local School Bonds. The Trustee shall invest such payments at the direction of a VPSA Representative and apply such payments and the investment earnings thereon to pay the principal of and premium, if any, on the 2010-1 Bonds as provided in the Indenture.

Except for transfers to the 2010-1 Reserve Account and to the extent necessary to pay the principal of and premium and interest, if any, on the 2010-1 Bonds, the Trustee shall not disburse any amounts from the 2010-1 Revenue Account or give the 2010-1 Local Issuers any credit for investment earnings on the balance in the 2010-1 Revenue Account before December 15, 2014.

The Trustee shall transfer all investment earnings on the 2010-1 Revenue Account into the 2010-1 Reserve Account until the balance therein is equal to $300,000 (the "Reserve Requirement"). The Trustee shall transfer any amounts in excess of the Reserve Requirement to the 2010-1 Revenue Account at the direction of a VPSA Representative. The Trustee shall apply the balance in the 2010-1 Reserve Account to pay 2010-1 Administrative Costs at the direction of a VPSA Representative and, if any such disbursements are made, the Trustee shall replenish the amount disbursed from 2010-1 Revenue Account investment earnings attributable to the 2010-1 Local Issuers the actions or omissions of which caused the incurrence of the 2010-1 Administrative Costs or from other funds provided by VPSA or the 2010-1 Local Issuers for purposes of replenishment. The Trustee shall provide a credit for the balance in the 2010-1 Reserve Account with respect to the final principal installments of the 2010-1 Local School Bonds to the 2010-1 Local Issuers in proportion to the amounts the 2010-1 Local Issuers contributed to such balance as determined by a VPSA Representative.

With respect to the principal installments on the 2010-1 Local School Bonds due on each September 1 commencing on September 1, 2015, the Trustee shall provide a credit to each 2010-1 Local Issuer in an amount equal to the investment earnings on the 2010-1 Revenue Account attributable to the principal installments previously paid by such 2010-1 Local Issuer as determined by a VPSA Representative.

Pledge of Local School Bonds; Disposition of Local School Bonds. The 2010-1 Local School Bonds shall be credited to the General Pledge Fund. VPSA grants to the holders from time to time of the 2010-1 Bonds and any additional Bonds issued and Outstanding under the Indenture a security interest in 2010-1 Local School Bonds credited to the General Pledge Fund.

Tax Covenant. VPSA covenants to take all action, and to refrain from taking any action, necessary under the Code, to maintain the status of the 2010-1 Bonds as Qualified School Construction Bonds.

APPENDIX J

NOTICE OF SALE

NOTICE OF SALE

$73,165,000*
Virginia Public School Authority
School Tax Credit Bonds
(Direct Payment Qualified School Construction Bonds)
Series 2010-1

Maturity Date: June 15, 2027

Electronic bids, via BiDCOMP/Parity Competitive Bidding System (BiDCOMPIParity) for the purchase of all, and not less than all, of the $73,165,000* preliminary aggregate principal amount of Virginia Public School Authority School Tax Credit Bonds (Direct Payment Qualified School Construction Bonds), Series 2010-1 (the "2010-1 Bonds"), will be received by the Virginia Public School Authority ("VPSA") until 11:00 a.m. (EDT) on Wednesday, June 23, 2010 (unless changed as described herein).

Interest on the 2010-1 Bonds is includible in gross income for federal income tax purposes. The 2010-1 Bonds will be qualified as "qualified school construction bonds" ("QSCBs") within the meaning of Section 54F of the Internal Revenue Code of 1986, as amended (the "Tax Code"). VPSA will irrevocably elect to treat the 2010-1 Bonds as "specified tax credit bonds" under Section 6431 of the Tax Code, as amended by the Hiring Incentives to Restore Employment Act (Pub. L. No. 111-147, 123 Stat. 301), enacted on March 18, 2010, which status enables the issuer of a QSCB to receive a direct payment of a refundable credit in lieu of providing a tax credit to the purchaser or holder of the QSCB. Accordingly, VPSA expects to receive from the United States Treasury on each interest payment date a direct payment in the amount equal to the lesser of (i) the amount of interest payable under the QSCB on such date or (ii) the amount of interest which would have been payable under the QSCB on such date if such interest were determined at the applicable credit rate determined under Section 54A(b)(3) of the Tax Code (that is, the rate used in computing the amount of tax credit that could be claimed by the QSCB holder absent the "specified tax credit bond" refundable credit election) (the "Interest Subsidy Payment"). Although the 2010-1 Bonds will be qualified as QSCBs, the tax benefit will be provided directly to VPSA through the Interest Subsidy Payments and not to the purchasers or holders of the 2010-1 Bonds. In addition, the Interest Subsidy Payments will not be pledged as security for the 2010-1 Bonds.

Capitalized terms not defined herein shall have the meanings defined in the Preliminary Official Statement for the 2010-1 Bonds dated the date hereof.

Authorization and Security

The issuance of the 2010-1 Bonds is authorized by the provisions of Sections 22.1-162 through 22.1-175, inclusive, of Chapter 11, Title 22.1, Code of Virginia, 1950 (the "Enabling Act") and a resolution of the Board of Directors of VPSA adopted on March 25, 2010 (the "Resolution"). The 2010-1 Bonds are being issued pursuant to a Master Trust Indenture dated as of October 1, 2009 (as previously supplemented, the "Master Indenture"), as supplemented by a Second Supplemental Trust Indenture dated as of July 1, 2010 (the "Second Supplemental Indenture," and collectively, with the Master Indenture, the "Indenture"), each between VPSA and U.S. Bank National Association, as trustee (the "Trustee").

The 2010-1 Bonds are being issued to provide funds for the purchase of general obligation school bonds (the "2010-1 Local Bonds") of fourteen counties* and five cities* in the Commonwealth of

* Preliminary, subject to change.

Virginia (the "2010-1 Local Issuers"). Additional series of Bonds may be issued from time to time, under the conditions, limitations, and restrictions set forth in the Indenture, on a parity with the outstanding series of Bonds issued under the Indenture, for the purpose of providing funds for the purchase of general obligation school bonds of cities, counties and towns in the Commonwealth of Virginia (the "Commonwealth").

Bonds issued under the Indenture will be secured by principal and interest payments on the local school bonds held by VPSA and pledged to the payment of Bonds issued under the Indenture. The local school bonds are general obligations of the respective local issuers (including the 2010-1 Local Issuers) and the payment of which their full faith and credit and taxing power are irrevocably pledged. VPSA has covenanted in the Indenture to seek in each biennium a sum sufficient appropriation of an amount at least equal to scheduled debt service on the Bonds during such biennium. The General Assembly of the Commonwealth has the power to make biennial appropriations with respect to the debt service on the Bonds, but is under no obligation to do so. The Bonds will not constitute a debt or pledge of the faith and credit of the Commonwealth.

Description of 2010-1 Bonds; Interest Payment Dates

The 2010-1 Bonds will be dated their date of delivery, and will be issued as fully registered bonds in book-entry form only in denominations of $5,000 or any integral multiple of $5,000 ("Authorized Denominations"). Interest on the 2010-1 Bonds will be calculated on a 30/360 basis and will be payable semiannually on June 15 and December 15, commencing December 15, 2010.

Maturity

Principal on the 2010-1 Bonds will be paid at maturity on June 15, 2027, subject to optional and extraordinary optional redemption as described below.

Book-Entry Only

Initially, one bond certificate for the 2010-1 Bonds will be issued to DTC or its nominee, which will be designated as the securities depository for the 2010-1 Bonds. So long as DTC is acting as securities depository for the 2010-1 Bonds, a book-entry system will be employed, evidencing ownership of the 2010-1 Bonds in principal amounts of $5,000 and multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Principal of, redemption premium, if any, and interest on the 2010-1 Bonds will be payable to DTC or its nominee as registered owner of the 2010-1 Bonds. Principal of, redemption premium, if any, and interest on the 2010-1 Bonds will be payable in lawful money of the United States of America by the Trustee.

Transfer of principal, redemption premium, if any, and interest payments to beneficial owners (the "Beneficial Owners") will be the responsibility of such participants and other nominees of the Beneficial Owners. VPSA will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

In the event that (a) DTC determines not to continue to act as securities depository for the 2010-1 Bonds, or (b) VPSA in its sole discretion determines (1) that Beneficial Owners will be able to obtain certificated bonds or (2) to select a new securities depository, VPSA will discontinue the book-entry system with DTC. If VPSA fails to identify another qualified securities depository to replace DTC, VPSA will cause the execution and delivery of replacement bonds in the form of fully registered certificates.

Redemption

Optional Redemption. The 2010-1 Bonds are subject to redemption at the option of VPSA on any date prior to their maturity, in whole or in part in Authorized Denominations, at a redemption price equal to the greater of:

(1) 100% of the principal amount of the 2010-1 Bonds to be redeemed; or

(2) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the 2010-1 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date fixed for the redemption of such 2010-1 Bonds (the "Scheduled Redemption Date"), discounted to the Scheduled Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 20 basis points;

plus, in each case, unpaid interest accrued on the 2010-1 Bonds to be redeemed to the Scheduled Redemption Date.

"Treasury Rate" means, with respect to any Scheduled Redemption Date for a particular 2010-1 Bond, the yield to maturity as of such date of United States Treasury securities with a constant maturity excluding inflation indexed securities (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days, but no more than 45 days, prior to the Scheduled Redemption Date or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the Scheduled Redemption Date to the maturity date of the 2010-1 Bond to be redeemed; provided, however, that if the period from the Scheduled Redemption Date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Extraordinary Optional Redemption. On any day on or after the occurrence of an Extraordinary Event, the 2010-1 Bonds are subject to redemption prior to their maturity at the option of VPSA, in whole or in part in Authorized Denominations, at a redemption price equal to the greater of:

(1) 100% of the principal amount of the 2010-1 Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the 2010-1 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the Scheduled Redemption Date for such 2010-1 Bonds, discounted to such Scheduled Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 100 basis points;

plus, in each case, unpaid interest accrued on the 2010-1 Bonds to be redeemed to the Scheduled Redemption Date.

An "Extraordinary Event" will have occurred if VPSA determines that a material adverse change has occurred to Sections 54A, 54F or 6431 of the Tax Code, or there is any guidance published by the Internal Revenue Service or the Treasury Department with respect to such sections or any other determination by the Internal Revenue Service or the Treasury Department, which determination is not the result of any act or omission by VPSA, pursuant to which VPSA's Interest Subsidy Payments from the United States Treasury are reduced or eliminated.

Calculation of Redemption Price. At the request of U.S. Bank National Association, as Paying Agent (the "Paying Agent"), the redemption price of the 2010-1 Bonds to be redeemed by optional or extraordinary optional redemption will be determined by an independent accounting firm, investment banking firm or financial advisor retained at VPSA's expense to calculate such redemption price. The Paying Agent and VPSA may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

Notice of Redemption and Other Notices. So long as DTC or its nominee is the sole Owner of the 2010-1 Bonds, VPSA and the Paying Agent will recognize DTC or its nominee as the Owner for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners (as hereinafter defined) will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

The Paying Agent will give notice of redemption to the Owners not less than 30 nor more than 60 days prior to the Scheduled Redemption Date. Failure to mail notice to a particular Owner, or any defect in the notice to such Owner, will not affect the validity of the call for redemption of any other 2010-1 Bond. So long as DTC or its nominee is the Owner, any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a Direct Participant or otherwise) to notify the Beneficial Owner so affected, will not affect the validity of the call for redemption. Any notice mailed as provided in the Indenture on will be conclusively presumed to have been given regardless of whether actually received by any Beneficial Owner.

Right to Rescind Notice of Redemption. VPSA may rescind any redemption of 2010-1 Bonds and notice thereof on any date prior to the Scheduled Redemption Date by causing written notice of such rescission to be given to the Owners of the 2010-1 Bonds so called for redemption, with a copy to the Paying Agent. Notice of the rescission of any such redemption of the 2010-1 Bonds shall be given in the same manner in which notice of redemption of such 2010-1 Bonds was originally given. The actual receipt by the Owner of any 2010-1 Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

Selection for Redemption. Subject to applicable procedures of DTC while the 2010-1 Bonds are held in book-entry form by DTC, if less than all of the 2010-1 Bonds are to be called for redemption, VPSA will select 2010-1 Bonds for redemption in such manner as VPSA in its discretion may determine.

If the 2010-1 Bonds are not registered in book-entry only form, any redemption of less than all the 2010-1 Bonds shall be allocated among the Owners of such 2010-1 Bonds as nearly as practicable in proportion to the principal amounts of the 2010-1 Bonds owned by each Owner, subject to the Authorized Denominations applicable to the 2010-1 Bonds. This will be calculated based on the following formula:

$$\frac{\text{(principal amount to be redeemed) x (principal amount owned by owner)}}{\text{(principal amount outstanding).}}$$

The particular 2010-1 Bonds to be redeemed shall be determined by VPSA, using such method as it shall deem fair and appropriate. If the 2010-1 Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole Owner of the 2010-1 Bonds, partial redemptions shall be done in accordance with DTC procedures. It is VPSA's intent that redemption allocations made by DTC, its participants or such other intermediaries that may exist between VPSA and the Beneficial Owners be made in accordance with these same proportional provisions. However, VPSA can provide no assurance that DTC, participants or any other intermediaries will allocate redemptions among Beneficial Owners on such proportional basis.

Waiver of Defeasance Rights

VPSA will not defease or permit a defeasance of the 2010-1 Bonds unless it shall have received an opinion from nationally-recognized bond counsel to the effect that (i) the holders of such 2010-1 Bonds being defeased will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the defeasance and (ii) the defeasance will not otherwise alter those holders' U.S. federal income tax treatment of principal and interest payments on such 2010-1 Bonds being defeased.

Bid Specifications

No bid for other than all of the 2010-1 Bonds will be considered. All bids must be unconditional. No dollar price bid can be less than 99%, or greater than 104%, of the par value of the aggregate principal amount of the 2010-1 Bonds based on the Revised Amounts as described below. Each bidder must specify in its bid a single rate for the 2010-1 Bonds, which rate may not exceed the tax credit rate listed on the U.S. Treasury Direct website **www.treasurydirect.gov/GA-SL/SLGS/selectQTCDate.htm**.

The bidders must specify the expected reoffering price for the 2010-1 Bonds, and such reoffering price cannot exceed the par amount of the 2010-1 Bonds by more than 0.25% multiplied by the number of whole years to the maturity date (the "Maximum Reoffering Price"). Therefore, the Maximum Reoffering Price on the 2010-1 Bonds is 104%.

Electronic Bidding and Bidding Procedures

Registration to Bid. All prospective electronic bidders must be contracted customers of i-Deal LLC's BiDCOMP/Parity. If you do not have a contract with BiDCOMP/Parity, call (212) 404-8102 to become a customer. By submitting a bid for the 2010-1 Bonds a prospective bidder represents and warrants to VPSA that such bidder's bid for the purchase of the 2010-1 Bonds (if a bid is submitted in connection with the sale) is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the 2010-1 Bonds.

If any provisions of this Notice of Sale shall conflict with earlier information provided by BiDCOMP/Parity as approved provider of electronic bidding services, this Notice of Sale shall control. Further information about BiDCOMP/Parity, including any fee charged, may be obtained from BiDCOMP/Parity at (212) 404-8102.

Disclaimer. Each prospective bidder shall be solely responsible to register to bid via BiDCOMP/Parity. Each prospective bidder shall be solely responsible to make necessary arrangements to access BiDCOMP/Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Notice of Sale. Neither VPSA nor BiDCOMP/Parity shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any prospective bidder, and neither VPSA nor BiDCOMP/Parity shall be responsible for a bidder's failure to register to bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by BiDCOMP/Parity. VPSA is using BiDCOMP/Parity as a communication mechanism, and not as VPSA's agent, to conduct the electronic bidding for the 2010-1 Bonds. VPSA is not bound by any advice and determination of BiDCOMP/Parity to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bid Specifications" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via BiDCOMP/Parity are the sole responsibility of the bidders; and VPSA is not responsible, directly or indirectly, for any such costs or expenses. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the 2010-1 Bonds, it should telephone BiDCOMP/Parity and notify the Director of Debt Management of the Commonwealth by facsimile at (804) 225-3187.

Bidding Procedures. Bids submitted electronically for the purchase of the 2010-1 Bonds (all or none) must be by means of the VPSA Bid Form (the "Bid Form") via BiDCOMP/Parity by 11:00 a.m. (EDT) on Wednesday, June 23, 2010, unless changed as described herein (see "Change of Date and Time for Receipt of Bids"). Prior to that time, a prospective bidder may input and save proposed terms of its bid in BiDCOMP/Parity. Once the final bid has been saved in BiDCOMP/Parity, the bidder may select the final bid button in BiDCOMP/Parity to submit the bid to BiDCOMP/Parity. Once the bids are communicated electronically via BiDCOMP/Parity to VPSA, each bid will constitute an irrevocable offer to purchase the 2010-1 Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on BiDCOMP/Parity shall constitute the official time.

No bids will be accepted in written form, by facsimile transmission or in any other medium or on any system other than by means of the Bid Form via BiDCOMP/Parity. No bid will be received after the time for receiving such bids specified above.

Good Faith Deposit

A good faith deposit in the amount of $730,000* (the "Deposit") is required in connection with the sale and bid for the 2010-1 Bonds. The Deposit may be provided for by (i) a certified check, bank cashier's, treasurer's or official check drawn upon or certified by a responsible banking institution and made payable to the order of "Virginia Public School Authority" delivered at or prior to the time of bid or (ii) a federal funds wire transfer to be submitted to VPSA by the successful bidder not later than 4:00 p.m. (EDT) on the date of sale (the "Wire Transfer Deadline") as set forth below under "Wire Transfers". The Deposit of the successful bidder will be collected and the proceeds thereof retained by VPSA to be applied in partial payment for the 2010-1 Bonds and no interest will be allowed or paid upon the amount thereof, but in the event the successful bidder shall fail to comply with the terms of the respective bid, the proceeds thereof will be retained as and for full liquidated damages. Checks of unsuccessful bidders will be returned promptly after the 2010-1 Bonds are awarded.

Wire Transfers. If the successful bidder chooses to deliver its good faith deposit by federal funds wire transfer, VPSA will distribute wiring instructions for the Deposit to the successful bidder upon verification of the bids submitted by the bidders and prior to the Wire Transfer Deadline. If the Deposit is not received by the Wire Transfer Deadline, the award of the sale of the 2010-1 Bonds to the successful bidder may be cancelled by VPSA in its discretion without any financial liability of VPSA to the successful bidder or any limitation whatsoever on VPSA's right to sell the 2010-1 Bonds to a different purchaser upon such terms and conditions as VPSA shall deem appropriate.

Adjustments to Principal Amount

Changes Prior to Bidding. The preliminary aggregate principal amount of the 2010-1 Bonds as set forth in this Notice of Sale (the "Preliminary Aggregate Principal Amount") may be revised before the opening of sealed bids for the purchase of the 2010-1 Bonds. Any such revisions (the "Revised

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* Preliminary, subject to adjustment both before and after award of the 2010-1 Bonds in accordance with changes to the aggregate principal amount of the 2010-1 Bonds as described herein under "Adjustment to Principal Amount."

Aggregate Principal Amount") WILL BE ANNOUNCED ON THOMSON MUNICIPAL MARKET MONITOR ("TM3") (www.tm3.com) NOT LATER THAN 9:30 A.M. (EDT) ON ANY ANNOUNCED DATE FOR RECEIPT OF BIDS. In the event that no such revisions are made, the Preliminary Aggregate Principal Amount will constitute the Revised Aggregate Principal Amount. BIDDERS SHALL SUBMIT BIDS BASED ON THE REVISED AGGREGATE PRINCIPAL AMOUNT.

Changes to the Winning Bid. After selecting the winning bid, VPSA will determine the final aggregate principal amount of the 2010-1 Bonds (the "Final Aggregate Principal Amount"). In determining the Final Aggregate Principal Amount, VPSA will not reduce or increase the Revised Aggregate Principal Amount by more than 10% of such amount. THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATE BID OR THE INITIAL REOFFERING PRICE (AS HEREIN DEFINED) AS A RESULT OF ANY CHANGE MADE TO THE REVISED AGGREGATE PRINCIPAL AMOUNT WITHIN THIS LIMITATION.

The dollar amount bid by the successful bidder will be adjusted to reflect any adjustments in the aggregate principal amount of the 2010-1 Bonds. Such adjusted bid price will reflect changes in the dollar amount of the underwriters discount and original issue discount/premium, if any, but will not change the selling compensation per $1,000 of par amount of the 2010-1 Bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the Initial Reoffering Price (as defined below). The interest rate specified by the successful bidder for the 2010-1 Bonds as the Initial Reoffering Price will not change. The Final Aggregate Principal Amount and the adjusted bid price will be communicated to the successful bidder by 10:00 a.m. (EDT) on the business day following the sale.

Basis of Award

ALL BIDS SHALL REMAIN FIRM UNTIL 5:00 P.M. (EDT) ON THE DATE OF THE SALE. An award of the 2010-1 Bonds, if made, will be made by VPSA within such six hour period of time. Unless all bids are rejected, the 2010-1 Bonds will be awarded to the bidder whose bid results in the lowest true interest cost to VPSA, based on the Revised Aggregate Principal Amount described above. The true interest cost (expressed as an annual interest rate) will be determined as being twice that factor or discount rate, compounded semi-annually, which, when applied against each combined semi-annual debt service payment (interest, or principal and interest, as due) for the 2010-1 Bonds, will equate the sum of such discounted semi-annual payments to the total purchase price. The true interest cost on the 2010-1 Bonds will be determined after subtracting the lesser of (i) the amount of interest payable under the 2010-1 Bonds on each interest payment date or (ii) the amount of interest which would have been payable on under the 2010-1 Bonds on each interest payment date if such interest were determined at the applicable credit rate determined under Section 54A(b)(3) of the Tax Code. The true interest cost shall be calculated from the dated date of the 2010-1 Bonds. In case of a tie, VPSA, at its sole discretion, may select the successful bidder. VPSA RESERVES THE RIGHT TO WAIVE IRREGULARITIES IN ANY BID AND TO REJECT ANY OR ALL BIDS.

Undertakings of the Successful Bidder

The successful bidder shall, within 30 minutes after being notified of the award of the 2010-1 Bonds, advise VPSA in writing (via electronic or facsimile transmission) of the initial public offering price or yield of the 2010-1 Bonds (the "Initial Reoffering Price") and make a bona fide offering of all of the 2010-1 Bonds to the Public (as defined below) at the Initial Reoffering Price. The term "Public" means the general public of investors who are purchasing for their own account as ultimate purchasers and does not include bond houses, brokers and similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers.

The successful bidder must, by facsimile transmission or delivery received by VPSA within 24 hours after notification of the Final Amounts, furnish the following information to VPSA to complete the Official Statement in final form, as described below:

A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all the 2010-1 Bonds are sold at the Initial Reoffering Price).

B. The identity of the other underwriters if the successful bidder is part of a group or syndicate.

C. Any other material information that VPSA determines is necessary to complete the Official Statement in final form (the "Final Official Statement").

After the award of the 2010-1 Bonds, VPSA will prepare copies of the Final Official Statement and will include therein such additional information concerning the reoffering of the 2010-1 Bonds as the successful bidder may reasonably request; provided, however, that VPSA will not include in the Final Official Statement a "NRO" ("not reoffered") designation with respect to any portion of the 2010-1 Bonds. The successful bidder will be responsible to VPSA in all respects for the accuracy and completeness of information provided by such successful bidder with respect to such reoffering.

VPSA expects the successful bidder to deliver copies of such Final Official Statement to persons to whom such bidder initially sells the 2010-1 Bonds and the Municipal Securities Rulemaking Board ("MSRB") via the MSRB's Electronic Municipal Market Access System ("EMMA"). The successful bidder will be required to acknowledge receipt of such Final Official Statement, to certify that it has made delivery of the Final Official Statement to such repositories, to acknowledge that VPSA expects the successful bidder to deliver copies of such Final Official Statement to persons to whom such bidder initially sells the 2010-1 Bonds and to certify that the 2010-1 Bonds will only be offered pursuant to the Final Official Statement and only in states where the offer is legal.

In the event the successful bidder has on its own obtained a commitment for a municipal bond insurance policy or other credit enhancement, VPSA shall indicate in the Final Official Statement those maturities that the successful bidder has informed VPSA for which credit enhancement is being sought. VPSA will also indicate within the Final Official Statement that further information concerning such potential credit enhancement may be obtained through the successful bidder. VPSA will not include the identity of the potential credit enhancer or other information with respect to the potential credit enhancer in the Final Official Statement. In addition, VPSA will not place a statement of insurance on the 2010-1 Bonds or provide such documentation, or make such covenants or arrangements, as would customarily be provided, made or arranged if VPSA were to obtain a commitment for municipal bond insurance or other credit enhancement on its own.

If the successful bidder obtains a municipal bond insurance policy or other form of credit enhancement, at the same time it provides the Initial Reoffering Price it shall advise VPSA of the cost of such credit enhancement and whether it will provide to VPSA, at or before the closing of the 2010-1 Bonds, a certificate certifying that (i) the present value of the fees paid for such credit enhancement are less than the present value of the interest reasonably expected to be saved as a result of obtaining such credit enhancement, using the yield on the 2010-1 Bonds (determined with regard to the payments for such credit enhancement) as the discount factor for this purpose, and (ii) to the best of its knowledge, such fees were obtained in arm's length negotiations and do not exceed a reasonable charge for the transfer of credit risk. In addition, the successful bidder will cooperate with VPSA to obtain the necessary certifications from the credit enhancement provider. Failure of the 2010-1 Bonds to be so insured or of any such policy to be issued shall not in any manner relieve the successful bidder of its contractual obligations arising from the acceptance of its bid for the purchase of the 2010-1 Bonds.

It is the policy of the Commonwealth pursuant to Executive Order 33 (2006) to ensure that small businesses and businesses owned by women and minorities receive every opportunity to compete for the Commonwealth's business. Following award of the 2010-1 Bonds, VPSA requires that the winning bidder provide a listing of syndicate members noting any minority, women or disadvantaged business enterprises participating in the syndicate.

Issue Price Certificate

Simultaneously with the delivery of the 2010-1 Bonds, the successful bidder shall furnish to VPSA a certificate (an "Issue Price Certificate") to the effect (i) that the successful bidder has made a bona fide offering of all of the 2010-1 Bonds to the Public at their Initial Reoffering Price, which is not in excess of the Maximum Reoffering Price, (ii) that at least ten percent (10%) of the par amount of the 2010-1 Bonds was actually sold to the Public at the Initial Reoffering Price, and (iii) that the respective Initial Reoffering Price for the 2010-1 Bonds was not less than the fair market value of the 2010-1 Bonds as of the date of the sale of the 2010-1 Bonds, or such other facts regarding the actual sale of the 2010-1 Bonds as shall be acceptable to VPSA and McGuireWoods LLP, Richmond, Virginia, bond counsel to VPSA ("Bond Counsel"). Bond Counsel advises that (i) the successful bidder will be responsible to VPSA in all respects for the accuracy and completeness of information provided by such successful bidder in the Issue Price Certificate must be made on the best knowledge, information and belief of the successful bidder and (ii) reliance on facts other than those specified above as a basis for any certification in the Issue Price Certificate will require evaluation by VPSA and Bond Counsel to assure compliance with the statutory requirement to avoid the establishment of an artificial price for the 2010-1 Bonds.

Delivery of 2010-1 Bonds

The 2010-1 Bonds are expected to be delivered on or about July 8, 2010 (UNLESS A NOTICE OF A CHANGE IN THE DELIVERY DATE IS ANNOUNCED ON TM3 NOT LATER THAN 4:00 P.M. (EDT) ON THE LAST BUSINESS DAY PRIOR TO ANY ANNOUNCED DATE FOR RECEIPT OF BIDS) through the facilities of DTC, New York, New York, against payment of the purchase price therefor (less the amount of the good faith deposit) in Federal Funds.

There will also be furnished the usual closing papers, including a certificate by the officials who signed the 2010-1 Bonds (1) stating that no litigation of any kind is now pending or, to their information, knowledge or belief, threatened to restrain or enjoin the issuance or delivery of the 2010-1 Bonds or in any manner questioning the proceedings and authority under which the 2010-1 Bonds are issued, or affecting the validity of the 2010-1 Bonds and (2) relating to the Final Official Statement, as described in the Preliminary Official Statement under the section entitled "Certificate Concerning Official Statement."

Legal Opinion

The approving opinion of Bond Counsel, in substantially the form set forth in an appendix to the Preliminary Official Statement, will be furnished at no expense to the successful bidder. The Preliminary Official Statement contains a discussion of the effect of the Tax Code on the inclusion in gross income for federal income tax purposes of interest on the 2010-1 Bonds and a discussion of Bond Counsel's opinion insofar as it concerns such tax treatment.

CUSIP Numbers

CUSIP numbers will be applied for by the successful bidder with respect to the 2010-1 Bonds, but VPSA will assume no obligation for the assignment or printing of such numbers on the 2010-1 Bonds or for the correctness of such numbers, and neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and make payment for the 2010-1 Bonds.

Official Statement

The Preliminary Official Statement dated the date hereof and the information contained therein have been deemed final by VPSA as of its date within the meaning of the Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the Final Official Statement.

VPSA, at its expense, will make available to the successful bidder a reasonable number of Final Official Statements, for delivery to each potential investor requesting a copy of the Final Official Statement and to each person to whom such bidder and members of its bidding group initially sell the 2010-1 Bonds, within seven business days of the award of the 2010-1 Bonds, provided that the successful bidder cooperates in a timely manner in providing the information required to complete the Final Official Statement.

The successful bidder shall comply with the requirements of Rule 15c2-12 and the rules of the MSRB, including an obligation, if any, to update the Final Official Statement.

Continuing Disclosure

Rule 15c2-12 prohibits an underwriter from purchasing or selling municipal securities, such as the 2010-1 Bonds, unless it has determined that the issuer of such securities and/or other persons deemed to be material "obligated persons" (hereinafter referred to as "MOPs") have committed to provide (i) on an annual basis, certain financial and operating data ("Annual Reports") and, if available, audited financial statements, to the MSRB via EMMA, as described in 1934 Act Release No. 59062 and (ii) notice of various events described in Rule 15c2-12, if material ("Event Notices"), to the MSRB via EMMA.

VPSA will covenant, in a Continuing Disclosure Agreement in substantially the form provided in an appendix to the Preliminary Official Statement, for the benefit of the holders of the 2010-1 Bonds, to provide to the MSRB via EMMA Annual Reports with respect to itself, as issuer. Similarly, VPSA will provide Event Notices to the MSRB via EMMA. The continuing disclosure undertaking of the Commonwealth, which VPSA has determined to be a MOP for purposes of Rule 15c2-12, will be evidenced by a Continuing Disclosure Agreement in substantially the form set forth in an appendix to the Preliminary Official Statement, for. the benefit of the holders of the 2010-1 Bonds, to be executed and delivered prior to the delivery of the 2010-1 Bonds, pursuant to which the Commonwealth also will provide Annual Reports and certain Event Notices.

Change of Date and Time for Receipts of Bids

VPSA expects to take bids on the 2010-1 Bonds on Wednesday, June 23, 2010. However, VPSA reserves the right to change the date and time established for the receipt of bids, and will undertake to notify potential bidders of such changes in the date or time for the receipt of bids. Prospective bidders may request notification by telephone or e-mail of any such change by so advising, and furnishing their telephone numbers and e-mail addresses to, Matt Palumbo of BB&T Capital Markets at (804) 782-8895 or at mpalumbo@bbandtcm.com by Noon (EDT), two days prior to the date fixed for the receipt of bids.

A change of the bid date will be announced via TM3 not later than 9:30 a.m. (EDT), on any announced date for receipt of bids, and an alternative sale date and time will be announced via TM3 at least 20 hours prior to such alternative date and time for receipt of bids.

On any such alternative sale date and time, VPSA will accept bids for the purchase of the 2010-1 Bonds, such bids to conform in all respects to the provisions of this Notice of Sale, except for the changes in the date and time of sale and any other changes announced by TM3 at the time the sale date and time are announced. In addition, VPSA reserves the right to make changes to this Notice of Sale. Such changes will be announced on TM3.

Additional Information

For further information relating to the 2010-1 Bonds, reference is made to the Preliminary Official Statement, dated the date hereof, prepared for and authorized by VPSA. The Preliminary Official Statement may be obtained from the undersigned at Virginia Public School Authority, Virginia Department of the Treasury, 101 N. 14th Street, Richmond, Virginia 23219 (telephone (804) 225-2142; telecopy (804) 225-3187) or from the financial advisor, BB&T Capital Markets 909 East Main Street, 8th Floor (telephone (804) 649-3935 or (804) 782-8895; email jconrad@bbandtcm.com or mpalumbo@bbandtcm.com.

Dated: June 16, 2010

VIRGINIA PUBLIC SCHOOL AUTHORITY

By: ________________________________
James M. Holland, Chairman