

VIRGINIA PUBLIC SCHOOL AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2012



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Table of Contents

Management's Discussion and Analysis	1
Financial Statements:	
Statement of Net Assets	5
Statement of Revenues, Expenses, and Changes in Fund Net Assets	6
Statement of Cash Flows	7
Notes to the Financial Statements	9
Supplementary Information:	
Detail of Long-Term Indebtedness	20
Schedule of Debt Service Coverage – 1997 Resolution	21
Independent Auditor's Report	22
Authority Officials	24

VIRGINIA PUBLIC SCHOOL AUTHORITY
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, 2012. 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 its pooled bond program. Under the program, the Authority issues its bonds and uses the proceeds to purchase 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's 1997 Resolution, adopted on October 23, 1997, serves as the primary instrument under which the Authority issues bonds for its pooled bond program. The 1997 Resolution bonds are secured first by payments from Local Issuers on their local school bonds; second, from amounts obtained under the State Aid Intercept Provision under which the Authority can intercept state appropriations to the locality; and third, from a sum sufficient appropriation. The sum sufficient appropriation is first from available Literary Fund monies and then from the Commonwealth's General Fund.

Also under its pooled bond program, the Authority has issued Qualified School Construction Bonds under a Master Indenture of Trust dated of October 1, 2009. Qualified School Construction Bonds are tax credit bonds established under the American Recovery and Reinvestment Act of 2009 (ARRA), under which the bondholder receives a federal tax credit in lieu of interest. These bonds are secured by payments from Local Issuers on their general obligation local school bonds, then from amounts obtained through the State Aid Intercept Provision, and then from any amounts received by the Authority pursuant to any current Appropriation Act Provision. During the fiscal year, the Authority issued a total of \$128,960,000 in pooled bonds under these two programs.

In addition to its pooled bond program, the Authority also issues special obligation bonds under its stand-alone program and its equipment 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. Under the Equipment Notes Program, the Authority 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 \$52,025,000 under the educational technology equipment note program. The Authority also issued \$132,560,000 under the stand-alone 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

VIRGINIA PUBLIC SCHOOL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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 held by the Authority issued subsequent to March 26, 2009 and through June 30, 2012, 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.

Condensed Statement of Net Assets (in millions)

	Enterprise Fund	
	2012	2011
Current assets	\$ 16	\$ 12
Noncurrent assets	3,634	3,477
Total assets	3,650	3,489
Current liabilities	391	407
Noncurrent liabilities	3,283	3,104
Total liabilities	3,674	3,511
Net assets:		
Unrestricted	(24)	(22)
Total net assets (deficit)	\$ (24)	\$ (22)

VIRGINIA PUBLIC SCHOOL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Total assets increased during the year by \$161 million, or 5 percent. This is primarily due to a \$156 million increase in local school bonds outstanding and a \$5 million increase in available Educational Technology proceeds (resulting from current year bond issuances exceeding current year disbursements). Total liabilities increased by \$163 million, or 5 percent, during the same period as a result of an increase in outstanding bonds and notes payable (\$115 million), an increase in amounts due to localities (\$5 million), an increase in premium on bonds sold (\$44 million), and small decreases in other categories. Accordingly, a decrease of \$2 million is reflected in net assets.

Deficit net assets on the Authority's statements result from the effect of passing on refunding savings to localities prior to the Authority's full realization of the savings from the refunding transaction. As further explained in the Notes to the Financial Statements, this situation has occurred as a result of Authority's desire to provide maximum benefit to the localities with minimal burden.

Condensed Statement of Changes in Net Assets
(in millions)

	Enterprise Fund	
	2012	2011
Revenues:		
Operating revenues:		
Charges for services	\$ 142	\$ 148
Non-operating revenues:		
Investment earnings	1	2
Total revenues	143	150
Expenses:		
Interest on long-term debt	146	148
Other	4	4
Total expenses	150	152
Transfers	5	5
Change in net assets	(2)	3
Net assets (deficit), July 1	(22)	(25)
Net assets (deficit), June 30	\$ (24)	\$ (22)

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:

VIRGINIA PUBLIC SCHOOL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Summary of Authority Bond Obligations
(in millions)

	Outstanding at 6/30/11 *	Issued During Year	Retired During Year	Outstanding at 6/30/12 *
Pooled Bond Programs	\$ 3,027	\$ 561	\$ (512)	\$ 3,076
Technology Notes Programs	165	52	(56)	161
Special Obligation Bonds	151	133	(39)	245
Total	<u>\$ 3,343</u>	<u>\$ 746</u>	<u>\$ (607)</u>	<u>\$ 3,482</u>

* 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 Notes	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 August 2012, the Authority issued its \$65.7 million Special Obligation School Financing Bonds Prince William County Series 2012 as part of its stand-alone bond program. The proceeds were used to purchase general obligation bonds issued by Prince William County to pay the costs of various capital school improvement projects for the County.

In October 2012, the Authority issued \$23.3 million School Tax Credit Bonds, a portion of which will be issued as direct payment "qualified school construction bonds" and the remainder as "qualified zone academy bonds" Series 2012-1. VPSA will irrevocably elect to receive interest subsidy payments from the United States Treasury rather than to provide a tax credit to the owners of the 2012-1 bonds. The VPSA will transfer to the 2012-1 local issuers the interest subsidy payments that VPSA receives.

In November 2012, the Authority issued its \$65.9 million School Financing Series 2012C bonds. The proceeds will be used to purchase general obligation school bonds issued by certain Virginia localities for capital projects for their public schools.

VIRGINIA PUBLIC SCHOOL AUTHORITY

STATEMENT OF NET ASSETS

As of June 30, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 15,743,653
Interest receivable	<u>9</u>
Total current assets	<u>15,743,662</u>

Noncurrent assets:

Restricted cash and cash equivalents	81,913,514
Restricted long-term investments	5,342,624
Loans to localities:	
Local school bonds	3,320,224,962
Interest receivable	65,933,874
Due from Literary Fund	<u>161,170,000</u>
Total noncurrent assets	<u>3,634,584,974</u>
Total assets	<u>3,650,328,636</u>

LIABILITIES

Current liabilities:

Accounts payable	<u>281,516</u>
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Current liabilities payable from restricted assets:

Interest payable	59,086,694
Accrued interest sold	81,616
Due to localities	75,610,780
Notes payable	53,805,000
Bonds payable (net of interest deferral)	188,104,400
Premium on bonds sold	<u>14,043,235</u>
Total current liabilities payable from restricted assets	<u>390,731,725</u>

Noncurrent liabilities payable from restricted assets:

Notes payable	107,365,000
Bonds payable (net of interest deferral)	3,024,461,763
Premium on bonds sold	<u>151,474,458</u>
Total noncurrent liabilities payable from restricted assets	<u>3,283,301,221</u>
Total liabilities	<u>3,674,314,462</u>

NET ASSETS

Unrestricted	<u>(23,985,826)</u>
Total net assets (deficit)	<u>\$ (23,985,826)</u>

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, 2012

Operating Revenues:

Interest on:

Local school bonds	\$ 141,610,614
Cash equivalents	172,047
Premium on bonds sold	605,505
Net increase in fair value of investments	14,026
Other	<u>381,640</u>

Total operating revenues	<u>142,783,832</u>
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Operating Expenses:

Interest on bonds	146,327,237
Financial advisor fees	250,278
Bond Council	316,250
Bond rating fees	542,932
Printing and electronic distribution	18,443
Board expenses	475
Staffing expenses	81,546
Underwriters' discount	1,540,333
Rebate and penalty payments and calculation fees	129,779
Other	<u>307,996</u>

Total operating expenses	<u>149,515,269</u>
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Operating loss	<u>(6,731,437)</u>
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Nonoperating Transfers:

Transfers from Literary Fund	5,029,651
Transfer to the General Fund of the Commonwealth	<u>(201,000)</u>
Total nonoperating transfers	<u>4,828,651</u>

Change in net assets	(1,902,786)
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Net assets (deficit), July 1, 2011	<u>(22,083,040)</u>
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Net assets (deficit), June 30, 2012	<u>\$ (23,985,826)</u>
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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, 2012

Cash flows from operating activities:	
Interest on cash equivalents	\$ 172,100
Purchase of local school bonds	(411,195,000)
Principal received on local school bonds	223,445,600
Interest received on local school bonds	142,716,399
Payments to vendors for goods and services	(1,479,267)
Payments received from the Literary Fund	62,694,848
Other operating revenues	<u>381,640</u>
Net cash provided by operating activities	<u>16,736,320</u>
Cash flows from noncapital financial activities:	
Proceeds from the sale of bonds	745,450,000
Principal paid on VPSA bonds	(275,740,000)
Interest paid on VPSA bonds	(145,206,062)
Premium on bonds sold	62,784,783
Underwriters' discount	(1,612,648)
Accrued interest sold	61,228
Transfers from the Literary Fund	103,126
Transfer to the General Fund of the Commonwealth	(201,000)
Transfers to the Literary Fund	(2,288,800)
Payments to localities (Education Technology Notes)	(53,126,353)
Payments to escrow agent	(337,082,264)
Rebate and penalty payments and calculation fees	<u>(804,032)</u>
Net cash used by noncapital financing activities	<u>(7,662,022)</u>
Cash flows from investing activities:	
Purchase of investment securities	(5,328,598)
Interest on investments	<u>25,195</u>
Net cash used by investing activities	<u>(5,303,403)</u>
Net increase in cash and cash equivalents	3,770,895
Cash and cash equivalents, July 1, 2011	<u>93,886,272</u>
Cash and cash equivalents, June 30, 2012	<u><u>\$ 97,657,167</u></u>

VIRGINIA PUBLIC SCHOOL AUTHORITY

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

Operating loss	<u>\$ (6,731,437)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Decrease in interest receivable	1,105,838
Decrease in accounts payable	(635,864)
Decrease in interest payable	(426,492)
Payments from the Literary Fund	62,694,848
Principal received on local school bonds	223,445,600
Purchase of local school bonds	(411,195,000)
Rebate and penalty payments to the Internal Revenue Service	804,032
Amortization of premium	(11,896,634)
Underwriters' discount	1,540,333
Premium on bonds sold	(605,505)
Amortization of interest deferral	13,444,564
Interest paid on VPSA bonds	145,206,063
(Increase) Decrease in fair value of investments	<u>(14,026)</u>
Total adjustments	<u>23,467,757</u>
Net cash provided by operating activities	<u><u>\$ 16,736,320</u></u>

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

VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

AS OF JUNE 30, 2012

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.

The Authority also has Qualified School Construction Bonds outstanding, which also fall under the pooled bond program. These bonds are taxable, but they receive a 100% interest rate subsidy from the federal government. They are secured by general obligation local school bonds in a pool pledged to their security.

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.

VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

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, Cash Equivalents, and Investments (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 and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two

VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

collateralization methodologies and depending upon that choice will pledge collateral that ranges in amounts from 50% to 130% of excess deposits. 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, Cash Equivalents, and Investments
As of June 30, 2012

	<u>Fair Value</u>	<u>Rating</u>
Cash	\$ 81,620	
Non-Negotiable Certificates of Deposit	1,100,446	Not Rated
Money Market Accounts ¹	19,637,609	AAAm
State Non-Arbitrage Program ^{® 2}	76,837,492	AAAm
Agency Mortgage-Backed Securities	<u>5,342,624</u>	AA+
Total cash, cash equivalents, and investments	<u><u>\$102,999,791</u></u>	

¹ The Authority invests certain short-term cash balances held within its accounts in the JP Morgan US Government 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. The Authority also invests certain short-term cash balances held within the First American Government Obligation Fund which seeks to provide maximum current income and daily liquidity by purchasing U.S. government securities and repurchase agreements collateralized by such 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[®] (75%) and the JP Morgan US Government 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

VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

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. On local school bonds held by the Authority that were issued prior to March 26, 2009, 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. 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.

Shown below are the local school bonds held by the Authority as of June 30, 2012.

Local school bonds:

Held in 1997 Pledge Account	\$ 2,755,439,208
Held in 2001 Purchase Fund	
(Northampton County Qualified Zone Academy Bond)	182,636
Held in 2002 Purchase Fund	
(Accomack County Qualified Zone Academy Bond)	568,981
Held in 2004 Purchase Fund	
(Chesterfield County Stand Alone)	5,680,000
Held in 2008 Purchase Fund	
(Henrico County Stand Alone)	37,765,000
Held in 2008 Purchase Fund	
(Fluvanna County Stand Alone)	66,825,000
Held in 2009 Purchase Fund	
(Qualified School Construction Bonds)	57,660,387
Held in 2010 Purchase Fund	
(Qualified School Construction Bonds)	67,840,000
Held in 2011-1 Purchase Fund	
(Qualified School Construction Bonds)	66,743,750
Held in 2011 Purchase Fund	
(Prince William County Stand Alone)	46,445,000
Held in 2011 Purchase Fund	
(Montgomery County Stand Alone)	86,115,000
Held in 2011-2 Purchase Fund	
(Qualified School Construction Bonds)	128,960,000
Total local school bonds	<u><u>\$ 3,320,224,962</u></u>

VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

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, 2012.

	Current Liability	Long-Term Liability	Total
Balance July 1, 2011	\$ 275,740,000	\$ 3,067,592,063	3,343,332,063
Issued during fiscal 2012	16,770,000	728,680,000	745,450,000
Retired during fiscal 2012	(275,740,000)	-	(275,740,000)
Defeased during fiscal 2012	(19,450,000)	(311,470,000)	(330,920,000)
Maturing in fiscal 2013	255,535,000	(255,535,000)	-
Subtotal	252,855,000	3,229,267,063	3,482,122,063
Less: Deferral on debt defeasance	(10,945,600)	(97,440,300)	(108,385,900)
Balance June 30, 2012	<u>\$ 241,909,400</u>	<u>\$ 3,131,826,763</u>	<u>\$ 3,373,736,163</u>

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, 2012.

Year Ending June 30	Principal	Interest	Total
2013	\$ 252,855,000	\$ 156,133,907	\$ 408,988,907
2014	261,500,000	145,181,551	406,681,551
2015	244,895,000	133,039,294	377,934,294
2016	233,569,060	121,151,757	354,720,817
2017	217,798,003	109,978,482	327,776,485
2018-2022	922,425,000	407,439,196	1,329,864,196
2023-2027	877,540,000	216,624,015	1,094,164,015
2028-2032	425,785,000	58,499,541	484,284,541
2033-2037	44,850,000	4,657,394	49,507,394
2038	905,000	20,363	925,363
Subtotal	3,482,122,063	1,352,725,500	4,834,847,563
Less: Deferral on debt defeasance	(108,385,900)	-	(108,385,900)
Total	<u>\$ 3,373,736,163</u>	<u>\$ 1,352,725,500</u>	<u>\$ 4,726,461,663</u>

VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

D. Equipment 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, 2012.

Educational Technology Notes

Issue	Description	Amount Issued	Outstanding Balance	Remaining Available for Disbursement
Ed Tech Series VIII	2008 Notes	\$ 56,475,000	\$ 12,010,000	\$ 323,017
Ed Tech Series IX	2009 Notes	55,395,000	23,040,000	813,503
Ed Tech Series X	2010 Notes	54,110,000	32,435,000	2,656,805
Ed Tech Series XI	2011 Notes	51,925,000	41,660,000	21,932,237
Ed Tech Series XII	2012 Notes	52,025,000	52,025,000	49,885,218
		<u>\$ 269,930,000</u>	<u>\$ 161,170,000</u>	<u>\$ 75,610,780</u>

E. Qualified Zone Academy Bonds

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 2001 QZAB and the 2002 QZAB are due December 21, 2015 and December 31, 2016, respectively, at which dates the QZABs will mature.

F. Qualified School Construction Bonds

On December 15, 2011, the Authority issued \$128,960,000 in School Tax Credit Bonds (Qualified School Construction Bonds) Series 2011-2. The proceeds of these bonds were used to purchase general obligation school bonds issued by certain localities. The bonds have been issued as “qualified school construction bonds” in accordance with Section 54F of the Internal Revenue Code of 1986, as amended. The Authority had also issued bonds under this program in previous fiscal years, bringing the total Qualified School Construction Bonds outstanding as of June 30, 2012 to \$330,135,000. These bonds are

VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

non-interest bearing; however, a taxpayer who holds such bonds during a taxable year will be allowed a federal income tax credit for such taxable year in accordance with the structure established at issuance.

G. 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 2012. 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 2012

<u>Refunding Issue</u>	<u>Refunded Issue</u>	<u>Maturities Defeased</u>	<u>Amount Defeased</u>
2012A	2001B	2020	\$ 7,595,000
2012A	2003A	2012, 2022-2028	14,830,000
2012A	2004A	2012, 2015, 2025-2029	24,625,000
2012A	2004B	2012, 2015, 2020-2029	54,330,000
2012A	2005C	2012, 2016-2030	79,810,000
2012A	2005D	2012, 2016-2030	118,490,000
Total Defeased, FY 2012			<u>\$ 299,680,000</u>

The issuance under the 1997 Resolution of the Authority's Series 2012 A bonds refunded certain outstanding bonds under the 1997 resolution. This debt defeasance resulted in an accounting loss of \$37,402,000. Total debt service payments over the next 19 years will be reduced by \$22,210,383 resulting in a present value savings of \$21,973,019 discounted at the rate of 2.08 percent.

On March 21, 2012, Chesterfield County issued \$49,560,000 of its own refunding bonds, a portion of which was used to refund \$31,240,000 of the Authority's 2004 Series Chesterfield County stand-alone bonds. The proceeds of the refunding bonds were placed with an escrow agent to provide for all future debt service on the defeased bonds. Therefore the liability for the defeased bonds is not included in the Authority's financial statements.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary

VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

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 \$108,385,900 to reflect the remaining deferral on debt defeasance at June 30, 2012.

At June 30, 2012, \$703,950,000 of bonds outstanding are considered defeased for financial reporting purposes.

H. Transfers

In May 2012, after final rebate computation and payment on the Educational Technology Notes Issue VI, the residual earnings of \$2,123,323 on the related bond proceeds were transferred to the Literary Fund, which had been the source of the debt service appropriation for these Notes.

The Authority received \$7,049,848 from the Literary Fund to pay interest on the various outstanding Educational Technology Notes.

Finally, in June 2012, the Authority transferred \$201,000 to the General Fund of the Commonwealth pursuant to Section 3-3.01 of Chapter 874 of the 2012 Virginia Acts of Assembly.

I. 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

VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

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	Computation	Liability
	Initial 5-Year or Final	Date	
(97 Resolution) 2001 Series A	10 year	5/17/2011	-
(97 Resolution) 2006 Series B	5 year	11/9/2012	-
(97 Resolution) 2001 Series B&C	5 year	11/15/2011	
(97 Resolution) 2007 Series A	5 year	5/10/2012	114,719
Educational Technology Series VII	*final	3/23/2012	90,772

* Reports prepared as of the final redemption of the bonds

The Authority paid \$79,650 to its rebate calculation agent for services provided in connection with the above rebate calculations.

The Series 2001A, the 2006B and the 2001 B&C (1997 Resolution) had installment computation dates of May 11, 2011, November 9, 2011 and November 15, 2011, respectively, and no rebate was owed.

J. Deficit Net Assets

In fiscal year 2011, The Authority issued its 2010C Refunding Bonds, which generated savings that will be returned to the Literary Fund and to the localities in fiscal year 2013. Pursuant to Section 22.1-167.1 of the *Code of Virginia*, the Authority will transfer the allocable savings generated from the 2010C Refunding Bonds of \$284,030 to the Literary Fund and has accrued a credit to localities of \$3,138,124 against future debt service payments on Local School Bonds that will be due on July 15, 2012.

In fiscal year 2010, pursuant to Section 22.1-167.1 of the *Code of Virginia*, the Authority transferred the allocable savings generated from the 2009C Refunding Bonds of \$4,497,137 to the Literary Fund and accrued a credit to localities of \$24,224,935 against future debt service payments on Local School Bonds that were due on July 15, 2010.

Each of the above transactions was structured to provide maximum savings benefits to the localities up front without the added burden of localities issuing their own refunding bonds. The savings to be realized by the issuance of the 2009C Refunding Bonds and the 2010C Refunding Bonds will be generated over time as a result of the differential in the debt service payments due from the localities and the debt service payments that will be made by the Authority over the life of the refunded bonds (the debt service coverage table reflecting this is shown in the Supplementary Information on page 21). The Authority generated sufficient cash flow to make the savings available to the localities on the front end by restructuring the timing of its own bond payments through the refunding bonds. Since the Authority chose to provide the full savings benefit to the localities prior to achieving the full savings benefit from the refunding, the Authority's Statement of Net Assets reflects deficit net assets in the amount of \$23,985,826. It is anticipated that

VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

absent any additional transactions of a similar nature, the deficit will continue to decline as the savings are actually realized in the future.

K. Subsequent Events

In August 2012, the Authority issued its \$65.7 million Special Obligation School Financing Bonds Prince William County Series 2012 as part of its stand-alone bond program. The proceeds were used to purchase general obligation bonds issued by Prince William County to pay the costs of various capital school improvement projects for the County.

In October 2012, the Authority issued \$23.3 million School Tax Credit Bonds, a portion of which will be issued as direct payment “qualified school construction bonds” and the remainder as “qualified zone academy bonds” Series 2012-1. VPSA will irrevocably elect to receive interest subsidy payments from the United States Treasury rather than to provide a tax credit to the owners of the 2012-1 bonds. The VPSA will transfer to the 2012-1 local issuers the interest subsidy payments that VPSA receives.

In November 2012, the Authority issued its \$65.9 million School Financing Series 2012 C bonds. The proceeds will be used to purchase general obligation school bonds issued by certain Virginia localities for capital projects for their public schools.

L. 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.

**VIRGINIA PUBLIC SCHOOL AUTHORITY
SUPPLEMENTARY INFORMATION**

**Detail of Long-Term Indebtedness
June 30, 2012
(Dollars in Thousands)**

Detail of Long-Term Indebtedness by Series

	Dated	Bond	True Interest	Amount	Local	Outstanding	Issued	Outstanding	Original
	Date	Resolution	Cost ("TIC")	Issued (a)	School Bonds Purchased	July 1, 2011	(Retired) During Year	June 30, 2012 (b)	Maturity
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	4,905	(4,905)	-	08/01/20
Series 2001 A	05/01/01	1997	4.84%	153,940	153,940	7,525	(7,525)	-	08/01/21
Series 2001 B	11/01/01	1997	4.87%	142,400	142,400	14,685	(14,685)	-	08/01/21
Series 2001 C	11/01/01	1997	4.87%	41,500	41,500	1,010	(1,010)	-	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	10,980	(5,450)	5,530	08/01/22
Series 2002 B	11/01/02	1997	4.12%	155,545	155,545	16,065	(8,015)	8,050	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	30,215	(20,500)	9,715	08/01/28
Series 2003 B	05/01/03	1997	2.93%	74,850	74,850	16,220	(5,455)	10,765	08/01/13
Series 2003 C	11/01/03	1997	4.39%	190,645	190,645	23,520	(7,630)	15,890	08/01/28
Series 2003 D	12/11/03	1997	3.23%	286,670	-	74,310	(17,945)	56,365	08/01/19
2004 Series Chesterfield County	02/15/04	Stand Alone	3.80%	56,825	56,825	39,760	(34,080)	5,680	01/15/25
Series 2004 A	05/01/04	1997	4.33%	123,585	123,585	41,710	(28,215)	13,495	08/01/29
Series 2004 B	11/01/04	1997	3.91%	145,340	145,337	77,080	(60,310)	16,770	08/01/29
Series 2004 C	12/08/04	1997	3.34%	156,125	-	78,500	(13,890)	64,610	08/01/16
Series 2005 A	03/15/05	1997	3.64%	55,200	-	31,580	(4,355)	27,225	08/01/17
Series 2005 B	04/20/05	1997	4.07%	230,580	-	212,690	(14,875)	197,815	08/01/20
Series 2005 C	05/01/05	1997	4.13%	134,360	134,360	105,680	(85,755)	19,925	08/01/30
Series 2005 D	11/01/05	1997	4.19%	199,345	199,341	157,755	(127,310)	30,445	08/01/30
Series 2006 A	05/01/06	1997	4.39%	202,175	202,175	170,770	(8,235)	162,535	08/01/31
Series 2006 B	11/01/06	1997	4.22%	240,955	240,954	203,980	(10,000)	193,980	08/01/32
Series 2007 A	05/01/07	1997	4.24%	112,235	112,235	97,720	(4,945)	92,775	08/01/32
Series 2007 Ed Tech Series VII	05/24/07	Equip. Notes	3.70%	56,765	-	12,360	(12,360)	-	04/15/12
Series 2007 B	11/01/07	1997	4.28%	223,080	223,076	193,450	(10,135)	183,315	08/01/32
Series 2008 A	05/01/08	1997	4.22%	134,950	134,950	124,875	(5,155)	119,720	08/01/37

(a) Includes refunding bonds issued.

(b) Excludes deferral on debt defeasance.

**VIRGINIA PUBLIC SCHOOL AUTHORITY
SUPPLEMENTARY INFORMATION**

**Detail of Long-Term Indebtedness
June 30, 2012
(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, 2011	Issued (Retired) During Year	Outstanding June 30, 2012 (b)	Original Maturity
Series 2008 Ed Tech Series VIII	05/22/08	Equip. Notes	2.88%	56,475	-	23,445	(11,435)	12,010	04/15/13
2008 Series Henrico County	07/17/08	Stand Alone	4.12%	44,400	44,440	39,990	(2,225)	37,765	07/15/28
Series 2008 B	12/01/08	1997	4.75%	118,930	118,927	108,885	(5,195)	103,690	08/01/33
2008 Series Fluvanna County	12/22/08	Stand Alone	5.95%	67,525	67,525	67,525	(700)	66,825	12/01/35
Series 2009 A	03/12/09	1997	2.60%	114,180	-	106,435	(25,015)	81,420	08/01/20
Series 2009 B	05/01/09	1997	3.69%	200,435	200,435	191,535	(8,985)	182,550	08/01/29
Series 2009 Ed Tech Series IX	05/21/09	Equip. Notes	1.60%	55,395	-	33,740	(10,700)	23,040	04/15/14
Series 2009 C	10/27/09	1997	2.85%	481,285	-	481,285	(480)	480,805	08/01/28
Series 2009-1 QSCB	11/13/09	School Tax Cr.	0.63%	61,120	61,120	61,120	-	61,120	09/15/26
Series 2009 D	11/30/09	1997	3.48%	11,645	11,645	11,270	(435)	10,835	08/01/29
Series 2010 A	05/13/10	1997	3.01%	45,805	45,805	45,805	(5,045)	40,760	08/01/30
Series 2010 B	05/13/10	1997	5.09%	63,840	63,840	63,840	-	63,840	08/01/30
Series 2010 C	10/19/10	1997	2.49%	85,510	-	85,510	-	85,510	08/01/24
Series 2010 D	11/10/10	1997	2.98%	9,975	9,975	9,975	(455)	9,520	08/01/30
Series 2010 Ed Tech Series X	05/18/10	Equip. Notes	1.37%	54,110	-	43,320	(10,885)	32,435	04/15/15
Series 2010-1 QSCB	07/08/10	School Tax Cr.	0.06%	72,655	72,655	72,655	-	72,655	06/15/27
Series 2011 A	05/05/11	1997	3.72%	26,375	26,375	26,375	-	26,375	08/01/36
Series 2011 Ed Tech Series XI	06/02/11	Equip. Notes	0.98%	51,925	-	51,925	(10,265)	41,660	04/15/16
Series 2011-1 QSCB	06/28/11	School Tax Cr.	0.05%	67,400	67,400	67,400	-	67,400	06/15/27
Series 2011-2 QSCB	12/15/11	School Tax Cr.	0.00%	128,960	128,960	-	128,960	128,960	12/15/30
Series 2011 B	11/01/11	1997	3.37%	85,730	85,730	-	85,730	85,730	08/01/36
Series 2011 Montgomery County	12/06/11	Stand Alone	3.59%	86,115	86,115	-	86,115	86,115	01/15/32
Series 2011 Prince William County	08/04/11	Stand Alone	3.15%	46,445	46,445	-	46,445	46,445	07/15/31
Series 2012 A	03/08/12	1997	2.28%	282,230	-	-	282,230	282,230	08/01/30
Series 2012 B	05/10/12	1997	2.85%	63,945	63,945	-	63,945	63,945	08/01/32
Series 2012 E Ed Tech Series XII	06/06/12	Equip. Notes	0.70%	52,025	-	-	52,025	52,025	04/15/17
Total				<u>\$ 5,880,297</u>	<u>\$ 3,861,847</u>	<u>\$ 3,343,332</u>	<u>\$ 138,790</u>	<u>\$ 3,482,122</u>	

Detail of Long-Term Indebtedness by Resolution

	Amount Issued (a)	Local School Bonds Purchased	Outstanding July 1, 2011	Issued (Retired) During Year	Outstanding June 30, 2012 (b)
1997 Resolution	\$ 4,918,205	\$ 3,226,410	\$ 2,826,140	\$ (80,005)	\$ 2,746,135
Stand Alone Issues	305,262	305,302	151,227	93,455	244,682
Equipment Notes	326,695	-	164,790	(3,620)	161,170
School Tax Credit	330,135	330,135	201,175	128,960	330,135
Total	<u>\$ 5,880,297</u>	<u>\$ 3,861,847</u>	<u>\$ 3,343,332</u>	<u>\$ 138,790</u>	<u>\$ 3,482,122</u>

(a) Includes refunding bonds issued.

(b) Excludes deferral on debt defeasance.

VIRGINIA PUBLIC SCHOOL AUTHORITY

SUPPLEMENTARY INFORMATION

	(A) Income Available to Pay Debt Service				(B) Outstanding Debt Service					(A) / (B)
	Local School Bond Income	LSB Income Reserved for Carryforward	LSB Income Carryforward	Income Available for Debt Service	Outstanding Bonds	Series 2012 B Bonds	Total Debt Requirements	Semi-Annual Coverage	Annual Coverage	
2/1/2013	67,694,292.50	-	-	67,694,292.50	62,259,463.17	1,918,979.51 ⁽¹⁾	64,178,442.68	3,515,849.82	-	105.48%
8/1/2013	268,979,329.69	-	-	268,979,329.69	264,664,125.67	3,764,862.50	268,428,988.17	550,341.52	4,066,191.33	100.21%
2/1/2014	58,407,774.80	-	-	58,407,774.80	54,906,944.42	1,380,425.00	56,287,369.42	2,120,405.38	-	103.77%
8/1/2014	261,171,074.80	-	-	261,171,074.80	256,632,744.42	3,915,425.00	260,548,169.42	622,905.39	2,743,310.77	100.24%
2/1/2015	52,806,999.25	-	-	52,806,999.25	49,502,944.42	1,342,400.00	50,845,344.42	1,961,654.83	-	103.86%
8/1/2015	255,892,252.25	-	-	255,892,252.25	251,247,944.42	3,922,400.00	255,170,344.42	721,907.84	2,683,562.67	100.28%
2/1/2016	47,267,301.53	-	-	47,267,301.53	44,604,319.42	1,290,800.00	45,895,119.42	1,372,182.12	-	102.99%
8/1/2016	243,950,838.53	-	-	243,950,838.53	239,419,319.42	3,940,800.00	243,360,119.42	590,719.11	1,962,901.23	100.24%
2/1/2017	42,276,530.27	-	-	42,276,530.27	39,873,731.92	1,224,550.00	41,098,281.92	1,178,248.34	-	102.87%
8/1/2017	233,047,688.27	-	-	233,047,688.27	228,573,731.92	3,949,550.00	232,523,281.92	524,406.34	1,702,654.69	100.23%
2/1/2018	37,471,613.04	-	-	37,471,613.04	35,195,523.24	1,156,425.00	36,351,948.24	1,119,664.79	-	103.08%
8/1/2018	217,892,554.04	-	-	217,892,554.04	213,485,523.25	3,966,425.00	217,451,948.25	440,605.79	1,560,270.58	100.20%
2/1/2019	32,914,951.31	-	-	32,914,951.31	30,914,430.37	1,086,175.00	32,000,605.37	914,345.94	-	102.86%
8/1/2019	208,322,497.31	-	-	208,322,497.31	203,909,430.38	3,981,175.00	207,890,605.38	431,891.93	1,346,237.88	100.21%
2/1/2020	28,577,067.00	-	-	28,577,067.00	26,754,416.23	1,013,800.00	27,768,216.23	808,850.78	-	102.91%
8/1/2020	193,589,455.00	-	-	193,589,455.00	189,279,416.23	3,993,800.00	193,273,216.23	316,238.78	1,125,089.55	100.16%
2/1/2021	24,591,677.04	-	-	24,591,677.04	22,903,183.73	939,300.00	23,842,483.73	749,193.32	-	103.14%
8/1/2021	180,761,712.04	-	-	180,761,712.04	176,563,183.73	4,019,300.00	180,582,483.73	179,228.31	928,421.63	100.10%
2/1/2022	20,731,022.35	-	-	20,731,022.35	19,252,104.33	862,300.00	20,114,404.33	616,618.03	-	103.07%
8/1/2022	163,289,291.35	-	-	163,289,291.35	159,097,104.33	4,037,300.00	163,134,404.33	154,887.02	771,505.05	100.09%
2/1/2023	17,275,868.08	-	-	17,275,868.08	15,985,283.45	782,925.00	16,768,208.45	507,659.63	-	103.03%
8/1/2023	148,168,334.08	-	-	148,168,334.08	143,975,283.45	4,062,925.00	148,038,208.45	130,125.63	637,785.26	100.09%
2/1/2024	14,095,515.37	-	-	14,095,515.37	12,914,981.30	700,925.00	13,615,906.30	479,609.07	-	103.52%
8/1/2024	135,720,691.37	-	-	135,720,691.37	131,584,981.30	4,095,925.00	135,680,906.30	39,785.07	519,394.14	100.03%
2/1/2025	11,135,249.66	-	-	11,135,249.66	10,143,804.95	616,050.00	10,759,854.95	375,394.71	-	103.49%
8/1/2025	125,521,029.66	-	-	125,521,029.66	121,373,804.95	4,121,050.00	125,494,854.95	26,174.70	401,569.41	100.02%
2/1/2026	8,474,504.24	56,354.58	-	8,418,149.66	7,590,269.83	528,425.00	8,118,694.83	299,454.83	-	103.69%
8/1/2026	106,742,340.24	-	56,354.58	106,798,694.83	102,670,269.83	4,128,425.00	106,798,694.83	-	299,454.83	100.00%
2/1/2027	6,090,621.98	62,179.40	-	6,028,442.59	5,346,285.38	474,425.00	5,820,710.38	207,732.21	-	103.57%
8/1/2027	83,623,530.98	-	62,179.40	83,685,710.38	78,976,285.38	4,709,425.00	83,685,710.38	-	207,732.21	100.00%
2/1/2028	4,240,268.41	72,990.57	-	4,167,277.84	3,632,685.98	389,725.00	4,022,410.98	144,866.86	-	103.60%
8/1/2028	65,304,420.41	-	72,990.57	65,377,410.98	61,437,685.98	3,939,725.00	65,377,410.98	-	144,866.86	100.00%
2/1/2029	2,775,386.95	15,705.00	-	2,759,681.95	2,360,116.95	300,975.00	2,661,091.95	98,590.00	-	103.70%
8/1/2029	48,285,386.95	-	15,705.00	48,301,091.95	44,345,116.95	3,955,975.00	48,301,091.95	-	98,590.00	100.00%
2/1/2030	1,759,627.98	-	-	1,759,627.98	1,470,246.73	246,150.00	1,716,396.73	43,231.25	-	102.52%
8/1/2030	30,644,627.98	-	-	30,644,627.98	26,635,246.73	3,991,150.00	30,626,396.73	18,231.25	61,462.50	100.06%
2/1/2031	1,087,962.50	-	-	1,087,962.50	907,706.25	161,887.50	1,069,593.75	18,368.75	-	101.72%
8/1/2031	22,552,962.50	-	-	22,552,962.50	18,497,706.25	4,036,887.50	22,534,593.75	18,368.75	36,737.50	100.08%
2/1/2032	609,408.75	-	-	609,408.75	524,506.25	74,700.00	599,206.25	10,202.50	-	101.70%
8/1/2032	12,669,408.75	-	-	12,669,408.75	9,264,506.25	3,394,700.00	12,659,206.25	10,202.50	20,405.00	100.08%
2/1/2033	333,103.13	-	-	333,103.13	327,634.38	-	327,634.38	5,468.75	-	101.67%
8/1/2033	5,693,103.13	-	-	5,693,103.13	5,687,634.38	-	5,687,634.38	5,468.75	10,937.50	100.10%
2/1/2034	209,421.88	-	-	209,421.88	206,146.88	-	206,146.88	3,275.00	-	101.59%
8/1/2034	3,024,421.88	-	-	3,024,421.88	3,021,146.88	-	3,021,146.88	3,275.00	6,550.00	100.11%
2/1/2035	149,306.25	-	-	149,306.25	146,931.25	-	146,931.25	2,375.00	-	101.62%
8/1/2035	3,089,306.25	-	-	3,089,306.25	3,086,931.25	-	3,086,931.25	2,375.00	4,750.00	100.08%
2/1/2036	86,502.50	-	-	86,502.50	85,068.75	-	85,068.75	1,433.75	-	101.69%
8/1/2036	3,151,502.50	-	-	3,151,502.50	3,150,068.75	-	3,150,068.75	1,433.75	2,867.50	100.05%
2/1/2037	20,815.00	-	-	20,815.00	20,362.50	-	20,362.50	452.50	-	102.22%
8/1/2037	925,815.00	-	-	925,815.00	925,362.50	-	925,362.50	452.50	905.00	100.05%
2/1/2041	-	-	-	-	-	-	-	-	-	-
Total	\$3,503,096,366.68	207,229.55	207,229.55	\$3,503,096,366.68	3,385,333,646.58	\$96,418,567.01	\$3,481,752,213.59	\$21,344,153.09	\$21,344,153.09	

(1) Net of accrued interest and funded interest \$ 195,814.24

11/14/2012



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 15, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

Board of Commissioners
Virginia Public School Authority

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the **Virginia Public School Authority**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Virginia Public School Authority as of June 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages one through four be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any

assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Virginia Public School Authority. The Detail of Long-Term Indebtedness and Schedule of Debt Service Coverage are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Detail of Long-Term Indebtedness and Schedule of Debt Service Coverage have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Detail of Long-Term Indebtedness and Schedule of Debt Service Coverage are fairly stated in all material respects in relation to the basic financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2012 on our consideration of the Virginia Public School 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, 2012

Brenda L. Skidmore, Chairman

Ben Loyola, Vice Chairman

Woodrow W. Mullins, Jr.

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