

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



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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

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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) |

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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:

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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 November 2012, the Authority will issue 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.

In November 2012, the Authority will sell \$63.3 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.

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STATEMENT OF NET ASSETS (Unaudited)

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> |
|------------------|----------------|

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 (Unaudited)
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> |
| 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> |
| Operating loss | <u>(6,731,437)</u> |
| 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) |
| Net assets (deficit), July 1, 2011 | <u>(22,083,040)</u> |
| Net assets (deficit), June 30, 2012 | <u>\$ (23,985,826)</u> |

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

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STATEMENT OF CASH FLOWS (Unaudited)

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>\$ 97,657,167</u> |

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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>\$ 16,736,320</u> |

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

VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

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 (Unaudited)

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 (Unaudited)

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

| | Fair Value | Rating |
|---|---------------|-----------|
| 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 | 5,342,624 | AA+ |
| Total cash, cash equivalents, and investments | \$102,999,791 | |

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 (Unaudited)

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 (Unaudited)

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.

| | <u>Current Liability</u> | <u>Long-Term Liability</u> | <u>Total</u> |
|--------------------------------------|------------------------------|--------------------------------|-------------------------|
| 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 | <u>252,855,000</u> | <u>3,229,267,063</u> | <u>3,482,122,063</u> |
| Less: Deferral on debt defeasance | <u>(10,945,600)</u> | <u>(97,440,300)</u> | <u>(108,385,900)</u> |
| 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 <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------------|-------------------------|-------------------------|-------------------------|
| 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 | <u>3,482,122,063</u> | <u>1,352,725,500</u> | <u>4,834,847,563</u> |
| Less: Deferral on debt defeasance | <u>(108,385,900)</u> | <u>-</u> | <u>(108,385,900)</u> |
| 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 (Unaudited)

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 |
| | | \$ 269,930,000 | \$ 161,170,000 | \$ 75,610,780 |

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 (Unaudited)

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 | | | \$ 299,680,000 |

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 \$46,560,000 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 (Unaudited)

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 (Unaudited)

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) 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 \$24,034,227. It is anticipated that

VIRGINIA PUBLIC SCHOOL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

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 November 2012, the Authority will issue 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.

In November 2012, the Authority will sell \$63.3 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.

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 | July 1, | (Retired) | June 30, | Maturity |
| | | | | | Purchased | 2011 | During | 2012 (b) | |
| | | | | | | | Year | | |
| 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 | 07/15/32 |
| 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 | 05/01/12 | 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 | | | | \$ 5,880,297 | \$ 3,861,847 | \$ 3,343,332 | \$ 138,790 | \$ 3,482,122 | |

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 | \$ 5,880,297 | \$ 3,861,847 | \$ 3,343,332 | \$ 138,790 | \$ 3,482,122 |

(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 | | | | | | |
|--------------|---|--------------------------------------|-------------------------|-----------------------------------|-------------------------|-----------------------------|---------------------------|------------------------|-------------------------|-----------|
| | 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 | (A) / (B) |
| 2/1/2013 | 67,623,799.37 | - | - | 67,623,799.37 | 62,259,463.17 | 1,918,979.51 ⁽¹⁾ | 64,178,442.68 | 3,445,356.69 | - | 105.37% |
| 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 | 3,995,698.21 | 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 | \$3,503,025,873.56 | 207,229.55 | 207,229.55 | \$3,503,025,873.56 | 3,385,333,646.58 | \$96,418,567.01 | \$3,481,752,213.59 | \$21,273,659.96 | \$ 21,273,659.96 | |

(1) Net of accrued interest and funded interest i \$ 125,321.11

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

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Manju S. Ganeriwala, Secretary and Treasurer, State Treasurer

David Von Moll, State Comptroller

Dr. Patricia I. Wright, Superintendent of Public Instruction