NOT A NEW ISSUE
SUPPLEMENT TO OFFICIAL STATEMENT

RATINGS: Fitch: AA+
Moody's: Aa1
Standard & Poor's: AA+

SUPPLEMENT TO
OFFICIAL STATEMENT
DATED APRIL 24, 2014

relating to

$266,915,000
VIRGINIA PUBLIC SCHOOL AUTHORITY
SCHOOL FINANCING BONDS (1997 RESOLUTION)

consisting of:

$51,510,000 **School Financing Bonds** **(1997 Resolution)** **Series 2014A**	**$215,405,000** **School Financing Refunding Bonds** **(1997 Resolution)** **Series 2014B**

DATED: Date of Delivery

DUE: August 1, as shown on the inside cover of the Official Statement

This Supplement updates the Official Statement dated April 24, 2014 (the "Official Statement") of the Virginia Public School Authority, with respect to the above referenced bonds, to revise the second paragraph under "**OTHER INFORMATION**," with respect to the Commonwealth of Virginia's (the "Commonwealth") compliance with its continuing disclosure undertakings, to read as follows:

> As of the date of this Official Statement, the Commonwealth has complied in all material respects with its undertakings regarding Rule 15c2-12, except as described below. In making timely filings of its Annual Reports for Fiscal Years 2009-2013, the CUSIP information necessary to link such filings to (i) each series of the Commonwealth Transportation Board's Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes was inadvertently omitted from such filings for Fiscal Years 2009-2011 and (ii) each series of the Virginia Resources Authority's ("VRA") Infrastructure Revenue Bonds and Moral Obligation Bonds related to VRA's Virginia Pooled Financing Program (the "VPFP") and VRA's Pooled Loan Bond Program (the "PLBP") was inadvertently omitted from such filings for Fiscal Years 2009-2013 because of a change in the base CUSIP identifier of VRA's pooled issues. The Commonwealth made such filings, and such filings were otherwise available from the MSRB, with respect to other Commonwealth undertakings, including each of the bonds issued under the VPFP and the PLBP that use the prior CUSIP identifier. The Commonwealth has taken steps to ensure future compliance with its undertakings regarding Rule 15c2-12.

Terms used and not otherwise defined herein shall have the meaning given to them in the Official Statement. Except as updated by this Supplement, there are no other supplements or amendments to the Official Statement.

The date of this Supplement to Official Statement is May 14, 2014.

NEW ISSUE - FULL BOOK-ENTRY

Ratings: Fitch: AA+
Moody's: Aa1
Standard & Poor's: AA+
(See "Ratings" herein)

*In the opinion of Bond Counsel, under current law and subject to the conditions described in **"TAX MATTERS"** herein, interest on the 2014 Bonds (a) is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (b) is not treated as a preference item in calculating the alternative minimum tax imposed under the Code on individuals and corporations. However, interest on the 2014 Bonds must be included in the calculation of a corporation's federal alternative minimum tax. Bond Counsel is further of the opinion that interest on the 2014 Bonds is exempt from Virginia income taxation. See **"TAX MATTERS"** herein regarding certain other tax considerations.*

$266,915,000
VIRGINIA PUBLIC SCHOOL AUTHORITY
SCHOOL FINANCING BONDS (1997 RESOLUTION)

consisting of:

$51,510,000	$215,405,000
School Financing Bonds (1997 Resolution) Series 2014A	**School Financing Refunding Bonds (1997 Resolution) Series 2014B**

Dated: Date of Delivery **Due: August 1, as shown on the inside cover**

This Official Statement has been prepared by the Virginia Public School Authority to provide information on the above referenced bonds (the "2014A Bonds" and the "2014B Bonds," respectively, and collectively, the "2014 Bonds"). Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the 2014 Bonds, a prospective investor should read this Official Statement in its entirety.

Purpose	The 2014A Bonds are being issued to purchase $51,510,000 general obligation school bonds issued by certain Virginia localities that are to use the proceeds for capital projects for their public schools. The 2014B Bonds are being issued to refund certain outstanding bonds of the Authority. See "**PLAN OF FINANCE**" and **"SOURCES AND USES OF THE 2014 PROCEEDS."**
Issued Pursuant to	1997 Resolution, adopted by the Authority on October 23, 1997, as amended and restated.
Denomination	$5,000 or multiples thereof.
Security	The 2014 Bonds are secured by principal and interest payments on the general obligation school bonds issued by certain Virginia localities, held by the Authority and pledged to the payment of the 2014 Bonds. The 2014 Bonds do not constitute a debt or a pledge of the faith and credit of the Commonwealth of Virginia. See **"SECURITY AND SOURCES OF PAYMENT FOR THE 2014 BONDS."**
Redemption	The 2014 Bonds are subject to redemption as described on the inside cover.
Interest Payment Dates	February 1 and August 1, commencing February 1, 2015 with respect to the 2014A Bonds and commencing August 1, 2014 with respect to the 2014B Bonds.
Registration	Fully registered book-entry only in the name of Cede & Co. (as nominee of The Depository Trust Company). See **"DESCRIPTION OF THE 2014 BONDS - Book-Entry Only System."**
Registrar/ Paying Agent	State Treasurer.
Financial Advisor	Davenport & Company, LLC, Richmond, Virginia.
Bond Counsel	McGuireWoods LLP, Richmond, Virginia.
Issuer Contact	Director of Debt Management, Virginia Department of the Treasury, (804) 225-2142.
Delivery Date	On or about May 15, 2014.

Dated: April 24, 2014

$266,915,000
VIRGINIA PUBLIC SCHOOL AUTHORITY
SCHOOL FINANCING BONDS (1997 RESOLUTION)
consisting of:

$51,510,000	$215,405,000
School Financing Bonds	**School Financing Refunding Bonds**
(1997 Resolution)	**(1997 Resolution)**
Series 2014A	**Series 2014B**

(Base CUSIP Number 92817S)

$51,510,000 Series 2014A

Year of Maturity	Principal Amount	Interest Rate	Yield	CUSIP Suffix*	Year of Maturity	Principal Amount	Interest Rate	Yield	CUSIP Suffix*
2015	$ 1,720,000	5.000%	0.190%	T99	2028	$ 2,580,000	3.000%	3.100%	V62
2016	1,780,000	5.000	0.460	U22	2029	2,650,000	3.125	3.200	V70
2017	1,835,000	5.000	0.760	U30	2030	2,155,000	3.125	3.280	V88
2018	1,905,000	5.000	1.070	U48	2031	2,215,000	3.250	3.360	V96
2019	2,400,000	5.000	1.380	U55	2032	2,285,000	3.375	3.440	W20
2020	2,595,000	5.000	1.710	U63	2033	2,350,000	3.375	3.510	W38
2021	2,720,000	5.000	1.970	U71	2034	2,430,000	3.500	3.560	W46
2022	1,945,000	5.000	2.200	U89	2035	1,455,000	3.500	3.610	W53
2023	2,375,000	5.000	2.400	U97	2036	1,505,000	3.500	3.660	W61
2024	2,510,000	5.000	2.520	V21	2037	645,000	3.625	3.700	W79
2025	2,610,000	2.625	2.700	V39	2038	670,000	3.625	3.730	W87
2026	2,700,000	2.750	2.830	V47	2039	695,000	3.625	3.760	W95
2027	2,780,000	3.000	3.000	V54					

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The 2014A Bonds are subject to optional redemption as set forth herein. See "**DESCRIPTION OF THE 2014 BONDS – Optional Redemption – 2014A Bonds.**"

$215,405,000 Series 2014B

Year of Maturity	Principal Amount	Interest Rate	Yield	CUSIP Suffix*	Year of Maturity	Principal Amount	Interest Rate	Yield/Price	CUSIP Suffix*
2014	$ 1,270,000	3.000%	0.110%	S41	2021	$ 20,975,000	5.000%	1.910%	T32
2016	85,000	3.000	0.400	S66	2022	21,585,000	5.000	2.150	T40
2017	18,910,000	5.000	0.700	S74	2023	22,235,000	5.000	2.350	T57
2018	19,390,000	5.000	1.010	S82	2024	22,910,000	5.000	2.480	T65
2019	19,920,000	5.000	1.270	S90	2025	23,625,000	4.000	2.610/112.385*	T73
2020	20,425,000	5.000	1.620	T24	2026	24,075,000	3.000	2.900/100.875*	T81

*Priced to the first optional redemption date, August 1, 2024.

The 2014B Bonds are subject to optional redemption as set forth herein. See "**DESCRIPTION OF THE 2014 BONDS – Optional Redemption – 2014B Bonds.**"

* A registered trademark of the American Bankers Association ("ABA"), used by Standard & Poor's ("S&P") in its operation of the CUSIP Service Bureau for the ABA. The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with Virginia Public School Authority (the "Authority"), and the Authority is not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products. The Authority has not agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

STATE OFFICIALS

GOVERNOR
TERENCE R. MCAULIFFE

LIEUTENANT GOVERNOR
RALPH S. NORTHAM

ATTORNEY GENERAL
MARK R. HERRING

SECRETARY OF FINANCE
RICHARD D. BROWN

TREASURER
MANJU S. GANERIWALA

COMPTROLLER
DAVID A. VON MOLL

SUPERINTENDENT
OF PUBLIC INSTRUCTION
PATRICIA I. WRIGHT*

VIRGINIA PUBLIC SCHOOL AUTHORITY MEMBERS

CHAIRMAN
BRENDA L. SKIDMORE

VICE-CHAIRMAN
BEN LOYOLA

TREASURER & SECRETARY
MANJU S. GANERIWALA

DOUGLAS COMBS
DAVID VON MOLL

KANCHANA K. THAMODARAN
PATRICIA I. WRIGHT*

AUTHORITY STAFF

VPSA ASSISTANT SECRETARY/
ASSISTANT TREASURER
Department of the Treasury
Director of Debt Management
EVELYN R. WHITLEY

VPSA ASSISTANT SECRETARY/
ASSISTANT TREASURER
Department of the Treasury
Assistant Director of Debt
Management
JANET A. AYLOR

VPSA ASSISTANT
SECRETARY/
ASSISTANT TREASURER
Public Finance Manager
DEIDRE G. JETT**

Department of the Treasury
Senior Public Finance Analyst
MELISSA W. PALMER

FINANCIAL ADVISOR
DAVENPORT & COMPANY, LLC
Richmond, Virginia

BOND COUNSEL
MCGUIREWOODS LLP
Richmond, Virginia

* On March 11, 2014, Ms. Wright announced her retirement, effective May 1, 2014. On March 31, 2014, the Governor announced his intention to appoint Steve Staples as Ms. Wright's successor. Subject to confirmation by the General Assembly, Mr. Staples will assume Ms. Wright's position as Superintendent of Public Instruction.

** Ms. Jett has joined the Authority's staff since the Preliminary Official Statement dated April 15, 2014.

THE 2014 BONDS ARE EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE 2014 BONDS ARE ALSO EXEMPT FROM REGISTRATION UNDER THE SECURITIES LAWS OF THE COMMONWEALTH OF VIRGINIA

NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE AUTHORITY OR THE UNDERWRITERS. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY OFFER OR SOLICITATION OF SUCH OFFER OR SALE OF THE 2014 BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT OR AGREEMENT BETWEEN THE AUTHORITY OR THE UNDERWRITERS OR HOLDERS OF ANY OF THE 2014 BONDS.

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

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IN ACCORDANCE WITH THEIR RESPONSIBILITIES UNDER THE FEDERAL SECURITIES LAWS, THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT BUT DO NOT GUARANTEE ITS ACCURACY OR COMPLETENESS.

THE UNDERWRITERS MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE 2014 BONDS, INCLUDING TRANSACTIONS TO (A) OVERALLOT IN ARRANGING THE SALES OF THE 2014 BONDS AND (B) MAKE PURCHASES AND SALES OF BONDS, FOR LONG OR SHORT ACCOUNT, ON A WHEN-ISSUED BASIS OR OTHERWISE, AT SUCH PRICES, IN SUCH AMOUNTS AND IN SUCH MANNER AS THE UNDERWRITERS MAY DETERMINE.

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$266,915,000
VIRGINIA PUBLIC SCHOOL AUTHORITY
SCHOOL FINANCING BONDS (1997 RESOLUTION)

consisting of:

$51,510,000	**$215,405,000**
School Financing Bonds	**School Financing Refunding Bonds**
(1997 Resolution)	**(1997 Resolution)**
Series 2014A	**Series 2014B**

INTRODUCTION

The purpose of this Official Statement is to provide certain information in connection with the issuance by the Virginia Public School Authority (the "Authority") of its $51,510,000 School Financing Bonds (1997 Resolution) Series 2014A (the "2014A Bonds") and $215,405,000 School Financing Refunding Bonds (1997 Resolution) Series 2014B (the "2014B Bonds," and together with the 2014A Bonds, the "2014 Bonds"). The Authority is an instrumentality of the Commonwealth of Virginia (the "Commonwealth"), created by Chapter 11, Title 22.1, Code of Virginia, 1950, as amended (the "Enabling Act"). See **"THE AUTHORITY."**

The 2014 Bonds are being issued pursuant to the Enabling Act and a bond resolution adopted on October 23, 1997, as amended and restated, as supplemented (the "1997 Resolution"), by the Board of Commissioners of the Authority (the "Board"). The Authority's purpose in issuing the 2014A Bonds is to provide funds for the purchase by the Authority of certain general obligation school bonds (the "2014A Local Bonds") to be issued by certain Virginia localities (the "2014A Local Issuers"). The 2014A Local Issuers are to use the proceeds of their 2014A Local Bonds to finance capital projects for their public schools. The Authority's purpose in issuing the 2014B Bonds is to provide funds to refund in advance of their maturity certain bonds of the Authority issued under the 1997 Resolution. The proceeds of the refunded bonds were used to purchase general obligation school bonds (the "Related Local Bonds") issued by certain Virginia counties and cities (the "Related Local Issuers") for capital projects for their public schools.

In this Official Statement:

- The 2014 Bonds and the parity bonds heretofore and hereafter issued under the 1997 Resolution are called "Bonds."
- The 2014A Local Bonds, the Related Local Bonds and all other general obligation school bonds the principal, interest and redemption components of which have been, or will be, pledged to the Bonds are called collectively "Local School Bonds."
- Cities, counties and towns, including the 2014A Local Issuers and the Related Local Issuers, are called "Local Issuers."

The 2014A Bonds and the 2014B Bonds will be the forty-seventh and forty-eighth series of Bonds, respectively, issued under the 1997 Resolution. As of April 15, 2014, $2,666,900,000 Bonds were outstanding.

The 1997 Resolution permits the issuance of additional Bonds of the Authority:

- to purchase additional Local School Bonds; and
- to refund any outstanding obligation of the Authority.

All the Bonds, including the 2014 Bonds, will be secured by and payable from principal and interest payable on all the Local School Bonds, including the 2014A Local Bonds and the Related Local Bonds. See **"SCHEDULE OF INCOME AVAILABLE TO PAY DEBT SERVICE AND DEBT SERVICE REQUIREMENTS."** The 1997 Resolution requires, in connection with the issuance of additional Bonds by the Authority, that the sum of the scheduled debt service on all Local School Bonds after the issuance of such additional

Bonds will be at least equal the related scheduled debt service on all the Bonds on each debt service payment date on the Bonds. All Local School Bonds, including the 2014A Local Bonds and the Related Local Bonds, must be general obligations of Local Issuers for which their full faith and credit and taxing power are irrevocably pledged. See **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS"** and **"THE LOCAL SCHOOL BONDS."**

The Authority has covenanted in the 1997 Resolution to seek from the Virginia General Assembly in each biennium a sum sufficient appropriation of an amount at least equal to the difference between (A) debt service on the Bonds becoming due in the fiscal years covered by the biennial Budget Bill and (B) the amounts paid on the Local School Bonds credited to the 1997 Resolution Pledge Account or realized from the application of the State Aid Intercept Provision. The General Assembly has the power to make future sum sufficient appropriations with respect to debt service on the 2014 Bonds, but the General Assembly is under no legal obligation to do so. **The 2014 Bonds do not constitute a debt or pledge of the faith and credit of the Commonwealth.** See **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Sum Sufficient Appropriation."**

The issuance of additional Bonds, such as the 2014 Bonds, is conditioned upon the certifications that:

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

(ii) (A) the current Appropriation Act and

(B) if and as applicable, either of

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

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

contains a sum sufficient appropriation to pay the debt service on the Bonds not paid from payments on the Local School Bonds. See **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Additional Bonds"** and **"SUMMARY OF CERTAIN PROVISIONS OF THE 1997 RESOLUTION - General Authorization of Bonds."**

The first debt service payment on the 2014 Bonds is scheduled to become due in the fiscal year commencing July 1, 2014. In Virginia Acts of Assembly 2013, Special Session I, Chapter 806 (the "2013 Appropriation Act") the General Assembly made a "sum sufficient appropriation" to provide the difference, if any, between the income received on the Local School Bonds and the debt service on the Bonds for the 2012-2014 Biennium. The 2013 Appropriation Act expires June 30, 2014. The 2014 Amendments to the 2013 Appropriation Act enacted pursuant to Virginia Acts of Assembly 2014, Special Session I, Chapter 1 (the "2014 Amendments to the 2013 Appropriation Act") did not affect the sum sufficient appropriation. The General Assembly has made a similar sum sufficient appropriation during each biennium since the adoption of the 1997 Resolution.

The General Assembly convened in January 2014 for its regular session to consider, among other legislation, amendments to the 2013 Appropriation Act and the Commonwealth's budget for the biennium commencing July 1, 2014. The General Assembly adjourned *sine die* on March 8, 2014 without reaching an agreement on the amendments to the 2013 Appropriation Act or the Commonwealth's budget for the 2014-2016 biennium. The Governor called the General Assembly back into special session beginning on March 24, 2014 to consider primarily the amendments to the 2013 Appropriation Act and the Commonwealth's budget for the 2014-2016 biennium. On April 1, 2014, the Governor signed the 2014 Amendments to the 2013 Appropriation Act. On March 25, 2014, the House of Delegates passed HB 5002 (the "House Budget Bill") and on April 8, 2014, the Senate passed SB 5003 (the "Senate Budget Bill"). While the Authority cannot predict when the General Assembly and the Governor will reach final agreement on the Commonwealth's budget for the 2014-2016 biennium, a sum sufficient appropriation is included in the 2013 Appropriation Act, the House Budget Bill, the Senate Budget Bill, and the Governor's proposed budget for the 2014-2016 biennium and is expected to be included in the 2014-2016 biennial Appropriation Act. See "**SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Sum Sufficient Appropriation**."

The Authority has issued, and expects to issue in the future, bonds and other obligations ("Other Obligations") under other security instruments ("Other Resolutions"). Other Obligations have no claim to amounts payable on the Local School Bonds or, except for the VPSA Tax Credit Bonds issued pursuant to the VPSA Tax Credit Bond Indenture (each as hereinafter defined), to any sum sufficient appropriation to be made with respect to the Bonds in the expected 2014-2016 biennial Appropriation Act. The Bonds have no claim on the general obligation school bonds or other security pledged to the payment of the Other Obligations. See **"THE AUTHORITY - Other Authority Financings"** and **"FUTURE FINANCINGS."**

PLAN OF FINANCE

Purchase of 2014A Local Bonds

The proceeds of the 2014A Bonds, together with other available funds, will be used to (i) purchase the 2014A Local Bonds and (ii) pay a portion of the costs of issuance of the 2014A Bonds. The 2014A Local Bonds will be credited to the 1997 Resolution Pledge Account in the General Pledge Fund created by the 1997 Resolution. The payments of principal and interest received on the 2014A Local Bonds will be used to pay a portion of the principal and interest on the Bonds of the Authority.

Refunding

A portion of the proceeds of the 2014B Bonds will be applied to refund certain bonds (the "Refunded Bonds") outstanding under the 1997 Resolution. The Authority has determined that refunding the Refunded Bonds will produce debt service savings and other financial benefits for the Authority and the Related Local Issuers.

In order to accelerate the return of savings to the Related Local Issuers and to comply with federal income tax limitations, the Authority has refunded only portions of certain maturities of its Bonds. The maturities and principal amounts of the Refunded Bonds are as follows:

Series 2005D Bonds

Maturity (August 1)	Principal Amount	Redemption Date	Redemption Price
2016	$85,000	August 1, 2015	100%
2017	85,000	August 1, 2015	100
2018	85,000	August 1, 2015	100
2019	85,000	August 1, 2015	100
2020	85,000	August 1, 2015	100
2021	85,000	August 1, 2015	100
2022	85,000	August 1, 2015	100
2023	90,000	August 1, 2015	100
2024	90,000	August 1, 2015	100
2025	85,000	August 1, 2015	100
Total	$860,000		

Series 2006A Bonds

Maturity (August 1)	Principal Amount	Redemption Date	Redemption Price
2017	$9,425,000	August 1, 2016	100%
2018	9,665,000	August 1, 2016	100
2019	9,920,000	August 1, 2016	100
2020	10,180,000	August 1, 2016	100
2021	10,445,000	August 1, 2016	100
2022	10,700,000	August 1, 2016	100
2023	10,985,000	August 1, 2016	100
2024	11,265,000	August 1, 2016	100
2025	11,570,000	August 1, 2016	100
2026	11,905,000	August 1, 2016	100
Total	$106,060,000		

Series 2006B Bonds

Maturity (August 1)	Principal Amount	Redemption Date	Redemption Price
2017	$10,845,000	August 1, 2016	100%
2018	11,070,000	August 1, 2016	100
2019	11,305,000	August 1, 2016	100
2020	11,560,000	August 1, 2016	100
2021	11,840,000	August 1, 2016	100
2022	12,125,000	August 1, 2016	100
2023	12,430,000	August 1, 2016	100
2024	12,740,000	August 1, 2016	100
2025	13,080,000	August 1, 2016	100
2026	13,440,000	August 1, 2016	100
Total	$120,435,000		

The Authority, as contemplated by the Enabling Act, plans to pay the net present value savings realized from the refunding of the Refunded Bonds to the Related Local Issuers or to the Literary Fund, in the case of the Related Local Issuers corresponding to the Refunded Bonds that received interest rate subsidies from the Literary Fund.

To effect the refunding, a sufficient amount of the proceeds of the 2014B Bonds and other available funds will be deposited in an escrow account (the "Escrow Fund") established by the Authority with U.S. Bank National Association (the "Escrow Agent") and will be invested in United States Treasury obligations ("Federal Securities") that mature in amounts and pay interest at rates sufficient to pay, when due, the principal, applicable redemption premiums, if any, and interest on the Refunded Bonds through their respective maturity or redemption dates, as applicable. The sufficiency of the Escrow Fund, including Federal Securities and the income thereon, to pay such amounts will be verified by Bingham Arbitrage Rebate Services, Inc. See "**VERIFICATION OF MATHEMATICAL COMPUTATIONS FOR THE REFUNDED BONDS**." The State Treasurer, as paying agent for the Refunded Bonds, will be given irrevocable instructions to call the callable Refunded Bonds for redemption on the applicable redemption dates and at par. As a result of the deposit to the Escrow Fund described above and such irrevocable instructions, the Refunded Bonds will be deemed no longer outstanding for purposes of the 1997 Resolution.

SOURCES AND USES OF THE 2014 PROCEEDS

The proceeds of the 2014 Bonds, including net initial offering premium, are expected to be applied as follows:

Sources	2014A Bonds	2014B Bonds
Par Amount	$51,510,000.00	$215,405,000.00
Net Original Issue Premium	3,443,375.40	35,691,138.45
Total	$54,953,375.40	$251,096,138.45
Uses		
Deposit to 1997 Resolution Purchase Fund	$44,372,906.40	--
Deposit to Escrow Fund	10,201,870.50	$250,407,975.83
Underwriter's Discount	378,598.50	299,402.18
Other Costs of Issuance[1]	--	388,760.44
Total	$54,953,375.40	$251,096,138.45

[1] Costs of issuance associated with the issuance of the 2014B Bonds, including legal fees, financial advisor fees, printing costs, rating agency fees, escrow agent fees and verification agent fees.

In addition, the Authority's General Fund will provide up to $84,208.87, representing an amount equal to the Authority's issuance expenses incurred in connection with the 2014A Bonds (the "General Fund Contribution").

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Enabling Act

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

1. payments of principal of and interest on general obligation school bonds purchased by the Authority;

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

3. any funds appropriated by the General Assembly.

1997 Resolution Pledge

The two main sources of the funds pledged by the 1997 Resolution for the payment of debt service on the Bonds are:

1. payments received on the Local School Bonds and through enforcement of the State Aid Intercept Provision, and

2. appropriations for this purpose by the General Assembly (See **"Local School Bonds," "State Aid Intercept"** and **"Sum Sufficient Appropriation"** herein).

The Bonds are not general obligations of the Authority and are not secured by any of the funds and accounts, assets or revenues pledged under Other Resolutions. The Enabling Act provides that the Bonds, the premium, if any, and the interest thereon will not constitute a debt or a pledge of the faith and credit of

the Commonwealth. Neither the faith and credit nor the taxing power of the Commonwealth or of any of its political subdivisions is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. While the Bonds do not constitute a legally enforceable obligation of the Commonwealth nor create a debt of the Commonwealth, there is no constitutional bar to the General Assembly's making appropriations in future sessions to pay debt service on the Bonds.

Local School Bonds

The 2014A Local Bonds will be purchased from the 2014A Local Issuers by the Authority with the proceeds of the 2014A Bonds. The Authority will deposit all the 2014A Local Bonds in a special fund known as the "General Pledge Fund" under the 1997 Resolution and credit the principal, interest and redemption premium components of the 2014A Local Bonds to a special account known therein as the "1997 Resolution Pledge Account." The Related Local Bonds were purchased from the Related Local Issuers by the Authority with the proceeds of the Refunded Bonds. The Related Local Bonds are already on deposit in the "General Pledge Fund" under the 1997 Resolution and the principal, interest and redemption premium components thereof have been credited to the "1997 Resolution Pledge Account" in the General Pledge Fund.

Under the 1997 Resolution, the Authority grants to the Depository (as hereinafter defined) of the 1997 Resolution Pledge Account, for the benefit of the holders of the Bonds, including the 2014 Bonds, security interests in the principal, interest and redemption premium components of the Local School Bonds, including the 2014A Local Bonds and the Related Local Bonds. Similarly, the Authority will deposit to the General Pledge Fund additional Local School Bonds acquired with the proceeds of additional Bonds and assign their principal, interest and redemption premium components to the 1997 Resolution Pledge Account, all subject to security interests in favor of the holders of the Bonds, including the 2014 Bonds. Likewise, the Authority previously deposited Local School Bonds, either acquired with the proceeds of previous issues of Bonds or transferred in connection with the issuance of previous refunding Bonds, to the General Pledge Fund and has assigned such Local School Bonds' principal, interest and redemption premium components to the 1997 Resolution Pledge Account. See **"THE LOCAL SCHOOL BONDS - Local School Bonds Pledged to the Bonds."**

Payments of principal of and interest received on Local School Bonds will be deposited in the "1997 Income Fund," another special fund created by the 1997 Resolution. The Authority will use these payments to pay debt service on the Bonds.

Interest on the Local School Bonds is due generally on the January 15 and July 15 immediately preceding the corresponding interest payment dates of February 1 and August 1 on the Bonds. Similarly, principal on the Local School Bonds is payable on the July 15 immediately preceding the corresponding August 1 principal payment date of the Bonds. Interest on the 2014A Local Bonds will begin to accrue 16 days prior to the 2014A Bonds, so that VPSA will realize a proper matching of the income received from the first interest payment on the 2014A Local Bonds with the amount of the first interest payment due on the 2014A Bonds.

See **"SCHEDULE OF INCOME AVAILABLE TO PAY DEBT SERVICE AND DEBT SERVICE REQUIREMENTS"** for a comparison between the scheduled income on the Local School Bonds in the 1997 Resolution Pledge Account, including the Related Local Bonds and the 2014A Local Bonds, and the scheduled debt service on the outstanding Bonds and the 2014 Bonds.

State Aid Intercept

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

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

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

The Authority has covenanted in the 1997 Resolution that it will enforce the State Aid Intercept Provision to obtain payment of any principal of and interest due and unpaid on the Local School Bonds.

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Total direct appropriations paid by the Commonwealth to Local Issuers for fiscal years ended June 30, 2011, June 30, 2012 and June 30, 2013, are shown below, along with the principal amounts of the Local School Bonds outstanding as of April 15, 2014:

	State Aid Received for Fiscal Year Ended[1]			Principal Amount of Local School Bonds Outstanding as of
Local Issuer	**June 30, 2011**	**June 30, 2012**	**June 30, 2013**	**April 15, 2014**
Accomack County	$37,018,951	$38,451,142	$38,644,897	$25,718,250
Albemarle County	77,772,370	77,042,210	81,396,059	79,055,000
Alleghany County	23,638,074	24,351,652	24,414,894	6,712,640
Amelia County	13,251,607	13,532,488	13,537,463	3,473,337
Amherst County	34,535,206	35,697,512	35,015,915	9,583,120
Appomattox County	17,478,386	18,022,574	18,369,104	4,490,462
Augusta County	70,775,651	72,982,991	73,178,175	48,067,388
Bedford County	61,173,132	61,140,838	62,713,105	40,732,362
Botetourt County	33,231,909	34,216,545	34,788,433	13,364,777
Brunswick County	19,353,406	18,872,150	21,388,298	5,118,959
Buchanan County	27,867,125	28,559,553	28,706,887	5,046,501
Buckingham County	17,224,897	17,465,139	17,992,870	19,072,484
Campbell County	60,508,623	60,972,573	62,202,969	8,430,331
Caroline County	28,474,722	30,070,155	32,788,865	23,021,085
Carroll County	34,790,913	35,165,278	34,727,782	12,349,911
Charlotte County	16,602,612	17,689,623	18,689,114	293,320
Chesapeake, City of	308,686,328	310,958,766	317,383,564	162,352,794
Chesterfield County	357,330,559	368,795,297	382,578,910	64,910,000
Clarke County	12,845,783	13,301,743	14,424,099	31,945,000
Covington, City of	8,898,236	8,469,086	9,090,759	11,630,000
Craig County	5,949,173	6,186,630	6,020,757	2,497,555
Culpeper County	47,077,500	49,924,074	55,173,185	6,944,660
Cumberland County	12,059,517	11,996,511	11,533,553	8,713,138
Danville, City of	71,852,154	72,145,075	77,219,179	6,075,696
Dinwiddie County	34,550,092	38,975,653	39,414,404	12,312,882
Essex County	11,652,507	11,324,473	12,001,217	9,709,878
Falls Church, City of	9,797,425	10,013,741	10,337,559	1,565,000
Fauquier County	65,664,974	66,602,365	73,988,777	58,745,000
Floyd County	14,698,978	15,523,899	16,607,034	8,098,095
Fluvanna County	25,228,558	26,617,179	26,142,147	74,360,518
Franklin County	53,762,432	53,114,170	54,482,787	9,567,446
Franklin, City of	13,448,759	12,458,446	13,928,620	2,257,637
Frederick County	83,387,536	86,819,349	92,006,188	90,452,810
Fredericksburg, City of	23,157,982	25,729,689	26,124,114	37,210,000
Giles County	20,346,775	21,985,114	22,923,251	6,726,578
Gloucester County	37,234,852	37,544,583	37,746,914	30,516,050
Goochland County	13,356,578	13,137,176	13,783,157	14,770,000
Grayson County	17,287,402	16,375,597	17,077,005	16,649,749
Greene County	21,215,750	21,943,012	21,784,676	6,133,645
Greensville County	21,740,881	13,916,091	13,955,068	3,253,751
Halifax County	51,999,413	48,247,877	48,827,825	41,590,836
Hanover County	109,706,030	113,459,236	115,679,241	38,331,168
Harrisonburg, City of	40,244,151	43,662,262	45,254,035	31,140,000
Henrico County	338,714,487	350,801,303	366,246,918	20,615,000
Henry County	61,545,227	60,482,583	59,399,714	8,028,921
Highland County	2,931,414	2,934,979	2,886,000	240,733
Hopewell, City of	35,748,458	36,633,345	37,046,356	2,782,966
James City County	57,960,940	58,699,903	60,854,711	13,715,000
King and Queen County	7,246,283	7,440,032	8,169,277	80,000
King George County	24,626,083	26,307,087	26,844,486	8,721,366
King William County	15,496,280	15,219,564	15,337,123	10,146,946
Lee County	34,488,274	33,681,425	32,671,396	1,920,000
Loudoun County	296,872,994	311,370,717	349,604,337	72,940,000
Louisa County	24,103,317	25,726,243	27,981,691	25,930,000
Lunenburg County	14,854,620	14,934,802	15,009,297	3,847,484

[1] Source: Auditor of Public Accounts, Comparative Report of Local Government Revenues and Expenditures.

Local Issuer	State Aid Received for Fiscal Year Ended[1] June 30, 2011	June 30, 2012	June 30, 2013	Principal Amount of Local School Bonds Outstanding as of April 15, 2014
(CONTINUED)				
Lynchburg, City of	86,775,972	88,661,156	91,736,166	8,830,047
Manassas Park, City of	19,521,738	21,588,104	24,982,804	34,908,962
Martinsville, City of	23,396,814	23,858,387	24,672,414	1,452,188
Mathews County	8,204,807	8,084,720	8,310,005	1,130,000
Mecklenburg County	45,127,943	35,515,604	37,001,615	7,132,284
Middlesex County	7,076,349	7,954,562	7,165,044	2,525,000
Montgomery County	65,802,381	68,754,427	67,210,013	8,508,298
Nelson County	12,443,750	12,789,135	13,086,444	8,940,000
New Kent County	17,317,801	17,428,338	17,625,498	11,274,259
Newport News, City of	245,425,967	247,879,773	251,525,629	3,099,111
Northampton County	15,837,223	15,827,444	15,400,962	1,240,000
Norton, City of	7,485,994	7,481,362	7,555,333	9,527,611
Nottoway County	17,769,206	18,545,766	19,096,308	2,480,493
Orange County	31,374,474	31,912,542	34,165,615	51,861,290
Page County	25,141,387	25,917,865	26,806,679	48,463,652
Patrick County	20,300,246	20,872,890	21,700,778	2,477,870
Pittsylvania County	73,612,489	75,186,356	77,478,751	9,640,373
Poquoson, City of	14,792,020	14,711,691	14,994,441	150,000
Portsmouth, City of	155,993,537	159,648,966	156,430,438	5,661,843
Powhatan County	27,481,621	27,876,933	27,619,815	10,740,110
Prince Edward County	21,066,928	20,145,827	23,236,330	1,573,638
Prince George County	44,629,197	46,532,008	47,556,194	16,902,075
Prince William County	486,155,000	514,742,000	553,642,000	400,945,000
Pulaski County	40,464,016	42,370,633	43,619,820	15,959,393
Radford, City of	15,854,755	15,981,920	18,008,590	11,758,514
Rappahannock County	5,974,991	6,278,881	6,123,071	3,805,000
Richmond County	9,821,470	9,499,147	10,129,152	9,202,263
Richmond, City of	265,430,803	266,256,511	N/A[2]	977,282
Roanoke County	100,794,361	100,967,938	103,083,274	87,191,051
Roanoke, City of	132,152,310	133,773,790	136,096,400	35,985,061
Rockbridge County	21,845,965	21,004,564	21,525,741	36,877,882
Rockingham County	79,165,172	79,458,065	79,866,575	79,065,073
Russell County	36,640,964	39,550,850	39,409,268	8,142,651
Shenandoah County	39,243,829	40,193,320	43,251,605	17,001,426
Smyth County	39,280,763	44,089,441	41,753,228	1,265,325
Southampton County	24,214,861	24,517,337	24,739,516	4,670,936
Spotsylvania County	145,225,324	145,630,837	158,293,006	33,967,777
Stafford County	157,298,299	165,726,237	169,003,556	264,805,533
Staunton, City of	30,539,163	31,676,494	31,858,648	1,358,638
Surry County	5,917,546	5,904,485	5,739,181	2,465,000
Sussex County	13,609,693	12,773,500	12,867,863	6,550,000
Tazewell County	51,749,569	52,252,523	52,487,687	7,792,987
Virginia Beach, City of	497,052,765	504,340,840	507,151,800	5,865,125
Warren County	34,998,617	36,265,395	39,111,118	11,672,100
Washington County	52,893,940	58,083,015	52,355,501	5,547,352
Waynesboro, City of	28,853,933	28,696,063	30,427,024	6,530,937
West Point, Town of	4,609,270	4,911,960	4,661,232	289,025
Wise County	51,964,193	51,207,529	N/A[2]	32,752,928
Wythe County	33,091,922	34,410,482	35,174,543	10,871,781
York County	75,214,243	76,086,179	75,617,857	44,875,000
TOTAL	**$6,448,101,867**	**$6,591,515,292**	**$6,487,448,693**	**$2,658,668,373**

[1] Source: Auditor of Public Accounts, Comparative Report of Local Government Revenues and Expenditures.

[2] Information is not available because the locality was delinquent in submitting comparative information to the Auditor of Public Accounts by the November 30, 2013 deadline.

Sum Sufficient Appropriation

The 1997 Resolution contemplates that the General Assembly will biennially appropriate to the Authority an appropriation for each fiscal year of the biennium to provide sufficient funds to the Authority to meet its debt service obligations in the event of a payment default on one or more Local School Bonds not timely cured by the implementation of the State Aid Intercept Provision. This type of appropriation is referred to in this Official Statement as a "sum sufficient appropriation." The General Assembly has included in each Appropriation Act subsequent to the adoption of the 1997 Resolution a "sum sufficient appropriation" to the Authority to provide for the difference, if any, between

(1) the scheduled debt service on Bonds and

(2) the sum of

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

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

Each Appropriation Act has designated "available moneys" in the Literary Fund of the Commonwealth (See **"THE LITERARY FUND"**) as the first source of funds for the appropriation and the General Fund of the Commonwealth as the secondary source. The first debt service payments on the 2014 Bonds are scheduled to become due during the 2014-2016 biennium which will commence July 1, 2014.

The Enabling Act requires that the Governor's budget submission or budget amendments each year shall contain a "sum sufficient appropriation." The Enabling Act also requires the Authority to submit to the Governor and the General Assembly an annual report detailing the amount of its outstanding Bonds with the benefit of the sum sufficient appropriation. The Enabling Act and the 1997 Resolution do not place any limitation on the amount of Bonds that the Authority can issue with the benefit of the sum sufficient appropriation.

The Authority has covenanted in the 1997 Resolution that it will seek a sum sufficient appropriation which will cover

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

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

Specifically, the Authority has covenanted in the 1997 Resolution that it will cause its Chairman annually, on or before December 1, to:

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

(A) outstanding Bonds, and

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

(2) request inclusion in the Governor's Budget Bill(s) to be presented at the next regular session of the General Assembly of an appropriation first from available moneys in the Literary Fund and then from the General Fund of the Commonwealth.

In the event of a default in payment on one or more Local School Bonds, there is a period of not less than 15 days before the principal and interest payments on the Authority's Bonds become due. Should there be any deficiency remaining in the Income Available to Pay Debt Service after receipt of funds derived from the immediate implementation of the State Aid Intercept Provision, the Authority will immediately notify the Governor and the Director of the Department of Planning and Budget and (assuming the General Assembly has made a sum sufficient appropriation) after issuance of a warrant by the Comptroller, the State Treasurer shall transfer to the Depository of the 1997 Sinking Fund an amount equal to any remaining deficiency.

The Authority believes that the implementation of the State Aid Intercept Provision and, if that does not cure the deficiency, the issuance of the necessary warrant and subsequent electronic transfer pursuant to the sum sufficient appropriation will not take more than three business days following a default on a Local School Bond. The Authority further believes that the determination of the availability of funds in the Literary Fund required by the 2013 Appropriation Act will not extend the process of accessing the sum sufficient appropriation.

Additional Bonds

The Authority may issue additional Bonds under the 1997 Resolution to purchase Local School Bonds and refund any indebtedness, including Other Obligations, provided that the Authority shall have received certificates of:

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

2. the Secretary of Finance that:

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

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

contain a sum sufficient appropriation from the Literary Fund and, to the extent that funds are not available therein for the purpose, from the General Fund of the Commonwealth, to pay the difference between debt service on the Bonds becoming due in such fiscal year(s) covered by such Appropriation Act Provision or Budget Bill and the amount available to pay such debt service.

The Authority may also issue additional Bonds under the 1997 Resolution to refund all or any of its outstanding Bonds or Other Obligations provided that, in either case, the coverage test for the issuance of additional Bonds to purchase additional Local School Bonds is satisfied. The Enabling Act requires that the Authority remit to the related Local Issuers, or in certain circumstances the Literary Fund, the net debt service savings resulting from any refunding of its Bonds or Other Obligations.

See **"SUMMARY OF CERTAIN PROVISIONS OF THE 1997 RESOLUTION - General Authorization of Bonds."**

The additional Bonds will be equally and ratably secured with the 2014 Bonds and other outstanding Bonds under the 1997 Resolution.

The Enabling Act imposes no limitation on the amount of Bonds that the Authority can issue under the 1997 Resolution.

Income Available to Pay Debt Service

The following table shows the scheduled debt service payments on the 2014A Local Bonds and other Local School Bonds, including the Related Local Bonds, and the corresponding scheduled principal and interest payments (exclusive of accrued interest and the Authority's General Fund Contribution) due on the 2014 Bonds and other outstanding Bonds.

SCHEDULE OF INCOME AVAILABLE TO PAY DEBT SERVICE AND DEBT SERVICE REQUIREMENTS[(1)]

	Income Available to Pay Debt Service[(2)] Principal and Interest on Local School Bonds				2014 Debt Service Requirements					
		2014A LSBs to be Purchased				Debt Service Requirements 2014A Bonds		Debt Service Requirements 2014B Bonds		
Year Ended August 1	In 1997 Resolution Pledge Account[(3)]	Principal	Interest[(4)]	Total Income	Debt Service on Outstanding Bonds[(5)]	Principal	Interest	Principal	Interest	Total Debt Service
2014	$340,198,875	$ -	$ -	$340,198,875	$332,500,992	$ -	$ -	$ 1,270,000	$2,116,473	$335,887,465
2015	329,757,172	1,720,000	2,493,260	333,970,432	316,623,120	1,720,000	2,462,068	-	9,987,300	330,792,488
2016	312,792,948	1,780,000	1,971,795	316,544,743	300,298,820	1,780,000	1,946,900	85,000	9,987,300	314,098,020
2017	298,531,442	1,835,000	1,881,905	302,248,347	266,036,495	1,835,000	1,857,900	18,910,000	9,984,750	298,624,145
2018	279,446,193	1,905,000	1,789,238	283,140,430	247,557,196	1,905,000	1,766,150	19,390,000	9,039,250	279,657,596
2019	266,783,987	2,400,000	1,693,035	270,877,022	235,583,386	2,400,000	1,670,900	19,920,000	8,069,750	267,644,036
2020	247,864,922	2,595,000	1,571,835	252,031,757	217,358,570	2,595,000	1,550,900	20,425,000	7,073,750	249,003,220
2021	230,713,312	2,720,000	1,440,788	234,874,099	200,870,955	2,720,000	1,421,150	20,975,000	6,052,500	232,039,605
2022	209,096,699	1,945,000	1,303,428	212,345,126	179,873,265	1,945,000	1,285,150	21,585,000	5,003,750	209,692,165
2023	190,270,065	2,375,000	1,205,205	193,850,270	161,600,711	2,375,000	1,187,900	22,235,000	3,924,500	191,323,111
2024	173,546,989	2,510,000	1,085,268	177,142,257	145,456,694	2,510,000	1,069,150	22,910,000	2,812,750	174,758,594
2025	160,306,354	2,610,000	958,513	163,874,867	132,770,766	2,610,000	943,650	23,625,000	1,667,250	161,616,666
2026	138,781,335	2,700,000	888,695	142,370,030	111,859,546	2,700,000	875,138	24,075,000	722,250	140,231,933
2027	113,499,565	2,780,000	813,095	117,092,661	113,223,477	2,780,000	800,888	-	-	116,804,365
2028	92,543,726	2,580,000	728,305	95,852,031	92,344,903	2,580,000	717,488	-	-	95,642,391
2029	71,647,264	2,650,000	649,615	74,946,879	71,499,003	2,650,000	640,088	-	-	74,789,090
2030	52,224,263	2,155,000	565,478	54,944,741	52,121,700	2,155,000	557,275	-	-	54,833,975
2031	40,191,150	2,215,000	497,056	42,903,206	40,121,794	2,215,000	489,931	-	-	42,826,725
2032	29,407,135	2,285,000	423,961	32,116,096	29,361,269	2,285,000	417,944	-	-	32,064,213
2033	20,654,714	2,350,000	345,700	23,350,414	20,625,525	2,350,000	340,825	-	-	23,316,350
2034	10,461,196	2,430,000	265,213	13,156,409	10,443,100	2,430,000	261,513	-	-	13,134,613
2035	9,781,830	1,455,000	178,948	11,415,778	9,768,769	1,455,000	176,463	-	-	11,400,231
2036	4,856,280	1,505,000	127,295	6,488,575	4,848,094	1,505,000	125,538	-	-	6,478,631
2037	2,618,614	645,000	73,868	3,337,481	2,613,013	645,000	72,863	-	-	3,330,875
2038	1,716,614	670,000	50,164	2,436,778	1,712,588	670,000	49,481	-	-	2,432,069
2039	2,786,486	695,000	25,541	3,507,028	2,783,175	695,000	25,194	-	-	3,503,369
2040	2,793,536	-	-	2,793,536	2,786,500	-	-	-	-	2,786,500
2041	1,141,465	-	-	1,141,465	1,140,913		-	-	-	1,140,913
Totals	$3,634,414,132	$51,510,000	$23,027,200	$3,708,951,332	$3,303,784,335	$51,510,000	$22,712,443	$215,405,000	76,441,573	$3,669,853,352

(1) Numbers may not add to totals due to rounding.

(2) This term as defined in the 1997 Resolution includes the scheduled principal and interest payments on all Local School Bonds excluding any in default. Together, all payments due on the 2014A Local Bonds and the Related Local Bonds will be greater than or in excess of the interest due on the 2014 Bonds on each February 1 and August 1 and the principal due on each August 1.

(3) Includes income from the Related Local Bonds corresponding to the Refunded Bonds.

(4) Computed using the interest rates on the 2014A Bonds plus 5 basis points (0.05%).

(5) Annual debt service on the outstanding Bonds is shown net of annual debt service on the Refunded Bonds.

DESCRIPTION OF THE 2014 BONDS

General

The 2014 Bonds will be dated the date of delivery, will bear interest from their date payable semiannually on each February 1 and August 1, commencing on February 1, 2015 with respect to the 2014A Bonds and August 1, 2014 with respect to the 2014B Bonds, at the respective rates, and will mature, subject to prior redemption, on August 1, in each of the years, as set forth on the inside cover page of this Official Statement. The record date for the 2014 Bonds will be the fifteenth day (whether or not a business day) of the calendar month next preceding the applicable interest payment date.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2014 Bonds. The 2014 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the 2014 Bonds and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2014 Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2014 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2014 Bonds, except in the event that use of the book-entry system for the 2014 Bonds is discontinued.

To facilitate subsequent transfers, all 2014 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2014 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2014 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the 2014 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2014 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the 2014 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2014 Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor depository is not obtained, certificates for the 2014 Bonds are required to be printed and delivered to DTC.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates for the 2014 Bonds will be printed and delivered.

NEITHER THE AUTHORITY, ANY LOCAL ISSUERS, NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON, THE 2014 BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS; (IV) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER; OR (V) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2014 BONDS.

So long as Cede & Co. is the registered owner of the 2014 Bonds, as nominee of DTC, references in this Official Statement to the Owner or Owners of the 2014 Bonds or Owners shall mean Cede & Co. and shall not mean the Beneficial Owners.

The Authority may enter into amendments to its agreement with DTC or any successor depository without the consent of the Beneficial Owners.

Optional Redemption – 2014A Bonds

The 2014A Bonds due on or after August 1, 2025 may be redeemed prior to their respective maturities at the option of the Authority, in whole or in part, on any date beginning August 1, 2024, at the redemption price of par, together with interest accrued to the date fixed for redemption.

Optional Redemption – 2014B Bonds

The 2014B Bonds due on or after August 1, 2025 may be redeemed prior to their respective maturities at the option of the Authority, in whole or in part, on any date beginning August 1, 2024, at the redemption price of par, together with interest accrued to the date fixed for redemption.

Notice of Redemption

Notice of redemption is to be given not more than 60 nor less than 30 days before the redemption date by first class mail to the registered owner or owners of the 2014 Bonds or portions thereof to be redeemed; provided, however, that any defect in such notice or the failure so to mail any such notice to any owners of any 2014 Bonds will not affect the validity of the proceedings for the redemption of any other 2014 Bonds. **During the period that DTC or the DTC partnership nominee is the registered holder of the 2014 Bonds, the Bond Registrar will not be responsible for mailing notices of redemption to the beneficial owners of the 2014 Bonds.** See **"DESCRIPTION OF THE 2014 BONDS - Book-Entry Only System"** above. Each such notice will set forth the 2014 Bonds or portions thereof to be redeemed, the date fixed for redemption, the Redemption Price to be paid, and if less than all the 2014 Bonds will be called for redemption, the maturities of the 2014 Bonds to be redeemed and shall otherwise comply with Securities Exchange Act of 1934 Release No. 34-23856, dated December 3, 1986. If any 2014 Bond is to be redeemed in part only, the notice of redemption will state also that on or after the redemption date, upon surrender of such 2014 Bond, a new 2014 Bond of authorized denominations and in principal amount equal to the unredeemed portion of such 2014 Bond will be issued.

Any notice of optional redemption of the 2014 Bonds may state that it is conditioned upon there being available an amount of money sufficient to pay the Redemption Price, consisting of par plus interest accrued and unpaid to the redemption date, and any conditional notice so given may be rescinded at any time before the payment of the Redemption Price if any such condition so specified is not satisfied. If a redemption does not occur after a conditional notice is given due to an insufficient amount of funds on deposit by the State Treasurer, the corresponding notice of redemption shall be deemed to be revoked.

If the Authority gives an unconditional notice of redemption, then on the redemption date the 2014 Bonds called for redemption will become due and payable. If the Authority gives a conditional notice of redemption, money to pay the Redemption Price of the affected 2014 Bonds shall have been set aside in escrow with the State Treasurer or other Depository for the purpose of paying such 2014 Bonds, then on the redemption date the 2014 Bonds will become due and payable. In either case, if on the redemption date the State Treasurer holds money to pay the 2014 Bonds called for redemption, thereafter, no interest will accrue on those 2014 Bonds, and a Bondholder's right will be to receive payment of the Redemption Price upon surrender of those 2014 Bonds.

THE AUTHORITY

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

The members of the Authority are:

BRENDA L. SKIDMORE, *Chairman*, Senior Vice President, SunTrust Bank, Richmond, Virginia, term as a member expires June 30, 2016; residence: Richmond, Virginia.

BEN LOYOLA, *Vice-Chairman*, President and Chief Executive Officer, Loyola Enterprises, term as a member expires June 30, 2016; residence: Virginia Beach, Virginia.

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

DOUGLAS COMBS, *Member*, Chief Executive Officer, Windmill International, term as a member expires June 30, 2018; residence: Warrenton, Virginia.

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

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

PATRICIA I. WRIGHT, *Member* of the Authority by virtue of being the Superintendent of Public Instruction of Virginia; residence: Chesterfield, Virginia. On March 11, 2014, Ms. Wright announced her retirement effective May 1, 2014. On March 31, 2014, the Governor announced his intention to appoint Steve Staples as Ms. Wright's successor. Subject to confirmation by the General Assembly, Mr. Staples will assume Ms. Wright's position as Superintendent of Public Instruction.

There is currently one vacancy on the Board of Commissioners.

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

Powers of the Authority

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

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

Financial Condition of Authority Funds

The Authority has caused an audit to be made of its books and accounts for the year ended June 30, 2013, which is contained in **APPENDIX A**. See **"CONTINUING DISCLOSURE"** and **APPENDIX F - "CONTINUING DISCLOSURE UNDERTAKINGS - Virginia Public School Authority."**

Other Authority Financings

The Authority expects that the 1997 Resolution will continue to be the primary instrument under which it issues bonds to provide funds to purchase local school bonds and thereby promote the financing of capital projects for public schools across the Commonwealth. Historically, the Authority has issued bonds under a number of other comparable "pool" resolutions and resolutions pledging solely the local school bonds of a single local issuer ("Stand Alone Security Structure").

Special Obligation School Financing Bonds. Using a Stand Alone Security Structure, the Authority has issued several issues of special obligation school financing bonds that are secured separately from the Bonds. As of April 15, 2014, eight issues of bonds issued under separate Stand Alone Security Structures were outstanding. See also **"FUTURE FINANCINGS."**

School Technology and Security Notes. The Authority has outstanding five series of School Technology and Security Notes (collectively, the "Notes"). Proceeds from the Notes were used primarily to make grants to (i) establish a computer-based instructional and testing system for the Standards of Learning (SOL) and connecting high schools (and middle and elementary schools as appropriate), Best Practices Centers and the Central Office of the Department of Education and (ii) offset the costs associated with the purchase of appropriate security equipment.

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

Tax Credit Bonds. Subject to the availability of volume cap therefor, the Authority will issue certain tax credit bonds pursuant to a Master Trust Indenture, dated as of October 1, 2009 (as the same may be supplemented from time to time, the "VPSA Tax Credit Bond Indenture"), between the Authority and U.S. Bank National Association (such bonds are referred to herein as "VPSA Tax Credit Bonds"). As of the date hereof, the Authority has issued five issues of tax credit bonds pursuant to the VPSA Tax Credit Bond Indenture. The VPSA Tax Credit Bonds benefit from the sum sufficient appropriation, but are not secured by the 1997 Resolution.

The following table is a summary of outstanding indebtedness of the Authority from the other financings listed above.

Virginia Public School Authority
Summary of Outstanding Indebtedness From Other Financings
As of April 15, 2014

Issue Category	Final Maturity Date	Principal Outstanding
County of Henrico School Financing Bonds[(1)]	July 15, 2028	$33,315,000
County of Prince William School Financing Bonds Series 2011[(1)]	July 15, 2031	41,795,000
County of Prince William School Financing Bonds Series 2012[(1)]	July 15, 2032	62,390,000
County of Prince William School Financing Bonds Series 2013[(1)]	July 15, 2033	59,990,000
County of Montgomery School Financing Bonds[(1)]	January 15, 2032	82,745,000
County of Fluvanna School Financing Bonds[(1) (2)]	December 1, 2018	8,490,000
County of Northampton Special Obligation Bonds 2001[(1)]	December 21, 2015	419,060
County of Accomack Special Obligation Bonds 2002[(1)]	December 31, 2016	1,433,003
2010 School Educational Technology Notes[(3)]	April 15, 2015	11,345,000
2011 School Educational Technology Notes[(3)]	April 15, 2016	21,700,000
2012 School Educational Technology Notes[(3)]	April 15, 2017	31,640,000
2013 School Educational Technology Notes[(3)]	April 15, 2018	47,290,000
VPSA Tax Credit Bonds[(4)]	December 15, 2030	353,400,000
	TOTAL:	$755,952,063

(1) See *"Special Obligation School Financing Bonds"* above.
(2) On December 20, 2012, the County of Fluvanna, Virginia ("Fluvanna County"), refunded the principal installments of the local school bond maturing on December 1 in each of the years from 2019 through 2035, inclusive (the "Refunded Local Bond"), with a portion of the proceeds of a Fluvanna County local school bond (the "Refunding Local Bond") purchased by the Authority with a portion of the proceeds of its School Financing Bonds (1997 Resolution) Series 2012 D. The Authority, at the direction of the County, applied the proceeds of the Refunding Local School Bond to refund the Authority's Special Obligation School Financing Bonds Fluvanna County Series 2008 maturing on and after December 1, 2019.
(3) See *"School Technology and Security Notes"* above.
(4) See "*Tax Credit Bonds*" above.

The holders of the Authority's Other Obligations issued under the Other Resolutions described above have no claim on the Local School Bonds or their principal, interest and redemption premium components or any other assets pledged to the Bonds, and holders of Bonds issued under the 1997 Resolution have no claim to the local school bonds or other assets pledged under such Other Resolutions for the payment of such Other Obligations.

Payment History

While the Authority has never defaulted in payment on its indebtedness, because of an error made by U.S. Bank National Association, as bond trustee (the "Trustee"), the Authority's interest payment for the School Tax Credit Bonds (Direct Payment), Series 2012-1 (the "2012 Bonds") due June 17, 2013, was made on June 18, 2013.

On October 31, 2012, the 2012 Bonds were issued pursuant to a Fifth Supplemental Trust Indenture dated as of October 1, 2012 (the "Supplemental Indenture) between the Authority and the Trustee, supplementing the VPSA Tax Credit Bond Indenture. The Trustee serves as bond trustee and paying agent for the 2012 Bonds pursuant to the VPSA Tax Credit Bond Indenture. The Authority used the proceeds of the 2012 Bonds to purchase bonds (the "2012 Local Bonds") from certain Virginia localities (the "2012 Local Borrowers"). Interest on the 2012 Local Bonds is payable to the Authority 15 days prior to the interest payments dates on the 2012 Bonds. Under the VPSA Tax Credit Bond Indenture, the Trustee collects the interest paid on the 2012 Local Bonds and applies it to pay the interest on the 2012 Bonds. For each interest period, the aggregate amount of the interest payments on the 2012 Local Bonds equals the interest payment on the 2012 Bonds, except for the first interest period. Because the 2012 Local Bonds are dated the same date as the 2012 Bonds, but have an earlier interest payment date, the first interest period for the 2012 Local Bonds is shorter than the first interest period for the 2012 Bonds, and the aggregate amount of the interest payments on the 2012 Local Bonds is less than the interest payment on the 2012 Bonds.

Pursuant to the Code, the Authority is entitled to receive interest subsidy payments from the United States Department of the Treasury (each an "Interest Subsidy Payment") in an amount equal to 100% of each interest payment on the 2012 Bonds; however, the Interest Subsidy Payment for the first interest period was reduced because of the ongoing federal budget sequestration. It was anticipated that the Trustee would use a portion of the Interest Subsidy Payment and other funds of the Authority to pay the difference between the aggregate amount of the interest payments on the 2012 Local Bonds and the Authority's first interest payment on the 2012 Bonds. Sufficient funds were available to make the Authority's first interest payment on the 2012 Bonds; however, the Trustee disbursed to the 2012 Local Borrowers the full amount of the Interest Subsidy Payment for the first interest period instead of only disbursing the amount allocable to the interest payments made on the 2012 Local Bonds, which left insufficient funds to make the interest payment on the 2012 Bonds. The Authority and the Trustee took the necessary steps to correct the error and the interest payment was made in full on the following day.

THE LOCAL SCHOOL BONDS

Requirements for the Local School Bonds

The 1997 Resolution requires that every Local School Bond purchased by the Authority must be a valid and binding general obligation of its respective Local Issuer for the payment of which its full faith and credit are pledged, that all taxable property within the boundaries of the Local Issuer must be subject to the levy of an ad valorem tax, without limitation as to rate or amount, for payment of such Local School Bonds and the interest thereon, and that all Local School Bonds must be in, or convertible into, marketable form and must be accompanied by an approving opinion of a firm of recognized municipal bond attorneys acceptable to the Authority.

2014A Local Bonds

2014A Local Bonds and 2014A Local Issuers. The following table lists the 2014A Local Issuers and the principal amount of the 2014A Local Bonds to be issued by the 2014A Local Issuers and to be purchased by the Authority with the proceeds of the 2014A Bonds.

2014A Local Issuers	2014A Local School Bonds Being Purchased
Frederick County	$ 4,390,000
Hanover County	1,895,000
City of Lexington	11,615,000
City of Manassas Park	3,320,000
Stafford County	16,380,000
Wise County	13,910,000

Details of the 2014A Local Bonds. 2014A Local Issuers are obligated to issue and sell to the Authority their 2014A Local Bonds with interest rates on principal installments 5 basis points (0.05%) above the rates on the corresponding maturities of the 2014A Bonds. The debt service payments on the 2014A Local Bonds are due on January 15 and July 15, in advance of the corresponding February 1 and August 1 debt service payment dates on the 2014A Bonds. Interest on the 2014A Local Bonds will begin to accrue 16 days prior to the 2014A Bonds, so that VPSA will realize a proper matching of the income received from the first interest payment on the 2014A Local School Bonds with the amount of the first interest payment due on the 2014A Bonds. The 2014A Local Bonds are not subject to redemption prior to their respective maturities without the prior written consent of the Authority.

Delivery of the 2014A Local Bonds. The terms of the contracts between the Authority and each 2014A Local Issuer whose 2014A Local Bonds the Authority has agreed to purchase with the proceeds of its 2014A Bonds require that the 2014A Local Issuer issue and deliver to the Authority its 2014A Local Bonds on the same date that the Authority issues and delivers its 2014A Bonds to the purchasers thereof. In general, the Local Issuers deliver their Local School Bonds to the Authority on the same day that the Authority delivers its Bonds to the purchasers thereof. On occasion, there has been a delay in the delivery of a Local Issuer's Local School Bonds to the Authority, in which case the Local Issuer is required by the terms of its contract with the Authority to compensate the Authority for the delay in delivery by an amount equal to the difference, if any, between the income the Authority realizes on the investment of its Bond proceeds set aside to purchase the Local School Bonds and the income the Authority would have realized had the Local School Bonds been delivered on the same date that the Authority's Bonds were issued and delivered.

In the event that a 2014A Local Issuer fails to deliver its 2014A Local Bonds to the Authority within 60 days of the date of delivery for the 2014A Bonds, the Authority anticipates that it would apply the excess proceeds of the 2014A Bonds, plus any additional moneys required, to fund an escrow consisting of Defeasance Obligations (see **"SUMMARY OF CERTAIN PROVISIONS OF THE 1997 RESOLUTION - Investments"**) sufficient to redeem (in accordance with the optional redemption provisions of the 1997 Resolution), or to pay at their maturity, the 2014A Bonds in the same principal amount as, and with maturities corresponding to the principal installments of, such 2014A Local Bonds and to pay interest on such 2014A Bonds to the respective redemption or maturity dates. As an alternative to establishing such an escrow, the Authority may seek to loan a portion or all of such excess proceeds to another Local Issuer under the same terms and rates as would have applied to the 2014A Local Issuer whose failed delivery of its 2014A Local Bonds resulted in excess 2014A Bond proceeds. In no event would any failed delivery of 2014A Local Bonds result in an extraordinary redemption of 2014A Bonds since the 1997 Resolution makes no provision for any such extraordinary redemption.

Related Local Bonds

The interest payments on the Related Local Bonds are due on January 15 and July 15, in advance of the corresponding February 1 and August 1 interest payment dates on the Refunded Bonds. The principal payments on the Related Local Bonds are due on July 15, in advance of the corresponding August 1 principal payment date on the Refunded Bonds. The Related Local Bonds are not subject to redemption prior to their respective maturities without the prior written consent of the Authority.

Local School Bonds Pledged to the Bonds

As of April 15, 2014, there was $2,658,668,373 aggregate principal amount of Local School Bonds of 105 Local Issuers held in the 1997 Resolution Pledge Account in the General Pledge Fund. As of April 15, 2014, all Local School Bonds were current as to principal and interest. See **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – State Aid Intercept"** for the outstanding principal amount of each Local School Bond outstanding.

Protection from Default in Payment of Local School Bonds

There has never been a payment default on any general obligation school bonds held by the Authority. The Authority has covenanted in the 1997 Resolution that it will take any and all action available to it under the laws of the Commonwealth, including the State Aid Intercept Provision, to secure payment of the principal of and the interest on the Local School Bonds held under the 1997 Resolution. See **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - State Aid Intercept"** above.

State Non-Arbitrage Program

Since 1989, the Authority has required all Local Issuers to deposit and maintain the proceeds of their Local School Bonds in the Virginia State Non-Arbitrage Program® ("SNAP"). SNAP includes a professionally-managed money market mutual fund which provides the Local Issuers with a convenient method of pooling bond proceeds for temporary investment pending their expenditure and with record keeping, depository and arbitrage rebate calculation services.

THE LITERARY FUND

General

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

Available Monies

Under the 2013 Appropriation Act, the sum sufficient appropriation to the Authority for debt service on Bonds for the biennium ending June 30, 2014 is payable first from "available monies" in the Literary Fund and then from the General Fund of the Commonwealth. The Authority anticipates that the determination of "available monies" at a point in time, assuming a Local Issuer has defaulted on its Local School Bond and implementation of the State Aid Intercept Provision has not cured the default, will be made by the Director of the Department of Planning and Budget taking into account the balance of cash and cash equivalents credited to the Literary Fund, on the one hand, and all appropriations and transfers from, and Literary Fund Loan commitments made by, the Literary Fund.

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

THE GENERAL FUND OF THE COMMONWEALTH

The General Fund of the Commonwealth is comprised of such balances, public taxes, arrears of taxes, and monies derived from all other sources as are not by law segregated to other funds and accounts for transactions related to resources received and used for those services traditionally provided by a state government. Commonwealth General Fund revenues are principally composed of direct taxes to support a number of government functions, primarily education, individual and family services, public safety and general government, and are available for payment of debt service obligations of the Commonwealth. For the fiscal year ended June 30, 2013, Commonwealth General Fund revenue was $17,918,336,000 (audited) with expenditures of $17,983,770,000 (audited) and ending with a fund balance surplus of $1,820,629,000 (cash basis, audited). See **APPENDIX B - COMMONWEALTH OF VIRGINIA FINANCIAL AND OTHER INFORMATION.** For a discussion of certain recent developments relating to the 2014-2016 biennial Appropriation Act, see **"INTRODUCTION"** herein.

SUMMARY OF CERTAIN PROVISIONS OF THE 1997 RESOLUTION

The following statements are brief summaries of certain provisions of the 1997 Resolution. Such statements do not purport to be complete and reference is made to the 1997 Resolution, copies of which are available for inspection upon request to the Secretary of the Authority.

Definitions of Certain Terms

The following are the definitions of certain terms contained in the 1997 Resolution and used in this Official Statement:

"Depository" means the State Treasurer or one or more banks or trust companies duly authorized to engage in the banking business and meeting the requirements of the 1997 Resolution and designated by resolution of the Authority or by the State Treasurer as a depository of moneys under the provisions of the Resolution.

"General Fund" means the Virginia Public School Authority General Fund, a special fund created by the 1997 Resolution.

"Income Available to Pay Debt Service" means as of any particular Payment Date,

(1) the amount of the principal and interest that is scheduled to become due and payable on the local school bonds credited to the 1997 Resolution Pledge Account during the Applicable Income Period,

plus (2) the amount, if any, of the principal and interest that is scheduled to become due and payable prior to the Applicable Income Period on the local school bonds credited to the 1997 Resolution Pledge Account that is designated by the Authority, in a certificate of its Treasurer or an Assistant Treasurer, for application to debt service on the Bonds in the Applicable Income Period,

less (3) the amount, if any described in (1) above that has been designated by the Authority, in a certificate of its Treasurer or an Assistant Treasurer, for application to debt service on the Bonds subsequent to the Applicable Income Period.

For the purposes of the definition of "Income Available to Pay Debt Service," "Applicable Income Period" shall mean the period beginning, with respect to each series of Bonds, on the later of their date of issue and the day after the previous Payment Date and ending on the date that is the applicable Payment Date or if such Date is not a Business Day, the Business Day next preceding such Payment Date.

Establishment of Funds and Accounts

The 1997 Resolution provides for the creation of the "Virginia Public School Authority 1997 Purchase Fund" (the "1997 Purchase Fund"); the "Virginia Public School Authority 1997 Income Fund" (the "1997 Income Fund"); the "Virginia Public School Authority 1997 Bond Interest and Sinking Fund" (the "1997 Sinking Fund"), and the "Virginia Public School Authority Reimbursement Fund" (the "Reimbursement Fund"). The 1997 Resolution further provides for the creation of a special fund designated the "Virginia Public School Authority General Pledge Fund" (the "General Pledge Fund"), including therein the "Virginia Public School Authority General Pledge Fund 1997 Resolution Account" (the "1997 Resolution Pledge Account").

Purchase Fund

To the extent provided in a series resolution, proceeds of Bonds issued under the 1997 Resolution shall be deposited in the Authority's General Fund for payment of expenses incurred in connection with the issuance of Bonds. The remaining proceeds of such Bonds (other than refunding Bonds and net of accrued interest) shall be deposited in the 1997 Purchase Fund.

The moneys in the 1997 Purchase Fund are to be applied by the Treasurer of the Authority to the purchase of Local School Bonds, subject to the provisions of the Enabling Act and the rules and regulations of the Authority. All Local School Bonds so purchased must constitute valid and binding general obligations of the Local Issuer for the payment of which its full faith and credit are pledged, and all taxable property within the boundaries of the Local Issuer must be subject to the levy of an ad valorem tax, without limitation on rate or amount, for the payment of such Local School Bonds and the interest thereon. The Local School Bonds must be accompanied by the approving opinion of a firm of recognized municipal bond attorneys acceptable to the Authority.

All Local School Bonds purchased with funds held in the 1997 Purchase Fund shall be held for the credit of the 1997 Resolution Pledge Account within the General Pledge Fund and pledged to the payment of the Bonds. The Board may authorize and direct the Treasurer of the Authority to sell (with or without consideration) or otherwise dispose of Local School Bonds purchased with the proceeds of Bonds issued under the 1997 Resolution; provided, however, no Local School Bonds may be sold unless the sale is required to make up a deficiency in the 1997 Sinking Fund or unless, following such sale or other disposition, the Income Available for Debt Service on each Payment Date is not less than the debt service on each such Date.

Any proceeds from such a sale or other disposition may be used for the lawful purposes of the Authority; any accrued interest realized in such a sale shall be deposited to the credit of the 1997 Income Fund.

The Board may from time to time authorize and direct the Treasurer of the Authority to transfer from the 1997 Purchase Fund to the 1997 Sinking Fund all or any portion of the moneys held in the 1997 Purchase Fund in order to pay interest on Bonds, to redeem Bonds or to make up any deficiency in the 1997 Sinking Fund.

Flow of Funds

The Treasurer of the Authority shall collect and deposit in the 1997 Income Fund the principal and interest payments on the Local School Bonds credited to the 1997 Resolution Pledge Account as the same become due and payable.

The Authority has covenanted that on or before the last Business Day preceding each Payment Date (or any other day designated in a series resolution) (a "Deposit Day"), the State Treasurer shall, if applicable, withdraw an amount of money from the 1997 Income Fund, and deposit such moneys in the following funds and accounts in the following order and in amounts sufficient in the aggregate to satisfy the following requirements:

(a) in the 1997 Sinking Fund such amount as may be required to make the amount in the 1997 Sinking Fund equal to the sum of (i) the interest next due on the Bonds and (ii) the principal next due on the Bonds; provided that in making such transfers, the Treasurer of the Authority may take into account any accrued interest deposited from Bond proceeds and any amounts specified in a certificate of the Treasurer of the Authority prior to such Deposit Day as credited to a special account in the 1997 Purchase Fund; and

(b) in the Reimbursement Fund, such amount of any balance remaining after making the deposits under clause (a) above, up to the entire balance if less than the required amount, as may be required by the resolutions of the Authority in connection with obligations to repay the Commonwealth for any appropriations to cure deficiencies in the amount required to be on deposit in the 1997 Sinking Fund or to make rebate payments to the United States.

The State Treasurer shall transfer from the 1997 Income Fund to the credit of the General Fund of the Authority following each Payment Date, as may be requested by the Treasurer of the Authority, the lesser of (i) the amount described in clause (1)(A) below and (ii) the amount, if any, by which

(1) the sum of (A) the amount then remaining to the credit of the 1997 Income Fund, **plus** (B) the amount of the principal and interest that is scheduled to become due and payable on the local school bonds (the issuer of which is not then, to the knowledge of the State Treasurer, in default in the payment of the principal of or interest on any general obligation bond) held to the credit of the 1997 Resolution Pledge Account and payable to the Authority prior to the next succeeding Deposit Day,

exceeds

(2) the sum of (A) the amount of the scheduled Principal and Interest Requirement on the Bonds for the next succeeding Payment Date, **plus** (B) the amount then remaining to the credit of the 1997 Income Fund that has been designated by the Authority in accordance with the provisions of the Resolution for

application to debt service on the Bonds on a future Payment Date subsequent to the next succeeding Payment Date.

1997 Sinking Fund

Moneys in the 1997 Sinking Fund shall be used for the payment of the principal of, premium, if any, and interest on the Bonds. The 1997 Resolution permits the State Treasurer to use moneys on deposit in the 1997 Sinking Fund to purchase Bonds coming due (or subject to mandatory redemption) on the next succeeding principal payment date at the most advantageous prices obtainable, but not in excess of the principal amount of such Bonds plus accrued interest, if any. Such purchases must be made no later than 45 days prior to an interest payment date on which Bonds are subject to redemption and must be made with moneys other than those set aside or deposited for the redemption of Bonds.

If Bonds are secured by a credit facility, moneys in the 1997 Sinking Fund may be used, as provided in a series resolution, to reimburse the credit provider for amounts drawn under the credit facility to pay the principal of, premium, if any, and interest on the Bonds.

General Fund

Moneys in the General Fund may be used to purchase Local School Bonds or for any other authorized purpose of the Authority and are not subject to a lien in favor of the holders of the Bonds.

General Pledge Fund

All local school bonds that are

(i) purchased from moneys held for the credit of the 1997 Purchase Fund, or

(ii) if so provided by resolution of the Authority,

    (A) purchased from moneys held for the credit of the General Fund, or

    (B) transferred from funds or accounts held under Other Resolutions,

shall be delivered to, and held in trust by, a Depository for the credit of the General Pledge Fund.

Unless otherwise provided by resolution of the Authority, all principal, interest and redemption premium components of the Local School Bonds that are purchased from moneys held for the credit of the 1997 Purchase Fund shall be credited, pledged and assigned to the 1997 Resolution Pledge Account in the General Pledge Fund. The Authority pursuant to the provisions of the 1997 Resolution grants security interests in favor of the holders from time to time of the Bonds issued and outstanding under the 1997 Resolution in such principal, interest and redemption premium components of such Local School Bonds, the receipts therefrom and the proceeds thereof. If so provided by resolution of the Authority, the Authority further grants and confirms security interests in favor of the holders from time to time of the Bonds issued and outstanding under the 1997 Resolution in the principal, interest and redemption premium components, the receipts and the proceeds of the local school bonds that are

(i) purchased from moneys held for the credit of the General Fund, or

(ii) transferred from funds or accounts held under Other Resolutions or from another special account within the General Pledge Fund

and credited, pledged and assigned to the 1997 Resolution Pledge Account.

The Authority may, by resolution, designate that all or a portion of all or a portion of the components of the Local School Bonds shall be credited, pledged and assigned to special subaccounts and may grant security interests in such portion or portions, the receipts therefrom and the proceeds thereof for the benefit of certain but not all the holders of Bonds or series or maturities or Bonds within maturities thereof as shown on the records of the Depository having custody of the General Pledge Fund. Where all or any of the principal, interest and redemption premium components of a local school bond are credited to the 1997 Resolution Pledge Account, all or the appropriate portion of the related local school bond held in the General Pledge Fund shall also be deemed credited to the 1997 Resolution Pledge Account and subject to the security interests created therein, and the proceeds from the sale or other disposition pursuant to the provisions of the 1997 Resolution shall be allocated to the Bonds in proportion to their percentage of the value of the components credited to such Account, as determined by the Authority.

General Authorization of Bonds

The Authority may issue additional Bonds under the 1997 Resolution for the purpose of providing funds for the purchase of Local School Bonds, subject to receipt of the following documents by the Treasurer of the Authority:

(a) a copy, certified by the Secretary of the Authority, of the Series Resolution or applicable Resolutions;

(b) a copy, certified by the Secretary of the Authority, of the resolution adopted by the Board awarding such Bonds and directing the delivery of such Bonds;

(c) a certificate, signed by the State Treasurer, setting forth with reference to each Payment Date, to and including the last stated principal payment date on the Bonds then outstanding and the Bonds then to be issued,

(A) the Income Available to Pay Debt Service (excluding the principal and interest on the Local School Bonds the issuer of which is then, to the knowledge of the State Treasurer, in default in the payment of principal or interest on any general obligation bond);

(B) the sum of (i) the principal and interest requirements on account of the Bonds of each Series then outstanding under the 1997 Resolution and (ii) the principal and interest requirements for the Bonds then to be issued

and stating that the result of dividing the amount mentioned in paragraph (A) for each such Date by the sum set forth in paragraph (B) for the same Date is at least one hundred percent (100%) on each such Date;

(d) a certificate, signed by the Secretary of Finance of the Commonwealth that

(i) the current Appropriation Act Provision and any future Appropriation Act Provision, and

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

contain a "sum sufficient appropriation" from the Literary Fund and, to extent that funds are not available therein for the purpose, from the general fund of the Commonwealth, to pay the difference between debt service on the bonds becoming due in such fiscal year(s) covered by such Appropriation Act Provision or Budget Bill and the amount available to pay such debt service.

For purposes of the foregoing certificate of the Secretary of Finance,

(i) "current Appropriation Act Provision" shall mean a sum sufficient appropriation contained in an Appropriation Act that has the force of law at the date of the certificate,

(ii) "future Appropriation Act Provision" shall mean a sum sufficient appropriation contained in an Appropriation Act that will have the force of law on a future date,

(iii) "Budget Bill" shall mean the bill or bills submitted by the Governor to the General Assembly (but not yet enacted into law) that would appropriate the public revenue of the Commonwealth for a biennium or amend provisions of the current Appropriation Act, as such bill or bills may exist on the date of the certificate, and

(iv) "sum sufficient appropriation" shall mean in case of any Appropriation Act or Budget Bill the appropriation of amounts sufficient, whether the amount is specified directly or indirectly or by formula or otherwise, that in the judgment of the Secretary of Finance are sufficient to cure any deficiency in the amounts received by the Authority from payments on the local school bonds and from the implementation of the State Aid Intercept provision, when compared to the scheduled debt service on the Bonds on any Payment Date, in each of the fiscal years covered by the Appropriation Act or Budget Bill.

(e) a certificate, signed by the Chairman of the Authority, stating that the Authority is not then in default in the performance of any of the covenants, conditions, agreements or provisions contained in the 1997 Resolution or in the Enabling Act; and

(f) an opinion of the Attorney General or an Assistant Attorney General of the Commonwealth of Virginia stating that the signer is of the opinion that the issuance of such additional Bonds has been duly authorized, that all conditions precedent to the delivery of such Bonds have been fulfilled, and that no legislation has been enacted that amends the provisions of the Enabling Act in a way that would adversely affect the power of the Authority to discharge its "Covenant to Request Sum Sufficient Appropriation."

Refunding of Bonds

Bonds may be issued under the 1997 Resolution for the purpose of providing funds to redeem or otherwise pay prior to their maturities, including the payment of any redemption premium thereon, all or part of the outstanding Bonds or any other indebtedness of the Authority (including Reimbursement Obligations), the interest thereon to the date fixed for their redemption or payment and any expenses incurred in connection with such refunding, provided that certain requirements of the 1997 Resolution, including the tests described in clauses (c) and (d) in **"General Authorization of Bonds,"** are satisfied.

Provisions Applicable to All Bonds

Bonds may be issued in any form permitted by law, including current interest bonds, variable rate indebtedness, capital appreciation bonds, optional tender indebtedness, serial bonds, term bonds or any combination thereof. Except as to any credit facility that may be applicable to certain Bonds only and as to any differences in the maturities, rates of interest and the manner of payment thereof or in the provisions for redemption and purchase, all additional Bonds shall be entitled to the same benefit and security under the 1997 Resolution as all other Bonds. The 1997 Resolution provides that, for purposes of the revenue test applicable to the issuance of additional Bonds, the option of any owner of optional tender indebtedness to tender the same for payment prior to its stated maturity shall be ignored and the interest rate for variable rate indebtedness shall be assumed throughout the term of such indebtedness to be the greater of (a) the initial rate of interest of such variable rate indebtedness, and (b) the weighted average interest rate at which it is assumed that the Authority could reasonably expect to have borrowed on the date of issuance of such Bonds at a fixed interest rate.

Reports and Audits

The Authority covenants to keep accurate records and accounts of all moneys collected and the application of such moneys and to exert its best efforts to cause an audit of its books and accounts for each twelve-month period to be made by the State Auditor of Public Accounts or by an independent firm of certified public accountants of recognized ability and standing chosen by the Authority with the approval of the State Treasurer. The Authority further covenants that, as often as may be requested, it will furnish to any Bondholder such other information concerning the Authority as such Bondholder may reasonably request.

Investments

Moneys held in the funds and accounts established by the 1997 Resolution shall be continuously invested and reinvested at the direction of the Authority in the following investments ("Investment Obligations"):

(a)(i) direct obligations of, or obligations the timely payment of the principal of and the interest on which is unconditionally guaranteed by, the United States of America, interest components of Resolution Funding Corporation bonds and, if permitted by law, evidences of indirect ownership of such obligations, (ii) obligations of state and local municipal bond issuers the payment of which shall be secured by non-callable obligations described in (i) above deposited with an escrow agent or trustee ("Defeasance Obligations"), and (iii) obligations issued by certain agencies controlled or supervised by the United States of America, and

(b) repurchase agreements for obligations described in (a) above, certificates of deposit, banker's acceptances, commercial paper, insured and uninsured obligations of state or local government municipal bond issuers satisfying the requirements of the 1997 Resolution and any other obligation constituting a legal investment for instrumentalities of the Commonwealth of Virginia.

Moneys in the 1997 Purchase Fund, the 1997 Income Fund, the 1997 Sinking Fund and the Reimbursement Fund shall, as nearly as may be practicable, be invested and reinvested in Investment Obligations that shall mature, or that shall be subject to redemption at the option of the holder thereof, not later than the respective dates when the moneys will be required. Moneys held for the credit of the General Fund shall be invested and reinvested in such Investment Obligations as the State Treasurer shall determine.

Investment Obligations so purchased shall be deemed at all times to be a part of the fund or account to which the money with which they were purchased was credited, and the interest accruing thereon and any profit realized or any loss resulting from the investment of money shall be credited to, or charged against, the respective fund or account. The State Treasurer and any bank in which funds or accounts are deposited (a "Depository") shall sell at the best price obtainable or present for redemption or payment any such Investment Obligations whenever it shall be necessary to do so in order to provide money to make any payment or transfer of money from any such fund or account. The State Treasurer and any Depository shall not be liable or responsible for any loss resulting from any such investment.

Whenever a payment or transfer of moneys between two or more of the funds or accounts established under the 1997 Resolution is permitted or required, such payment or transfer may be made in whole or in part by transfer of one or more Investment Obligations at a value determined in accordance with the provisions of the 1997 Resolution, provided that Investment Obligations are those in which moneys of the receiving fund or account could be invested at the date of such transfer.

For the purpose of determining the amount on deposit to the credit of any such fund or account, obligations in which money in such fund or account shall have been invested shall be valued at the market value or the amortized cost, whichever is lower.

Modification of the Resolution

The Authority, from time to time, and without the consent of Bondholders, may adopt supplemental resolutions for purposes set forth in the 1997 Resolution. Such purposes include curing ambiguities, formal defects and omissions in the 1997 Resolution and any other change that, in the opinion of the Authority, would not materially adversely affect the security for the Bonds.

The owners of not less than a majority in aggregate principal amount of the Bonds then outstanding may, from time to time, consent to resolutions supplemental to the 1997 Resolution for the purpose of modifying any of the terms or provisions contained in the 1997 Resolution or in any series resolution or other supplemental resolution; provided, however, that nothing contained in the 1997 Resolution shall permit, or be construed as permitting, without the consent of Bondholders (a) an extension of the maturity of the principal of or the interest on any Bond, (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, (c) the creation of a lien upon or a pledge of funds other than the liens and pledges created or permitted by the 1997 Resolution, (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds of the same Series, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental resolution. The Secretary of the Authority shall cause notice of the proposed adoption of any such supplemental resolution to be mailed, postage prepaid, to all owners of Bonds at their addresses as they appear on the registration books. Such notice shall briefly set forth the nature of the proposed supplemental resolution and shall state that copies thereof are on file at the office of the State Treasurer for inspection by all Bondholders. The Authority shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail the notice, and any such failure shall not affect the validity of such supplemental resolution after it has been consented to and approved. No such supplemental resolution shall become effective unless the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding shall file with the Secretary of the Authority instruments consenting to and approving the adoption of the supplemental resolution in the form thereof referred to in the notice.

Remedies of Bondholders

The 1997 Resolution defines events of default to include failure to pay principal, redemption premium or any installment of interest on any of the Bonds, inability of the Authority to fulfill its obligations under the 1997 Resolution, the institution of proceedings with the consent or acquiescence of the Authority for the purpose of adjusting claims of creditors pursuant to any federal or state statute and failure after written notice by the holder of any of the Bonds then outstanding to perform any covenant contained in the 1997 Resolution.

Upon the happening and continuance of any event of default, any Bondholder may proceed to protect and enforce its rights and the rights of Bondholders under the laws of the Commonwealth of Virginia or the 1997 Resolution and may enforce and compel the performance of all duties required under the laws of the Commonwealth of Virginia or the 1997 Resolution to be performed.

Defeasance

When the principal of, premium, if any, and interest on the Bonds shall be paid or if the State Treasurer, the Bond Registrar or any Depository or Paying Agent shall hold in trust sufficient moneys or non-callable Defeasance Obligations the principal of and interest on which, when due and payable, will provide sufficient moneys to pay the principal of, redemption premium, if any, and interest on all Bonds then outstanding to the maturity date or dates of such Bonds or dates fixed for mandatory redemption of term Bonds or to the date or dates specified for the optional redemption of Bonds, and, if Bonds are to be called for redemption, irrevocable instructions to call the Bonds for redemption shall have been given by the Authority, and sufficient funds shall also have been provided or provision made for paying all other obligations payable hereunder by the Authority, then and in that case the right, title and interest of the Bondholders in the funds and accounts under the 1997 Resolution shall thereupon cease, determine and become void. Bonds paid or redeemed or delivered to or acquired by the Bond Registrar for cancellation and Bonds, or principal or interest components thereof, for which a Paying Agent or the Bond Registrar or any Depository or the State Treasurer shall hold sufficient moneys or non-callable Defeasance Obligations the principal of and the interest on which, when due and payable, will provide sufficient moneys to pay the principal of, redemption premium, if any, and the interest on such Bonds, or such principal or interest components, as the case may be, to their maturity date or dates or dates fixed for redemption are deemed no longer outstanding for purposes of the 1997 Resolution.

TAX MATTERS

Federal Income Tax Status of Interest

Bond Counsel's opinion regarding the 2014 Bonds will state that, under current law and assuming compliance with the Covenants (as defined below), interest on the 2014 Bonds (including any accrued "original issue discount" properly allocable to the owners of the 2014 Bonds) (a) is excludable from gross income for purposes of federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (b) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations (a "Specific Tax Preference Item"). However, for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes under Section 56 of the Code), interest on the 2014 Bonds must be included in computing adjusted current earnings.

See **APPENDIX G - PROPOSED FORM OF OPINION OF BOND COUNSEL.**

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the 2014 Bonds.

Bond Counsel's opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents Bond Counsel's judgment as to the proper treatment of interest on the 2014 Bonds for federal income tax purposes. Bond Counsel's opinion does not contain or provide any opinion or assurance regarding the future activities of the Authority, the 2014A Local Issuers, the local school boards associated with the 2014A Local Issuers (the "2014A Local School Boards"), the Related Local Issuers, and the local school boards associated with the Related Local Issuers (the "Related Local School Boards") or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority, the 2014A Local Issuers, the 2014A Local School Boards, the Related Local Issuers and the Related Local School Boards have covenanted, however, to comply with the requirements of the Code.

In delivering its opinion regarding the 2014 Bonds, Bond Counsel is relying upon, among other things, (i) representations of the Authority contained in the Resolution and related documents and the certified proceedings, (ii) computations provided by Davenport & Company LLC the mathematical accuracy of which was verified by Bingham Arbitrage Rebate Services, Inc., as verification agent, relating to the yield of certain investments purchased with a portion of the proceeds of the 2014B Bonds and the yield on the 2014 Bonds, and (iii) other certifications of public officials furnished to us.

In addition, Bond Counsel is assuming continuing compliance with the Covenants by the Authority, the 2014A Local Issuers, the 2014A Local School Boards, the Related Local Issuers and the Related Local School Boards. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the 2014 Bonds in order for interest on the 2014A Bonds to be and remain excludable from gross income for purposes of federal income taxation. The Authority, the 2014A Local Issuers, the 2014A Local School Boards, the Related Local Issuers and the Related Local School Boards, as applicable, have covenanted in their respective tax agreements to comply with the provisions of the Code applicable to the 2014 Bonds including, among other things, requirements as to the use, expenditure and investment of the proceeds thereof, the use of the property financed or refinanced thereby, the source of the payment thereof and the security therefor, the arbitrage yield restrictions and rebate payment obligations imposed by the Code and certain other actions that could cause interest thereon to be includable in gross income of their owners (the "Covenants"). Failure by the Authority, any of the 2014A Local Issuers, any of the 2014A Local School Boards, any of the Related Local Issuers or any of the Related Local School Boards to comply with the Covenants could cause interest on the 2014 Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the 2014 Bonds from becoming includable in gross income for federal income tax purposes.

Bond Counsel has no responsibility to monitor compliance with the Covenants after the date of issue of the 2014 Bonds.

Certain requirements and procedures contained, incorporated or referred to in the tax agreements, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such agreements. Bond Counsel expresses no opinion concerning any effect on the excludability of interest on the 2014 Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than Bond Counsel.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the 2014 Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of 2014 Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning or disposing of 2014 Bonds.

Prospective purchasers of the 2014 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, certain insurance companies, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the "branch profits tax," individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit.

In addition, prospective purchasers should be aware that the interest paid on, and the proceeds of the sale of, tax-exempt obligations, including the 2014 Bonds, are in many cases required to be reported to the IRS in a manner similar to interest paid on taxable obligations. Additionally, backup withholding may apply to any such payments to any 2014 Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any 2014 Bond owner who is notified by the IRS of a failure to report all interest and dividends required to be shown on federal income tax returns. The reporting and withholding requirements do not in and of themselves affect the excludability of such interest from gross income for federal tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Original Issue Discount

The "original issue discount" ("OID") on any 2014 Bond is the excess of such bond's stated redemption price at maturity (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of such bond. The "issue price" of a 2014 Bond is the initial offering price to the public at which price a substantial amount of such 2014 Bonds of the same maturity was sold. The "public" does not include bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The issue price for each maturity of the 2014 Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement (or, in the case of 2014 Bonds sold on a yield basis, the initial offering price derived from such yield), but is subject to change based on actual sales. Accrued OID on the 2014 Bonds with OID (the "OID Bonds") is treated as interest that is excludable from gross income for purposes of federal and Virginia income taxation. However, the portion of the OID that is deemed to have accrued to the owner of an OID Bond in each year may be included in determining the alternative minimum tax and the distribution requirements of certain investment companies and may result in some of the collateral federal income tax consequences mentioned in the preceding subsection. Therefore, owners of OID Bonds should be aware that the accrual of OID in each year may result in alternative minimum tax liability, additional distribution requirements or other collateral federal and Virginia income tax consequences although the owner may not have received cash in such year.

Interest in the form of OID is treated under Section 1288 of the Code as accruing under a constant yield method that takes into account compounding on a semiannual or more frequent basis. If an OID Bond is sold or otherwise disposed of between semiannual compounding dates, then the OID which would have accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

In the case of an original owner of an OID Bond, the amount of OID that is treated as having accrued on such OID Bond is added to the owner's cost basis in determining, for federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). The amounts received upon such disposition that are attributable to accrued OID will be excluded from the gross income of the recipients for federal income tax purposes. The accrual of OID and its effect on the redemption, sale or other disposition of OID Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above.

Prospective purchasers of OID Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale or redemption of such OID Bonds and with respect to state and local tax consequences of owning OID Bonds.

Bond Premium

In general, if an owner acquires a bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Prospective purchasers of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Effects of Future Enforcement, Regulatory and Legislative Actions

The IRS has established a program to audit tax-exempt obligations to determine whether the interest thereon is includable in gross income for federal income tax purposes. If the IRS does audit the 2014 Bonds, the IRS will, under its current procedures, treat the Authority as the taxpayer. As such, the beneficial owners of the 2014 Bonds will have only limited rights, if any, to participate in the audit or any administrative or judicial review or appeal thereof. Any action of the IRS, including but not limited to the selection of the 2014 Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the marketability or market value of the 2014 Bonds.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and various state legislatures. Such legislation may effect changes in federal or state income tax rates and the application of federal or state income tax laws (including the substitution of another type of tax), or may repeal or reduce the benefit of the excludability of interest on the tax-exempt obligations from gross income for federal or state income tax purposes. The U.S. Department of the Treasury and the IRS are continuously drafting regulations to interpret and apply the provisions of the Code and court proceedings may be filed the outcome of which could modify the federal or state tax treatment of tax-exempt obligations. There can be no assurance that legislation proposed or enacted after the date of issue of the 2014 Bonds, regulatory interpretation of the Code or actions by a court involving either the 2014 Bonds or other tax-exempt obligations will not have an adverse effect on the 2014 Bonds' federal or state tax status, marketability or market price or on the economic value of the tax-exempt status of the interest on the 2014 Bonds.

Prospective purchasers of the 2014 Bonds should consult their own tax advisors regarding the potential consequences of any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

State Tax Treatment of the 2014 Bonds

Bond Counsel's opinion regarding the 2014 Bonds also will state that, in accordance with Section 22.1-172 of the Enabling Act, the 2014 Bonds and the income from them, including any profit made on their sale, are exempt from taxation by the Commonwealth and any of its political subdivisions. Bond Counsel will express no opinion regarding (a) other Virginia tax consequences arising with respect to the 2014 Bonds or (b) any consequences arising with respect to the 2014 Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth. Prospective purchasers of the 2014 Bonds should consult their own tax advisors regarding the tax status of interest on the 2014 Bonds in a particular state or local jurisdiction other than the Commonwealth.

VERIFICATION OF MATHEMATICAL COMPUTATIONS FOR THE REFUNDED BONDS

The accuracy of the arithmetical and mathematical computations (a) of the adequacy of the maturity principal amounts of the Federal Securities in the Escrow Fund together with the interest income thereon and uninvested cash, if any, to pay, when due, the principal of, redemption premium and interest on the Refunded Bonds, and (b) relating to the determination of compliance with the regulations and rulings promulgated under the Code will be verified by Bingham Arbitrage Rebate Services, Inc. Such verification of arithmetical accuracy and computations shall be based upon information and assumptions supplied by the Authority and on interpretations of the Code provided by Bond Counsel.

RATINGS

As noted on the cover page of this Official Statement, Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, have given the 2014 Bonds ratings of "AA+", "Aa1" and "AA+", respectively.

Such ratings reflect only the respective views of such organizations and an explanation of the significance of such ratings may be obtained only from the respective rating agencies. The Authority furnished to such rating agencies certain information regarding its policies, practices and finances, including information that is not included in this Official Statement. There is no assurance that such policies, practices and finances or such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by any rating agency, if, in the judgment thereof, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market price of the 2014 Bonds.

FUTURE FINANCINGS

The Authority does not anticipate issuing any new money additional bonds under its 1997 Resolution prior to September 1, 2014.

The Authority expects to issue additional Bonds pursuant to the 1997 Resolution in the fall of 2014 to purchase Local School Bonds to fund public school projects. Subject to market conditions, however, the Authority may undertake, at any time, the refunding for debt service savings and other purposes of any of its outstanding obligations, including Bonds issued under the 1997 Resolution.

The Authority also expects to issue approximately $70.3 million of its School Technology and Security Notes Series II (the "2014 Notes") on May 22, 2014.[*] The 2014 Notes will be limited obligations of the Authority payable from appropriations to be made by the Virginia General Assembly from the Literary Fund and to the extent necessary from a "sum sufficient appropriation" from the General Fund of the Commonwealth in the event that "available moneys in the Literary Fund" are less than the appropriations for debt service due on the 2014 Notes.

The Authority expects to issue a series of bonds for the benefit of Prince William County, Virginia under a Stand Alone Security Structure. The Authority anticipates that such bonds will be issued in the summer of 2014.

The Authority also expects to issue additional VPSA Tax Credit Bonds in the fall of 2014.

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[*] The issuance date for the 2014 Notes has been updated since the Preliminary Official Statement dated April 15, 2014.

LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the 2014 Bonds are subject to the approving opinion of McGuireWoods LLP, Richmond, Virginia, Bond Counsel. Such opinion, substantially in the form set forth in **APPENDIX G** to this Official Statement, will be furnished at no expense to the initial purchasers of the 2014 Bonds upon delivery thereof.

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

LEGALITY FOR INVESTMENT

The Enabling Act provides that the 2014 Bonds are securities in which all public officers and bodies of the Commonwealth, counties, cities, towns, municipal subdivisions, insurance companies and associations, savings banks and savings institutions, including savings and loan associations, trust companies, beneficial and benevolent associations, administrators, guardians, executors, trustees and other fiduciaries in the Commonwealth may properly and legally invest funds under their control.

LITIGATION

The Authority is not party to any litigation. The Authority has no knowledge of any litigation, pending or threatened, to restrain or enjoin the issuance or delivery of the 2014 Bonds or the entering by the Authority into the transactions contemplated by this Official Statement or wherein an unfavorable decision would have a material adverse impact upon the operations or financial condition of the Authority.

LEGISLATION

The 2013 Appropriation Act, as amended, contains a "sum sufficient appropriation" that is applicable to all Bonds issued under the 1997 Resolution and that is not limited in terms of Bonds that may have the benefit thereof or in terms of maximum annual debt service. Such sum sufficient appropriation has also been applied to the VPSA Tax Credit Bonds issued under its VPSA Tax Credit Bond Indenture.

In addition, the 2013 Appropriation Act, as amended, directs the Authority to issue Security Notes during the fiscal year ending June 30, 2014. The 2013 Appropriation Act, as amended, includes sufficient appropriations from the Literary Fund to pay debt service coming due in the biennium ending June 30, 2014 on the Security Notes and also includes a sum sufficient appropriation. See **"FUTURE FINANCINGS"** above.

FINANCIAL ADVISOR

Davenport & Company, LLC ("Davenport") is employed as a financial advisor to the Authority in connection with the issuance of the 2014 Bonds. The financial advisor's fee for services rendered with respect to the sale of the 2014 Bonds is contingent upon the issuance and delivery of the 2014 Bonds. Davenport, in its capacity as financial advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents provided, agreed to or made by others with respect to the federal income tax status of the 2014 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

Davenport, as the financial advisor to the Authority, has provided the following sentence for inclusion in this Official Statement. The financial advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Authority and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the financial advisor does not guarantee the accuracy or completeness of such information.

CONTINUING DISCLOSURE

On November 10, 1994, the Securities and Exchange Commission adopted in final form certain amendments to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"). In general, the Rule prohibits an underwriter from purchasing or selling municipal securities sold on or after July 3, 1995, such as the 2014 Bonds, unless it has determined that the issuer of such securities and/or other persons deemed to be "obligated persons" have committed to provide (i) on an annual basis, certain financial information and operating data ("Annual Reports"), and, if available, audited financial statements, to each Nationally Recognized Municipal Securities Information Repository (a "NRMSIR") and the relevant state information depository (if any) and (ii) notice of various events described in the Amendments ("Event Notices"), to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and to any such state information depository. On July 1, 2009, certain amendments to the Rule became effective which requires issuers and materially obligated persons to file Annual Reports and Event Notices with the MSRB, through its Electronic Municipal Market Access ("EMMA") system, in lieu of the traditional filings with the NRMSIRs, in an electronic format prescribed by the MSRB.

In the series resolution adopted April 2, 2014 (the "Series Resolution"), the Authority has covenanted, for the benefit of the holders of the 2014 Bonds to provide to the MSRB annually, not later than 10 months after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2014, Annual Reports with respect to itself, as issuer. Similarly, the Authority will provide Event Notices with respect to the 2014 Bonds to the MSRB. As of the date of this Official Statement, the Authority has complied with its other undertakings regarding the Rule.

The Authority has determined that the Commonwealth is a material "obligated person" ("MOP") for purposes of the Rule. The Commonwealth will covenant, by executing a Continuing Disclosure Agreement prior to issuance of the 2014 Bonds, to provide to the MSRB annually, not later than January 31 of each year, commencing January 31, 2015, Annual Reports with respect to itself. Similarly, the Commonwealth will provide notice of any changes in the ratings of the Commonwealth's general obligation bonds to the MSRB. The Commonwealth will represent that it is in compliance with its other undertakings regarding the Rule in all material respects.

The Authority has also determined that, with respect to Local Issuers, a MOP shall include any such Local Issuer that has local school bonds outstanding as of the end of a Fiscal Year (June 30), in an aggregate principal amount that exceeds 10% of the aggregate principal amount of all outstanding Bonds of the Authority. The Authority has covenanted in the Series Resolution to require each Local Issuer that is or may become a MOP to execute and deliver to the Authority an undertaking by which the Local Issuer will agree that if it becomes a MOP, it will, so long as it remains a MOP, file Annual Reports and provide Event Notices with respect to its Local School Bonds credited to the 1997 Resolution Pledge Account in the General Pledge Fund, as required by the Rule. Any such Annual Report of a Local Issuer will be filed with the MSRB. Any Event Notices will be filed by such Local Issuer with the MSRB.

For purposes of compliance with the secondary market disclosure requirements of the Rule, the Authority determines as of June 30 of each year whether one or more Local Issuers are MOPs. As of June 30, 2013, Prince William County constituted a MOP. If the determination of which Local Issuers constitute MOPs were made on the date of delivery of the 2014 Bonds, and the list of 2014A Local Issuers and 2014A Local Bonds as shown on page 22 did not change, Prince William County would constitute a MOP. The Authority cannot predict whether any particular Local Issuer will be as of June 30 of any particular subsequent year a MOP subject to the continuing disclosure undertaking under its Continuing Disclosure Agreement with the Authority. Prince William County will represent as of the date of delivery of the 2014 Bonds that it has complied with its undertakings regarding the Rule. See **"OTHER INFORMATION."**

These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). (See **APPENDIX F – CONTINUING DISCLOSURE UNDERTAKINGS**).

OTHER INFORMATION

Included as Appendices B, C and D are Financial and Other Information respecting the Commonwealth, Demographic and Economic Information relating to the Commonwealth, for its fiscal year ended June 30, 2013, and the audited financial statements of the Commonwealth for its fiscal year ended June 30, 2013, respectively.

As of the date of this Official Statement, the Commonwealth has complied in all material respects with its undertakings regarding Rule 15c2-12, except as described below. In making timely filings of its Annual Reports for Fiscal Years 2009-2013, the CUSIP information necessary to link such filings to (i) each series of the Commonwealth Transportation Board's Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes was inadvertently omitted from such filings for Fiscal Years 2009-2011 and (ii) each series of the Virginia Resources Authority's Infrastructure Revenue Bonds and Moral Obligation Bonds was inadvertently omitted from such filings for Fiscal Years 2009-2013. Such filings were otherwise available from the MSRB with respect to other Commonwealth undertakings. The Commonwealth has taken steps to ensure future compliance with its undertakings regarding Rule 15c2-12.*

Prince William County has filed with the MSRB certain operating data and financial information, including its audited financial statements for the fiscal year ended June 30, 2013. Copies of such operating data and financial information, including such audited financial statements, are available from the MSRB and, without charge, from the Authority, at 101 North 14th Street, 3rd Floor, Richmond, Virginia 23219, telephone: (804) 225-2142. Reference is made to the information and audited financial statements filed and to be filed by Prince William County with the MSRB, which information and financials filed and to be filed are hereby included by specific reference in this Official Statement the same as if they were set out here in full.

CERTIFICATES CONCERNING OFFICIAL STATEMENT AND NO LITIGATION

Concurrently with the delivery of the 2014 Bonds, the Chairman and the Treasurer of the Authority will each deliver a certificate respecting the Official Statement.

The Treasurer of the Authority (who is also the State Treasurer) will certify that the Official Statement, including the Appendices thereto, (except for information relating to "Yield" or "Price" or CUSIP Suffix and contained under the section headings **"DESCRIPTION OF THE 2014 BONDS – Book-Entry Only System," "TAX MATTERS," "LEGALITY FOR INVESTMENT," "FINANCIAL ADVISOR,"** and **APPENDIX G** and the information included herein by specific reference concerning Prince William County) did not as of its date, and does not as of the date of the delivery of the 2014 Bonds, contain an untrue statement of a material fact or omit to state any material fact which should be included therein for the purpose for which the Official Statement is to be used, or which is necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading. The Chairman of the Authority will deliver a certificate similar to that of the Treasurer except that it will exclude the Appendices from its coverage. Prince William County will deliver a certificate, dated the date of delivery of the 2014 Bonds, certifying that the information it has filed with the MSRB and the Authority does not contain any untrue statement of a material fact or omit to state a material fact which should be included in such information for the purpose for which it has been filed or which is necessary to make the statements contained in such information, in light of the circumstances under which they were made, not misleading.

In addition, the Chairman and the Secretary of the Authority will deliver a certificate, dated the date of delivery of the 2014 Bonds certifying that no litigation of any kind is then pending (either in state or federal courts) or, to their knowledge, threatened to restrain or enjoin the issuance or delivery of the 2014 Bonds or the purchase of Local School Bonds, including the 2014A Local Bonds, or the pledge of funds as provided in the 1997 Resolution, or in any manner questioning the proceedings or authority under which the 2014 Bonds are to be issued, or affecting the validity of or the security for the 2014 Bonds; neither the corporate existence of the Authority nor the title to his office of any officer whose facsimile signature appears on the 2014 Bonds is being contested; and no authority or proceedings for the issuance of the 2014 Bonds or for the security thereof have been repealed, revoked or rescinded.

* This paragraph has been added since the Preliminary Official Statement dated April 15, 2014.

SALE AT COMPETITIVE BIDDING

The 2014A Bonds were awarded pursuant to electronic competitive bidding held via BiDCOMP/PARITY on Thursday, April 24, 2014 to Barclays Capital, Inc. (the "2014A Underwriter") at a price to the Authority that results in an Underwriter's discount of $378,598.50 from the initial public offering prices derived from the prices shown on the inside cover page. The 2014A Underwriter has supplied the information as to the yields with respect to the 2014A Bonds shown on the inside cover page. The 2014A Underwriter may offer to sell the 2014A Bonds to certain dealers and others at prices lower or yields higher than such initial public offering prices.

The 2014B Bonds were awarded pursuant to electronic competitive bidding held via BiDCOMP/PARITY on Thursday, April 24, 2014 to Merrill Lynch, Pierce, Fenner & Smith, Incorporated (the "2014B Underwriter") at a price to the Authority that results in an Underwriter's discount of $299,402.18 from the initial public offering prices derived from the prices shown on the inside cover page. The 2014B Underwriter has supplied the information as to the yields with respect to the 2014B Bonds shown on the inside cover page. The 2014B Underwriter may offer to sell the 2014B Bonds to certain dealers and others at prices lower or yields higher than such initial public offering prices.

RELATIONSHIP OF PARTIES

McGuireWoods LLP, Richmond, Virginia, Bond Counsel to the Authority also serves as bond counsel to the City of Manassas Park and the Counties of Frederick and Stafford, each of which is a 2014A Local Issuer. Davenport & Company, LLC, Financial Advisor to the Authority also serves as financial advisor to the Cities of Lexington and Manassas Park and the County of Wise.

MISCELLANEOUS

The foregoing summaries of certain provisions of the Enabling Act and 1997 Resolution do not purport to be complete statements of such provisions and are made subject to the detailed provisions thereof to which reference is hereby made. Copies of the Enabling Act and the 1997 Resolution are available for inspection upon request to the Authority.

The Authority has furnished all information in this Official Statement relating to the Authority and has obtained all information relating to the Commonwealth and the Literary Fund from sources that it believes to be reliable. The financial statements of the Authority as of June 30, 2013, and of the Commonwealth of Virginia as of June 30, 2013, in Appendices A and D, respectively, have been examined, to the extent set forth in its reports, by the Virginia Auditor of Public Accounts and are included in reliance upon the reports of such Auditor.

Any statements in this Official Statement involving matters of opinion whether or not expressly so stated are intended as such and not as representations of fact. Terms used in this Official Statement but not otherwise defined shall have the meanings assigned to them in the 1997 Resolution.

The execution and delivery of this Official Statement has been duly authorized by the Authority.

VIRGINIA PUBLIC SCHOOL AUTHORITY

By: /s/ *Brenda L. Skidmore*
Brenda L. Skidmore, Chairman

By: /s/ *Manju S. Ganeriwala*
Manju S. Ganeriwala, Treasurer

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF VIRGINIA PUBLIC SCHOOL AUTHORITY FOR THE YEAR ENDED JUNE 30, 2013

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VIRGINIA PUBLIC SCHOOL AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

VIRGINIA PUBLIC SCHOOL AUTHORITY

FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2013

Table of Contents

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, 2013. 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 $297,175,000 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 technology and security 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 School Technology and Security Notes Program, the Authority issues obligations to finance technology equipment purchases and fund a grant program for the purchase of security equipment 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 $58,355,000 under the school technology and security note program. The Authority also issued $65,675,000 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 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 Position 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 Position. 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 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 Position
(in millions)

	Enterprise Fund	
	2013	2012
Current assets	$ 36	$ 16
Noncurrent assets	3,719	3,634
Total assets	3,755	3,650
Current liabilities	427	391
Noncurrent liabilities	3,369	3,283
Total liabilities	3,796	3,674
Net Position:		
Unrestricted	(41)	(24)
Total net position (deficit)	$ (41)	$ (24)

Total assets increased during the year by $104 million, or 3 percent. This is primarily due to a $80 million increase in local school bonds outstanding and a $11 million increase in available School Technology and Security proceeds (resulting from current year bond issuances exceeding current year disbursements). Total liabilities increased by $122 million, or 3 percent, during the same period as a result of an increase in outstanding bonds and notes payable ($124 million), an increase in amounts due to localities ($10 million), a decrease in premium on bonds sold ($14 million), and small decreases in other categories. Accordingly, a decrease of $18 million is reflected in net position.

Deficit net position 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 Position
(in millions)

	Enterprise Fund	
	2013	2012
Revenues:		
Operating revenues:		
Charges for services	$ 122	$ 142
Non-operating revenues:		
Investment earnings	-	1
Total revenues	122	143
Expenses:		
Interest on long-term debt	142	146
Other	3	4
Total expenses	145	150
Transfers	6	5
Change in net position	(17)	(2)
Net position (deficit), July 1	(24)	(22)
Net position (deficit), June 30	$ (41)	$ (24)

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 school technology and security notes programs, in conjunction with the Board of Education, are paid from, and secured by, appropriations made from the Literary Fund. The following table summarizes bond issuance activity during the year under each program:

Summary of Authority Bond Obligations
(in millions)

	Outstanding at 6/30/12 *	Issued During Year	Retired During Year	Outstanding at 6/30/13 *
Pooled Bond Programs	$ 3,076	$ 297	$ (188)	$ 3,185
Technology and Security Notes Programs	161	58	(54)	165
Special Obligation Bonds	245	66	(66)	245
Total	$ 3,482	$ 421	$ (308)	$ 3,595

* 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 Technology and Security Notes	Aa1	AA+	AA+

[1] 1997 Resolution Bonds

Since the Authority's bond programs are either backed by state appropriations (School Technology and Security 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 2013, the Authority issued its $59.99 million Special Obligation School Financing Bonds Prince William County Series 2013 as part of its stand-alone bond program. The proceeds will be 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 2013, the Authority issued its $45.08 million School Financing Bonds Series 2013B. 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 POSITION

As of June 30, 2013

ASSETS	
Current assets:	
Cash and cash equivalents	$ 312,233
Short-term investments	35,998,920
Interest receivable	17,360
Total current assets	36,328,513
Noncurrent assets:	
Restricted cash and cash equivalents	104,983,395
Restricted long-term investments	1,882,145
Loans to localities:	
Local school bonds	3,399,911,922
Interest receivable	46,647,020
Due from Literary Fund	165,720,000
Total noncurrent assets	3,719,144,482
Total assets	3,755,472,995
LIABILITIES	
Current liabilities:	
Accounts payable	44,978
Current liabilities payable from restricted assets:	
Interest payable	61,016,723
Due to localities	86,037,247
Notes payable	53,745,000
Bonds payable (net of interest deferral)	212,813,600
Premium on bonds sold	13,484,393
Total current liabilities payable from restricted assets	427,096,963
Noncurrent liabilities payable from restricted assets:	
Notes payable	111,975,000
Bonds payable (net of interest deferral)	3,119,078,163
Premium on bonds sold	137,990,065
Total noncurrent liabilities payable from restricted assets	3,369,043,228
Total liabilities	3,796,185,169
NET POSITION	
Unrestricted	(40,712,174)
Total net position (deficit)	$ (40,712,174)

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 POSITION
For the Year Ended June 30, 2013

Operating Revenues:	
Interest on:	
Local school bonds	$ 119,967,627
Cash equivalents and investments	228,042
Premium on bonds sold	1,566,185
Net increase in fair value of investments	13,738
Other	276,171
Total operating revenues	122,051,763
Operating Expenses:	
Interest on bonds	142,060,880
Financial advisor fees	211,396
Bond Counsel	170,469
Bond rating fees	382,350
Printing and electronic distribution	11,029
Board expenses	550
Staffing expenses	99,236
Underwriters' discount	1,312,058
Rebate and penalty payments and calculation fees	70,650
Other	350,340
Total operating expenses	144,668,958
Operating loss	(22,617,195)
Nonoperating Transfers:	
Transfers from Literary Fund	6,091,847
Transfer to the General Fund of the Commonwealth	(201,000)
Total nonoperating transfers	5,890,847
Change in net position	(16,726,348)
Net position (deficit), July 1, 2012	(23,985,826)
Net position (deficit), June 30, 2013	$ (40,712,174)

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, 2013

Cash flows from operating activities:		
Interest on cash equivalents	$	170,172
Purchase of local school bonds		(362,850,000)
Principal received on local school bonds		227,663,811
Interest received on local school bonds		139,336,935
Payments to vendors for goods and services		(1,366,239)
Payments received from the Literary Fund		60,698,480
Other operating revenues		276,171
Net cash provided by operating activities		63,929,330
Cash flows from noncapital financial activities:		
Proceeds from the sale of bonds		421,205,000
Principal paid on VPSA bonds		(252,855,000)
Interest paid on VPSA bonds		(143,228,486)
Premium on bonds sold		9,120,627
Underwriters' discount		(1,375,500)
Accrued interest sold		(81,616)
Transfer to the General Fund of the Commonwealth		(201,000)
Transfers to the Literary Fund		(1,020,368)
Payments to localities (School Technology and Security Notes)		(55,200,799)
Rebate and penalty payments and calculation fees		(166,319)
Net cash used by noncapital financing activites		(23,803,461)
Cash flows from investing activities:		
Purchase of investment securities		(35,978,300)
Proceeds from sale and maturities of investments		3,457,000
Interest on investments		33,892
Net cash used by investing activities		(32,487,408)
Net increase in cash and cash equivalents		7,638,461
Cash and cash equivalents, July 1, 2012		97,657,167
Cash and cash equivalents, June 30, 2013	$	105,295,628

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

Operating loss	$ (22,617,195)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Decrease in interest receivable	19,269,503
Decrease in accounts payable	(236,538)
Increase in interest payable	1,930,029
Payments from the Literary Fund	60,698,480
Principal received on local school bonds	227,663,811
Purchase of local school bonds	(362,850,000)
Rebate and penalty payments to the Internal Revenue Service	166,319
Amortization of premium	(14,043,235)
Underwriters' discount	1,312,058
Premium on bonds sold	(1,566,185)
Amortization of interest deferral	10,945,600
Interest paid on VPSA bonds	143,228,486
Refunding credit applied to local school bonds	79,229
Increase in fair value of investments	(13,738)
Gain on called security	(3,402)
Interest on investments	(33,892)
Total adjustments	86,546,525
Net cash provided by operating activities	$ 63,929,330

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

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 expect to 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. As a result of the Federal Sequestration, the actual June 1, 2013 payment was reduced by 8.7%. It is also expected that the December 1, 2013 payment will be reduced by 7.2%. Therefore, the localities are not receiving the full benefit of the tax credit.

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 and security equipment purchases for local public school systems within the Commonwealth. These obligations are payable from, or otherwise secured by, the assets and income of the Literary Fund.

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

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

B. Basis of Accounting

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

C. Fund Accounting

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

D. Change in Accounting Principles

The Authority implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Position has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, or Net Position. The Authority had no deferred outflows or inflows of resources at June 30, 2013.

E. 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 $124,171,609 are held by the Treasurer of Virginia. Cash and cash equivalents of $19,005,084 are held by U.S. Bank. 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 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, 2013

	Fair Value	Rating
Non-Negotiable Certificates of Deposit	$ 1,219,712	Not Rated
Money Market Accounts [1]	17,467,793	AAAm
State Non-Arbitrage Program ® [2]	86,608,124	AAAm
Agency	37,881,064	AA+
Total cash, cash equivalents, and investments	$143,176,693	

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® (60%), Federal National Mortgage Association (25%), and the First American Government Obligation Fund (12%).

B. Local School Bonds

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

The interest rates on the local school bonds are determined by the Authority and fixed at the time of sale of the Authority bonds issued to fund the acquisition of the local school bonds. 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 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, 2013.

Local school bonds:	
Held in 1997 Pledge Account	$ 2,821,918,627
Held in 2001 Purchase Fund	
(Northampton County Qualified Zone Academy Bond)	158,994
Held in 2002 Purchase Fund	
(Accomack County Qualified Zone Academy Bond)	485,544
Held in 2004 Purchase Fund	
(Chesterfield County Stand Alone)	2,840,000
Held in 2008 Purchase Fund	
(Henrico County Stand Alone)	35,540,000
Held in 2008 Purchase Fund	
(Fluvanna County Stand Alone)	9,975,000
Held in 2009 Purchase Fund	
(Qualified School Construction Bonds)	55,482,828
Held in 2010 Purchase Fund	
(Qualified School Construction Bonds)	64,365,000
Held in 2011-1 Purchase Fund	
(Qualified School Construction Bonds)	65,448,500
Held in 2011 Purchase Fund	
(Prince William County Stand Alone)	44,120,000
Held in 2011 Purchase Fund	
(Montgomery County Stand Alone)	84,525,000
Held in 2011-2 Purchase Fund	
(Qualified School Construction Bonds)	126,112,429
Held in 2012 Purchase Fund	
(Prince William County Stand Alone)	65,675,000
Held in 2012-1 Purchase Fund	
(Qualified School Construction Bonds)	23,265,000
Total local school bonds	$ 3,399,911,922

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, 2013.

	Current Liability	Long-Term Liability	Total
Balance July 1, 2012	$ 252,855,000	$ 3,229,267,063	3,482,122,063
Issued during fiscal 2013	15,765,000	405,440,000	421,205,000
Retired during fiscal 2013	(252,855,000)	-	(252,855,000)
Defeased during fiscal 2013	-	(55,420,000)	(55,420,000)
Maturing in fiscal 2014	261,500,000	(261,500,000)	-
Subtotal	277,265,000	3,317,787,063	3,595,052,063
Less: Deferral on debt defeasance	(10,706,400)	(86,733,900)	(97,440,300)
Add: Unamortized Premium	13,484,393	137,990,065	151,474,458
Balance June 30, 2013	$ 280,042,993	$ 3,369,043,228	$ 3,649,086,221

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, 2013.

Year Ending June 30	Principal	Interest	Total
2014	$ 277,265,000	$ 158,215,611	$ 435,480,611
2015	265,410,000	146,441,583	411,851,583
2016	255,319,060	133,615,595	388,934,655
2017	240,893,003	121,417,070	362,310,073
2018	225,415,000	109,855,118	335,270,118
2019-2023	952,225,000	403,514,521	1,355,739,521
2024-2028	892,050,000	201,863,930	1,093,913,930
2029-2033	418,605,000	50,007,728	468,612,728
2034-2038	63,645,000	4,380,780	68,025,780
2039-2042	4,225,000	273,819	4,498,819
Subtotal	3,595,052,063	1,329,585,755	4,924,637,818
Less: Deferral on debt defeasance	(97,440,300)	-	(97,440,300)
Add: Unamortized Premium	151,474,458		151,474,458
Total	$ 3,649,086,221	$ 1,329,585,755	$ 4,978,671,976

D. Technology and Security Notes

Periodically, the Authority issues Technology and Security Notes, the proceeds of which are used to make grants to school divisions for the purchase of educational technology and security 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, 2013.

Technology and Security Notes

Issue	Description	Amount Issued	Outstanding Balance	Remaining Available for Disbursement
Ed Tech Series IX	2009 Notes	$ 55,395,000	$ 11,800,000	$ 242,169
Ed Tech X	2010 Notes	54,110,000	22,145,000	700,876
Ed Tech XI	2011 Notes	51,925,000	31,780,000	2,468,039
Ed Tech XII	2012 Notes	52,025,000	41,640,000	25,724,935
School Technology and Security Series I	2013 Notes	58,355,000	58,355,000	56,901,228
		$ 271,810,000	$ 165,720,000	$ 86,037,247

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. 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. Also, on October 31, 2012, the Authority issued $2,014,104 for the City of Roanoke as a QZAB, as part of the School Tax Credit Bonds (Direct Payment) Series 2012-1. 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, Accomack County, and the City of Roanoke 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, the 2002 QZAB, and the 2012 QZAB are due December 21, 2015, December 31, 2016, and December 1, 2034, respectively, at which dates the QZABs will mature.

F. Qualified School Construction Bonds

On October 31, 2012, the Authority issued $23,265,000 in School Tax Credit Bonds (Qualified School Construction Bonds) Series 2012-1. 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, 2013 to $353,400,000. These bonds are 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 2013. The proceeds of the refunding bonds were placed with an escrow agent to provide for all future debt service on the defeased bonds. The issuance under the 1997 Resolution of the Authority's Series 2012 D bonds refunded certain outstanding bonds under the Special Obligation School Financing Bonds Fluvanna County Series 2008. This debt defeasance resulted in an accounting loss of $17,364,959. Total debt service payments over the next 24 years will be reduced by $10,544,659 resulting in a present value savings of $7,680,362 discounted at the rate of 2.45 percent. The accounting loss has been allocated to the participating institutions and is not reflected in the Statement of Net Position.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," the difference between the reacquisition price and the net carrying amount of the bonds defeased with refunding debt is amortized as a component of Interest and Fiscal Charges over the remaining life of the refunded debt. However, the deferral amount for the Special Obligation School Financing Bonds has been allocated to Fluvanna County and is therefore not reflected in the Authority's financial statements.

At June 30, 2013, $603,475,000 of bonds outstanding are considered defeased for financial reporting purposes.

H. Transfers

In May 2013, after final rebate computation and payment on the Educational Technology Notes Issue VIII, the residual earnings of $801,633 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 $6,893,480 from the Literary Fund to pay interest on the various outstanding Educational Technology Notes.

Finally, in June 2013, the Authority transferred $201,000 to the General Fund of the Commonwealth pursuant to Section 3-3.01 of Chapter 806 of the 2013 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 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. Rebate calculations were performed for the following issues during the year:

Bond Issue	Computation Time Frame	Computation Date	Liability
(97 Resolution) 2003 Series A	10 year	5/15/2013	-
(97 Resolution) 2007 Series B	5 year	11/8/2012	-
(97 Resolution) 2002 Series A	10 year	5/16/2012	-
(97 Resolution) 2007 Series A	10 year	5/10/2013	-
(97 Resolution) 2002 Series B	*final	11/7/2012	-
Educational Technology Series VIII	*final	5/1/2012	-

* Reports prepared as of the final redemption of the bonds

The Authority did not incur any arbitrage liability or make any arbitrage payments in fiscal year 2013. The Authority paid $51,600 to its rebate calculation agent for services provided in connection with the above rebate calculations.

J. Deficit Net Position

In fiscal year 2012, The Authority issued its 2012A Refunding Bonds, which generated savings which will be returned to the Literary Fund and to the localities in fiscal year 2014. Pursuant to Section 22.1-167.1 of the *Code of Virginia*, the Authority has accrued credits from the allocable savings generated from the 2012A Refunding Bonds to the Literary Fund of $4,441,293 against future debt service that will be due on October 15, 2013, and to localities of $17,514,011 against future debt service payments on Local School Bonds that will be due on January 15, 2014.

In fiscal year 2011, pursuant to Section 22.1-167.1 of the *Code of Virginia*, the Authority transferred the allocable savings generated from the 2010C Refunding Bonds of $284,030 to the Literary Fund and accrued a credit to localities of $3,138,124 against future debt service payments on Local School Bonds that were 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, the 2010C Refunding Bonds, and the 2012A 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 Position reflects deficit net position in the amount of $41,712,174. It is anticipated that 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 2013, the Authority issued its $59.99 million Special Obligation School Financing Bonds Prince William County Series 2013 as part of its stand-alone bond program. The proceeds will be 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 2013, the Authority issued its $45.08 million School Financing Series 2013 B 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.

Detail of Long-Term Indebtedness
June 30, 2013
(Dollars in Thousands)

Detail of Long-Term Indebtedness by Series

	Dated Date	Bond Resolution	True Interest Cost ("TIC")	Amount Issued (a)	Local School Bonds Purchased	Outstanding July 1, 2012	Issued (Retired) During Year	Outstanding June 30, 2013 (b)	Original Maturity
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	5,530	(5,530)	-	08/01/22
Series 2002 B	11/01/02	1997	4.12%	155,545	155,545	8,050	(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	9,715	(3,985)	5,730	08/01/28
Series 2003 B	05/01/03	1997	2.93%	74,850	74,850	10,765	(5,400)	5,365	08/01/13
Series 2003 C	11/01/03	1997	4.39%	190,645	190,645	15,890	(7,840)	8,050	08/01/28
Series 2003 D	12/11/03	1997	3.23%	286,670	-	56,365	(11,500)	44,865	08/01/19
2004 Series Chesterfield County	02/15/04	Stand Alone	3.80%	56,825	56,825	5,680	(2,840)	2,840	01/15/25
Series 2004 A	05/01/04	1997	4.33%	123,585	123,585	13,495	(3,235)	10,260	08/01/29
Series 2004 B	11/01/04	1997	3.91%	145,340	145,337	16,770	(2,960)	13,810	08/01/29
Series 2004 C	12/08/04	1997	3.34%	156,125	-	64,610	(13,905)	50,705	08/01/16
Series 2005 A	03/15/05	1997	3.64%	55,200	-	27,225	(4,395)	22,830	08/01/17
Series 2005 B	04/20/05	1997	4.07%	230,580	-	197,815	(20,065)	177,750	08/01/20
Series 2005 C	05/01/05	1997	4.13%	134,360	134,360	19,925	(1,225)	18,700	08/01/30
Series 2005 D	11/01/05	1997	4.19%	199,345	199,341	30,445	(1,675)	28,770	08/01/30
Series 2006 A	05/01/06	1997	4.39%	202,175	202,175	162,535	(8,400)	154,135	08/01/31
Series 2006 B	11/01/06	1997	4.22%	240,955	240,954	193,980	(10,255)	183,725	08/01/32
Series 2007 A	05/01/07	1997	4.24%	112,235	112,235	92,775	(4,995)	87,780	08/01/32
Series 2007 B	11/01/07	1997	4.28%	223,080	223,076	183,315	(10,230)	173,085	08/01/32
Series 2008 A	05/01/08	1997	4.22%	134,950	134,950	119,720	(5,485)	114,235	08/01/37
Series 2008 Ed Tech Series VIII	05/22/08	Equip. Notes	2.88%	56,475	-	12,010	(12,010)	-	04/15/13
2008 Series Henrico County	07/17/08	Stand Alone	4.12%	44,400	44,440	37,765	(2,225)	35,540	07/15/28
Series 2008 B	12/01/08	1997	4.75%	118,930	118,927	103,690	(5,245)	98,445	08/01/33
2008 Series Fluvanna County	12/22/08	Stand Alone	5.95%	67,525	67,525	66,825	(56,850)	9,975	12/01/35
Series 2009 A	03/12/09	1997	2.60%	114,180	-	81,420	(18,770)	62,650	08/01/20
Series 2009 B	05/01/09	1997	3.69%	200,435	200,435	182,550	(9,065)	173,485	08/01/29
Series 2009 Ed Tech Series IX	05/21/09	Equip. Notes	1.60%	55,395	-	23,040	(11,240)	11,800	04/15/14
Series 2009 C	10/27/09	1997	2.85%	481,285	-	480,805	(16,495)	464,310	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	10,835	(445)	10,390	08/01/29
Series 2010 A	05/13/10	1997	3.01%	45,805	45,805	40,760	(5,090)	35,670	08/01/30

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

VIRGINIA PUBLIC SCHOOL AUTHORITY
SUPPLEMENTARY INFORMATION

Detail of Long-Term Indebtedness
June 30, 2013
(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, 2012	Issued (Retired) During Year	Outstanding June 30, 2013 (b)	Original Maturity
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	(385)	85,125	08/01/24
Series 2010 D	11/10/10	1997	2.98%	9,975	9,975	9,520	(470)	9,050	08/01/30
Series 2010 Ed Tech Series X	05/18/10	Equip. Notes	1.37%	54,110	-	32,435	(10,290)	22,145	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	(1,075)	25,300	08/01/36
Series 2011 Ed Tech Series XI	06/02/11	Equip. Notes	0.98%	51,925	-	41,660	(9,880)	31,780	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	(2,470)	83,260	08/01/36
Series 2011 Montgomery County	12/06/11	Stand Alone	3.59%	86,115	86,115	86,115	(1,590)	84,525	01/15/32
Series 2011 Prince William County	08/04/11	Stand Alone	3.15%	46,445	46,445	46,445	(2,325)	44,120	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	(10,385)	41,640	04/15/17
Series 2012 1 QSCB	10/31/12	School Tax Cr.	0.01%	23,265	23,265	-	23,265	23,265	12/15/34
Series 2012 C	11/15/12	1997	2.67%	65,950	65,950	-	65,950	65,950	08/01/41
Series 2012 D	12/20/12	1997	2.68%	66,120	66,120	-	66,120	66,120	08/01/35
Series 2012 P	08/15/12	Stand Alone	2.61%	65,675	65,675	-	65,675	65,675	07/15/32
Series 2013 A	05/09/13	1997	2.57%	141,840	141,840	-	141,840	141,840	08/01/33
Series 2013 School Technology and Security Series I	05/23/13	Equip. Notes	0.62%	58,355	-	-	58,355	58,355	04/15/18
Total				$ 5,804,622	$ 3,784,582	$ 3,482,122	$ 112,930	$ 3,595,052	

Detail of Long-Term Indebtedness by Resolution

	Amount Issued (a)	Local School Bonds Purchased	Outstanding July 1, 2012	Issued (Retired) During Year	Outstanding June 30, 2013 (b)
1997 Resolution	$ 4,754,100	$ 3,062,305	$ 2,746,135	$ 85,270	$ 2,831,405
Stand Alone Issues	368,837	368,877	244,682	(155)	244,527
Technology and Security Notes	328,285	-	161,170	4,550	165,720
School Tax Credit	353,400	353,400	330,135	23,265	353,400
Total	$ 5,804,622	$ 3,784,582	$ 3,482,122	$ 112,930	$ 3,595,052

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

VIRGINIA PUBLIC SCHOOL AUTHORITY
SUPPLEMENTARY INFORMATION

Schedule of Debt Service Coverage - 1997 Resoultion
Cummulative Data Up To and Including the 2013A Issuance

	(A) Income Available to Pay Debt Service					(B) Outstanding Debt Service					
	Local School Bond Income	Funded Interest (1)	LSB Income Reserved for Carryforward	LSB Income Carryforward	Income Available for Debt Service	Outstanding Bonds	Series 2013 A Bonds	Total Debt Requirements	Semi-Annual Coverage	Annual Coverage	(A) / (B)
8/1/2013	$ 273,192,777.30	$ 332,733.61	$ -	$ -	$ 273,525,510.91	$ 272,831,276.05	$ -	$ 272,831,276.05	$ 694,234.86	$ 694,234.86	100.25%
2/1/2014	64,979,609.62	272,358.89	-	-	65,251,968.51	58,590,556.93	4,459,876.81	63,050,433.73	2,201,534.78	-	103.49%
8/1/2014	272,866,427.21	-	-	-	272,866,427.21	264,726,356.93	7,449,037.50	272,175,394.43	691,032.79	2,892,567.57	100.25%
2/1/2015	58,137,511.65	-	-	-	58,137,511.65	53,111,031.93	2,998,262.50	56,109,294.43	2,028,217.23	-	103.61%
8/1/2015	268,167,766.65	-	-	-	268,167,766.65	259,901,031.93	7,478,262.50	267,379,294.43	788,472.23	2,816,689.45	100.29%
2/1/2016	52,473,652.58	-	-	-	52,473,652.58	48,105,581.93	2,931,062.50	51,036,644.43	1,437,008.15	-	102.82%
8/1/2016	256,872,191.58	-	-	-	256,872,191.58	248,545,581.93	7,671,062.50	256,216,644.43	655,547.16	2,092,555.31	100.26%
2/1/2017	47,318,377.46	-	-	-	47,318,377.46	43,240,969.43	2,836,262.50	46,077,231.93	1,241,145.53	-	102.69%
8/1/2017	247,779,538.46	-	-	-	247,779,538.46	237,760,969.43	9,431,262.50	247,192,231.93	587,306.53	1,828,452.07	100.24%
2/1/2018	42,314,418.91	-	-	-	42,314,418.91	38,429,917.00	2,704,362.50	41,134,279.50	1,180,139.40	-	102.87%
8/1/2018	233,700,359.91	-	-	-	233,700,359.91	222,729,917.00	10,469,362.50	233,199,279.50	501,080.40	1,681,219.81	100.21%
2/1/2019	37,535,715.89	-	-	-	37,535,715.89	34,014,574.13	2,549,062.50	36,563,636.63	972,079.26	-	102.66%
8/1/2019	225,828,261.89	-	-	-	225,828,261.89	215,129,574.13	10,209,062.50	225,338,636.63	489,625.26	1,461,704.53	100.22%
2/1/2020	32,931,485.25	-	-	-	32,931,485.25	29,710,559.98	2,357,562.50	32,068,122.48	863,362.78	-	102.69%
8/1/2020	211,528,873.25	-	-	-	211,528,873.25	200,835,559.98	10,322,562.50	211,158,122.48	370,750.78	1,234,113.55	100.18%
2/1/2021	28,616,599.04	-	-	-	28,616,599.04	25,657,852.48	2,158,437.50	27,816,289.98	800,309.06	-	102.88%
8/1/2021	198,686,634.04	-	-	-	198,686,634.04	188,272,852.48	10,183,437.50	198,456,289.98	230,344.06	1,030,653.12	100.12%
2/1/2022	24,419,069.29	-	-	-	24,419,069.29	21,796,998.08	1,957,812.50	23,754,810.58	664,258.71	-	102.80%
8/1/2022	181,292,338.29	-	-	-	181,292,338.29	170,961,998.08	10,127,812.50	181,089,810.58	202,527.71	866,786.42	100.11%
2/1/2023	20,618,436.27	-	-	-	20,618,436.27	18,313,152.20	1,753,562.50	20,066,714.70	551,721.57	-	102.75%
8/1/2023	166,260,902.27	-	-	-	166,260,902.27	155,798,152.20	10,288,562.50	166,086,714.70	174,187.57	725,909.14	100.10%
2/1/2024	17,096,746.02	-	-	-	17,096,746.02	15,036,575.05	1,540,187.50	16,576,762.55	519,983.47	-	103.14%
8/1/2024	153,056,922.02	-	-	-	153,056,922.02	143,616,575.05	9,360,187.50	152,976,762.55	80,159.47	600,142.94	100.05%
2/1/2025	13,839,796.54	-	-	-	13,839,796.54	12,082,923.70	1,344,687.50	13,427,611.20	412,185.34	-	103.07%
8/1/2025	143,080,576.54	-	-	-	143,080,576.54	133,527,923.70	9,489,687.50	143,017,611.20	62,965.34	475,150.68	100.04%
2/1/2026	10,866,649.87	-	23,277.70	-	10,843,372.17	9,336,701.08	1,141,062.50	10,477,763.58	365,608.59	-	103.49%
8/1/2026	124,544,485.87	-	-	23,277.70	124,567,763.58	114,936,701.08	9,631,062.50	124,567,763.58	-	365,608.59	100.00%
2/1/2027	8,158,015.11	-	32,955.02	-	8,125,060.10	6,930,066.63	928,812.50	7,858,879.13	266,180.97	-	103.39%
8/1/2027	101,960,924.11	-	-	32,955.02	101,993,879.13	92,200,066.63	9,793,812.50	101,993,879.13	-	266,180.97	100.00%
2/1/2028	5,933,869.04	-	52,833.69	-	5,881,035.35	4,983,667.23	707,187.50	5,690,854.73	190,180.62	-	103.34%
8/1/2028	83,163,021.04	-	-	52,833.69	83,215,854.73	73,293,667.23	9,922,187.50	83,215,854.73	-	190,180.62	100.00%
2/1/2029	4,185,871.33	-	-	-	4,185,871.33	3,527,498.20	522,887.50	4,050,385.70	135,485.63	-	103.35%
8/1/2029	64,470,871.33	-	-	-	64,470,871.33	56,202,498.20	8,262,887.50	64,465,385.70	5,485.63	140,971.26	100.01%
2/1/2030	2,925,218.60	-	-	-	2,925,218.60	2,457,702.98	406,787.50	2,864,490.48	60,728.13	-	102.12%
8/1/2030	47,025,218.60	-	-	-	47,025,218.60	38,637,702.98	8,351,787.50	46,989,490.48	35,728.13	96,456.25	100.08%
2/1/2031	1,981,286.88	-	-	-	1,981,286.88	1,681,475.00	267,750.00	1,949,225.00	32,061.88	-	101.64%
8/1/2031	35,921,286.88	-	-	-	35,921,286.88	30,651,475.00	5,237,750.00	35,889,225.00	32,061.88	64,123.75	100.09%
2/1/2032	1,278,839.38	-	-	-	1,278,839.38	1,077,287.50	180,775.00	1,258,062.50	20,776.87	-	101.65%
8/1/2032	25,798,839.38	-	-	-	25,798,839.38	20,497,287.50	5,280,775.00	25,778,062.50	20,776.88	41,553.75	100.08%
2/1/2033	799,768.75	-	-	-	799,768.75	695,315.63	91,525.00	786,840.63	12,928.13	-	101.64%
8/1/2033	17,489,768.75	-	-	-	17,489,768.75	12,155,315.63	5,321,525.00	17,476,840.63	12,928.13	25,856.25	100.07%
2/1/2034	490,230.00	-	-	-	490,230.00	482,328.13	-	482,328.13	7,901.88	-	101.64%
8/1/2034	9,595,230.00	-	-	-	9,595,230.00	9,587,328.13	-	9,587,328.13	7,901.88	15,803.75	100.08%
2/1/2035	334,191.88	-	-	-	334,191.88	328,762.50	-	328,762.50	5,429.38	-	101.65%
8/1/2035	9,019,191.88	-	-	-	9,019,191.88	9,013,762.50	-	9,013,762.50	5,429.38	10,858.75	100.06%
2/1/2036	183,776.88	-	-	-	183,776.88	180,725.00	-	180,725.00	3,051.87	-	101.69%
8/1/2036	4,198,776.88	-	-	-	4,198,776.88	4,195,725.00	-	4,195,725.00	3,051.88	6,103.75	100.07%
2/1/2037	103,601.88	-	-	-	103,601.88	101,768.75	-	101,768.75	1,833.13	-	101.80%
8/1/2037	1,988,601.88	-	-	-	1,988,601.88	1,986,768.75	-	1,986,768.75	1,833.13	3,666.25	100.09%
2/1/2038	67,841.88	-	-	-	67,841.88	66,706.25	-	66,706.25	1,135.63	-	101.70%
8/1/2038	1,077,841.88	-	-	-	1,077,841.88	1,076,706.25	-	1,076,706.25	1,135.63	2,271.25	100.11%
2/1/2039	51,808.13	-	-	-	51,808.13	50,925.00	-	50,925.00	883.13	-	101.73%
8/1/2039	1,091,808.13	-	-	-	1,091,808.13	1,090,925.00	-	1,090,925.00	883.13	1,766.25	100.08%
2/1/2040	35,298.13	-	-	-	35,298.13	34,675.00	-	34,675.00	623.13	-	101.80%
8/1/2040	1,110,298.13	-	-	-	1,110,298.13	1,104,675.00	-	1,104,675.00	5,623.13	6,246.25	100.51%
2/1/2041	18,232.50	-	-	-	18,232.50	17,956.25	-	17,956.25	276.25	-	101.54%
8/1/2041	1,123,232.50	-	-	-	1,123,232.50	1122956.25	-	1,122,956.25	276.25	552.50	100.02%
Total	$ 3,839,588,885.29	$ 605,092.50	$ 109,066.41	$ 109,066.41	$ 3,840,193,977.80	$ 3,612,435,583.85	$ 208,120,014.31	$ 3,820,555,598.16	$ 19,638,379.64	$ 19,638,379.64	

(1) Funded Interest is paid for by the Authority's General Fund.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 13, 2013

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

Report on Financial Statements

We have audited the accompanying 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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Public School Authority as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 4 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 an 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Virginia Public School Authority's basic financial statements. 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.

The Detail of Long-Term Indebtedness and Schedule of Debt Service Coverage are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has 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 statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2013, 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 in considering the Authority's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

SAH/clj

VIRGINIA PUBLIC SCHOOL AUTHORITY
Richmond, Virginia

BOARD OF COMMISSIONERS
As of June 30, 2013

Brenda L. Skidmore, Chairman

Ben Loyola, Vice Chairman

Kanchana K. Thamodaran

EX OFFICIO

Manju S. Ganeriwala, Secretary and Treasurer, State Treasurer

David Von Moll, State Comptroller

Dr. Patricia I. Wright, Superintendent of Public Instruction

APPENDIX B

COMMONWEALTH OF VIRGINIA FINANCIAL AND OTHER INFORMATION

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APPENDIX B
TABLE OF CONTENTS

INTRODUCTION

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

GOVERNMENTAL ORGANIZATION

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

Legislative Department

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

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

The Auditor of Public Accounts is elected by the General Assembly. The Auditor and a staff of approximately 130 persons audit the accounts of all Commonwealth offices, departments, boards, commissions, institutions and other agencies handling Commonwealth funds and report thereon to the General Assembly.

Executive Department

The Governor, Lieutenant Governor and Attorney General are constitutional officers, elected every four years. The present term of each office began January 11, 2014 and each expires January 13, 2018. The Constitution does not allow a Governor to serve successive terms.

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

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

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

Judicial Department

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

FINANCIAL FACTORS

Budgetary Process

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

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

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

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

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

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

The Constitution requires the Governor to ensure that expenses do not exceed total revenues anticipated plus fund balances during the period of two years and six months following the end of the General Assembly session in which the appropriations are made. A Revenue Stabilization Fund was established by constitutional amendment effective January 1, 1993, and is available to offset, in part, anticipated shortfalls in revenues in years when revenues are forecast to decline by more than two percent of the certified tax revenues collected in the most recently ended fiscal year. Deposits to the Fund are made pursuant to Constitutional provisions based on tax revenue collections as certified by the Auditor of Public Accounts. If in any year total revenues are forecast to decline by more than two percent of the certified tax revenues collected in the most recently ended fiscal year, the General Assembly may appropriate for transfer up to one-half of the Revenue Stabilization Fund balance to the General Fund to stabilize revenues. This transfer shall not exceed one-half of the forecast shortfall. The maximum balance in the Fund can consist of an amount not to exceed 15 percent of the Commonwealth's average annual tax revenues derived from income and retail sales taxes for the three immediately preceding fiscal years, as certified by the Auditor of Public Accounts. If any amounts accrue to the credit of the Fund in excess of the 15 percent limitation, such as through interest or dividends, the Treasurer shall promptly transfer any such excess amounts to the General Fund.

Development of Revenue Estimates

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

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

Financial Control Procedures

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

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

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

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

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

Investment of Public Funds

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

Financial Statements

The Commonwealth operates on a fiscal year basis beginning on July 1 and ending on June 30. The Commonwealth's financial statements, audited by the Auditor of Public Accounts, for the fiscal year ended June 30, 2013, are contained in the Commonwealth Comprehensive Annual Financial Report (the "CAFR") available at www.doa.virginia.gov. The financial statements conform to GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The financial statements include government-wide statements using full accrual accounting, fund financial statements that use different accounting approaches based on the type of fund, and a reconciliation of the two types of statements. See the section in the CAFR entitled "Management's Discussion and Analysis" for a more detailed explanation of the types of financial statements prepared. The Commonwealth's annual budget is prepared principally on a cash basis and represents departmental appropriations as authorized by the General Assembly. Under the cash basis of accounting, revenues and other financial resources are recognized in the accounting period in which cash is received; expenditures and other financial uses are recognized when cash is disbursed. The section of the CAFR entitled "Required Supplementary Information" reconciles the budgetary (*i.e.*, cash) presentation to the financial statements.

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

The following tables summarize the Commonwealth's General Fund revenues, expenditures and fund balance on a cash basis for fiscal years 2009 through 2013 and compares the budgeted to actual numbers.

The General Fund balance, as shown on page B-6, increased by $137.2 million in fiscal year 2013, an increase of 8.2 percent from fiscal year 2012. Overall tax revenues increased by 5.2 percent from fiscal year 2012 to fiscal year 2013. Individual and Fiduciary Income tax revenues increased by 6.9 percent. Additional tax revenue increases occurred in the form of a 3.2 percent increase in State Sales and Use tax collections, a 0.7 percent increase in Communications Sales and Use tax, a 1.9 percent increase in Public Service Corporation tax collections, a 3.7 percent increase in Premiums of Insurance Companies tax collections and an 8.1 percent increase in other tax collections which includes: Deeds, Contracts, Wills and Suits; Alcoholic Beverage Sales; Tobacco Products; Estate and Other Taxes. Tax revenue decreases occurred in the form of a 7.3 percent decrease in Corporation Income tax collections. Overall revenue and non-tax revenues increased by 4.8 percent and decreased by 3.4 percent, respectively. Overall expenditures increased by 6.5 percent in fiscal year 2013, compared to a 5.0 percent increase in fiscal year 2012. Individual and family service expenditures increased by $355.9 million, or 7.1 percent, and education expenditures increased by $464.6 million, or 6.5 percent. General government expenditures increased $76.7 million or 3.7 percent.

Of the $1.8 billion fund balance as of June 30, 2013, $927.8 million was restricted as the Revenue Stabilization Fund (the "Fund"). During fiscal year 2013, no withdrawal was made from the Fund and $3.7 million in interest was earned. The Fund is segregated from the General Fund and can be used only for constitutionally authorized purposes. Virginia law directs that the Fund be included as a component of the General Fund only for financial reporting purposes.

Under the provisions of Article X, Section 8 of the Constitution of Virginia, and based on fiscal year 2011 revenue collections, a deposit of $132.7 million was made to the Fund during fiscal year 2013. In addition, a deposit of $244.6 million is required during fiscal year 2014 based on fiscal year 2012 revenue collections. Also, Chapter 806, 2013 Acts of Assembly, appropriates an additional amount of $95.0 million to be deposited in fiscal year 2014 as a prepayment towards future deposits required in the 2014-2016 biennium. A deposit of $243.2 million is required during fiscal year 2015 based on fiscal year 2013 revenue collections. Both required deposits are reported as restricted components of fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2011, the amount on deposit cannot exceed 15 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. As of June 30, 2013, the Constitutional maximum is $2.2 billion. Section 2.2-1829(b) of the Code of Virginia, requires that if certain revenue criteria are met, then an additional deposit to the Fund equal to at least one-half the mandatory deposit must be included in the Governor's budget. The Code further requires that any such additional deposits to the Fund shall be included in the Governor's budget recommendations only if the estimate of General Fund revenues for the fiscal year in which the deposit is to be made is at least five percent greater than the actual General Fund revenues for the immediately preceding fiscal year. These conditions were not met for fiscal year 2013.

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

	2009	2010	2011	2012	2013
Revenues:					
Taxes					
Individual and Fiduciary Income	$9,481,109	$9,088,252	$9,944,370	$10,612,836	$11,339,966
State Sales and Use	3,116,831	3,291,958	3,216,406	3,335,601	3,441,195
Corporation Income	648,033	806,473	822,259	859,923	796,728
Communications Sales and Use	-	491,698	442,455	424,257	427,262
Deeds, Contracts, Wills and Suits	314,264	290,189	299,967	330,938	388,633
Premiums of Insurance Companies	255,019	261,881	281,563	252,895	262,242
Alcoholic Beverage Sales	173,227	175,093	178,937	186,377	195,192
Tobacco Products	183,750	176,057	173,731	192,453	187,874
Estate	6,006	5,671	2,713	298	-
Public Service Corporations	91,340	97,263	93,777	94,429	96,222
Other Taxes	28,230	26,269	21,808	20,442	18,036
Total Taxes	14,297,809	14,710,804	15,477,986	16,310,449	17,153,350
Rights and Privileges	67,426	68,460	73,283	72,817	76,931
Sales of Property and Commodities	1	824	28,005	30,146	25,477
Assessments and Receipts for Support of Special	396	373	2,777	2,570	858
Institutional Revenue	6,402	6,019	40,122	38,134	37,210
Interest, Dividends, Rents	134,400	113,142	90,905	83,055	72,958
Fines, Forfeitures, Court Fees, Penalties, and	197,875	194,151	222,256	216,032	216,788
Federal Grants and Contracts	-	-	-	-	6,354
Receipts from Cities, Counties, and Towns	10,265	9,761	16,340	16,209	15,813
Private Donations, Gifts and Contracts	118	137	4,595	680	439
Tobacco Master Settlement	58,966	49,182	48,185	49,136	74,010
Other	102,568	168,429	204,033	282,731	238,148
Total Revenues	14,876,226	15,321,282	16,208,487	17,101,959	17,918,336
Expenditures:					
General Government	1,669,257	2,093,036	2,149,242	2,096,588	2,173,327
Education	8,045,614	7,007,842	6,931,515	7,123,221	7,587,805
Transportation	11,863	11,125	516	462	172
Resources and Economic Development	288,877	272,075	306,970	353,567	389,221
Individual and Family Services	4,012,450	4,004,995	4,449,683	5,027,601	5,383,507
Administration of Justice	2,300,008	2,120,477	2,247,447	2,284,948	2,443,464
Capital Outlay	47,421	13,477	6,144	7,627	6,274
Total Expenditures	16,375,490	15,523,027	16,091,517	16,894,014	17,983,770
Revenues Over (Under) Expenditures	(1,499,264)	(201,745)	116,970	207,945	(65,434)
Other Financing Sources (Uses):					
Transfers In	664,141	752,251	693,750	799,070	712,400
Transfers Out	(561,192)	(503,106)	(487,991)	(621,163)	(509,749)
Total Other Financing Sources (Uses)	102,949	249,145	205,759	177,907	202,651
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,396,315)	47,400	322,729	385,852	137,217
Fund Balance, July 1:					
Restricted	-	-	310,778	456,384	707,401
Committed	-	-	443,182	461,140	518,619
Assigned	-	-	220,871	380,036	457,392
Reserved	1,127,908	662,489	-	-	-
Unreserved	1,091,882	160,986	-	-	-
Total Fund Balance, July 1, as restated	2,219,790	823,475	974,831**	1,297,560	1,683,412
Fund Balance, June 30:					
Restricted	-	-	456,384	707,401	940,906
Committed	-	-	461,140	518,619	556,076
Assigned	-	-	380,036	457,392	323,647
Reserved	662,489	379,631	-	-	-
Unreserved	160,986	491,244	-	-	-
Total Fund Balance, June 30	$823,475	$870,875	$1,297,560	$1,683,412	$1,820,629

** As restated as required by GASB 54

Source: Department of Accounts.

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

	Fiscal Year Ended June 30,			
	2009		2010	
	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
Revenues:				
Taxes				
Individual and Fiduciary Income	$9,697,300	$(216,191)	$8,960,100	$128,152
State Sales and Use	3,179,300	(62,469)	3,247,500	44,458
Corporation Income	685,000	(36,967)	730,700	75,773
Communications Sales and Use	-	-	446,247	45,451
Public Service Corporations	92,800	(1,460)	94,600	2,663
Premiums of Insurance Companies	257,500	(2,481)	242,500	19,381
Other [1]	671,000	34,477	671,700	1,579
Total Taxes	$14,582,900	$(285,091)	$14,393,347	$317,457
Rights and Privileges	63,900	3,526	74,700	(6,240)
Institutional Revenue	7,500	(1,098)	5,900	119
Interest, Dividends, Rents and Other Investment Income	121,986	12,414	116,765	(3,623)
Tobacco Master Settlement	66,754	(7,788)	57,186	(8,004)
Other [2]	308,597	2,626	394,298	(20,623)
Total Revenues	$15,151,637	$(275,411)	$15,042,196	$279,086
Expenditures:				
General Government	1,722,663	53,406	2,147,466	54,430
Education	8,083,328	37,714	7,042,173	34,331
Transportation	53,949	42,086	11,680	555
Resources and Economic Development	313,963	25,086	284,912	12,837
Individual and Family Services	4,075,027	62,577	4,065,874	60,879
Administration of Justice	2,440,305	140,297	2,151,618	31,141
Capital Outlay	74,498	27,077	19,477	6,000
Total Expenditures	$16,763,733	$388,243	$15,723,200	$200,173
Revenues Over (Under) Expenditures	$(1,612,096)	$112,832	$(681,004)	$479,259
Other Financing Sources (Uses):				
Transfers In	641,273	22,868	740,009	12,242
Transfers Out	(556,413)	(4,779)	(503,274)	168
Total Other Financing Sources (Uses)	$84,860	$18,089	$236,735	$12,410
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,527,236)	130,921	(444,269)	491,669
Fund Balance, July 1	2,219,790	-	823,475	-
Fund Balance, June 30	$692,554	$130,921	$379,206	$491,669

[1] Note that under Taxes above, certain line items have been combined into the “Other” line item; they are: “Deeds, Contracts, Wills and Suits,” “Alcoholic Beverage Sales,” “Tobacco Products,” and “Estate.” The reason for this is consistency with the CAFR line items.

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

Source: Department of Accounts.

Fiscal Year Ended June 30,

2011		2012		2013	
Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)	Final Budget	Variance of Actual Favorable (Unfavorable)
$9,746,200	$198,170	$10,526,400	$86,436	$11,092,600	$247,366
3,186,200	30,206	3,282,100	53,501	3,471,616	(30,421)
766,600	55,659	827,800	32,123	820,900	(24,172)
448,900	(6,445)	440,000	(15,743)	440,000	(12,738)
96,400	(2,623)	93,900	529	95,300	922
277,700	3,863	287,300	(34,405)	255,600	6,642
662,456	14,700	717,589	12,919	743,309	46,426
$15,184,456	$293,530	$16,175,089	$135,360	$16,919,325	$234,025
88,545	(15,262)	82,838	(10,021)	79,663	(2,732)
38,912	1,210	40,511	(2,377)	41,668	(4,458)
75,288	15,617	82,442	613	68,064	4,894
52,134	(3,949)	50,205	(1,069)	52,733	21,277
349,728	128,278	428,272	120,096	413,991	89,886
$15,789,063	$419,424	$16,859,357	$242,602	$17,575,444	$342,892
2,224,688	75,446	2,196,546	99,958	2,360,523	187,196
7,021,369	89,854	7,225,088	101,867	7,670,879	83,074
585	69	462	-	172	-
416,856	109,886	415,708	62,141	512,266	123,045
4,540,334	90,651	5,149,191	121,590	5,488,489	104,982
2,367,326	119,879	2,383,519	98,571	2,477,411	33,947
19,358	13,214	19,397	11,770	36,297	30,023
$16,590,516	$498,999	$17,389,911	$495,897	$18,546,037	$562,267
$(801,453)	$918,423	$(530,554)	$738,499	$(970,593)	$905,159
645,516	48,234	748,237	50,833	699,253	13,147
(467,055)	(20,936)	(602,512)	(18,651)	(493,024)	(16,725)
$178,461	$27,298	$145,725	$32,182	$206,229	$(3,578)
(622,992)	945,721	(384,829)	770,681	(764,364)	901,581
974,831 **	-	1,297,560	-	1,683,412	-
$351,839	$945,721	$912,731	$770,681	$919,048	$901,581

** As restated as required by GASB 54

General Fund Revenues

Of total fiscal year 2013 tax revenue, 97.1 percent was derived from six major taxes imposed by the Commonwealth: Individual and Fiduciary Income Taxes, State Sales and Use Taxes, Corporate Income Taxes, Communications Sales and Use Taxes, Taxes on Premiums of Insurance Companies and Taxes on Deeds, Contracts, Wills and Suits.

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

Individual and Fiduciary Income Taxes: (66.1 percent of Total Taxes in fiscal year 2013) The individual and fiduciary income tax applies to income derived by resident and non-resident individuals and fiduciaries. The tax is based on a taxpayer's federal adjusted gross income with modifications, if applicable, and with deductions for personal exemptions and standard or itemized deductions. The following tax rates are applicable to net taxable income for the taxable year 2013:

PERSONAL TAX RATES

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

Source: Department of Taxation.

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

State Sales and Use Taxes: (20.1 percent of Total Taxes in fiscal year 2013) A sales and use tax is imposed at the rate of 4.0 percent on the sale, rental, lease or storage for use or consumption of tangible personal property except food for home consumption. Food for home consumption is taxed at a rate of 2.5 percent. There are certain exclusions from the tax, including motor vehicles, aircraft and large watercraft, sales of gasoline and prescription medicines. One and one-eighth cents of the 4.0 percent sales tax is distributed to localities on the basis of school age population for use in public education.

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

Corporation Income Taxes: (4.6 percent of Total Taxes in fiscal year 2013) The Commonwealth imposes a 6 percent income tax on the net income of all corporations having income from sources in the Commonwealth, whether domestic or foreign, with the exception of insurance companies, inter-insurance exchanges, state and national banks, banking associations, companies doing business on a mutual basis, credit unions and non-profit corporations. Commonwealth taxable income is based on federal income, with modifications. If a corporation is engaged in multi-state activities, and if its income is taxable both by the Commonwealth and another state, the Commonwealth permits the corporation to apportion its taxable income (other than dividends which are allocated according to the commercial domicile of the taxpayer) according to a three factor formula comprised of property, payroll and sales.

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

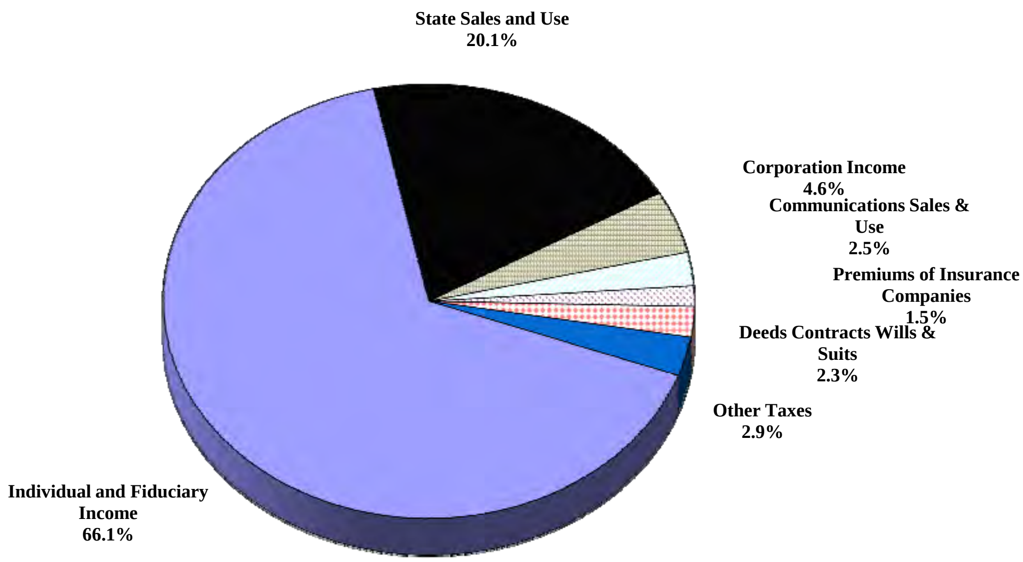
Communication Sales and Use Taxes: (2.5 percent of Total Taxes in fiscal year 2013) Effective for fiscal year 2010, statutory changes required that the Communication Sales and Use Tax Fund be included as part of the General Fund for reporting purposes. Since this fund was previously reported as an agency fund, there was no beginning balance impact. However, the comparability of revenue and expense amounts are affected. The Commonwealth collects communication sales and use taxes and disburses these amounts to localities.

Taxes on Premiums of Insurance Companies: (1.5 percent of Total Taxes in fiscal year 2013) Insurance companies are required to pay an annual license tax measured by the gross premium income derived from business done in the Commonwealth. The rate of tax varies according to the type of company. Insurance companies subject to this state license tax must make a declaration of estimated tax and pay one-fourth of such estimated tax in quarterly installments.

Taxes on Deeds, Contracts, Wills and Suits: (2.3 percent of Total Taxes in fiscal year 2013) The Commonwealth taxes the admission to record of deeds, deeds of trust, mortgages, leases and contracts at the rate of 25 cents per $100 of consideration or value, whichever is greater. An additional tax is imposed on deeds or conveyances of real estate at the rate of 50 cents per $500 of consideration or value, exclusive of the value of any lien or encumbrance. A tax is also imposed on the probate of wills and grants of administration not exempt by law at the rate of 10 cents per $100 of the value of the probate estate. A tax ranging from $5 to $25 is imposed on the filing of various types of legal actions.

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

COMPOSITION OF GENERAL FUND TAX REVENUES BY SOURCE
Fiscal Year Ended June 30, 2013



Collection of Delinquent Tax

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

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

The following table presents total outstanding collectible tax receivables for all tax types at the end of fiscal years 2009 through 2013:

OUTSTANDING COLLECTIBLE TAX RECEIVABLES

Fiscal Year Ended June 30,	Amount
2009	$259,893,992
2010	351,827,736
2011	466,300,479
2012	489,381,022*
2013	543,912,785*

Source: Department of Taxation.
*Amount does not include non-billed or uncollectible receivables

General Fund Expenditures

General Fund expenditures relate to resources used for those services traditionally provided by a state government, which are not accounted for in any other fund. These services include general government, legislative, public safety, judicial, health and mental health, human resources, licensing and regulation, and primary and secondary education (See table on page B-6).

Education: (42.2 percent of Total Expenditures in fiscal year 2013) Expenditures for education support individuals in developing knowledge, skills and cultural awareness, including elementary and secondary education instruction, supervision and assistance.

Individual and Family Services: (29.9 percent of Total Expenditures in fiscal year 2013) Expenditures for individual and family services support programs to benefit the economic, social and physical well-being of the individual and family, including disease research, control and prevention.

Administration of Justice: (13.6 percent of Total Expenditures in fiscal year 2013) Expenditures for administration of justice relate to the activities of the civil and criminal justice systems. These activities encompass the apprehension, trial, punishment and rehabilitation of law violators, and the deterrence and detection of crime.

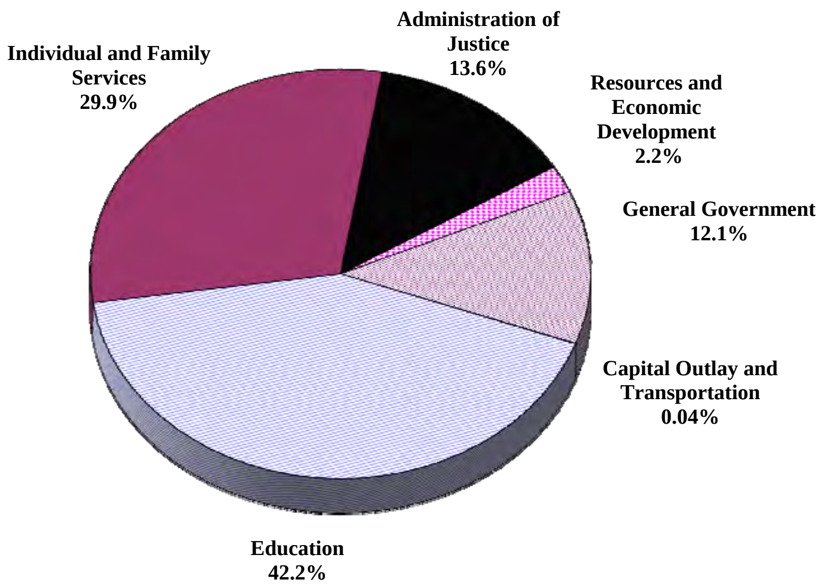
General Government: (12.1 percent of Total Expenditures in fiscal year 2013) General government expenditures support the general activities of state, regional and local levels of government. These activities include financial assistance to localities, enactment of legislative policy, intergovernmental projects, distribution of sales and use taxes to localities, and payments to localities pursuant to the Personal Property Tax Relief Act of 1998.

Resources and Economic Development: (2.2 percent of Total Expenditures in fiscal year 2013) Resources and economic development expenditures support activities to develop the Commonwealth's economic base, including alternative natural resources, and to regulate this base with regard to the public interest of the Commonwealth.

Capital Outlay & Transportation: (0.04 percent of Total Expenditures in fiscal year 2013) Expenditures for capital outlay relate to the construction and renovation of state-owned buildings and facilities. Transportation expenditures relate to the movement by road, water or air of people, goods and services, and the regulation thereof.

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

DISTRIBUTION OF GENERAL FUND EXPENDITURES BY SOURCE
Fiscal Year Ended June 30, 2013



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General Fund Balance

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

UNRESERVED GENERAL FUND ENDING BALANCE
(in thousands)

Fiscal Year	Cash Basis	Modified Accrual Basis
2004	677,089	36,941
2005	1,126,576	520,546
2006	1,804,483	973,461
2007	1,534,573	563,367
2008	1,091,882	78,468
2009	160,986	(927,977)
2010	491,244	(1,069,071)
2011	*	*
2012	*	*
2013	*	*

Source: *Department of Accounts*.
*See 2011, 2012 and 2013 below for an explanation as to how GASB 54 has required a change in the unreserved General Fund balance classification.

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

2010. General Fund revenues and other sources exceeded expenditures and other uses by $47.4 million in fiscal year 2010. The General Fund unreserved balance on a budgetary basis increased by $330.3 million, or 205.1 percent, from fiscal year 2009 to fiscal year 2010 while reserved General Fund balances decreased by $282.9 million or 42.7 percent during the same period. Total revenues increased by 3.0 percent and total expenditures decreased by 5.2 percent. Transfers to the General Fund increased by 13.3 percent while transfers out decreased by 10.4 percent. Transfers to and from Component Units in fiscal year 2010 are reported as expenditures and revenues in accordance with GASB Statement No. 34.

2011. General Fund revenues and other sources exceeded expenditures and other uses by $322.7 million in fiscal year 2011. Total revenues increased by 5.8 percent and total expenditures increased by 3.7 percent. Transfers to the General Fund decreased by 7.8 percent while transfers out decreased by 3.0 percent. Transfers to and from Component Units in fiscal year 2011 are reported as expenditures and revenues in accordance with GASB Statement No. 34. With the implementation of GASB No. 54, the previous fund equity classifications of Reserved and Unreserved have been changed to Restricted, Committed, Assigned, and Unassigned. Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances represent amounts that have been legislatively mandated for a specific purpose. Assigned fund balances represent amounts the Commonwealth has identified for a specific purpose, but for which the use is not legislatively mandated. Unassigned fund balances are those that have not been restricted, committed, or assigned to specific purposes. Due to statutory requirements, any unassigned balances in the General Fund on a cash basis are automatically committed for transfer to the Transportation Trust Fund and for nonrecurring expenditures. The table on page B-6 reflects the Fund Balance as of June 30, 2011 in these new classifications.

2012. General Fund revenues and other sources exceeded expenditures and other uses by $385.9 million in fiscal year 2012. Total revenues increased by 5.5 percent and total expenditures increased by 5.0 percent. Transfers to the General Fund increased by 15.2 percent while transfers out increased by 27.3 percent. Transfers to and from Component Units in fiscal year 2012 are reported as expenditures and revenues in accordance with GASB Statement No. 34. With the implementation of GASB No. 54, the fund equity classifications of Reserved and Unreserved have been changed to Restricted, Committed, Assigned, and Unassigned. Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances represent amounts that have been legislatively mandated for a specific purpose. Assigned fund balances represent amounts the Commonwealth has identified for a specific purpose, but for which the use is not legislatively mandated. Unassigned fund balances are those that have not been restricted, committed, or assigned to specific purposes. Due to statutory requirements, any unassigned balances in the General Fund on a cash basis are automatically committed for transfer to the Transportation Trust Fund and for nonrecurring expenditures. The table on page B-6 reflects the Fund Balance as of June 30, 2012 in these new classifications.

2013. General Fund revenues and other sources exceeded expenditures and other uses by $137.2 million in fiscal year 2013. Total revenues increased by 4.8 percent and total expenditures increased by 6.5 percent. Transfers to the General Fund decreased by 10.9 percent while transfers out decreased by 17.9 percent. Transfers to and from Component Units in fiscal year 2013 are reported as expenditures and revenues in accordance with GASB Statement No. 34. With the implementation of GASB No. 54, the fund equity classifications of Reserved and Unreserved have been changed to Restricted, Committed, Assigned, and Unassigned. Restricted fund balances are those that have a restriction by the *Constitution of Virginia* or from a party external to the Commonwealth. Committed fund balances represent amounts that have been legislatively mandated for a specific purpose. Assigned fund balances represent amounts the Commonwealth has identified for a specific purpose, but for which the use is not legislatively mandated. Unassigned fund balances are those that have not been restricted, committed, or assigned to specific purposes. Due to statutory requirements, any unassigned balances in the General Fund on a cash basis are automatically committed for transfer to the Transportation Trust Fund and for nonrecurring expenditures. The table on page B-6 reflects the Fund Balance as of June 30, 2013 in these new classifications.

Nongeneral Fund Revenues

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

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

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

COMMONWEALTH TRANSPORTATION FUND
(in thousands)

	Fiscal Year Ended June 30,				
	2009	**2010**	**2011**	**2012**	**2013**
Total revenues	$3,461,872	$3,617,895	$3,849,149	$3,871,439	$4,306,638
Total expenditures	3,725,125	3,422,843	3,884,844	4,488,603	4,633,673
Revenues over (under) expenditures	(263,253)	195,052	(35,695)	(617,164)	(327,035)
Other sources (uses) net	(150,232)	384,440	461,147	929,228	1,508
Revenue and other sources (uses) over (under) expenditures	(413,485)	579,492	425,452	312,064	(325,527)
Beginning fund balance (adjusted)	1,843,596	1,430,111	2,009,078	2,434,530	2,739,308
Ending fund balance	$1,430,111	$2,009,603	$2,434,530	$2,746,594	$2,413,781

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

Source: *Reports of the Comptroller, 2009-2013.*

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The 2013 Appropriation Act

On December 17, 2012, Governor McDonnell presented his proposed amendments to Chapter 3 of the 2012 Acts of Assembly, Special Session I (House Bill 1500/Senate Bill 800) (the “2013 Budget Bill”), affecting the remainder of the 2012-2014 biennium. In these amendments, the Governor addressed increased liquidity to guard against future economic uncertainty and the potential impact of federal spending reductions; increased support for instructional spending in public education; continued investments in higher education; improvements in funding availability for transportation; and improvements in support to localities.

Although the revised revenue forecast went up by a modest $98.7 million over the biennium, the Governor called for spending reductions through a combination of targeted savings, reduction plans, and other appropriation reductions. In the process of developing budget amendments, the Governor asked agencies to submit reduction plans equating to four percent of their general fund budgets. Included in the Governor’s amended budget was a total of $58.8 million in savings from these plans. In addition to this, targeted reductions in Medicaid and Direct Aid to Public Education totaled $33.9 million.

The 2013 Budget Bill was considered by the 2013 Session of the General Assembly which convened on January 9, 2013. The General Assembly adjourned on February 23, 2013 offering their recommendations on amendments to the 2013 Budget Bill.

On March 25, 2013, Governor McDonnell returned House Bill 1500 to the General Assembly offering 52 amendments to be adopted to address five overarching themes: 1) continued efforts to address judicial workload and fill vacant judgeships; 2) provide general fund appropriations for select items that were funded by earmarks against dedicated funding streams; 3) a small restoration of reductions; 4) needed language changes; and 5) funding for new issues that surfaced since the adjournment. The spending amendments offered totaled $14.1 million. The General Assembly reconvened on April 3, 2013 to consider these amendments. The General Assembly rejected seven of the Governor’s amendments.

The 2013 Budget Bill, also known as Chapter 806, 2013 Virginia Acts of Assembly (the “2013 Appropriation Act”) became effective May 3, 2013. The 2013 Appropriation Act continued investment in higher education and job creation, and eliminated across the board cuts to local governments.

Other highlights of the 2013 Virginia Acts of Assembly included: a two percent salary increase for teachers and support positions; a salary compression adjustment for qualifying state employees; reforms to the existing Medicaid program; increased higher education funding for financial aid; $2.0 million for Housing Trust Fund and other housing programs; $1.0 million for offshore wind energy; $95 million dedicated toward future required deposits to the revenue stabilization fund; and increasing the rainy day fund from $295 million to nearly $800 million.

The following table summarizes the 2013 Appropriation Act.

2013 Appropriation Act (Chapter 806, 2013 General Assembly)

	FY 2013	FY 2014	Total
GENERAL FUND			
Revenue			
Unrestricted Balance June 30, 2012	$976,011,000	-	$976,011,000
Additions to balance	(179,378,723)	$3,602,508	(175,776,215)
Official revenue estimate	16,420,995,305	17,056,958,606	33,477,953,911
Transfers	423,932,936	431,645,366	855,578,302
Total general fund resources available for appropriation	$17,641,560,518	$17,492,206,480	$35,133,766,998
Appropriations			
Legislative	$69,483,521	$72,052,144	$141,535,665
Judicial	423,087,296	424,174,190	847,261,486
Executive	16,623,269,228	17,488,672,074	34,111,941,302
Independent Agencies	200,000	1,200,000	1,400,000
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	17,116,040,045	17,986,098,408	35,102,138,453
Capital Outlay	20,050,000		20,050,000
Total appropriations	$17,136,090,045	$17,986,098,408	$35,122,188,453
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2012	$4,307,352,991	-	$4,307,352,991
Official revenue estimate	24,634,182,779	$24,676,667,248	49,310,850,027
Lottery Proceeds Fund	487,300,000	462,000,000	949,300,000
Bond proceeds	1,112,939,948	1,185,975,092	2,298,915,040
Total nongeneral fund revenue available for appropriation	$30,541,775,718	$26,324,642,340	$56,866,418,058
Appropriations			
Legislative	$3,506,435	$3,506,435	$7,012,870
Judicial	32,905,193	32,905,193	65,810,386
Executive Department	24,927,895,852	24,598,225,839	49,526,121,691
Independent Agencies	594,310,214	666,443,112	1,260,753,326
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	25,558,617,694	25,301,080,579	50,859,698,273
Capital Outlay	1,219,854,877	1,282,791,631	2,502,646,508
Total appropriations	$26,778,472,571	$26,583,872,210	$53,362,344,781

Source: Department of Planning and Budget.

The 2014 Amendments to the 2013 Appropriation Act

On December 16, 2013 Governor McDonnell presented 124 amendments to the 2013 Appropriation Act affecting general fund appropriations for the remainder of the 2012-2014 biennium (House Bill 29/Senate Bill 29). The proposed actions add and subtract to the overall spending plan, for a net spending decrease of $249.1 million for the remainder of fiscal year 2014.

The majority of the proposed amendments result in a general fund reduction to various programs. These reductions are in large part technical in nature and include items such as adjusting appropriation for the Health Care Fund by $90.3 million to reflect additional revenue; $73.6 million of technical adjustments to Medicaid utilization and inflation; updating Lottery proceeds for public education by $55.2 million; and adjusting sales tax revenues for public education by $16.7 million. Funding increases include $11.9 million for rising K-12 student enrollment counts; $4.5 million for per diem payments to local and regional jails; and $3.4 million for child welfare services.

The 2014 Budget Bill

On December 16, 2013, Governor McDonnell presented the Budget Bill for the 2014-2016 biennium that begins July 1, 2014 (House Bill/Senate Bill 30) (the "2014 Budget Bill"). The 2014 Budget Bill focuses on the core functions of government, and was developed with the following objectives:

- Provide adequate funding for core services.
- Increase liquidity to guard against future economic uncertainty and the potential impact of federal spending reductions.
- Maintain commitment to fully fund requirements of the Virginia Retirement System.
- Increase support for instructional spending in public education and continue investments in higher education.
- Maintain and improve commitments to health and human services.
- Continue support for local constitutional officers and law enforcement.

The proposed 2014 Budget Bill appropriates $96.8 billion from all funding sources for total state government operations, and leaves an unappropriated general fund balance on June 30, 2016 of $50.9 million. The revised economic forecast projects general fund revenues to grow 4.2 percent in fiscal year 2015 and 3.9 percent in fiscal year 2016.

The 2014 Budget Bill provides an additional $243.2 million to the Revenue Stabilization Fund in fiscal year 2015 and $59.9 million in fiscal year 2016. With these deposits, the Revenue Stabilization Fund will reach an expected balance of over $1 billion by June 30, 2016.

Other proposed budget actions provide: $674 million in additional support for Medicaid programs; $582.6 million to increase support for instructional spending in public education; $315.3 million to maintain the commitment to increase support to the retirement system; $183.1 million for increased support for higher education and the goals of the "Top Jobs" legislation; $98.5 million to implement the requirements of the settlement agreement with the United States Department of Justice; $83.2 million for increased health insurance premium cost for state employees; and $36.2 million Mental Health crisis response improvements.

Amendments to the 2013 Appropriation Act and the proposed 2014 Budget Bill will be considered by the 2014 Session of the Virginia General Assembly, which convened on January 8, 2014, and is scheduled to conclude on March 8, 2014.

The table on the following pages summarizes the 2014 Budget Bill.

2014 Budget Bill
(As introduced in HB/SB 30)

	FY 2015	FY 2016	Total
GENERAL FUND			
Revenue			
Unrestricted Balance June 30, 2014	$536,534,680	-	$536,534,680
Additions to balance	94,500,000	(500,000)	94,000,000
Official revenue estimate	17,686,135,741	18,373,389,157	36,059,524,898
Transfers	537,498,006	535,432,006	1,072,930,012
Total general fund resources available for appropriation	$18,854,668,427	$18,908,321,163	$37,762,989,590
Appropriations			
Legislative	$75,612,532	$73,720,615	$149,333,147
Judicial	445,371,294	445,963,623	891,334,917
Executive	18,286,222,212	18,379,930,179	36,666,152,391
Independent Agencies	1,200,133	1,200,446	2,400,579
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	18,808,406,171	18,900,814,863	37,709,221,034
Capital Outlay	2,870,636	-	2,870,636
Total appropriations	$18,811,276,807	$18,900,814,863	$37,712,091,670
NONGENERAL FUNDS			
Revenue			
Balance June 30, 2012	$4,708,335,881	-	$4,708,335,881
Official revenue estimate	25,638,912,057	26,378,135,428	52,017,047,485
Lottery Proceeds Fund	500,000,000	500,000,000	1,000,000,000
Internal Service Fund	1,595,861,216	1,612,651,825	3,208,513,041
Bond proceeds	547,509,500	81,500,000	629,009,500
Total nongeneral fund revenue available for appropriation	$32,990,618,654	$28,572,287,253	$61,562,905,907
Appropriations			
Legislative	$3,507,137	$3,007,990	$6,515,127
Judicial	34,167,869	34,258,099	68,425,968
Executive Department	27,948,836,115	28,605,605,936	56,554,442,051
Independent Agencies	726,394,289	830,460,251	1,556,854,540
State Grants to Nonstate Entities	-	-	-
Sub-total operating expenses	28,712,905,410	29,473,332,276	58,186,237,686
Capital Outlay	716,789,356	215,733,222	932,522,578
Total appropriations	$29,429,694,766	$29,689,065,498	$59,118,760,264

Source: Department of Planning and Budget.

INDEBTEDNESS OF THE COMMONWEALTH

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

Section 9(a) Debt

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

Section 9(b) Debt

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

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

Section 9(c) Debt

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

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

Effect of Refunding Debt

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

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General Obligation Debt Limit and Debt Margin

Using individual and fiduciary income, corporate income and the state sales and use tax revenues, as of June 30, 2013, the debt limits pursuant to Article X, Section 9 of the Constitution of Virginia are as follows:

COMPUTATION OF LEGAL DEBT LIMITS
(in thousands)

	Fiscal Year Ended June 30,		
Taxes	**2011**	**2012**	**2013**
Individual and Fiduciary Income [1]	$9,944,370	$10,612,836	$11,339,965
Corporation Income [2]	822,259	859,923	796,728
State Sales and Use [3]	3,190,452	3,314,677	3,419,489
Total	$13,957,081	$14,787,436	$15,556,182
Average tax revenues for the three fiscal years			$14,766,900

Section 9(a)(2) General Obligation Debt Issuance Limit and Margin [4]:			
Debt Issuance Limit:			
30% of 1.15 times annual tax revenues for fiscal year 2013			$5,366,883
Less 9(a)(2) Bonds Outstanding at June 30, 2013:			0
Debt Margin for Section 9(a)(2) General Obligation Bonds			$5,366,883
Section 9(b) General Obligation Debt Issuance Limit and Margin:			
Debt Issuance Limit:			
1.15 times the average tax revenues for three fiscal years as calculated above			$16,981,935
Less 9(b) Bonds Outstanding at June 30, 2013:			
Public Facilities Bonds [5]		752,493	
Bond Anticipation Notes		0	
Total 9(b) Bonds Outstanding at June 30, 2013			752,493
Debt Margin for Section 9(b) General Obligation Bonds			$16,229,442
Debt Authorization Limit:			
25% of 1.15 times average tax revenues for three fiscal years as calculated above			$4,245,484
Less 9(b) debt authorized during the three prior fiscal years			0
Maximum additional 9(b) debt that may be authorized by the General Assembly (subject to referendum):			$4,245,484
Section 9(c) General Obligation Debt Issuance Limit and Margin:			
Debt Issuance Limit:			
1.15 times the average tax revenues for three fiscal years as calculated above			$16,981,935
Less 9(c) Bonds Outstanding at June 30, 2013:			
Parking Facilities [5]		17,538	
Transportation Facilities [5]		21,961	
Higher Educational Institutions [5]		877,866	
Bond Anticipation Notes		0	
Total 9(c) Bonds Outstanding at June 30, 2013			917,365
Debt Margin for Section 9(c) General Obligation Bonds			$16,064,570

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[1] Includes taxes imposed pursuant to Articles 2 and 9 of Chapter 3, Title 58.1 of the Code of Virginia.
[2] Includes taxes imposed pursuant to Article 10 of Chapter 3, Title 58.1 of the Code of Virginia.
[3] Includes taxes imposed pursuant to Chapter 6, Title 58.1 of the Code of Virginia, less taxes identified in Sections 58.1-605 and 58.1-638.
[4] Debt limit applies only to debt authorized pursuant to Article X, Section 9(a) (2) of the Constitution of Virginia.
[5] Net of unamortized discounts, premiums and/or deferral on debt defeasance.

Source: Department of Accounts, Department of the Treasury.

Tax-Supported Debt – General Obligation

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

Outstanding Section 9(b) debt as of June 30, 2013 includes the unamortized portion of (a) $752.5 million of general obligation bonds authorized and approved by the voters in November 1992, (b) $1.0 billion in general obligation bonds authorized and approved by the voters in November 2002, and (c) various series of refunding bonds issued to advance refund certain series of bonds. Outstanding Section 9(c) debt as of June 30, 2013 includes various series of Higher Educational Institutions Bonds (including refunding bonds) issued from 2004 to 2013, one series of Transportation Facilities Bonds issued in 2006, and four series of Parking Facilities Bonds (including refunding bonds) issued between 2004 and 2012. Outstanding general obligation debt does not include 9(b) and 9(c) advance refunded bonds for which funds have been deposited in irrevocable escrow accounts in amounts sufficient to meet all required future debt service.

Other Tax-Supported Debt

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

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

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

The Commonwealth Transportation Board ("CTB") has issued various series of bonds authorized under the State Revenue Bond Act. These bonds are secured by and payable from funds appropriated by the General Assembly from the Transportation Trust Fund. The Transportation Trust Fund was established by the General Assembly in 1986 as a special non-reverting fund administered and allocated by the Transportation Board for the purpose of increased funding for construction, capital and other needs of state highways, airports, mass transportation and ports. As of June 30, 2013, $2.5 billion in CTB bonds were outstanding. During 2007, the CTB was authorized by the General Assembly to issue up to $3.0 billion in Capital Projects Revenue Bonds, with an additional $180 million authorized in 2008. As of June 30, 2013, $1.7 billion had been issued under this authorization.

The Virginia Port Authority ("VPA") issues bonds secured by its share of the Transportation Trust Fund. As of June 30, 2013, $229 million of Commonwealth Port Fund Revenue Bonds were outstanding. In 2008, the Authority was authorized to issue an additional $155 million in Commonwealth Port Fund Revenue Bonds. However during 2011, $30 million of that amount was rescinded. As of June 30, 2013, $57.4 million had been issued under this authorization.

Leases and Contracts

Capital Leases. The Commonwealth is involved in numerous agreements to lease buildings, energy efficiency projects and equipment. For a detailed description, see "Notes to the Financial Statements" included in the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013. These lease agreements are for various terms, and each lease contains a nonappropriation clause indicating that continuation of the lease is subject to funding by the General Assembly. The principal balance of all tax-supported capital leases outstanding was $157.5 million as of June 30, 2013.

Installment Purchases. The Commonwealth also finances the acquisition of certain personal property and equipment through installment purchase agreements. The length of the agreements and the interest rates charged vary. In most cases, the agreements are collateralized by the personal property and equipment acquired. Installment purchase agreements contain nonappropriation clauses indicating that continuation of the installment purchase is subject to funding by the General Assembly. The principal balance of tax-supported installment purchase obligations outstanding was $192.7 million as of June 30, 2013.

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Outstanding Tax-Supported Debt

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

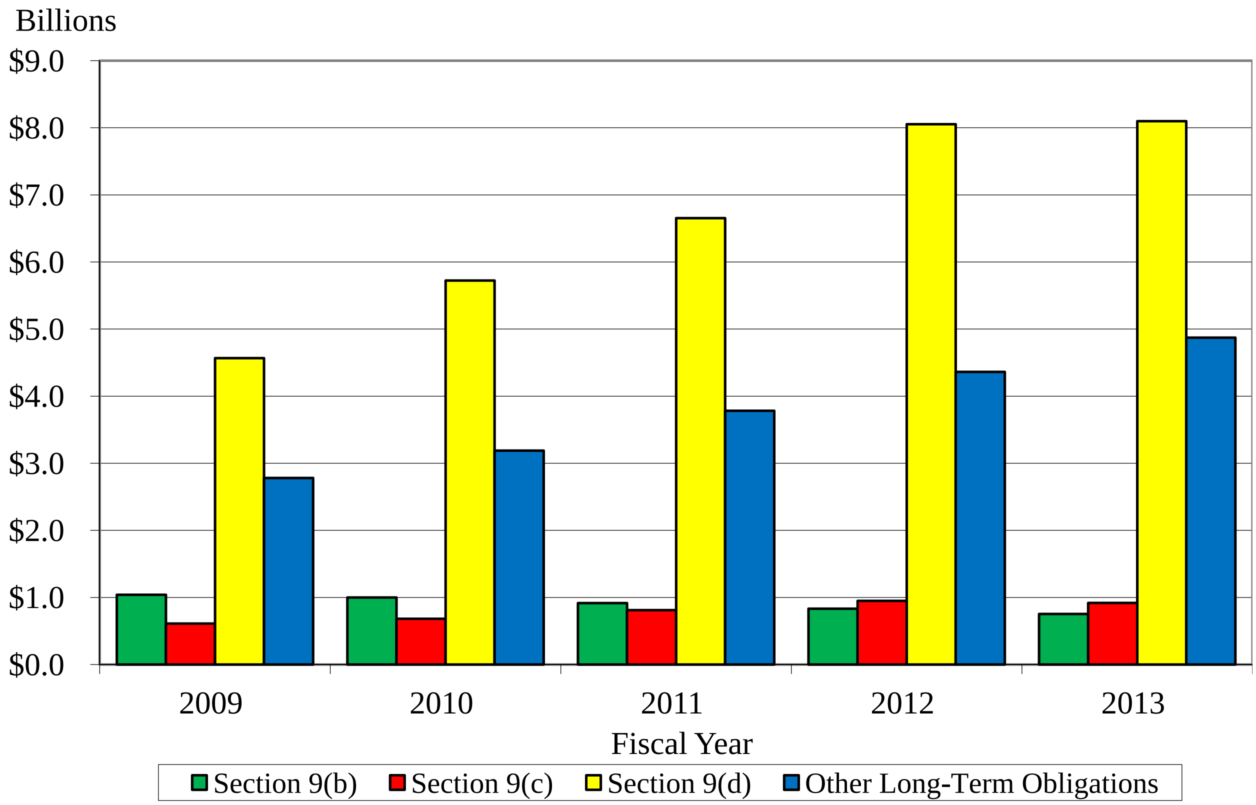
OUTSTANDING TAX-SUPPORTED DEBT
(in thousands)

	Fiscal Year Ended June 30,				
	2009	2010	2011	2012	2013
General Obligation Debt:					
Section 9(a)	-	-	-	-	-
Section 9(b) [1]	$1,040,636	$999,841	$914,574	$831,148	$752,493
Section 9(c)					
Higher Educational Institutions [1]	573,550	631,275	765,280	906,474	877,858
Transportation Facilities [1]	30,358	28,394	26,355	24,210	21,961
Parking Facilities [1]	6,526	21,151	19,445	18,383	17,538
Sub-Total Section 9(c)	610,434	680,820	811,080	949,067	917,357
Total General Obligation Debt	1,651,070	1,680,661	1,725,654	1,780,215	1,669,850
Section 9(d) Debt:					
Transportation [1]	908,601	1,428,918	2,008,601	2,655,481	2,495,312
Virginia Public Building Authority [1]	2,092,662	2,276,819	2,418,513	2,566,789	2,534,347
Virginia Port Authority [1]	200,886	194,287	186,011	237,321	228,619
Virginia College Building Authority 21st Century/Equipment [1]	1,203,701	1,677,617	1,909,586	2,470,589	2,725,259
Innovation and Entrepreneurship Investment Authority	5,415	4,480	3,465	2,375	1,220
Newport News Industrial Development Authority	10,025	5,150	-	-	-
Virginia Biotechnology Research Partnership Authority [1]	45,409	42,650	39,955	37,162	35,284
Virginia Public Broadcasting Board	5,830	2,990	-	-	-
Virginia Aviation Board	1,909	1,623	1,336	1,050	764
Fairfax County Economic Development Authority	93,442	89,722	85,827	81,747	77,472
Total Section 9(d) Debt	4,567,880	5,724,256	6,653,294	8,052,514	8,098,277
Other Long-Term Obligations:					
Transportation Notes Payable	8,000	8,000	8,000	8,000	8,000
Capital Leases	216,600	201,501	206,738	168,566	157,466
Installment Purchase Obligations	218,202	214,976	219,291	215,120	192,682
Compensated Absences	573,904	559,828	559,672	569,021	582,774
Regional Jail Financing Program	8,231	6,445	4,617	2,748	837
Pension Liability	1,410,513	1,653,718	2,050,195	2,446,240	2,799,523
Other Liabilities and Notes Payable	106,052	111,338	90,039	73,457	53,419
OPEB Liability	239,340	433,688	643,837	877,630	1,076,157
Total Other Long-Term Obligations	2,780,842	3,189,494	3,782,389	4,360,782	4,870,858
Total Tax-Supported Debt [2]	$8,999,792	$10,594,411	$12,161,337	$14,193,511	$14,638,985

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

Source: Department of the Treasury; Department of Accounts.

OUTSTANDING TAX-SUPPORTED DEBT
As of June 30, 2009-2013



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Outstanding Tax-Supported Debt Service

The following table summarizes annual debt service on outstanding tax-supported debt as of June 30, 2013. The table does not include debt service requirements for capital lease and installment purchase obligations payable from the General Fund of the Commonwealth.

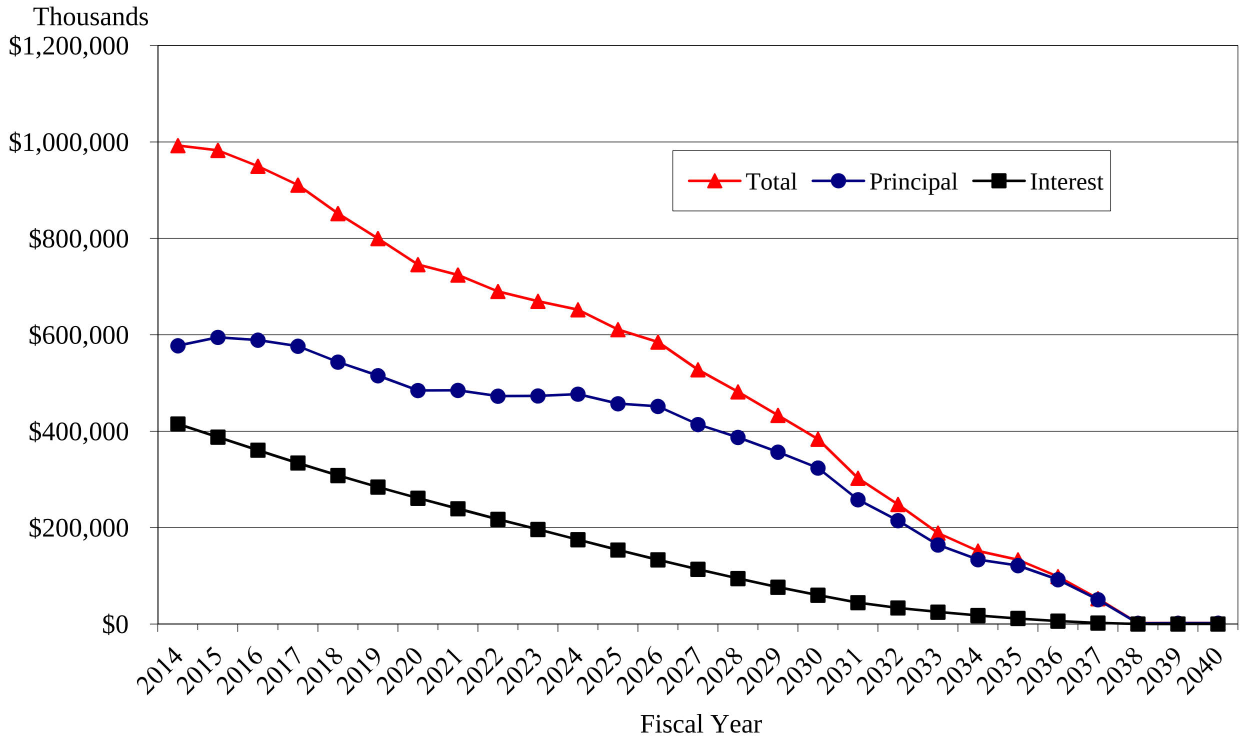
ANNUAL DEBT SERVICE REQUIREMENTS
Tax-Supported Debt Outstanding at June 30, 2013
($ in thousands)

Fiscal Year Ending June 30	General Obligation Debt Sections 9(a), 9(b) and 9(c) Principal	Interest	Total	Other Tax-Supported Debt Section 9(d) [1] Principal	Interest	Total	Total Principal	Interest	Total
2014	$114,605	$71,646	$186,251	$462,824	$343,546	$806,3703	$557,429	$415,192	$992,621
2015	120,415	66,342	186,757	474,397	321,529	795,926	594,812	387,871	982,683
2016	112,745	60,709	173,454	476,247	300,099	776,346	588,992	360,808	949,800
2017	104,885	55,493	160,378	471,514	278,781	750,295	576,399	334,274	910,673
2018	98,780	50,553	149,333	444,675	257,634	702,309	543,455	308,187	851,642
2019	97,985	46,185	144,170	417,280	238,222	655,502	515,265	284,407	799,672
2020	97,770	41,682	139,452	386,823	219,406	606,229	484,593	261,088	745,681
2021	99,755	37,214	136,969	385,101	202,150	587,251	484,856	239,364	724,220
2022	94,730	32,678	127,408	378,040	184,626	562,666	472,770	217,304	690,074
2023	94,890	28,418	123,308	378,435	167,799	546,234	473,325	196,217	669,542
2024	94,255	24,205	118,460	382,751	150,792	533,543	477,006	174,997	652,003
2025	85,755	20,027	105,782	371,354	133,661	505,015	457,109	153,688	610,797
2026	80,120	16,367	96,487	371,464	117,057	488,521	451,584	133,424	585,008
2027	71,475	12,995	84,470	342,476	100,643	443,119	413,951	113,638	527,589
2028	55,755	9,833	65,588	331,530	84,587	416,117	387,285	94,420	481,705
2029	40,320	7,351	47,671	316,380	69,052	385,432	356,700	76,403	433,103
2030	30,360	5,600	35,960	293,360	54,252	347,612	323,720	59,852	383,572
2031	25,815	4,220	30,035	232,140	40,294	272,434	257,955	44,514	302,469
2032	15,650	3,017	18,667	198,965	30,545	229,510	214,615	33,562	248,177
2033	15,025	2,310	17,335	149,045	22,447	171,492	164,070	24,757	188,827
2034	12,455	1,633	14,088	121,165	16,271	137,436	133,620	17,904	151,524
2035	9,930	1,060	10,990	111,460	10,765	122,225	121,390	11,825	133,215
2036	5,835	616	6,451	86,345	5,534	91,879	92,180	6,150	98,330
2037	2,560	365	2,925	47,980	1,780	49,760	50,540	2,145	52,685
2038	1,675	244	1,919	0	0	0	1,675	244	1,919
2039	1,730	165	1,895	0	0	0	1,730	165	1,895
2040	1,785	84	1,869	0	0	0	1,785	84	1,869
Subtotal	1,587,060	601,012	2,188,072	7,631,751	3.351,472	10,983,223	9,218,811	3,952,484	13,171,295
Add Unamortized Premium & Accretion on Capital Appreciation Bonds	138,136	-	138,136	543,168	-	543,168	681,304	-	681,304
Less Unamortized Discount & Deferral on Debt Defeasance	(55,346)	-	(55,346)	(48,326)	-	(48,326)	(103,672)	-	(103,672)
TOTAL	$1,669,850	$601,012	$2,270,862	$8,126,593	$3,351,472	$11,478,065	$9,796,443	$3,952,484	$13,748,927

[1] Includes Virginia Biotechnology Research Park Authority, Fairfax County Economic Development Authority (Va. Dept. of Transportation Camp 30 Project), Innovation Technology Authority and Virginia Aviation Board. Does not include other capital leases, installment purchase obligations.

Source: Department of the Treasury; Department of Accounts.

ANNUAL DEBT SERVICE REQUIREMENTS
TAX-SUPPORTED DEBT OUTSTANDING AT JUNE 30, 2013
(in thousands)



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

Fiscal Year	Population [1]	Personal Income [2][3] (000's)	Outstanding Debt (000's)	Tax-Supported Debt/Capita	Debt/Income
2009	7,882,590	340,255,644	8,999,792	1,141.73	2.6%
2010	8,001,024	354,127,225	10,594,411	1,324.13	3.0%
2011	8,096,604	373,311,727	12,161,337	1,502.03	3.3%
2012	8,186,625	396,005,223	14,193,511	1,733.74	3.6%
2013	8,260,405	404,754,000	14,638,985	1,722.19	3.6%

Sources: [1] U.S. Census Bureau. 2013 population data is provisional.
[2] U.S. Department of Commerce, Bureau of Economic Analysis.
[3] 2013 personal income data is provisional.

Authorized and Unissued Tax-Supported Debt

As of June 30, 2013, the following tax-supported debt had been authorized by the General Assembly and remained unissued:

Section 9(b) Debt:	
Higher Educational Institutions Bonds	$0
Park and Recreational Facilities Bonds	0
Subtotal 9(b) Debt:	$0
Section 9(c) Debt:	
Higher Educational Institutions Bonds	$480,623,151
Parking Facility Bonds	225,918
Subtotal 9(c) Debt:	$480,849,069
Section 9(d) Debt :	
Transportation Capital Projects Revenue Bonds	$1,487,335,000
Northern Virginia Transportation District Program	24,700,000
Virginia Public Building Authority -- Projects	485,318,659
Virginia Public Building Authority -- Jails	128,497,781
Virginia Public Building Authority -- Juvenile Detention Facilities	0
Virginia College Building Authority -- 21st Century Projects	1,832,653,919
Virginia College Building Authority -- 21st Century Equipment	126,436,308
Virginia Port Authority	64,998,665
Capital Lease Revenue Financings	0
Subtotal 9(d) Debt:	$4,149,940,333
Total	$4,630,789,402

Source: Department of the Treasury; Department of Accounts.

Moral Obligation Debt

The Virginia Housing Development Authority, the Virginia Resources Authority and the Virginia Public School Authority are authorized to issue bonds secured in part by a moral obligation pledge of the Commonwealth. All three are designed to be self-supporting from their individual loan programs. The Commonwealth may fund deficiencies that may occur in debt service reserves for moral obligation debt. By the terms of the applicable statutes, the Governor is obligated to include in his annual budget submitted to the General Assembly the amount necessary to restore any such reported deficiency, but the General Assembly is not legally required to make any appropriation for such purpose. However, neither the Virginia Housing Development Authority nor the Virginia Public School Authority have bonds outstanding that are secured by the moral obligation pledge. To date, the Virginia Resources Authority has not reported to the Commonwealth that any such reserve deficiencies exist. The table below summarizes the Commonwealth's outstanding moral obligation indebtedness for the past five fiscal years.

OUTSTANDING MORAL OBLIGATION DEBT
(in thousands)

	Fiscal Year Ended June 30,				
	2009	**2010**	**2011**	**2012**	**2013**
Virginia Housing Development Authority [1]	$ --	$ --	$ --	$ --	$ --
Virginia Resources Authority [1]	726,416	669,839	684,005	801,384	836,656
Total	$726,416	$669,839	$684,005	$801,384	$836,656

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

Source: Department of the Treasury, Department of Accounts

Other Debt

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

OUTSTANDING OTHER DEBT
(in thousands)

	Fiscal Year Ended June 30,				
	2009	**2010**	**2011**	**2012**	**2013**
Institutions of Higher Education [1]	$1,356,659	$1,333,083	$1,450,714	$1,541,802	$1,538,395
Virginia College Building Authority Public Higher Education Financing Program	1,289,525	1,476,645	1,633,910	1,715,515	1,773,190
Virginia College Building Authority Private College Program	532,530	524,645	634,395	639,597	675,510
Virginia Housing Development Authority [1]	6,754,384	6,739,603	6,438,200	5,945,174	5,742,689
Virginia Public School Authority [1]	3,258,258	3,235,947	3,215,448	3,378,084	3,483,366
Virginia Port Authority	223,541	288,764	284,558	281,978	276,816
Commonwealth Transportation Board					
Federal Highway Reimbursement Anticipation Notes [1]	548,695	414,319	274,650	182,450	89,836
Grant Anticipation Notes (GARVEES) [1]	--	--	--	298,728	473,733
Hampton Roads Sanitation District	360,136	547,318	560,996	639,286	790,503
Total	$14,323,728	$14,560,324	$14,492,871	$14,622,614	$14,844,038

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

Source: Department of the Treasury.

Commonwealth Debt Management

Debt Capacity Advisory Committee

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

The Committee also reviews the amounts and condition of bonds, notes and other security obligations of the Commonwealth's agencies, institutions, boards and authorities which are neither tax-supported debt nor obligations secured by a moral obligation pledge to replenish reserve fund deficiencies. The Committee may recommend limits, when appropriate, on these other obligations. The Committee's latest report can be found at http://www.trs.virginia.gov/debt/dcac.aspx.

Capital Outlay Plan

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

RETIREMENT PLANS

The Commonwealth contributes to four defined benefit pension plans each of which is administered by the Virginia Retirement System ("System"). The System acts as a common investment and administrative agent for the Commonwealth, local school boards and political subdivisions in Virginia. The plans administered by the System consist of the Virginia Retirement System ("VRS"), the State Police Officers Retirement System ("SPORS"), the Virginia Law Officer's Retirement System ("VaLORS") and the Judicial Retirement System ("JRS"). Membership in the VRS consists of Commonwealth employees, public school teachers and employees of political subdivisions that have voluntarily joined the system. Membership in SPORS consists of Commonwealth state police officers. Membership in VaLORS consists of law enforcement and corrections officers of the Commonwealth other than state police officers, and membership in JRS consists of judges in the Commonwealth's Circuit Courts, General District Courts, Court of Appeals and Supreme Court. Membership in the applicable retirement plans is mandatory for all eligible employees. VRS is the largest of four systems covering 329,042 active Commonwealth employees, school teachers and covered employees of local governments as of June 30, 2013, as compared with 11,709 active members of SPORS, VaLORS, and JRS combined. In addition, the four plans combined had approximately 39,984 inactive vested members who are no longer contributing but have not withdrawn previous contributions and may be eligible for a retirement benefit in the future.

ACTIVE MEMBER DISTRIBUTION OF PENSION AND RETIREMENT PLANS

	Fiscal Year Ended June 30	
	2012	**2013**
State Employees (VRS)	79,030	78,534
Teachers (VRS)	146,690	145,945
Employees of Political Subdivisions (VRS)	104,427	104,563
State Police Officers (SPORS)	1,886	2,003
Virginia Law Officers (VaLORS)	9,413	9,324
Judges (JRS)	380	382

Source: Virginia Retirement System.

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

The General Assembly established a new retirement plan (Hybrid Retirement Plan) for all new members hired on or after January 1, 2014 who are not in SPORS, VaLORS or VRS as a hazardous duty employee of a political subdivision. All new members hired on or after July 1, 2012 and before January 1, 2014 are in Plan 2. Members with service before July 1, 2010 are in Plan 1. The different provisions for the retirement plans are set forth in the table below:

Retirement Benefit Plan Provisions

AS ESTABLISHED BY TITLE 51.1 OF THE *CODE OF VIRGINIA* (1950), AS AMENDED

Members qualify for retirement when they become vested (have at least five years of service credit) and meet the age and service requirements for their plan, as shown in the following table. The benefit is calculated using a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit at retirement.

PROVISIONS	**PLAN 1** ***Hired Before July 1, 2010***	**PLAN 2** ***Hired On or After July 1, 2010***	**HYBRID RETIREMENT PLAN** ***Hired On or After January 1, 2014***
Average Final Compensation	Average of the member's 36 consecutive months of highest compensation as a covered employee.	Average of the member's 60 consecutive months of highest compensation as a covered employee.	Average of the member's 60 consecutive months of highest compensation as a covered employee. It is used in the retirement formula in the defined benefit component of the plan.
Member Contributions	State employees, excluding state elected officials, judges and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution accounts. Employees of school divisions and political subdivisions may pay all or a portion of this amount as elected by the employer until July 1, 2016.	State employees contribute 5% of their compensation each month to their member contribution accounts. Employees of school divisions and political subdivisions may pay all or a portion of this amount as elected by the employer until July 1, 2016.	A member contributes a mandatory 4% of his or her creditable compensation each month to a member contribution account under the defined benefit component and a mandatory 1% of creditable compensation each month to the Hybrid 401(a) Cash Match Plan under the defined contribution component. The employer contributes a mandatory 1% of the member's creditable compensation as well as any matching contributions on voluntary contributions to the member's hybrid 401(a) plan. A member can make voluntary contributions of up to 4% of his or her creditable compensation through the Hybrid 457 Deferred Compensation Plan.

			All member contributions are made on a pre-tax salary reduction basis. The member pays taxes only when he or she receives the money from his or her accounts as part of a retirement benefit, a refund or a distribution.
Vesting and Refunds	Members become vested when they have at least five years (60 months) of creditable service. Vested members who leave covered employment are eligible for a full refund of their member contribution account balance. Non-vested members are eligible for a refund, excluding any contributions made by the employer after July 1, 2010, and the interest on these contributions. *Exception:* Members who are involuntarily separated from employment for causes other than job performance or misconduct are eligible for a full refund, including any employer contributions and interest.	Same as Plan 1.	Members are vested to the defined benefit component when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opt into the Hybrid Retirement Plan will stay vested in the defined benefit component. Members are 100% vested in the contributions they make to the defined contribution component. Upon retirement or leaving covered employment, the member is eligible to withdraw a percentage of employer contributions. • After two years, the member is 50% vested and may withdraw 50% of employer contributions. • After three years, the member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, the member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Normal Retirement Age	VRS: Age 65.	Normal Social Security retirement age.	Normal Social Security retirement age for the purpose of the defined benefit component. For the defined contribution component, a member is eligible to receive distributions upon leaving

			employment, subject to restrictions. Distribution is not required by law until age 70½.
	SPORS, VaLORS and political subdivision hazardous duty employees: Age 60.	Same as VRS Plan 1.	Not eligible for the Hybrid Retirement Plan.
	JRS: Age 65.	Same as VRS Plan 1.	Normal Social Security retirement age for the purpose of the defined benefit component. For the defined contribution component, a member is eligible to receive distributions upon leaving employment, subject to restrictions. Distribution is not required by law until age 70½. Mandatory retirement age for judges is age 70.
Earliest Unreduced Retirement Eligibility	VRS: Age 65 with at least five years of service credit or age 50 with at least 30 years of service credit.	Normal Social Security retirement age with at least five years of service credit or when age and service credit equal 90. *Example:* Age 60 with 30 years of service credit.	Under the defined benefit component, normal Social Security retirement age with at least five years (60 months) of creditable service, or when age and service equal 90. *Example:* Age 60 with 30 years of creditable service. For the defined contribution component, may be eligible for distributions upon leaving employment, subject to restrictions.
	SPORS, VaLORS and political subdivision hazardous duty employees: Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.	Same as VRS Plan 1.	Not eligible for the Hybrid Retirement Plan.
	JRS: Age 65 with at least five years of service credit or age 60 with at least 30 years of service credit.	Same as VRS Plan 1.	Same as VRS Plan 2 for the defined benefit component. For the defined contribution component, may be eligible for distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility	VRS: Age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.	Age 60 with at least five years of service credit.	Under the defined benefit component of the plan, age 60 with at least five years (60 months) of creditable service.

			For the defined contribution component, may be eligible to receive distributions upon leaving employment, subject to restrictions.
	SPORS, VaLORS and political subdivision employees: Age 50 with at least five years of service credit.	Same as VRS Plan 1.	Not eligible for the Hybrid Retirement Plan.
	JRS: Age 55 with at least five years of service credit.	Same as VRS Plan 1.	Under the defined benefit component of the plan, age 60 with at least five years (60 months) of creditable service. For the defined contribution component, may be eligible to receive distributions upon leaving employment, subject to restrictions.
Retirement Multipliers	VRS and JRS: 1.7%.	VRS: 1.65% on creditable service earned, purchased or granted on or after January 1, 2013, and 1.7% on creditable service earned, purchased or granted before January 1, 2013. JRS: Same as Plan 1.	For the defined benefit component, the service retirement multiplier is 1%. If a member opts into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit under those plans.
	SPORS, sheriffs and regional jail superintendents: 1.85%.	Same as VRS Plan 1.	Not eligible for the Hybrid Retirement Plan.
	VaLORS: 1.7% or 2%.	2%.	Not eligible for the Hybrid Retirement Plan.
	Political subdivision hazardous duty employees: 1.7% or 1.85% as elected by the employer.	Same as VRS Plan 1.	Not eligible for the Hybrid Retirement Plan.
Cost-of-Living Adjustment (COLA) *During years of deflation or no inflation, the COLA is 0%.* *Note: Beginning January 1, 2013, members who retire with an unreduced or a reduced benefit with at least*	Matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half any additional increase (up to 4%), up to a maximum COLA of 5%.	Matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.	Same as VRS Plan 2 for the defined benefit component. The COLA is not applicable to the defined contribution component.

20 years of creditable service, the COLA goes into effect July 1 after one full calendar year from the retirement date. Members who retire with a reduced benefit with less than 20 years of service, the COLA goes into effect on July 1, after one calendar year following the unreduced retirement eligibility date. Members within five years of qualifying for an unreduced benefit as of January 1, 2013 were grandfathered.			
Note: The information contained in this document is governed by Title 51.1 of the *Code of Virginia*. This information is intended to be general. It cannot be complete in all details and cannot supersede or restrict the authority granted by the *Code of Virginia*, which may be amended from time to time.			

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

RETIREMENT PLANS
ADDITIONS AND DEDUCTIONS
(in thousands)

	Fiscal Year Ended June 30,				
	2009	**2010**	**2011**	**2012**	**2013**
Additions:					
Member Contributions	$20,543	$26,498	$27,623	$230,967	$595,339
Employer Contributions	2,076,860	1,834,686	1,520,403	1,585,817	2,003,248
Net Investment Income (net of expenses)	752,986	774,306	1,030,658	1,052,001	910,677
Other	9,324	1,187	1,420	3,892	1,574
Total Additions	2,859,713	2,636,677	2,580,104	2,872,677	3,510,838
Deductions:					
Benefits	2,733,223	3,035,274	3,263,895	3,401,775	3,672,541
Refunds	91,348	93,086	100,544	88,923	81,538
Administrative Expenses	31,701	24,501	25,857	26,227	31,866
Other	668	4,050	6,675	721	4,743
Total Deductions	2,856,940	3,156,911	3,396,971	3,517,646	3,790,688
Excess of Additions over Deductions [before net appreciation (depreciation) in fair value of investments]	2,773	(520,234)	(816,867)	(644,969)	(279,850)
Net appreciation (depreciation) in fair value of investments	(12,253,992)	5,458,822	7,680,954	(414,764)	5,167,659
Net Assets Held in Trust at the End of the Year	$41,348,413	$46,287,001	$53,151,088	$52,091,355	$56,979,164

Source: Virginia Retirement System.

Each employer contributes an amount for any period equal to the sum of the normal cost and amortization of the unfunded actuarial accrued liability, if any. The Commonwealth's liability is determined, at a minimum, every two years by the System's Board of Trustees on the basis of studies by the consulting actuary. With respect to teachers, the Commonwealth pays a share of the employer contributions on the compensation of teachers who are employees of local school boards with the Commonwealth's portion determined by a formula that uses the student/teacher ratio, average teachers' salaries and the source of revenue used for salary. Employees contribute 5 percent of their creditable compensation unless the contribution is assumed by the employer as in the case of Commonwealth employees, judges, state police officers, and state law enforcement and correctional officers other than state police officers. Effective July 1, 2011, Commonwealth employees (except elected officials), state police officers, and state law enforcement and correctional officers other than state police officers began paying the 5% employee contribution. This contribution is handled as a pre-tax payroll deduction. Effective July 1, 2012, teacher and political subdivision employers were required to begin requiring their members to pay the 5% member contribution that was previously paid by the employer. The phase-in required the shift of a minimum of 1% each year with full implementation of the shift to member-paid for all employers by July 1, 2016.

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

The Commonwealth's contribution rate for the 2013 fiscal year was determined in accordance with the actuarial valuation as of June 30, 2011. In calculating the Commonwealth's contribution rate for the 2013 fiscal year, the actuary assumed a 7 percent net investment yield compounded annually, a 2.5 percent inflation allowance in the salary scale, a 30-year amortization period for the Unfunded Actuarial Accrued Liability (UAAL) and valued the assets using a modified market basis.

For fiscal year 2012, pension contributions due or required were based on the June 30, 2009 actuarial valuation, which used a 20-year funding period for the UAAL. The General Assembly again funded less than the rate determined by the actuary by extending the funding period for these groups from 20 years to 30 years, increasing the investment return assumption from 7.50% to 8.00% and increasing the inflation assumption from 2.50% to 3.00%. In addition, for state employees, only the employer normal cost of the rate was funded for the first nine months of the fiscal year, and this was reduced by a factor representing the savings associated with the adoption of the revised benefit provisions of Plan 2. As a result, the fiscal year 2012 employer rate for state employees was reduced from the actuary's recommended rate of 8.46% to 2.08% for the first nine months of the fiscal year and increased to 6.58% for the last quarter of the year. Additionally, the employer rates for SPORS, VaLORS and JRS were reduced from the actuary's recommended rates of 25.56%, 15.93% and 46.79% to 7.73%, 5.07% and 28.65%, respectively for the first nine months of the fiscal year and then increased to 21.16%, 13.09% and 42.58%, respectively for the last quarter. The employer contribution rate for teachers was reduced from 12.91% to 6.33%. There was no adjustment to the employer contribution rate for political subdivision employers or to the member contribution rate of 5.00%.

For fiscal year 2013, pension contributions due and required were based on the June 30, 2011 actuarial valuations, which used a 10-year funding period for the deferred contributions from FY 2011 and FY 2012 and a 30-year funding period for the balance of the UAAL. The General Assembly again funded less than the rate determined by the actuary by increasing the investment return assumption from 7.00% to 8.00%. As a result, the FY 2013 employer rate for teachers was reduced from 16.77% to 11.66% and for state employees from 13.07% to 8.76%. Additionally, the employer rates for SPORS, VaLORS and JRS were reduced from the actuary's recommended rates of 32.62%, 19.52% and 54.11% to 24.74%, 14.80% and 45.44%, respectively. There was no adjustment to the employer contribution rate for political subdivision employers or to the member contribution rate of 5.00%.

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

RETIREMENT SYSTEMS CONTRIBUTIONS, ACCRUED LIABILITY AND SUPPLEMENTARY COSTS (1997-1998 biennium through 2013 fiscal year) [1]

	State Employees	School Teachers	State Police	Virginia Law Officers' [2]	Judges
Normal contribution rate:					
1997-98	2.73	3.51	9.39	-	15.12
1998-99	3.56	4.54	8.72	-	17.34
1999-00	4.18	5.09	10.52	4.18	18.74
2000-01	4.24	5.83	8.92	8.92	27.85
2001-02	4.00	6.03	7.45	7.91	26.11
2002-03	4.00	6.03	7.99	8.51	22.27
2003-04	4.00	6.03	7.99	8.51	22.27
2004-05	4.00	6.03	7.99	8.51	22.19
2005-06	4.00	6.03	7.99	8.51	22.19
2006-07	2.80	4.45	7.47	8.06	24.49
2007-08	2.80	4.45	8.35	8.06	24.49
2008-09	2.93	4.71	8.84	8.24	25.13
2009-10	2.93	4.71	8.84	8.24	25.13
2010-11	2.67	4.68	8.81	5.81	30.15
2011-12	2.67	4.68	8.81	5.81	30.15
2012-13	3.55	5.93	10.49	6.80	33.69
2013-14	3.55	5.93	10.49	6.80	33.69
Accrued liability rate:					
1997-98	2.08	3.77	3.99	-	13.98
1998-99	2.28	3.95	8.12	-	14.34
1999-00	1.85	3.95	8.68	1.85	15.51
2000-01	0.98	1.71	16.08	7.23	17.15
2001-02	0.24	(1.79)	17.55	17.09	18.89
2002-03	0.24	(1.79)	17.01	16.49	22.73
2003-04	0.24	(1.79)	17.01	16.49	22.73
2004-05	(0.11)	2.07	17.01	16.49	22.81
2005-06	(0.11)	2.07	17.01	16.49	22.81
2006-07	4.53	6.73	12.35	9.33	15.59
2007-08	4.53	6.73	14.34	9.33	15.59
2008-09	5.09	7.13	15.25	8.54	12.91
2009-10	5.09	7.13	15.25	8.54	12.91
2010-11	5.79	8.23	16.75	10.12	16.64
2011-12	5.79	8.23	16.75	10.12	16.64
2012-13	9.52	10.84	22.13	12.72	20.42
2013-14	9.52	10.84	22.13	12.72	20.42
Total contribution rate:					
1997-98	4.81	7.28	13.38	-	29.10
1998-99	5.84	8.49	16.84	-	31.68
1999-00	6.03	9.04	19.20	6.03	34.25
2000-01	5.22	7.54	25.00	16.15	45.00
2001-02 [3]	4.24	4.24	25.00	25.00	45.00
2002-03 [4]	4.24	4.24	25.00	25.00	45.00
2003-04 [5]	4.24	4.24	25.00	25.00	45.00
2004-05 [6]	3.89	8.10	25.00	25.00	45.00
2005-06 [7]	3.89	8.10	25.00	25.00	45.00
2006-07 [8]	7.33	11.18	19.82	17.39	40.08
2007-08 [9]	7.33	11.18	22.69	17.39	40.08
2008-09 [10]	8.02	11.84	24.09	16.78	38.04
2009-10 [11]	8.02	11.84	24.09	16.78	38.04
2010-11 [12]	8.46	12.91	25.56	15.93	46.79
2011-12 [13]	8.46	12.91	25.56	15.93	46.79
2012-13 [14]	13.07	16.77	32.62	19.52	54.11
2013-14 [14]	13.07	16.77	32.62	19.52	54.11

Source: Virginia Retirement System

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

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

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

[4] Contributions actually paid in FY 2003 were 0.00%, 3.77%, 11.05%, 12.00% and 29.00% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
[5] Contributions actually paid in FY 2004 were 3.77%, 3.77%, 12.79%, 13.95% and 32.03% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
[6] Contributions actually paid in FY 2005 were 3.91%, 6.03%, 16.49%, 16.99% and 30.55% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
[7] Contributions actually paid in FY 2006 were 3.91%, 6.62%, 16.49%, 16.99% and 30.55% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
[8] Contributions actually paid in FY 2007 were 5.74%, 9.20%, 16.71%, 14.96% and 36.47% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
[9] Contributions actually paid in FY 2008 were 6.15%, 10.30%, 20.76%, 15.86% and 38.01% for State, School Teachers, State Police, VaLORS, and Judges, respectively. State Police computed and paid rates reflect an increase of 2.87% resulting from an increase in the multiplier from 1.70% to 1.85%, effective July 1, 2007.
[10] Contributions actually paid in FY 2009 were 6.23%, 8.81%, 20.05%, 14.23% and 34.51% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
[11] Contributions actually paid in FY 2010 were 6.26%, 8.81%, 20.05%, 14.23% and 34.51% for State, School Teachers, State Police, VaLORS, and Judges, respectively. However, these contributions were suspended for state employee groups for April, May and the first half of June 2010, and for school teachers for the entire fourth quarter of FY 2010.
[12] Contributions actually paid in FY 2011 were 2.13%, 3.93%, 7.76%, 5.12% and 28.81% for State, School Teachers, State Police, VaLORS, and Judges, respectively.
[13] Contributions actually paid in FY 2012 were 6.33% for School Teachers and 2.08%, 7.73%, 5.07% and 28.65% for State, State Police, VaLORS, and Judges, respectively for the period July 2011 through March 2012 and 6.58%, 21.16%, 13.09%, and 42.58% for State, State Police, VaLORS, and Judges, respectively for April, May and June 2012.
[14] Contributions actually paid in FY 2013 and FY 2014 were 8.76%, 11.66%, 24.74%, 14.80% and 45.44% for State, School Teachers, State Police, VaLORS, and Judges, respectively.

Effective October 1, 1983, the Commonwealth assumed the 5 percent employee contribution previously paid by its employees who are members of the VRS, SPORS, VaLORS and JRS. The total contribution rate actually being paid by the Commonwealth for Commonwealth employees, state police officers, state law enforcement and correctional officers other than state police officers, and judges through the 2010 fiscal year is, therefore, higher by that amount than what is shown in the summary. Effective July 1, 2011, Commonwealth employees (except elected officials), state police officers, and state law enforcement and correctional officers other than state police officers began paying the 5% employee contribution through payroll deduction.

The most recent actuarial valuation review of the Commonwealth's liability under the VRS, SPORS, VaLORS and JRS was performed by Cavanaugh Macdonald Consulting, LLC as of June 30, 2012. Below is the schedule of Funding Progress for the various pension plans. The 2010 data reflects a reduction in the assumed rate of return on investments from 7.50% to 7.00%. For further discussion of the funding status of the pension programs, see "Retirement and Pension Systems" in The Report of the Comptroller for the Fiscal Year Ended June 30, 2013.

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SCHEDULE OF FUNDING PROGRESS
(dollars in millions)

Biennial Actuarial Valuation Date 6/30		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
Virginia Retirement System							
2012		$51,212	$77,859	$26,647	65.8%	$14,880	179.1%
2011		52,559	75,185	22,626	69.9	14,709	153.8
2010		52,729	72,801	20,072	72.4	14,758	136.0
2009	[1]	53,185	66,323	13,138	80.2	14,948	87.9
2008		52,548	62,554	10,006	84.0	14,559	68.7
2007		47,815	58,116	10,301	82.3	13,834	74.5
2006		42,669	52,822	10,153	80.8	13,002	78.1
2005	[1]	40,372	49,628	9,256	81.3	12,212	75.8
2004		39,691	43,958	4,267	90.3	11,510	37.1
2003		39,243	40,698	1,455	96.4	10,885	13.4
State Police Officers Retirement System (SPORS)							
2012		$587	$1,013	$426	57.9%	$104	409.0%
2011		617	986	369	62.6	100	370.3
2010		634	949	315	66.8	98	323.2
2009	[1]	647	879	232	73.6	101	230.0
2008		646	844	198	76.6	103	193.2
2007		595	806	211	73.8	101	209.4
2006		539	730	191	73.8	94	204.1
2005	[1]	514	673	159	76.4	91	174.8
2004		510	656	146	77.8	82	178.0
2003		509	616	107	82.6	79	135.4
Virginia Law Officer's Retirement System (VaLORS)							
2012		$909	$1,753	$844	51.9%	$345	244.8%
2011		926	1,683	757	55.0	356	212.5
2010		925	1,579	654	58.6	346	189.0
2009	[1]	913	1,412	499	64.7	359	138.9
2008		873	1,281	408	68.2	368	110.8
2007		766	1,166	400	65.7	341	117.2
2006		656	1,096	440	59.9	321	137.0
2005	[1]	575	980	405	58.7	307	132.0
2004		509	927	418	54.9	298	140.3
2003		458	854	396	53.6	292	135.6
Judicial Retirement System (JRS)							
2012		$361	$582	$221	62.0%	$57	388.6%
2011		371	569	198	65.2	59	336.8
2010		372	560	188	66.5	61	307.8
2009	[1]	378	521	143	72.5	63	228.4
2008		374	495	121	75.6	61	199.9
2007		340	442	102	76.9	58	177.3
2006		302	424	122	71.3	54	224.1
2005	[1]	288	402	114	71.5	52	220.7
2004		285	366	81	78.0	48	168.8
2003		282	348	66	81.1	48	137.5

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

In addition to the defined benefit programs described above, the Commonwealth also makes contributions to a defined contribution retirement plan for political appointees. Contributions for this plan are based on 10.4% of each appointee's salary. At June 30, 2013, this plan had 292 accounts and total assets of approximately $9,402,327.

OTHER LONG-TERM LIABILITIES

Employee Benefits Other than Pension Benefits

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

The VSDP was established for all full-time, classified state employees, including state police officers, and other state law enforcement and correctional officers. Part-time, classified state employees who work at least 20 hours a week on a salaried basis and who accrue leave are also covered. After a seven calendar-day waiting period following the first incident of disability, the VSDP provides short-term disability benefits from 60% to 100% of compensation up to a maximum of 125 work days. After a 180 calendar day waiting period, eligible employees receive long-term disability benefits equal to 60% of compensation until they return to work, until age 65 (age 60 for state police officers and other state law enforcement and correctional officers), or until death. Eligibility periods for non-work related disability coverage and certain income replacement levels apply for employees hired on or after July 1, 2009.

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

Self-Insurance

The Commonwealth provides several types of self-insurance for the benefit of state agencies and institutions. The Department of the Treasury, Division of Risk Management, administers self-insurance programs for general (tort) liability, medical malpractice and automobile liability. The Department of Human Resource Management administers the state employee health care self-insurance fund. At June 30, 2013, $718.3 million was reported as the combined estimated claims payable for self-insurance.

Medicaid Payable

The Department of Medical Assistance Services estimates, based on past experience, the total amount of claims that will be paid from the Medicaid program in the future which relate to services provided before year end. At June 30, 2013, the estimated liability related to normal operations totaled $685.7 million. Of this amount, $341.2 million is reflected in the General Fund and $344.5 million in the Federal Trust Special Revenue Fund.

For a more detailed explanation of Other Long-Term Liabilities, see "Notes to the Financial Statements" in The Report of the Comptroller for the Fiscal Year Ended June 30, 2013.

Other Post Employment Benefits (OPEB) – Financial Statement Reporting

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

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

The Commonwealth's OPEB programs promise benefits to individuals who perform services for government today to be paid following the conclusion of their service. Historically, the Commonwealth and most other government employers financed other post employment benefit programs on a pay-as-you-go basis. The new reporting standards require expenses associated with these programs to be calculated and reported on an actuarial basis even though payment is deferred until after an individuals' service ends. As of June 30, 2013, the Commonwealth's estimated annual required OPEB contribution was $293.9 million and the estimated unfunded actuarial liabilities were $5.1 billion.

LABOR RELATIONS

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

LITIGATION

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

TOBACCO SETTLEMENT

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

The Commonwealth created the Tobacco Indemnification and Community Revitalization Commission and Fund (the "TICR Commission" and "TICR Fund," respectively). Fifty percent of the amounts received by the Commonwealth from the Settlement is allocable to the TICR Commission (the "TICR Commission Allocation").

The TICR Commission distributes moneys in the TICR Fund to (i) provide payments to tobacco farmers as compensation for the elimination or decline in tobacco quotas and (ii) promote economic growth and development in tobacco dependent communities.

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

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

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

EFFECTS OF FEDERAL SEQUESTRATION ON VIRGINIA

The Federal budget reductions commonly referred to as "Sequestration" are expected to negatively impact Virginia disproportionately compared to other states. The steep reduction in federal military and domestic programs is expected to acutely impact Virginia because of Virginia's robust community of defense contractors and other federal contractors. From 2001 to 2011, economists observed that Virginia's economy grew more dependent on federal government spending, with about $58.9 billion being spent in Virginia in 2011. This was more than any other state and was the equivalent of 13.7 percent of Virginia's total economic output. The Center for Regional Analysis based at George Mason University estimates that federal spending drives 37 percent of the Northern Virginia economy, largely spending on defense contractors. The Hampton Roads economy is likewise heavily dependent on federal contracts. The White House had indicated that the Department of Defense would furlough approximately 90,000 civilian employees based in Virginia, which may have reduced their salaries by approximately 20 percent. Economists predict that Virginia will continue to see net employment growth but at a pace slower than the national average because of Sequestration.

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APPENDIX C

COMMONWEALTH OF VIRGINIA
DEMOGRAPHIC AND ECONOMIC INFORMATION

APPENDIX C
TABLE OF CONTENTS

INTRODUCTION

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

DEMOGRAPHIC CHARACTERISTICS

General

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

According to the U.S Census Bureau, the Commonwealth's 2013 estimated population was 8,260,405 which was 2.6 percent of the United States total. Among the 50 states, it ranked twelfth in population. With 39,594 square miles of land area, its 2013 population density was 208.6 persons per square mile, compared with 89.4 persons per square mile for the United States.

Population Trends

From 2004 to 2013, Virginia's population increased 10.6 percent versus 7.9 percent for the nation. Population trends since 2004 for the Commonwealth and the United States are shown in the following table:

POPULATION TREND

		Virginia		United States	
Year		Population	Increase Over Preceding Year	Population	Increase Over Preceding Year
2004		7,468,914	- %	293,045,739	- %
2005		7,563,887	1.3	295,753,151	0.9
2006		7,646,996	1.1	298,593,212	1.0
2007		7,719,749	1.0	301,579,895	1.0
2008		7,795,424	1.0	304,374,846	0.9
2009		7,882,590	1.1	307,006,550	0.9
2010		8,001,024	1.5	308,745,538	0.6
2011		8,104,384	1.3	311,587,816	0.9
2012	*	8,186,625	1.0	313,873,685	0.7
2013	*	8,260,405	0.9	316,128,839	0.7

*Source: *2012 and 2013 are US Bureau of the Census Annual Estimates as of January, 2014.*

AGE DISTRIBUTION OF POPULATION

Compared to the nation, a higher proportion of the Commonwealth's population is in the adult/working ages of 20 through 64. A lower proportion of Virginia's population is comprised of persons 65 and older and of persons age 5 through 19. In 2012 the population of the Commonwealth and of the United States was distributed by age as follows:

AGE DISTRIBUTION
2012

Age	Virginia	United States
Under 5 years	6.2 %	6.4 %
5 through 19 years	19.3	19.9
20 through 44 years	34.5	33.6
45 through 64 years	27.0	26.4
65 years and older	13.0	13.7
	100.0 %	100.0 %

Source: US Bureau of the Census Annual Estimates as of June, 2013.

GEOGRAPHIC DISTRIBUTION OF POPULATION

Like the nation as a whole, the Commonwealth has a high percentage of its citizens living in urban areas. Virtually all of the Commonwealth's population growth between 1950 and 1970 occurred in these areas. During the 1970s, however, non-metropolitan areas grew at a slightly faster rate than metropolitan areas. Since 1980, this trend has reversed with the metropolitan areas growing at three times the rate of the rest of the Commonwealth. Of the Commonwealth's population, 87 percent reside in ten metropolitan statistical areas.

The largest metropolitan area is the Northern Virginia portion of the Washington-Arlington-Alexandria MSA. This is the fastest growing metropolitan area in the Commonwealth and had a 2012 population of 5,860,342 (including Washington and Maryland's population of 1,895,109). Northern Virginia has long been characterized by the large number of people employed in both civilian and military work with the federal government. It is also one of the nation's leading high-technology centers for computer software and telecommunications.

Spanning Hampton Roads is the Virginia Beach-Norfolk-Newport News MSA, which has large military installations and major port facilities. It had a 2012 population of 1,699,925 and is an important center of manufacturing and tourism. The Richmond MSA is the third largest metropolitan area with a 2012 population of 1, 231,980. The Richmond MSA is a leading center of diversified manufacturing activity including chemicals, tobacco, printing, paper, metals and machinery. Richmond is also the capital of the Commonwealth and its financial center which includes the Fifth District Federal Reserve Bank. The Roanoke MSA is the manufacturing, trade and transportation center for the western part of the Commonwealth. It had a 2012 population of 310,118. Also in the western part of the Commonwealth are the Lynchburg and Kingsport-Bristol-Bristol MSAs, which are both manufacturing centers, and had 2012 populations of 255,342 and 309,006, respectively. The Kingsport-Bristol-Bristol population includes Tennessee portions of the MSA. Located at the foot of the Blue Ridge Mountains is the Charlottesville MSA, a community with a 2012 population of 222,860 and home of the University of Virginia and significant manufacturing industries.

In 2003, the federal Office of Management & Budget recognized three new Virginia MSAs -- Winchester, Harrisonburg and Blacksburg-Christiansburg-Radford. The Winchester MSA is located at the northernmost tip of Virginia and had a 2012 population of 130, 907. This fast-growing community has become increasingly attractive for both business and residential development due to its location bordering the Washington-Arlington-Alexandria MSA.

The Harrisonburg MSA, a community with a 2012 population of 128,372, is located in west central Virginia. It is a major retail, service and manufacturing center in the Shenandoah Valley. With a 2012 population of 178,933, the

Blacksburg-Christiansburg-Radford MSA is located in the New River Valley in southwestern Virginia. The town of Blacksburg is the home of Virginia Polytechnic Institute & State University, Virginia's largest university and one of the nation's leading research institutions. The Danville MSA with a population of 105,803 is located on the North Carolina boarder. In 2013 the Bureau of Economic Analysis reclassified Danville as a Micropolitan area due to a decline in the population of the core city. 2012 population figures for all eleven Commonwealth MSAs are shown below:

METROPOLITAN STATISTICAL AREA
POPULATION AND PER CAPITA INCOME

MSA	2012 Population	Per Capita Income
Blacksburg-Christiansburg-Radford	178,933	$31,460
Charlottesville	222,860	46,667
Harrisonburg	128,372	32,998
Kingsport-Bristol-Bristol*	309,006	34,975
Lynchburg	255,342	35,243 `
Richmond	1,231,980	45,194
Roanoke	310,118	40,769
Virginia Beach-Norfolk-Newport News	1,699,925	44,321
Washington-Arlington-Alexandria**	5,860,342	61,743
Winchester	130,907	36,955

	2012 Population	2012 Per Capita Income
Commonwealth of Virginia	8,186,625	$48,377

* *Kingsport-Bristol-Bristol MSA includes West Virginia*

** *Washington-Arlington-Alexandria MSA includes Washington and Maryland.*

Source: Bureau of Economic Analysis("BEA"), November 2013 and MSA data from US Census as of September, 2013.

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

ECONOMIC FACTORS

Taxable Retail Sales

Over the past ten years, taxable retail sales in Virginia increased by $18.4 billion, or 24.5 percent. This growth is slightly above the average rate of inflation for this same period, which was 24.0 percent. The following table illustrates the changes in taxable retail sales for calendar years 2003 through 2012:

Calendar Year	Taxable Retail Sales	% Change
2003	$ 74,973,561,726	6.1
2004	81,291,117,472	8.4
2005	77,290,441,767	-4.9
2006	89,478,625,283	15.8
2007	92,043,248,947	2.9
2008	89,773,478,959	-2.5
2009	85,869,132,300	-4.3
2010	86,420,963,843	0.6
2011	89,070,341,371	3.1
2012	93,335,660,137	4.8

Source: Department of Taxation and the Weldon Cooper Center.

Personal Income

According to the U.S. Department of Commerce, Virginians received over $396 billion in estimated personal income in 2012. In 2012, the Commonwealth had per capita income of $48,377, ranking tenth among states in per capita personal income and greater than the national average of $43,735.

From 2003 to 2012, the Commonwealth's 3.4 percent average annual rate of growth in per capita income was more than the national average rate of growth of 3.3 percent. Virginia and United States per capita personal income are shown in the following table:

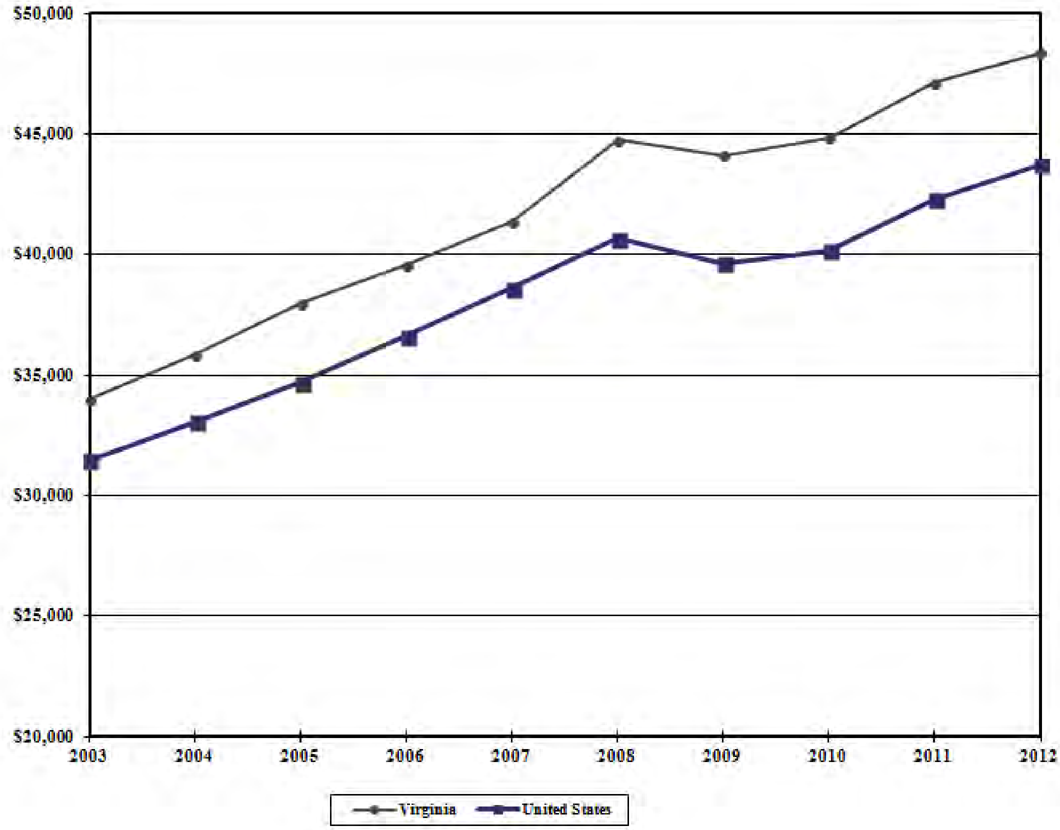
PERSONAL INCOME TRENDS

	Virginia		United States	
Year	Per Capita Personal Income	Increase Over Preceding Year	Per Capita Personal Income	Increase Over Preceding Year
2003	$35,910	- %	$32,676	- %
2004	37,742	5.1	34,300	5.0
2005	39,825	5.5	35,888	4.6
2006	42,075	5.6	38,127	6.2
2007	43,921	4.4	39,804	4.4
2008	44,900	2.2	40,873	2.7
2009	44,063	-1.9	39,357	-3.7
2010	44,854	1.8	40,163	2.0
2011	47,126	5.1	42,298	5.3
2012	48,377	2.7	43,735	3.4

Source: Bureau of Economic Analysis as of September 30, 2013.

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

PERSONAL INCOME
TRENDS



In 2012, the sources of personal income in the Commonwealth and the comparable sources of personal income for the United States are shown in the following table and pie chart:

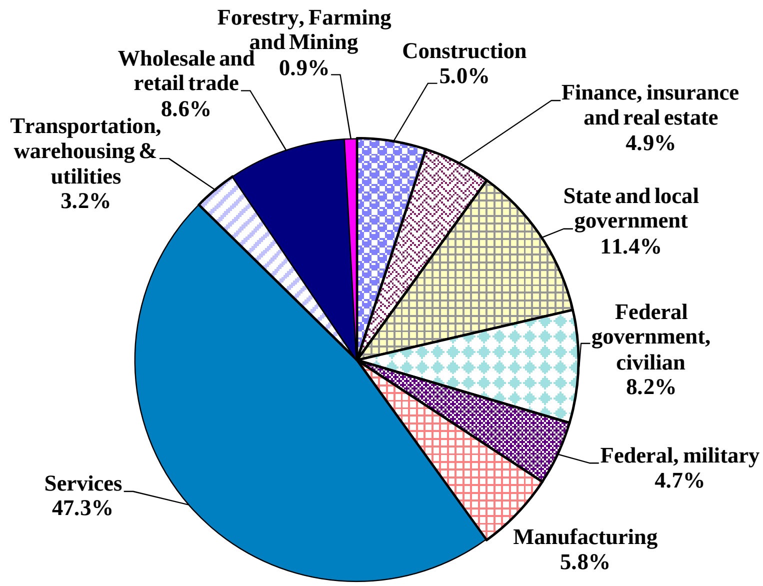
SOURCES OF PERSONAL INCOME
2012

	Virginia (in Millions)	Percentage of Personal Income Before Residence Adjustment Virginia	Percentage of Personal Income Before Residence Adjustment United States
Forestry, fisheries, related activities and other	$ 335	0.1 %	0.3 %
Construction	14,224	5.0	5.3
Farming	558	0.2	1.0
Finance, insurance and real estate	13,914	4.9	7.0
Government:			
State and local	32,299	11.4	13.0
Federal, civilian	23,252	8.2	3.1
Federal, military	13,257	4.7	1.5
Manufacturing	16,468	5.8	9.9
Mining	1,567	0.6	1.7
Services	133,831	47.3	42.0
Transportation, warehousing & utilities	8,973	3.2	4.2
Wholesale and retail trade	24,319	8.6	11.1
Subtotal	$ 282,996	100 %	100 %
Contributions for government social insurance	(28,114)		
Plus:			
Dividends, interest and rent	77,309		
Transfer payments	51,449		
Personal income before residence adjustment	$ 383,639		
Residence adjustment (1)	12,366		
Total Personal Income	$ 396,005		

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

Source: Bureau of Economic Analysis as of September 30, 2013.

DISTRIBUTION OF VIRGINIA NONAGRICULTURAL SOURCES OF GROSS PERSONAL INCOME BY MAJOR INDUSTRY
2012



Residential Construction

Residential construction was concentrated in three of the state's ten MSAs. The Virginia portions of the Washington-Arlington-Alexandria MSA, the Virginia Beach-Norfolk-Newport News MSA, and the Richmond MSA accounted for approximately 86 percent of the state total.

AGGREGATE VALUE OF AND BUILDING PERMITS ISSUED FOR RESIDENTIAL CONSTRUCTION IN VIRGINIA (1)

Year	Value of Construction in Current Dollars (in millions)	Percent Change from Preceding Year	Number of Permits Issued	Percent Change from Preceding Year
2003	$ 6,863.50	- %	55,996	- %
2004	8,050.30	17.3	62,579	11.76
2005	9,261.00	15.0	62,765	0.30
2006	7,266.80	-21.5	45,360	-27.73
2007	6,330.12	-12.9	38,319	-15.52
2008	4,106.78	-35.1	27,704	-27.70
2009	3,196.75	-22.2	21,455	-22.56
2010	3,311.10	3.6	21,404	-0.24
2011	3,399.52	2.7	23,271	8.72
2012	4,026.66	18.4	27,275	17.21

(1) Excludes mobile homes.

Source: *University of Virginia, Weldon Cooper Center for Public Service.*

Assessed Value of Locally Taxed Property

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

ASSESSED VALUES OF REAL ESTATE AND TANGIBLE PERSONAL PROPERTY

Tax Year Ended 31-Dec	Real Estate	Public Service Corporation	Personal Property	Total
2001	$ 441,708,209,690	$ 26,999,337,787	$ 55,202,531,447	$ 523,910,078,924
2002	495,156,975,902	29,239,165,763	57,949,553,914	582,345,695,579
2003	551,789,426,873	27,101,230,213	59,935,871,109	638,826,528,195
2004	617,559,007,920	27,379,304,201	61,349,533,127	706,287,845,248
2005	727,049,755,759	29,539,242,718	66,156,293,731	822,745,292,208
2006	900,079,538,628	28,843,374,447	69,815,543,837	998,738,456,912
2007	982,816,278,651	29,126,367,531	70,911,848,399	1,082,854,494,581
2008	1,023,386,154,546	31,749,628,737	71,398,689,437	1,126,534,472,720
2009	988,853,631,404	34,705,834,232	68,225,665,097	1,091,785,130,733
2010	942,044,609,913	37,137,075,381	70,049,322,677	1,049,231,007,972
2011	949,019,441,456	38,455,832,384	71,600,491,421	1,059,075,765,261
2012	954,082,225,088	40,142,313,094	76,551,011,940	1,070,775,550,122

Source: Department of Taxation 2012 Annual Report.

Employment

As of December 2012, up to 4.2 million residents of the Commonwealth were in the civilian labor force, which includes agricultural and nonagricultural employment, the unemployed, the self-employed and residents who commute to jobs in other states.

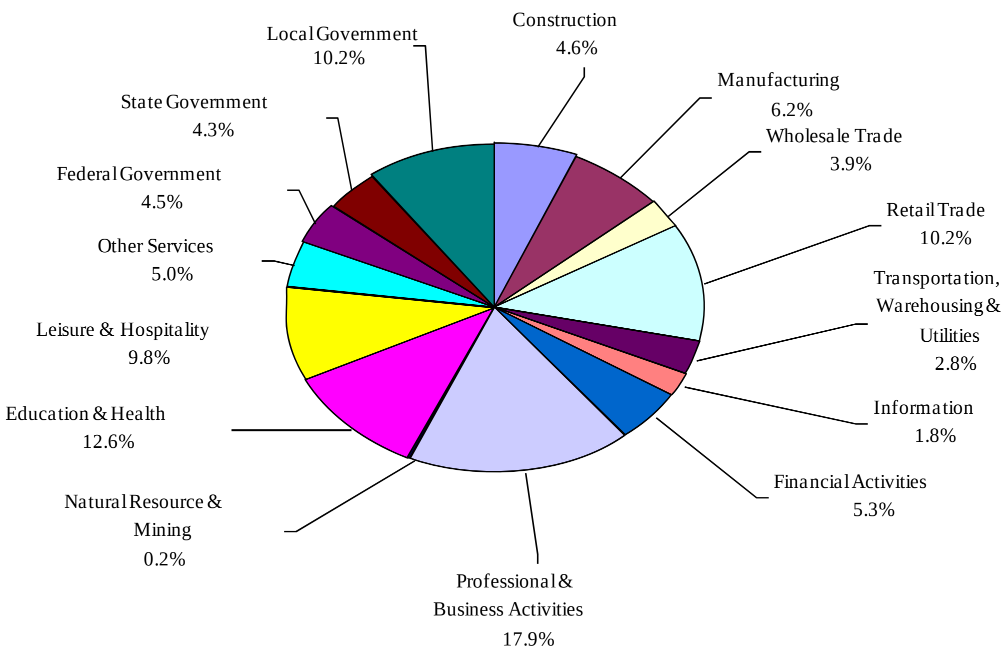
The following table indicates the distribution by category of nonagricultural employment in the Commonwealth and the comparative distribution in the United States.

DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT
2013

	Virginia		United States	
Natural Resource & Mining	0.3	%	0.7	%
Construction	4.6		4.3	
Manufacturing	6.2		8.8	
Wholesale Trade	3.9		4.2	
Retail Trade	10.2		11.2	
Transportation, Warehousing & Utilities	2.8		3.7	
Information Services	1.8		2.0	
Financial Activities	5.3		5.8	
Professional & Business Activities	17.9		13.7	
Education & Health	13.2		15.2	
Leisure & Hospitality	9.8		10.4	
Other Services	5.0		4.0	
Public Administration				
Federal Government	4.5		2.0	
State Government	4.3		3.7	
Local Government	10.2		10.3	
	100.0	%	100.0	%

Source: U.S. Department of Labor, Bureau of Labor Statistics; and Virginia Employment Commission Report as of January 2013.

DISTRIBUTION OF VIRGINIA NONAGRICULTURAL EMPLOYMENT BY MAJOR INDUSTRY
2013



NONAGRICULTURAL EMPLOYMENT TRENDS

	2009	2010	2011	2012	2013	% Change 2009-2013
Natural Resource & Mining	11,100	8,871	9,213	10,900	8,407	**-24.3**
Construction	194,900	184,474	177,832	175,900	178,002	**-8.7**
Manufacturing	236,100	229,656	231,573	232,100	230,579	**-2.3**
Wholesale Trade	115,845	111,469	112,928	101,073	111,297	**-3.9**
Retail Trade	409,055	410,027	414,730	416,923	405,503	**-0.9**
Transportation & Warehousing	117,500	109,547	109,366	113,704	108,340	**-7.8**
Information Services	78,700	75,879	74,604	71,800	71,020	**-9.8**
Financial Activities	186,300	171,688	174,619	188,200	180,390	**-3.2**
Professional & Business Activities	637,900	661,325	671,411	678,100	681,096	**6.8**
Education & Health	458,100	439,469	451,642	477,900	461,629	**0.8**
Leisure & Hospitality	333,000	336,654	344,660	357,500	374,228	**12.4**
Other Services	179,900	130,120	132,322	190,400	136,280	**-24.2**
Public Administration						
Federal Government	169,700	174,225	174,022	174,100	174,258	**2.7**
State Government	160,400	140,928	146,391	158,100	146,734	**-8.5**
Local Government	385,800	378,150	379,428	380,300	382,305	**-0.9**
Total	**3,674,300**	**3,562,482**	**3,604,741**	**3,727,000**	**3,650,068**	**-1.0**

Source: Virginia Employment Commission.

During 2013, employment in the Transportation and Warehousing sector decreased by 4.7% percent from 1 13,704 n 2012 to 108,340. Construction employment increased during the year 1.2 percent to 178,002 from the 2012 average of 175,900, while Education and Health decreased 3.4% in 2013.Retail Trade employment decreased by 2.7% from 416,923 in 2012 to 405,503 in 2013.

The Leisure and Hospitality sector has shown recent growth, increasing by 4.7 percent in 2013. Employment growth decreased in the Other Services sector during the year, by 28.4 percent from 190,400 to 136,280. Total Public Administration decreased by 9,203 or 1.0 percent in 2013.

Largest Employers

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

TOP TEN PRIVATE SECTOR EMPLOYERS
2013

Rank	Name	Industry
1	Wal Mart	General Merchandise Stores
2	Huntington Ingalls/Newport News Shipbuilding	Transportation Equipment Manufacturing
3	Sentara Healthcare	Hospitals
4	Food Lion	Food and Beverage Stores
5	HCA Virginia Health System	Hospitals
6	Inova Fairfax Hospital	Hospitals
7	Capital One Bank	Credit Intermediation and Related Activities
8	Lowe's Home Centers, Inc	Building Material, Garden Equipment and Supplies Dealer
9	Booz, Allen and Hamilton	Professional, Scientific, and Technical Services
10	Target Corp.	General Merchandise Stores

Source: Virginia Employment Commission Community Profile as of January 21, 2013

TOP TEN PUBLIC SECTOR EMPLOYERS
2013

Rank	Name	Industry
1	U.S. Department of Defense	National Security and International Affairs
2	Fairfax County Public Schools	Educational Services
3	U.S. Postal Service	Postal Service
4	County of Fairfax	Executive, Legislative, and Other General Government Support
5	U.S. Department of Homeland Defense	Administration of Security
6	Prince William County Schools	Educational Services
7	City of Virginia Beach Schools	Educational Services
8	University of Virginia /Blue Ridge Hospital	Hospitals
9	Loudoun County Schools	Educational Services
10	Virginia Commonwealth University	Higher Education

Source: Virginia Employment Commission Community Profile as of January 21, 2014

Unemployment

The Commonwealth is one of 24 states with a Right-to-Work Law and has a record of good labor-management relations. The Commonwealth's favorable business climate is reflected in the relatively small number of strikes and other work stoppages it experiences.

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

As of the third quarter 2013, Virginia had modest job growth in six of the 10 metropolitan statistical areas reported on by the Virginia Employment Commission. Those areas include Blacksburg-Christiansburg, Lynchburg, Northern Virginia, Richmond, Roanoke, and Virginia Beach-Norfolk-Newport News.. The Charlottesville metropolitan area experienced the largest job loss, down 1,000 jobs or 1.0 percent of nonfarm employment.

The following table shows the size of the Commonwealth's total civilian labor force from 2004 through 2013, the percentage unemployed during this period and the comparable national unemployment rate.

UNEMPLOYMENT TRENDS

Year	Virginia's Civilian Labor Force	Unemployment in Virginia	Unemployment in United States
2004	3,857,950	3.70	5.50
2005	3,921,799	3.50	5.10
2006	3,983,717	3.00	4.60
2007	4,048,996	3.00	4.60
2008	4,188,397	4.00	5.80
2009	4,179,810	6.80	9.30
2010	4,185,321	6.90	9.60
2011	4,347,644	6.10	8.50
2012	4,209,532	5.90	7.90
2013	4,203,418	5.00	6.70

Source: Bureau of Labor Statistics as of January, 2014

Other Economic Factors [1]

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

Dominion completed construction of a $1.8 billion clean-coal power station in Wise County, Virginia. The 585-megawatt Virginia City Hybrid Energy Center uses advanced technology designed to reduce emissions and protect the environment. The power station became operational in July of 2012.

Dominion is also taking steps toward constructing a third nuclear reactor at its North Anna Power Station in Louisa County. Dominion's application is currently under review by the Nuclear Regulatory Commission as well as the State Corporation Commission. Dominion Virginia Power announced on May 7, 2010, that it has selected Mitsubishi Heavy Industries' Advanced Pressurized Water Reactor (US-APWR) technology for the potential third nuclear unit at North Anna. Dominion has not officially committed to build the new unit, but wants to maintain the option to do so to meet projected demand for electricity in Virginia in the next decade.

In 2007 the General Assembly passed legislation to return Virginia to a cost-of-service regulation overseen by the State Corporation Commission (SCC). These actions reduce the possibility of "rate shock" by limiting the fuel adjustment to no more than 4 percent in residential rates. With few modifications, the SCC will have the powers it historically exercised before the deregulation process began. Virginia has also updated The Virginia Energy Plan which assesses Virginia's energy situation by examining the state's primary energy resources: electricity, coal, nuclear, natural gas, renewables and petroleum.

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

With few exceptions, municipalities and several highly urbanized counties own their own waterworks systems. In some instances, the system of a municipality serves nearby communities and suburban areas. Some federal installations and many industrial plants have their own water supplies. Larger municipalities usually depend on surface water supplemented by ground water. Of Virginia's 2,500 public water supply systems, 2,300 use ground water. More than 6.1 million Virginians are served by public water systems and of these citizens, 95% receive fluoridated water.

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

Transportation: The Commonwealth has the nation's third largest system of state-maintained highways totaling approximately 58,000 miles of interstate, primary and secondary roads. The system includes approximately 20,000 bridges and culverts. In addition, independent cities and towns maintain about 11,500 miles of local streets and receive funds from the Transportation Board for such purpose. More than a dozen railroad companies and services, including nine freight railroads, operate over 3,500 miles of railway in Virginia. The Commonwealth is a junction point between major north-south and east-west rail lines. CSX Corporation Railroad has offices in Richmond and Norfolk Southern Corporation is headquartered in Norfolk. Rail freight service is provided by these two Class I railroads, along with nine local railroads, and two switching companies.

[1] Information contained in this section was compiled from Virginia state agencies and entities, including the Virginia Economic Development Partnership.

Virginia is served by 14 commercial airports (including those just across the state line at Bluefield, West Virginia; Blountville, Tennessee; Greensboro and Raleigh-Durham, North Carolina; and Baltimore, Maryland). Scheduled commercial airline service is provided to over 145 non-stop destinations around the world. Dulles International and Ronald Reagan Washington National Airports offer daily international non-stop flights to approximately 40 destinations. The commercial airports are supplemented by 58 general aviation airports licensed for public use. Washington Dulles International has been one of the fastest growing airports in the country. Ronald Reagan Washington National Airport, located in Arlington, historically has been one of the world's busiest airports.

Rail is a critical component for the long-haul movement of containers to and from the marine terminals. In September 2010, Norfolk Southern completed its Heartland Corridor rail project, a direct double-stack container route between the marine terminals and the Midwest markets. This project is a public-private partnership between Norfolk Southern and West Virginia, Virginia, Ohio, and the Federal Highway Administration to create the shortest, fastest route for double-stacked container trains moving between the Port of Virginia and the Midwest. Containers from the marine terminals can reach Columbus, Ohio in one day, and Chicago, Illinois in two days. National Gateway, a similar double-stack corridor initiative by CSX was announced in October of 2011. The public private partnership will increase freight capacity between the East Coast and the Midwest that will link the Port of Virginia to the railroad's intermodal ramp in Northwest Ohio. The project is expected to be completed in 2015. The Commonwealth Railway is a 19-mile short line freight railroad serving the Virginia Port Authority and interchanging with CSX Transportation and Norfolk Southern.

Virginia Commercial Space Flight Authority: The Commonwealth of Virginia, through the Virginia Commercial Space Flight Authority ("VCSFA") and in partnership with NASA, has invested heavily in the development of the Mid Atlantic Regional Spaceport ("MARS") at Wallops Island, Virginia. Among the investments Virginia has made is over $80 million in state funds that were used for the construction of the new Pad OA to support Orbital Science Corporation's contract with NASA for eight resupply missions to the International Space Station ("ISS"). With NASA turning to the commercial aerospace industry to conduct many of its mission critical activities, the Commonwealth is uniquely situated to serve a vital role in the future of our nation's space program. MARS, with its strategic location, serves not only as a valuable asset to the U.S. space program, but also as crucial link in Virginia's job creation and economic development efforts. Much of the recent investment at MARS has been predicated upon the potential economic benefits that can be derived from a thriving aerospace industry and launch facility. With completion of Pad OA, Virginia is now ready to turn MARS into a true multi-user facility and attract new customers and new opportunities.

Port Facilities: The Port of Virginia is largely responsible for the Commonwealth's strong ties with international commerce. At 50 feet, the Port of Virginia offers the deepest shipping channels on the U.S. East Coast, and is serviced by more than 30 international steamship lines. Norfolk Southern and CSX offer on-dock, double stack intermodal service to key inland markets in the Midwest, Ohio Valley and Southeast.

Norfolk International Terminals (NIT) is the Port of Virginia's largest terminal, and has fourteen of the biggest, most efficient cranes in the world. The main channel leading to the terminal is 50 feet deep and the Virginia Port Authority has the authorization to dredge to 55 feet when needed. Slightly down the river from NIT is the second largest terminal, Portsmouth Marine Terminal (PMT). PMT has 3,540 feet of wharf, 3 berths, and 6 cranes, and has direct access to both CSX and Norfolk Southern railways, and will soon connect to the Commonwealth Railway. Located in Newport News, Virginia, the Newport News Marine Terminal (NNMT) provides 42,720 feet of direct cargo loading on and off ships to and from the CSX break-bulk rail service, and 3,480 feet of total pier space serviced by four cranes, covered storage, container storage, and accessibility from 3 major Virginia roadways. In 2010, the Virginia Port Authority executed a 20-year lease with APM Terminals North America, allowing VPA to assume operations at its facility in Portsmouth, Virginia. The 576 acre terminal is recognized as the most technologically advanced marine cargo facility in the Americas, and provides on-site rail with links to Norfolk Southern and CSX. APM has a current capacity of 1.4 million twenty-foot equivalent units (TEUs) annually, with room for further expansion.

The Virginia Inland Port (VIP) in Front Royal is the second smallest of the port facilities. The intermodal facility is serviced by Norfolk Southern, and accessible via Interstates 66 and 81. VIP provides access to markets in Washington, D.C., Maryland, Delaware, West Virginia, Ohio, Pennsylvania, and New York. In 2011, the Virginia Port

Authority entered into a five year lease with the Port of Richmond. The Richmond facility allows for barge service between the NIT and APM terminals in Hampton Roads and Richmond, and serves waterborne, rail and truck shippers in the Mid-Atlantic States.

In 2012, the Port of Virginia and the U.S. Army Corps of Engineers signed a partnership agreement for the Craney Island Eastward Expansion project. This dual-purpose project will extend the life of Craney Island as a dredged material management area and also provide land for the construction of a new marine terminal. With 522 acres, Craney Island Marine Terminal is expected to provide an 8,400 foot-long berth, 15 container cranes, rail access to Norfolk Southern and CSX lines, and a capacity of 5 million TEUs. The eastward expansion is currently under construction.

Telecommunications: Virginia is one of the most connected states in the country with more than 18.5 million access lines, over 7.2 million wireless telephone subscribers and 3.7 million high-speed lines. Mobile services are provided to the Commonwealth's communities by ten mobile telephone facilities-based carriers. More than 97 percent of households in the Commonwealth have telephone service. The largest exchange carrier in Virginia is Verizon. There are a multitude of competitive providers with large scale national and international backbone networks in operation in the Commonwealth, including Level (3) Communications, AT&T, Verizon Business, Sprint, COX Business Services and many regional network providers.

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

Nationally renowned as a model for rural economic development, the Mid-Atlantic Broadband Cooperative's ("MBC") world-class fiber-optic backbone network began providing services in 2006 and continues to expand. Through this initiative, 800 miles of new 144 strand advanced fiber optic cable have been installed in Southside Virginia connecting 4 cities, 20 counties, and more than 100 Virginia business, industrial and technology parks (called GigaParks). This cable network provides opportunities for the region to connect directly with major Tier 1 peering and carrier collocation centers. The MBC, backed by grants from the U.S. Department of Commerce's Economic Development Administration and the Virginia Tobacco Indemnification and Community Revitalization Commission, will continually expand as other communities want to be included and as funds are available to fulfill the requests. Three major MBC projects increasing the network's fiber route miles from 800 to 1,500 were completed in October 2013.

Efforts are underway to further expand and enhance Southwest Virginia's technological capabilities. Grants from the Virginia Tobacco Indemnification and Community Revitalization Commission and the Virginia Coalfield Economic Development Authority will enable electronic upgrades as well as last-mile connections. Broadband infrastructure along Virginia's Interstate 81 is currently undergoing expansion work that will create a second connection between the Bristol Virginia Utilities Authority ("BVU") and MBC. Specifically, an additional 49 miles of BVU's OptiNet fiber-optic backbone from Abingdon up I-81 to Virginia Route 16 from Marion into Grayson County will link up with Citizens Telephone. When complete, the route will connect existing facilities owned by Citizens Telephone in Independence, VA, to BVU's facilities in Marion and west along the Virginia Route 11 corridor. BVU OptiNet is recognized as the first municipal broadband network in the United States to provide triple-play services over an all-fiber-optic network. OptiNet was launched in Bristol, Virginia in 2003 and has since grown to encompass more than 850 miles across eight counties in Southwest Virginia.

Research and Development: The Commonwealth is home to many internationally recognized research and development (R&D) facilities. Federally funded R&D facilities, coupled with the research from Virginia universities, provide Virginia businesses access to leading researchers and technologies. Virginia is home to more than 210 private sector R&D operations, 11 federally funded R&D Centers, and 20 FLC Laboratories such as the Homeland Security Institute, NASA Langley Research Center, and the Thomas Jefferson National Accelerator Facility. Twelve unique university research parks across the state offer private companies' opportunities for co-location and cooperative relationships with Virginia universities, federal labs and other research consortia.

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

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

SRI International, a world-class, nonprofit research institute based in Menlo Park, California, established a Center for Advanced Drug Research in the Shenandoah Valley. The Center is partnered with James Madison University and other Virginia universities to focus on advancing state-of-the-art drug research. SRI opened the Center for Advanced Drug Research (“CADRE”) at the Shenandoah Valley facility in 2009. CADRE focuses on improving the productivity of the pharmaceutical industry. Overtime, SRI Shenandoah Valley plans to add high technology programs in areas such as security and defense, microscience, energy and computing technology.

The Commonwealth Center for Advanced Manufacturing (“CCAM”) located in Prince George County, Virginia, is an applied research center that bridges the gap between fundamental research typically performed at universities and product development routinely performed by companies. The only collaboration of its kind in North America, CCAM accelerates the transition of research innovation from the laboratory to commercial use.

The Rolls-Royce Crosspointe Campus, located in Prince George County, is the largest Rolls-Royce North America (“Rolls-Royce,”) site by area in North America and provides ample space to accommodate suppliers’ and partners’ co-location, as well as future expansion. The company’s 180,000 square foot rotatives facility opened in May 2011. In 2012 Rolls-Royce announced plans to expand by adding a second advanced manufacturing facility at its Crosspointe Campus. The new 90,000 square foot Advanced Airfoil Machine facility is expected to be completed early in 2014. Rolls-Royce, the University of Virginia and Virginia Tech have established the Commonwealth Center for Aerospace Propulsion Systems (“CCAPS”), which brings together best-in-class research disciplines from both universities to collaborate on specific research activities that are critical to aerospace propulsion at Rolls-Royce. Rolls-Royce is an active member of CCAM.

In the Fall of 2012, Amazon.com, Inc., opened two distribution centers in Chesterfield and Dinwiddie counties. The Seattle-based company opened a one million-square-foot fulfillment center in eastern Chesterfield, which ships smaller products and employs approximately 1,000 people. The Dinwiddie fulfillment center is also one million square feet, employs approximately 350 people, and ships larger products.

MeadWestvaco Corporation (“MWV”) has made a series of investments across the Commonwealth, including the construction of a new $285 million state-of-the-art biomass boiler at its mill in Alleghany County, and the development of a state-of–the-art plant in Henrico County in 2012. The MWV’s Center for Packaging Innovation develops and tests new products and technologies as part of the company’s effort to find creative packaging solutions for customers across the globe.

Unilever United States, Inc., announced in March 2013 that it will invest $96.2 million to expand and upgrade its Lipton Tea manufacturing plant in the City of Suffolk. The facility is the largest tea production facility in the US, employs nearly 300 people in Hampton Roads, and has been in existence for nearly 60 years.

On January 30, 2013, Microsoft Corporation announced that it would invest $348 million to expand its modular data center in Mecklenburg County. This expansion will allow Microsoft to meet the growing demand for consumers and businesses for cloud services in the region. The existing center was built in 2010 and involved 50 jobs. The new expansion will accommodate 30 additional new jobs.

In May 2013, HP Hood, one of the largest branded dairy operators in the United States, announced that it will invest $84.6 million in its Frederick County plant. The 75 new jobs associated with this investment will bring total employment at the plant to approximately 500.

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

In 2013 Virginia ranked first in the country in the Forbes.com *"Best States for Business"*. Virginia took the top spot in 2006, 2007, 2008, and 2009 and ranked second overall in 2010, 2011 and 2012. The review examines multiple objective measurements, including business cost, regulatory climate, quality of the workforce, and economic growth. Forbes.com is the official Internet site of the Forbes family of business publications. According to Forbes.com, the Commonwealth has a strong, educated labor force and a pro-business regulatory climate.

In 2013, Pollina Corporate Real Estate, a full-service brokerage and consulting firm representing corporations in real estate matters on a national and international basis, ranked Virginia as America’s fourth most business-friendly state in their annual independent study titled, *Pollina Corporate Top 10 Pro-Business States for 2013*. The study evaluates and ranks states based on 32 factors including taxes, human resources, right-to-work legislation, energy costs, infrastructure spending, worker compensation legislation, jobs lost or gained, economic incentive programs and state economic development efforts. Virginia demonstrated strength particularly in the areas of taxes, education, and infrastructure, combined with excellent incentive programs and an efficient and effective state economic development department. The Commonwealth ranked first in the Pollina study in 2007, 2009, 2010 and 2011 while ranking second in 2006 and 2012; and third in 2008.

CNBC recently ranked Virginia as America’s fifth best state for business in 2013. CNBC had ranked Virginia as America’s third best state for business in 2012. The network evaluated each state on 43 different measures of competitiveness in 10 categories: cost of doing business, workforce, quality of life, economy, transportation and infrastructure, technology and innovation, education, business friendliness, access to capital, and cost of living. CNBC commends Virginia for its strategic location, friendly business climate, and diverse economy. Since the rankings began, Virginia has remained one the top five states for business, claiming the number one spot in 2007, 2009 and 2011 while receiving second in 2008 and 2010.

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

Virginia's public schools are financed through a combination of state, local and federal funds. The private sector also contributes through partnerships with schools and school divisions.

The apportionment of the state funds for public education is the responsibility of the General Assembly, through the Appropriations Act. General fund appropriations serve as the mainstay of state support for the commonwealth's public schools, augmented by retail sales and use tax revenues, state lottery proceeds, and other sources.

Counties, cities and towns comprising school divisions also support public education by providing the locality's share to maintain an educational program meeting the commonwealth's Standards of Quality.

While public education is primarily a state and local responsibility, the federal government provides assistance to state and local education agencies in support of specific federal initiatives and mandates.

Historically, state funding for public education represents about one-third of the state general fund budget.

In the 2012-13 academic year, 409,075 students were enrolled in the Commonwealth's 39 public colleges, community colleges and universities. Of these students, 194,435 attended 23 community colleges on 40 campuses within the Virginia Community College System. A total of 1,264,764 students attended public elementary and secondary schools. The following table illustrates enrollment levels for all educational levels for the last 10 academic years.

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

Academic	Higher Education			Public Primary and
Year	Public	Private	Total	Secondary
2003-04	342,151	53,557	395,708	1,190,977
2004-05	343,550	58,395	401,945	1,205,701
2005-06	349,377	65,951	415,328	1,213,616
2006-07	357,857	70,785	428,642	1,220,440
2007-08	370,598	79,073	449,671	1,230,857
2008-09	383,459	86,959	470,418	1,235,064
2009-10	401,352	100,514	501,866	1,244,873
2010-11	409,277	110,495	519,772	1,251,949
2011-12	413,019	122,275	535,294	1,258,520
2012-13	409,069	123,144	532,213	1,264,880
2013-14	403,975	125,343	529,318	1,273,211

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

Natural Resources: Virginia's five physiographic provinces are underlaid by rocks of different ages, kinds, and character. Consequently, the state has a wide variety of mineral resources. Today, the value of mineral production in Virginia is nearly $3.3 billion. In terms of value, the most important commodity is bituminous coal. Seven counties in the Appalachian Plateau region constitute the Southwest Virginia Coal Field. According to *Virginia Economic Indicators* published by the Virginia Employment Commission (Vol. 43, No. 4), the mining industry is expected to follow energy markets. It is predicted that utilities will use more coal when oil prices are up**.**

Virginia's forests provide more than $17 billion in annual economic benefits to the Commonwealth. According to its 2013 State of the Forestry report, documented values such as wildlife, and forest-based recreational activities, environmental benefits, such as water quality and quantity, air pollution reductions and other services, provide an addition $9 billion dollars annually.. The forest industry provides employment for more than 103,000 Virginians. In addition, the forestland in Virginia provides citizens with valuable ecological services, including protection of water and air quality and habitat for many plant and animal species.

Virginia's geographic location contributes to the success of its seafood industry. Its ports are rarely, if ever, closed in the winter. Its catch is widely diversified, preventing dependence on any one species. Among the 50 commercially valuable seafood species harvested from some 620,000 acres of water are sea scallops, clams, oysters, blue crabs, summer flounder, striped bass, croaker and spot. The Virginia Institute of Marine Science has reported the annual economic impact of Virginia's seafood industry to be over $500 million.

Agriculture: The agricultural industry has an economic impact of $52 billion annually and provides more than 357,000 jobs in the Commonwealth. The industries of agriculture and forestry together have a total economic impact of almost $70 billion. Every job in agriculture and forestry supports 1.6 jobs elsewhere in the Virginia economy.

Production agriculture employs nearly 60,000 farmers and workers in Virginia and generates approximately $2.9 billion in total output. Value-added industries, those that depend on farm commodities, employ an additional

76,000 workers and generate $34.6 billion in total industrial output. Agriculture-related industries contribute an additional 310,900 jobs and nearly $26 billion in total output.

Tourism: Another of Virginia's most important economic assets is the travel and tourism industry. Tourism's economic contribution to Virginia in 2012 increased to $21.2 billion, a 4 percent increase over 2011. Approximately 210,000 Virginia jobs were directly supported by travel spending in 2012, including employment in such travel-related businesses as lodging establishments, restaurants, museums, amusement parks, retail stores and gasoline service stations. Tourism is also a significant source of government revenues and was responsible for $2.7 billion in combined state and local tax revenues in 2012.

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APPENDIX D

COMMONWEALTH OF VIRGINIA
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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FINANCIAL SECTION

Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Required Supplementary Information
Combining and Individual Fund Statements and Schedules

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 13, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

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

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain blended and aggregate discretely presented components units of the Commonwealth, which are discussed in Note 1.B. The blended component unit represents 8.64 percent of total assets and deferred outflows and 0.95 percent of net position of the business-type activities. In addition, the blended component unit represents 0.46 percent of total assets and deferred outflows and 0.01 percent of net position of the aggregate remaining fund information. The aggregate discretely presented component units collectively represent 31.95 percent of total assets and deferred outflows, 22.34 percent of net position, and 10.22 percent of revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for certain component units discussed in Note 1.B. are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Hampton Roads Sanitation District Commission, Science Museum of Virginia Foundation, Library of Virginia Foundation, and Danville Science Center, Inc., which were audited by other auditors upon whose reports we are relying, were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Virginia as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

The Commonwealth of Virginia's basic financial statements for the year ended June 30, 2013, reflect the provisions of the Governmental Accounting Standards Board's (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The Commonwealth of Virginia implemented the requirements of GASB Statement No. 60 in accordance with its required effective date. See Notes 2 and 36 in the accompanying financial statements for the impact of the standard's implementation. Our opinion is not modified with respect to this matter.

Correction of 2012 Financial Statements

As discussed in Note 2 of the accompanying financial statements, the fiscal year 2012 governmental activities, Commonwealth Transportation major special revenue fund, and Private Purpose Trust Fund financial statements have been restated to correct misstatements. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, the funding progress for defined benefit pension plans, schedule of employer contributions for defined benefit pension plans, funding progress for other post-employment benefit plans, schedule of employer contributions for other post-employment benefit plans, and claims development information on pages 27 through 37 and 176 through 190 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 an 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Virginia's basic financial statements. The accompanying supplementary information, such as the combining and individual fund statements and schedules, and other information such as the introductory and statistical sections, are presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, our report dated December 13, 2013, on our consideration of the Commonwealth's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters is issued under separate cover in the Commonwealth of Virginia Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Commonwealth's internal control over financial reporting and compliance.

MARTHA S. MAVREDES
AUDITOR OF PUBLIC ACCOUNTS

Management's Discussion and Analysis
(Unaudited)

The following is a discussion and analysis of the Commonwealth of Virginia's (the Commonwealth) financial performance, including an overview and analysis of the financial activities of the Commonwealth for the fiscal year ended June 30, 2013. Readers should consider this information in conjunction with the transmittal letter, which is located in the Introductory Section of this report, and the Commonwealth's financial statements, including the notes to the financial statements, which are located after this analysis.

Financial Highlights

Government-wide Highlights

The primary government's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2013, by $20.8 billion. Net position of governmental activities increased by $1.1 billion and net position of business-type activities increased by $306.4 million. Component units reported an increase in net position of $1.2 billion from June 30, 2012.

Fund Highlights

At the end of the fiscal year, the Commonwealth's governmental funds reported a combined ending fund balance of $4.2 billion, a decrease of $227.5 million in comparison with the prior year. Of this total fund balance, $269.3 million represents nonspendable fund balance, $1.8 billion represents restricted fund balance, $3.1 billion represents committed fund balance, and $14.4 million represents assigned fund balance. These amounts are offset by a negative $946.9 million unassigned fund balance. The Enterprise Funds reported net position at June 30, 2013, of $662.4 million, an increase of $303.4 million during the year which is primarily attributable to the Unemployment Compensation Fund and the Virginia College Savings Plan. See page 33 for additional information.

The General Fund recognized higher fund revenues and expenditures and lower assets and liabilities when compared to fiscal year 2012. See page 34 for additional information.

Long-term Debt

The Commonwealth's total debt rose during the fiscal year to $37.3 billion, an increase of $1.1 billion, or 3.2 percent. During the fiscal year, the Commonwealth issued new debt in the amount of $897.1 million for the primary government and $6.4 billion for the component units. These debt issuances increased the debt balances to $12.2 billion for the primary government and $25.1 billion for component units.

Overview of the Financial Statements

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

Government-wide Statements

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

The Statement of Net Position (pages 40 and 41) presents information on all of the Commonwealth's assets and liabilities, net position represents the difference between all other elements in a statement of financial position and is displayed in three components – net investment in capital assets; restricted; and unrestricted. Over time, increases or decreases in net position may indicate whether the financial position of the Commonwealth is improving or deteriorating.

The Statement of Activities (pages 42 through 44) presents information showing how the Commonwealth's net position changed during fiscal year 2013. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

Discretely Presented Component Units – account for functions of legally separate entities for which the Commonwealth is financially accountable. The Commonwealth has 28 non-higher education component units and 22 higher education institutions that are reported as discretely presented component units. Information regarding the individual financial statements of the component units is presented in the notes to the financial statements.

This report includes two schedules (pages 48 and 52) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities on the appropriate government-wide statements (full accrual accounting). The following indicates some of the reporting differences between the government-wide financial statements and the fund financial statements.

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the Commonwealth's funds can be divided into three categories: governmental, proprietary, and fiduciary. Each of these categories uses different accounting approaches. Fund financial statements begin on page 46 and provide detailed information about the major individual funds.

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

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

  The Commonwealth reports 12 individual governmental funds. Information is presented separately in the governmental fund statements for the General, Commonwealth Transportation, Federal Trust, and Literary funds, which are all considered major funds. Data from the other 8 governmental funds are aggregated into a single column on the fund statements. Individual fund data for these nonmajor governmental funds is provided in the combining financial statements immediately following the required supplementary information.

- **Proprietary funds** – The Commonwealth maintains two different types of proprietary funds, enterprise and internal service. These funds report activities that operate more like those of private-sector business and use the full accrual basis of accounting. Enterprise funds report activities that charge fees for supplies or services to the general public like the State Lottery. Enterprise funds are reported as business-type activities on the government-wide financial statements.

  The enterprise funds use the full accrual basis of accounting and the only differences between amounts reported on the government-wide statements and the enterprise fund statements are due to internal service fund activity (see reconciliations on pages 54 and 56). Internal service funds report activities that charge fees for supplies and services to other Commonwealth agencies, like Fleet Management. Internal service funds are reported as governmental activities in the government-wide statements because these types of services predominantly benefit governments rather than business-type functions.

  The Commonwealth reports 24 individual proprietary funds. Information is presented separately in the proprietary fund statements for the State Lottery Department, Virginia College Savings Plan, and Unemployment Compensation Funds, all of which are considered major funds. Data from the other enterprise funds are aggregated into a single column on the fund statements. All internal service funds are aggregated into a single column on the fund statements. Individual fund data for all nonmajor proprietary funds is provided in the combining financial statements immediately following the required supplementary information.

- **Fiduciary funds** – These funds are used to account for resources held for the benefit of parties outside the government and use the full accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because the resources of these funds are restricted and cannot be used to finance the Commonwealth's operations. The Commonwealth's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position beginning on page 64.

  The Commonwealth's fiduciary funds are the:

  - Private Purpose Trusts, which reports the activities for 7 separate funds and accounts for transactions of trust arrangements in which the principal and income benefit individuals, private organizations, or other governments;
  - Pension and Other Employee Benefit Trusts, which reports the activities of 12 separate pension and other employment retirement plans for employees;
  - Investment Trust, which accounts for the activities of the external investment pool; and,
  - Agency, which accounts for assets held on behalf of others in 20 separate funds.

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Information

The combining statements referred to earlier in connection with nonmajor funds and component units can be found beginning on page 191 of this report. The individual fund information is aggregated into a single total on the combining financial statements, which carries forward to the fund financial statements.

Government-wide Financial Analysis

The primary government's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $20.8 billion during the fiscal year. The net position of the governmental activities increased $1.1 billion or 5.5 percent, primarily due to increases in capital assets offset by increases in long-term liabilities and deferred inflows. Capital assets are discussed further on page 35 and the long-term liabilities are discussed further on page 36. Business-type activities had an increase of $306.4 million or 86.1 percent, primarily due to an increase for the Unemployment Compensation Fund and Virginia College Savings Plan. The government-wide beginning balance was restated for the implementation of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* and the correction of prior year errors to arrive at a restated beginning balance of $19.5 billion. Additionally, due to the implementation of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* the title of Invested in Capital Assets, Net of Related Debt has been changed to Net Investment in Capital Assets.

Figure 11
Net Position as of June 30, 2013 and 2012
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2013	2012 as restated	2013	2012	2013	2012 as restated
Current and other assets	$ 9,512,364	$ 10,607,730	$ 3,799,187	$ 3,161,983	$ 13,311,551	$ 13,769,713
Capital assets	26,811,802	24,358,783	95,305	34,359	26,907,107	24,393,142
Deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows	36,324,166	34,966,513	3,894,492	3,196,342	40,218,658	38,162,855
Long-term liabilities outstanding	9,389,896	9,319,463	2,756,881	2,434,493	12,146,777	11,753,956
Other liabilities	5,168,201	5,987,821	475,271	405,905	5,643,472	6,393,726
Deferred inflows of resources	1,582,014	535,263	-	-	1,582,014	535,263
Total liabilities and deferred inflows	16,140,111	15,842,547	3,232,152	2,840,398	19,372,263	18,682,945
Net assets:						
Net investment in capital assets	20,259,416	20,234,897	29,773	33,910	20,289,189	20,268,807
Restricted	1,455,712	1,105,182	371,600	178,916	1,827,312	1,284,098
Unrestricted	(1,531,073)	(2,216,113)	260,967	143,118	(1,270,106)	(2,072,995)
Total net position	$ 20,184,055	$ 19,123,966	$ 662,340	$ 355,944	$ 20,846,395	$ 19,479,910

The largest portion of the primary government's net position reflects its investment in capital assets (e.g., land, buildings, equipment, infrastructure, construction-in-progress, and intangible assets including water rights, easements and software), less any related outstanding debt and deferred inflows used to acquire those assets. These assets are recorded net of depreciation in the financial statements. The primary government uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the primary government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities (**Figure 11**). The governmental activities net investment in capital assets amount exceeds total net position due to a negative unrestricted net position amount unrelated to capital assets.

An additional portion of the primary government's net position represents restricted net assets. These resources are subject to external restrictions or constitutional provisions specifying how they may be used. The remaining balance of negative $1.3 billion is unrestricted net assets (**Figure 11**).

Approximately 52.9 percent of the primary government's total revenue came from taxes. While the primary government's expenses cover many services, the largest expenses are for education and individual and family services. General revenues normally fund governmental activities. For fiscal year 2013, governmental program and general revenues exceeded governmental expenses by $389.7 million. Program revenues exceeded expenses from business-type activities by $966.0 million. The following condensed financial information (**Figure 12**) was derived from the Government-wide Statement of Activities and provides detail regarding the change in net position (see page 42).

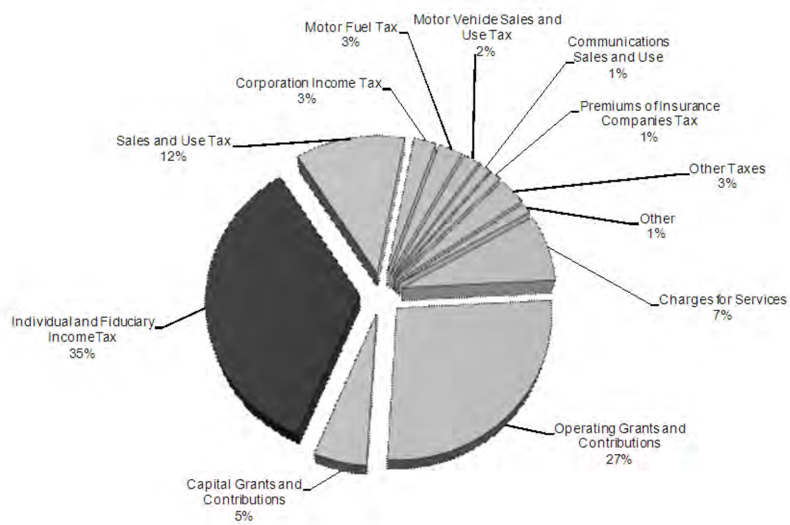
Figure 12
Changes in Net Position for the Fiscal Years Ended June 30, 2013 and 2012
(Dollars in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2013	2012 as restated	2013	2012	2013	2012 as restated
Revenues:						
Program Revenues:						
Charges for Services	$ 2,458,934	$ 2,442,024	$ 3,866,556	$ 3,652,941	$ 6,325,490	$ 6,094,965
Operating Grants and Contributions	8,819,681	9,178,384	337	447	8,820,018	9,178,831
Capital Grants and Contributions	1,753,789	731,437	61,104	-	1,814,893	731,437
General Revenues:						
Taxes:						
Individual and Fiduciary Income	11,399,891	10,813,550	-	-	11,399,891	10,813,550
Sales and Use	3,941,074	3,885,137	-	-	3,941,074	3,885,137
Corporation Income	805,474	978,690	-	-	805,474	978,690
Motor Fuel	878,939	900,199	-	-	878,939	900,199
Motor Vehicle Sales and Use	581,693	538,126	-	-	581,693	538,126
Communications Sales and Use	423,639	422,807	-	-	423,639	422,807
Deeds, Contracts, Wills, and Suits	435,619	370,620	-	-	435,619	370,620
Premiums of Insurance Companies	406,506	390,950	-	-	406,506	390,950
Alcoholic Beverage Sales	126,801	120,989	-	-	126,801	120,989
Tobacco Products	182,430	195,554	-	-	182,430	195,554
Estate	-	1,493	-	-	-	1,493
Public Service Corporations	115,973	114,972	-	-	115,973	114,972
Beer and Beverage Excise	42,813	43,659	-	-	42,813	43,659
Wine and Spirits/ABC Liter	25,436	24,297	-	-	25,436	24,297
Bank Stock	20,321	18,729	-	-	20,321	18,729
Other Taxes	75,641	73,613	9,142	9,141	84,783	82,754
Unrestricted Grants and Contributions	74,134	49,203	-	-	74,134	49,203
Investment Earnings	6,349	84,094	1,183	1,248	7,532	85,342
Miscellaneous	306,172	465,189	448	357	306,620	465,546
Total Revenues	32,881,309	31,843,716	3,938,770	3,664,134	36,820,079	35,507,850
Expenses:						
General Government	3,019,385	2,879,095	-	-	3,019,385	2,879,095
Education	9,280,892	9,181,796	-	-	9,280,892	9,181,796
Transportation	3,306,610	2,698,135	-	-	3,306,610	2,698,135
Resources and Economic Development	927,963	982,994	-	-	927,963	982,994
Individual and Family Services	12,941,268	12,714,348	-	-	12,941,268	12,714,348
Administration of Justice	2,760,486	2,632,393	-	-	2,760,486	2,632,393
Interest and Charges on Long-term Debt	254,964	228,580	-	-	254,964	228,580
State Lottery	-	-	1,194,247	1,121,043	1,194,247	1,121,043
Virginia College Savings Plan	-	-	155,889	96,158	155,889	96,158
Unemployment Compensation	-	-	584,433	639,824	584,433	639,824
Alcoholic Beverage Control	-	-	532,835	507,180	532,835	507,180
Risk Management	-	-	12,265	13,169	12,265	13,169
Local Choice Health Care	-	-	296,237	266,719	296,237	266,719
Route 460 Funding Corporation of Virginia	-	-	67,449	-	67,449	-
Virginia Industries for the Blind	-	-	31,058	32,091	31,058	32,091
Consolidated Laboratory	-	-	7,469	6,964	7,469	6,964
eVA Procurement System	-	-	19,693	19,370	19,693	19,370
Department of Environmental Quality Title V	-	-	10,724	10,939	10,724	10,939
Wireless E-911	-	-	42,449	40,761	42,449	40,761
Museum and Library Gift Shops	-	-	6,810	6,146	6,810	6,146
Behavioral Health Canteen and Work Activity	-	-	468	450	468	450
Total Expenses	32,491,568	31,317,341	2,962,026	2,760,814	35,453,594	34,078,155
Excess before transfers	389,741	526,375	976,744	903,320	1,366,485	1,429,695
Transfers	670,348	668,503	(670,348)	(668,503)	-	-
Increase in net position	1,060,089	1,194,878	306,396	234,817	1,366,485	1,429,695
Net position, July 1, as restated	19,123,966	17,929,088	355,944	121,127	19,479,910	18,050,215
Net position, June 30	$ 20,184,055	$ 19,123,966	$ 662,340	$ 355,944	$ 20,846,395	$ 19,479,910

Governmental Activities Revenues

Figure 13 is a graphical representation of the Statement of Activities revenues for governmental activities. Governmental activities revenues increased by $1.0 billion, or 3.3 percent. The net increase is mainly attributable to increases in the General Fund, which are discussed on page 34.

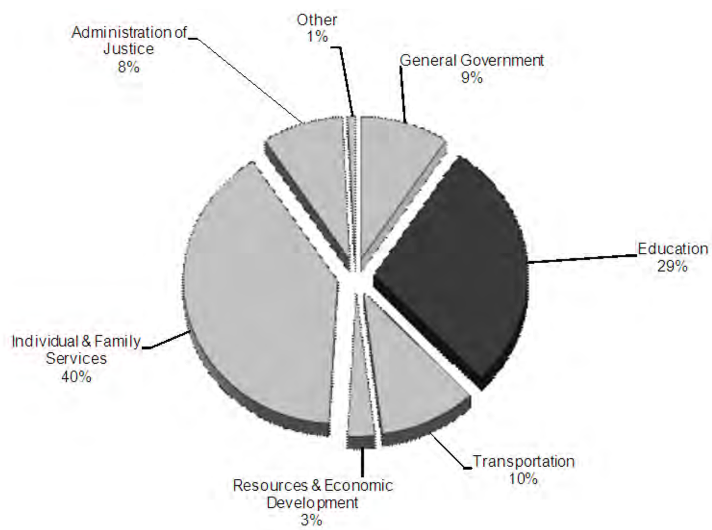
Figure 13
Revenues by Source – Governmental Activities
Fiscal Year 2013



Governmental Activities Expenses

Figure 14 is a graphical representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses increased by $1.2 billion, or 3.7 percent. This change is primarily attributable to increases in all expense types with the exception of Resources and Economic Development. See pages 34 and 35 for additional information.

Figure 14
Expenses by Type – Governmental Activities
Fiscal Year 2013



Net Position of Business-type Activities

Net position of business-type activities increased by $306.4 million during the fiscal year. As shown in **Figure 15**, highlights of the changes in net position for the major enterprise funds were as follows:

- Lottery sales were $1.7 billion, an increase of $73.2 million over the prior year. Net income was $496.7 million, a decrease of $589,983 (0.1 percent) from fiscal year 2012. Sales of scratch games increased by $45.0 million (5.3 percent) and online sales increased by $28.2 million (3.6 percent). This is offset by an increase of $73.8 million (6.6 percent) in total expenses, primarily attributable to the cost of prizes and claims.

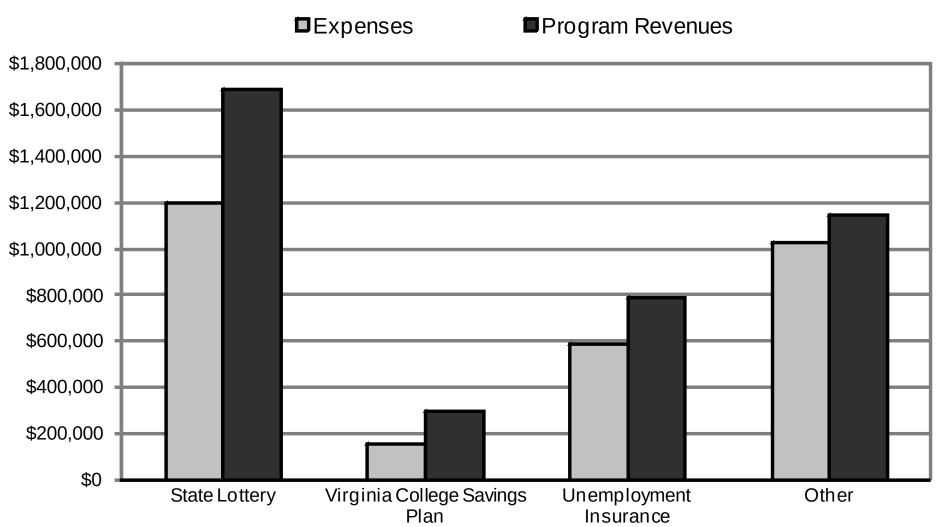
- Virginia College Savings Plan's net position increased by $144.6 million (204.6 percent) during the fiscal year. This change is primarily attributable to increases in investment income and tuition benefits expense.

- Unemployment Compensation Fund net position increased by $192.7 million during fiscal year 2013, primarily as a result of an increase in the Employer Contribution rate for the Virginia Unemployment Trust Fund. Operating expenses decreased by $55.4 million. These factors combined give the Trust Fund the large increase.

  The Trust Fund became insolvent in October 2009, which required obtaining Federal repayable advances under Title XII of the Social Security Act totaling $938.3 million during fiscal years 2010, 2011, 2012 and 2013. The advances enabled the Fund to continue benefit payments to claimants, and the Fund repaid the outstanding advance of $134.2 million during fiscal year 2013. Additionally, the Fund received approval for a maximum of $63.0 million in short-term Commonwealth Treasury Loans to meet cash flow needs during fiscal year 2013. Loans totaling $48.0 million were received and repaid during fiscal year 2013. The Fund does not anticipate any additional borrowing in fiscal year 2014.

  Over the one year period July 1, 2012 to June 30, 2013, the unemployment rate declined from 6.0 percent to 5.6 percent. Additionally, there were approximately 34,716 fewer initial unemployment claims filed than in the previous year and the average benefit duration remained basically unchanged in fiscal year 2013. These declines were offset by increases in the average weekly benefit amounts from approximately $281 to $286 in fiscal year 2013. These multiple influences led to a decrease in the total benefit payments of $53.5 million over the prior year.

Figure 15
Business-type Activities
Program Revenues and Expenses
For the Fiscal Year Ended June 30, 2013
(Dollars in Thousands)



Fund Statements Financial Analysis

As of the end of the fiscal year, the primary government's governmental funds reported combined ending fund balances of $4.2 billion, including a negative unassigned fund balance of $946.9 million indicating that restricted and committed amounts exceed the available modified accrual basis fund balance. The remainder of fund balance is nonspendable, restricted or committed to indicate that it is not available for new spending.

General Fund Highlights

At the end of the fiscal year, the General Fund reported a combined ending fund balance of $637.9 million, an increase of $125.6 million in comparison with the prior year. Of this total fund balance, $120.4 million represents nonspendable fund balance, $961.8 million represents restricted fund balance, and $502.6 million represents committed fund balance. These amounts are offset by a negative $946.9 million unassigned fund balance.

Fiscal year 2013 General Fund revenues were 3.1 percent or $541.5 million higher than fiscal year 2012 revenues. This revenue change results from increases of $846.7 million primarily attributable to individual and fiduciary income taxes ($664.2 million), sales and use tax ($58.0 million), and deeds, contracts, wills and suits ($57.7 million) offset by decreases of $305.2 million primarily attributable to corporate income ($172.7 million) and interest, dividends, rents, and other investment income ($74.0 million).

Fiscal year 2013 expenditures increased by $987.7 million when compared to fiscal year 2012. This was primarily attributable to increases in education, individual and family services, and administration of justice expenditures of $457.3 million, $268.8 million, and $160.3 million, respectively. Net other financing sources and uses increased by $624,544, which is primarily due to lower transfers out to nongeneral funds.

Budget Highlights

The General Fund began the year with an original revenue budget that was $582.1 million or 3.5 percent higher than the final fiscal year 2012 revenue budget. Additionally, the final revenue budget was slightly higher ($134.0 million or 0.8 percent) than the original budget. The change between the original and final budget was primarily attributable to increases in the final budget for individual and fiduciary income taxes of $181.3 million and sales and use taxes of $37.6 million offset by a decrease in the final budget for corporation income of $65.1 million due to revised economic forecasts. Total actual General Fund revenues were greater than final budgeted revenues by $342.9 million due to stronger than anticipated collections.

Total final budget expenditures were higher than original budget expenditures by $334.5 million or 1.9 percent. This increase was primarily attributable to education expenditures of $127.0 million, individual and family services expenditures of $97.5 million and administration of justice expenditures of $82.2 million.

The Commonwealth spent less than planned so actual expenditures were $562.3 million or 3.1 percent lower than final budget expenditures.

Budget Outlook

In order to mitigate the effects of difficult economic conditions over the past several years, the Commonwealth adopted temporary budget solutions such as accelerated sales taxes and the continued receipt of additional federal funding. As a result of the Commonwealth's improving economy, these temporary budget solutions are being phased-out.

While some of the conditions left by the financial and economic downturn of 2008 and 2009 are still visible in certain sectors, Virginia's economy continues to recover. Data regarding the primary economic indicators – jobs, income, sales and housing show improvement. During fiscal year 2013, the two General Fund revenue sources most closely tied to current economic activity – individual income taxes and retail sales taxes – experienced growth rates exceeding the 2012 collections by $727.1 million (6.9 percent) and $98.3 million (3.1 percent), respectively. The individual income tax collections exceeded the estimated revenue by $247.4 (2.2 percent) million while the retail sales taxes were slightly less than the estimated revenue by $29.0 million (0.9 percent). There is planned growth in the adopted budget for the 2012-2014 biennium (fiscal years 2013 and 2014). Based on the most recent General Fund revenue estimate, fiscal year 2014 revenue is projected to increase 1.5 percent over the fiscal year 2013 revenue collections.

While this revenue growth is expected to continue during the 2012-2014 biennium, pressures on the economic recovery persist due to the effect of federal budget uncertainties. In response to this uncertainty, the Commonwealth created the Federal Action Contingency Trust Fund and deposited $30.0 million and has identified an additional $22.5 million to assist in mitigating the potential effect of federal budget uncertainties on the Virginia economy. In addition the Governor instructed Cabinet Secretaries to prepare and submit plans for 2.0 percent reductions in General Fund spending for fiscal year 2014 and 4.0 percent for the 2014-2016 biennium (fiscal years 2015 and 2016). The Governor will release his final amendments to the 2012-2014 biennial budget and his introduced 2014-2016 biennial budget on December 16, 2013.

Major Special Revenue Fund Highlights

The Commonwealth Transportation Fund ended the fiscal year with a fund balance of $2.4 billion, a decrease of $325.5 million from the prior year. Approximately $5.0 billion is contractually committed for various highway, public transportation, and rail preservation projects (see Note 19). The decrease in fund balance was primarily due to the issuance of less capital projects revenue bonds in the amount of $120.6 million. Additionally, revenues and expenditures increased $435.2 million, or 11.2 percent and $145.1 million, or 3.2 percent, respectively. This increased activity is primarily due to expenditures for highway maintenance, acquisition and construction.

The Federal Trust Fund balance increased by $8.1 million, or 8.1 percent. A decrease in Federal Grants and Contracts revenue of approximately $354.4 million, or 4.0 percent, was offset by a decrease in total expenditures of approximately $280.1 million, or 3.2 percent. The decrease in Federal Grants and Contracts revenue was primarily due to the receipt of $134.5 million in American Recovery and Reinvestment Act revenue which was $500.7 million less than the previous fiscal year. Also contributing to the overall decrease was a decrease of $300.4 million for unemployment insurance. The decrease was offset by increases in Medicaid funding of $427.2 million, food and home energy assistance programs of $44.3 million, and education grants of $9.5 million.

The Literary Fund experienced a fund balance decrease of $33.8 million, or 34.6 percent, in fiscal year 2013 when compared to fiscal year 2012. The decrease is the result of net disbursements exceeding net receipts by $45.8 million, offset by a cash transfer in of $12.0 million from the State Lottery representing unclaimed prizes.

Capital Asset and Long-term Debt

Capital Assets. The primary government's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to $26.9 billion (net of accumulated depreciation totaling $14.5 billion). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, construction-in-progress, and intangible assets including water rights, easements, and software. Infrastructure assets are items that are normally immovable such as roads, bridges, drainage systems, and other similar assets. As noted on page 30, increases in capital assets offset by increases in long-term liabilities and deferred inflows resulted in an increase in net position of the governmental activities of $1.1 billion or 5.5 percent. The increase in the primary government's net investment in capital assets was primarily attributable to increases in infrastructure and buildings of $1.9 million and $156.6 million, respectively. These increases are primarily attributable to transportation. The primary government reports equipment with a value of $50,000 or greater and an expected useful life of two or more years. The primary government capitalizes all land, buildings, infrastructure, and intangible assets that have a cost or value greater than $100,000 and an expected useful life of two or more years. Additional information on the primary government's capital assets can be found in Note 12, "Capital Assets."

Figure 16
Capital Assets as of June 30, 2013
(Net of Depreciation)
(Dollars in Thousands)

	Governmental Activities	Business-type Activities	Total
Land	$ 2,748,364	$ 1,977	$ 2,750,341
Buildings	2,559,094	18,611	2,577,705
Equipment	468,411	15,227	483,638
Water Rights/Easements	57,289	-	57,289
Infrastructure	16,954,969	-	16,954,969
Softw are	233,707	2,517	236,224
Construction-in-Progress	3,789,968	56,973	3,846,941
Total	$ 26,811,802	$ 95,305	$ 26,907,107

Long-term Debt. The Commonwealth is prohibited from issuing general obligation bonds for operating purposes. At the end of the current fiscal year, the Commonwealth had total debt outstanding of $37.3 billion, including total tax-supported debt of $14.7 billion and total debt not supported by taxes of $22.6 billion. Bonds backed by the full faith and credit of the government and tax-supported total $1.7 billion. Debt is considered tax-supported if Commonwealth tax revenues are used or pledged for debt service payments. An additional $836.7 million is considered moral obligation debt which is not tax-supported. The Commonwealth has no direct or indirect pledge of tax revenues to fund reserve deficiencies. However, in some cases, the Commonwealth has made a moral obligation pledge to consider funding deficiencies in debt service reserves that may occur. The remainder of the Commonwealth's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

During fiscal year 2013, the Commonwealth issued $7.3 billion of new debt for various projects. Of this new debt, $897.1 million was for the primary government and $6.4 billion for the component units. Additional information on the Commonwealth's outstanding debt can be found on page 145 in Note 25, "Long-Term Liabilities," as well as in the section entitled "Debt Schedules." The Commonwealth maintains a "triple A" bond rating for general obligation debt from the three rating agencies: Moody's Investors Service; Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc.; and Fitch, Inc.

State statutes limit the amount of general obligation debt the Commonwealth may issue for each specific type of debt. The 9(a) bonds, which may be issued to fund the defense of the Commonwealth; to meet casual deficits in revenue or in anticipation of the collection of revenues; or to redeem previous debt obligations, and are limited to 30.0 percent of 1.15 times the annual tax revenues for fiscal year 2013. The 9(b) bonds, which have been authorized by the citizens of Virginia through bond referenda to finance capital projects, are limited to 1.15 times the average of selected tax revenues for fiscal years 2011, 2012, and 2013. The 9(c) bonds, which have been issued to finance capital projects that will generate revenue upon their completion, are limited to 1.15 times the average of selected tax revenues for fiscal years 2011, 2012, and 2013. The current debt limitation for the Commonwealth is $5.4 billion, $16.2 billion, and $16.1 billion, respectively, for the 9(a), 9(b), and 9(c) general obligation bond issues. These limits significantly exceed the Commonwealth's outstanding general obligation debt. Currently, there is no 9(a) debt outstanding.

Figure 17
Outstanding Debt as of June 30, 2013
General Obligation Bonds
(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
General obligation bonds				
9(b)	$ 752,493	$ -	$ 752,493	$ -
9(c)	39,499	-	39,499	877,858
Total	$ 791,992	$ -	$ 791,992	$ 877,858

Economic Factors and Review

During fiscal year 2013, the Commonwealth continued its slow recovery that began in 2011 from the so-called “Great Recession.” While some of the financial and economic indicators of this recession are still visible, the Commonwealth’s economy seems to have rebounded on the four main economic indicators – jobs, income, sales, and housing. Although the Commonwealth experienced a more moderate job growth rate than at the national level (1.0 percent at the state level versus 1.6 percent nationally), it is possible to be optimistic about this improvement. Personal income growth also continued to rise at a modest 3.0 percent rate during fiscal year 2013, compared to 4.7 percent in fiscal year 2012. Unemployment in the Commonwealth and at the national level continued to decline during the fiscal year, reaching 5.6 percent and 7.8 percent, respectively. Total taxable sales in the Commonwealth experienced a substantial increase of 2.2 percent over fiscal 2012. Economic indicators show that during fiscal year 2013, the housing market in the Commonwealth and at the national level experienced increases of 20.3 percent increase and 28.6 percent, respectively. Additionally, housing prices in the Commonwealth showed a positive change for fiscal year 2013, with an increase of nearly 4.0 percent, compared to nearly 6.0 percent at the national level. Although some of the effects of the economic recession still linger, it is encouraging to note the continuing positive trend. The Commonwealth took an important step towards a recovering economy during fiscal year 2013, and could return to a path of steady economic growth if the trends continue during fiscal year 2014.

Requests for Information

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

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

Government-wide Financial Statements

Statement of Net Position

June 30, 2013
(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets and Deferred Outflows of Resources				
Cash and Cash Equivalents (Notes 1 and 6)	$ 3,109,504	$ 1,024,100	$ 4,133,604	$ 2,470,434
Investments (Notes 1 and 6)	1,907,276	2,269,811	4,177,087	11,818,678
Receivables, Net (Notes 1 and 7)	3,130,593	487,574	3,618,167	12,553,193
Contributions Receivable, Net (Notes 1 and 8)	-	-	-	332,828
Internal Balances (Note 1)	45,383	(45,383)	-	-
Due from Primary Government (Note 9)	-	-	-	26,785
Due from Component Units (Note 9)	15,301	-	15,301	118,742
Due from External Parties (Fiduciary Funds) (Note 9)	264	65	329	-
Inventory (Note 1)	156,953	57,961	214,914	99,469
Prepaid Items (Note 1)	103,568	2,167	105,735	114,799
Other Assets (Notes 1 and 10)	6,555	2,892	9,447	174,830
Loans Receivable from Primary Government (Notes 1 and 9)	-	-	-	165,720
Loans Receivable from Component Units (Notes 1 and 9)	32,307	-	32,307	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	1,004,660	-	1,004,660	2,477,901
Restricted Investments (Notes 6 and 11)	-	-	-	4,197,145
Other Restricted Assets (Note 11)	-	-	-	275,956
Nondepreciable Capital Assets (Notes 1 and 12)	6,918,362	58,950	6,977,312	2,656,378
Depreciable Capital Assets, Net (Notes 1 and 12)	19,893,440	36,355	19,929,795	13,133,111
Total Assets	36,324,166	3,894,492	40,218,658	50,615,969
Deferred Outflows of Resources (Note 13)	-	-	-	18,659
Total Assets and Deferred Outflows	36,324,166	3,894,492	40,218,658	50,634,628
Liabilities and Deferred Inflows of Resources				
Accounts Payable (Notes 1 and 23)	949,227	75,272	1,024,499	1,000,359
Amounts Due to Other Governments	713,388	9,942	723,330	92,156
Due to Primary Government (Note 9)	-	-	-	15,301
Due to Component Units (Note 9)	26,785	-	26,785	118,742
Due to External Parties (Fiduciary Funds) (Note 9)	19,434	544	19,978	26,905
Unearned Revenue (Note 1)	177,474	4,897	182,371	336,730
Obligations Under Securities Lending Program (Notes 1 and 6)	442,682	156,393	599,075	50,278
Other Liabilities (Notes 1, 13, and 24)	1,934,224	171,475	2,105,699	1,239,830
Loans Payable to Primary Government (Notes 1 and 9)	-	-	-	32,307
Loans Payable to Component Units (Notes 1 and 9)	165,720	-	165,720	-
Claims Payable (Notes 1 and 22):				
Due Within One Year	201,533	38,456	239,989	57,998
Due in More Than One Year	537,734	18,292	556,026	33,412
Long-term Liabilities (Notes 1, 20, 21, and 25):				
Due Within One Year	581,251	242,984	824,235	1,683,743
Due in More Than One Year	8,808,645	2,513,897	11,322,542	23,428,435
Total Liabilities	14,558,097	3,232,152	17,790,249	28,116,196
Deferred Inflows of Resources (Notes 13 and 36)	1,582,014	-	1,582,014	4,596
Total Liabilities and Deferred Inflows	16,140,111	3,232,152	19,372,263	28,120,792

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

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Net Position				
Net Investment in Capital Assets	20,259,416	29,773	20,289,189	9,160,909
Restricted For:				
Nonexpendable:				
Higher Education	-	-	-	2,813,686
Permanent Funds	30,622	-	30,622	-
Other	-	-	-	160,525
Expendable:				
Agriculture and Forestry	1,406	-	1,406	-
Bond Indenture	-	-	-	2,379,737
Capital Projects/Construction/Capital Acquisition	1,193	-	1,193	1,623,330
Debt Service	35,173	-	35,173	90,564
Economic and Technological Development	971	-	971	-
Educational and Training Programs	8,243	-	8,243	-
Environmental Quality and Natural Resource Preservation	13,170	-	13,170	-
Gifts and Grants	209,312	-	209,312	115,609
Health and Public Safety	108,347	-	108,347	-
Higher Education	-	-	-	4,846,164
Literary Fund	79,682	-	79,682	-
Lottery Proceeds Fund	23,350	-	23,350	-
Permanent Funds	1,143	-	1,143	-
Revenue Stabilization Fund	927,786	-	927,786	-
Unemployment Compensation Trust Fund	-	371,600	371,600	-
Virginia Pooled Investment Program	-	-	-	7,539
Virginia Water Supply Assistance Grant Fund	10,693	-	10,693	-
Other	4,621	-	4,621	9,724
Unrestricted	(1,531,073)	260,967	(1,270,106)	1,306,049
Total Net Position	$ 20,184,055	$ 662,340	$ 20,846,395	$ 22,513,836

Statement of Activities

For the Fiscal Year Ended June 30, 2013
(Dollars in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	$ 3,019,385	$ 249,716	$ 208,921	$ 15,707
Education	9,280,892	448,272	854,916	4,238
Transportation	3,306,610	680,373	39,972	1,576,473
Resources and Economic Development	927,963	345,231	172,103	156,931
Individual and Family Services	12,941,268	413,459	7,509,219	-
Administration of Justice	2,760,486	321,883	34,550	440
Interest and Charges on Long-term Debt	254,964	-	-	-
Total Governmental Activities	32,491,568	2,458,934	8,819,681	1,753,789
Business-type Activities				
State Lottery	1,194,247	1,689,509	-	-
Virginia College Savings Plan	155,889	300,823	-	-
Unemployment Compensation	584,433	789,826	-	-
Alcoholic Beverage Control	532,835	662,268	337	-
Risk Management	12,265	5,043	-	-
Local Choice Health Care	296,237	284,526	-	-
Route 460 Funding Corporation of Virginia	67,449	-	-	61,104
Virginia Industries for the Blind	31,058	29,778	-	-
Consolidated Laboratory	7,469	7,221	-	-
eVA Procurement System	19,693	16,085	-	-
Department of Environmental Quality Title V	10,724	11,214	-	-
Wireless E-911	42,449	61,844	-	-
Museum and Library Gift Shops	6,810	7,964	-	-
Behavioral Health Canteen and Work Activity	468	455	-	-
Total Business-type Activities	2,962,026	3,866,556	337	61,104
Total Primary Government	$ 35,453,594	$ 6,325,490	$ 8,820,018	$ 1,814,893
Component Units				
Virginia Housing Development Authority	$ 554,188	$ 510,466	$ 134,363	$ -
Virginia Public School Authority	142,419	119,073	6,092	-
Virginia Resources Authority	156,471	146,254	-	47,709
Virginia College Building Authority	730,783	77,952	42,489	207
Nonmajor	12,518,118	8,137,470	2,527,231	636,698
Total Component Units	$ 14,101,979	$ 8,991,215	$ 2,710,175	$ 684,614

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (2,545,041)	$ -	$ (2,545,041)	$ -
(7,973,466)	-	(7,973,466)	-
(1,009,792)	-	(1,009,792)	-
(253,698)	-	(253,698)	-
(5,018,590)	-	(5,018,590)	-
(2,403,613)	-	(2,403,613)	-
(254,964)	-	(254,964)	-
(19,459,164)	-	(19,459,164)	-
-	495,262	495,262	-
-	144,934	144,934	-
-	205,393	205,393	-
-	129,770	129,770	-
-	(7,222)	(7,222)	-
-	(11,711)	(11,711)	-
-	(6,345)	(6,345)	-
-	(1,280)	(1,280)	-
-	(248)	(248)	-
-	(3,608)	(3,608)	-
-	490	490	-
-	19,395	19,395	-
-	1,154	1,154	-
-	(13)	(13)	-
-	965,971	965,971	-
(19,459,164)	965,971	(18,493,193)	-
-	-	-	90,641
-	-	-	(17,254)
-	-	-	37,492
-	-	-	(610,135)
-	-	-	(1,216,719)
-	-	-	(1,715,975)

Continued on next page

Statement of Activities *(Continued from previous page)*

For the Fiscal Year Ended June 30, 2013
(Dollars in Thousands)

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
General Revenues				
Taxes				
Individual and Fiduciary Income	11,399,891	-	11,399,891	-
Sales and Use	3,941,074	-	3,941,074	-
Corporation Income	805,474	-	805,474	-
Motor Fuel	878,939	-	878,939	-
Motor Vehicle Sales and Use	581,693	-	581,693	-
Communications Sales and Use	423,639	-	423,639	-
Deeds, Contracts, Wills, and Suits	435,619	-	435,619	-
Premiums of Insurance Companies	406,506	-	406,506	-
Alcoholic Beverage Sales	126,801	-	126,801	-
Tobacco Products	182,430	-	182,430	-
Public Service Corporations	115,973	-	115,973	-
Beer and Beverage Excise	42,813	-	42,813	-
Wine and Spirits/ABC Liter	25,436	-	25,436	-
Bank Stock	20,321	-	20,321	-
Other Taxes	75,641	9,142	84,783	-
Operating Appropriations from Primary Government	-	-	-	1,951,205
Unrestricted Grants and Contributions	74,134	-	74,134	94,652
Investment Earnings	6,349	1,183	7,532	631,101
Miscellaneous	306,172	448	306,620	108,757
Transfers	670,348	(670,348)	-	-
Contributions to Permanent and Term Endowments	-	-	-	148,331
Total General Revenues, Transfers, and Contributions	20,519,253	(659,575)	19,859,678	2,934,046
Change in Net Position	1,060,089	306,396	1,366,485	1,218,071
Net Position, July 1, as restated (Note 2)	19,123,966	355,944	19,479,910	21,295,765
Net Position, June 30	$ 20,184,055	$ 662,340	$ 20,846,395	$ 22,513,836

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

Governmental Funds

General Fund

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

Special Revenue Funds

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

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

The Federal Trust Fund accounts for all federal dollars received by the Commonwealth except those received by the Commonwealth Transportation Fund, the Unemployment Compensation Fund, certain Medicaid reimbursements recorded in the General Fund, and institutions of higher education. The entire fund is restricted pursuant to federal regulations.

The Literary Fund accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings. The entire fund is constitutionally restricted for public schools.

Nonmajor Governmental Funds include those Special Revenue, Debt Service, Capital Projects, and Permanent Funds listed on page 193 in the Combining and Individual Fund Statements and Schedules section of this report.

Balance Sheet – Governmental Funds

June 30, 2013
(Dollars in Thousands)

		Special Revenue		
	General	Commonwealth Transportation	Federal Trust	Literary
Assets and Deferred Outflows of Resources				
Cash and Cash Equivalents (Notes 1 and 6)	$ 251,489	$ 1,895,819	$ 122,972	$ 29,235
Investments (Notes 1 and 6)	1,849,775	7,816	300	319
Receivables, Net (Notes 1 and 7)	1,726,908	292,675	786,679	222,109
Due from Other Funds (Note 9)	35,046	21,706	2,622	-
Due from External Parties (Fiduciary Funds) (Note 9)	12	-	-	-
Interfund Receivable (Note 9)	-	-	-	-
Inventory (Note 1)	43,730	70,752	15,921	-
Prepaid Items (Note 1)	76,654	6,637	1,819	-
Other Assets (Notes 1 and 10)	968	422	3,223	-
Loans Receivable from Component Units (Notes 1 and 9)	-	-	-	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	-	746,402	-	-
Total Assets	3,984,582	3,042,229	933,536	251,663
Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows	$ 3,984,582	$ 3,042,229	$ 933,536	$ 251,663
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Accounts Payable (Notes 1 and 23)	$ 253,020	$ 319,176	$ 132,389	$ 34
Amounts Due to Other Governments	381,830	1	225,141	-
Due to Other Funds (Note 9)	47,667	38,691	10,511	-
Due to Component Units (Note 9)	6,969	-	4,379	-
Due to External Parties (Fiduciary Funds) (Note 9)	12,468	2,933	1,516	-
Interfund Payable (Note 9)	13,151	26,000	6,409	-
Deferred Revenue (Note 1)	888,015	32,690	80,653	15,904
Unearned Revenue (Note 1)	-	48,420	4,871	-
Deferred Taxes (Note 1)	486,009	-	-	-
Obligations Under Securities Lending Program (Notes 1 and 6)	264,326	152,784	5,858	6,227
Other Liabilities (Notes 1 and 24)	992,040	7,699	353,876	-
Loans Payable to Component Units (Notes 1 and 9)	-	-	-	165,720
Long-term Liabilities Due Within One Year (Notes 1, 20, and 25)	1,143	54	84	-
Total Liabilities	3,346,638	628,448	825,687	187,885
Deferred Inflows of Resources	-	-	-	-
Total Liabilities and Deferred Inflows	3,346,638	628,448	825,687	187,885
Fund Balances (Note 3):				
Nonspendable	120,384	77,389	17,740	-
Restricted	961,829	290,920	90,109	63,778
Committed	502,650	2,045,472	-	-
Assigned	-	-	-	-
Unassigned	(946,919)	-	-	-
Total Fund Balances	637,944	2,413,781	107,849	63,778
Total Liabilities, Deferred Inflows, and Fund Balances	$ 3,984,582	$ 3,042,229	$ 933,536	$ 251,663

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 778,205	$ 3,077,720
49,066	1,907,276
87,628	3,115,999
8,232	67,606
91	103
125,663	125,663
5,275	135,678
17,977	103,087
1,934	6,547
27,339	27,339
-	746,402
1,101,410	9,313,420
-	-
$ 1,101,410	$ 9,313,420
$ 57,199	$ 761,818
376	607,348
4,872	101,741
9	11,357
2,258	19,175
-	45,560
42,640	1,059,902
6,379	59,670
-	486,009
13,487	442,682
2,822	1,356,437
-	165,720
139	1,420
130,181	5,118,839
-	-
130,181	5,118,839
53,773	269,286
392,301	1,798,937
510,734	3,058,856
14,421	14,421
-	(946,919)
971,229	4,194,581
$ 1,101,410	$ 9,313,420

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

June 30, 2013
(Dollars in Thousands)

Total fund balances - governmental funds (see Balance Sheet - Governmental Funds)	$	4,194,581
When capital assets (land, buildings, equipment, construction-in-progress, intangible assets, and/or infrastructure) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the primary government as a whole.		
Nondepreciable Capital Assets		6,892,656
Depreciable Capital Assets		19,819,242
Long-term liabilities applicable to the primary government's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position.		
Tax Note		(20,319)
Pension Liability		(1,853,325)
OPEB Liability		(485,529)
Capital Leases		(55,794)
Installment Purchases		(74,147)
Compensated Absences		(310,784)
Uninsured Employer's Fund		(29,606)
Regional Jails		(837)
Bonds		(6,385,220)
Notes		(8,764)
Accrued Interest Payable		(84,809)
Other Obligations		(78,702)
Pollution Remediation Liability		(3,494)
Internal service funds are used by the primary government to charge costs to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position.		(567,514)
Other long-term payables are not due and payable in the current period and, therefore, are not reported in the funds.		(214,482)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		1,032,916
Deferred inflows associated with Service Concession Arrangements are long-term in nature and therefore not reported in the funds.		(1,582,014)
Net position of governmental activities (see Government-wide Statement of Net Position)	$	20,184,055

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

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

For the Fiscal Year Ended June 30, 2013
(Dollars in Thousands)

		Special Revenue		
	General	Commonwealth Transportation	Federal Trust	Literary
Revenues				
Taxes	$ 17,164,170	$ 2,148,221	$ -	$ -
Rights and Privileges	78,033	563,380	-	357
Institutional Revenue	37,257	-	-	-
Interest, Dividends, Rents, and Other Investment Income	27,097	26,820	643	14,171
Federal Grants and Contracts	6,354	1,433,874	8,472,811	-
Other (Note 26)	570,761	134,343	150,141	145,065
Total Revenues	17,883,672	4,306,638	8,623,595	159,593
Expenditures				
Current:				
General Government	2,166,722	3,306	183,715	29
Education	7,593,568	2,416	1,066,113	205,379
Transportation	172	4,589,704	16,075	-
Resources and Economic Development	394,071	12,817	160,692	-
Individual and Family Services	5,351,483	-	7,119,666	-
Administration of Justice	2,447,374	9,749	34,692	-
Capital Outlay	7,070	15,681	14,986	-
Debt Service:				
Principal Retirement	-	-	-	-
Interest and Charges	-	-	-	-
Total Expenditures	17,960,460	4,633,673	8,595,939	205,408
Revenues Over (Under) Expenditures	(76,788)	(327,035)	27,656	(45,815)
Other Financing Sources (Uses)				
Transfers In (Note 31)	711,045	109,342	17,799	12,011
Transfers Out (Note 31)	(510,531)	(331,977)	(37,409)	-
Notes Issued	477	-	-	-
Insurance Recoveries	53	59	69	-
Capital Leases Issued	50	-	-	-
Bonds Issued	-	120,625	-	-
Premium on Debt Issuance	-	23,974	-	-
Refunding Bonds Issued	-	-	-	-
Sale of Capital Assets	1,279	79,485	-	-
Payment to Refunded Bond Escrow Agents	-	-	-	-
Total Other Financing Sources (Uses)	202,373	1,508	(19,541)	12,011
Net Change in Fund Balances	125,585	(325,527)	8,115	(33,804)
Fund Balance, July 1, as restated (Note 2)	512,359	2,739,308	99,734	97,582
Fund Balance, June 30	$ 637,944	$ 2,413,781	$ 107,849	$ 63,778

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 87,792	$ 19,400,183
314,748	956,518
322,786	360,043
14,235	82,966
-	9,913,039
350,074	1,350,384
1,089,635	32,063,133
70,011	2,423,783
18,821	8,886,297
7,036	4,612,987
308,962	876,542
567,618	13,038,767
74,201	2,566,016
181,184	218,921
473,695	473,695
289,087	289,087
1,990,615	33,386,095
(900,980)	(1,322,962)
775,202	1,625,399
(60,126)	(940,043)
21,035	21,512
898	1,079
157	207
143,400	264,025
60,901	84,875
200,620	200,620
15,000	95,764
(258,025)	(258,025)
899,062	1,095,413
(1,918)	(227,549)
973,147	4,422,130
$ 971,229	$ 4,194,581

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

For the Fiscal Year Ended June 30, 2013
(Dollars in Thousands)

Net Change in fund balances - total government funds (See Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds)	$	(227,549)
When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year.		
Nondepreciable Capital Assets Constructed/Acquired		2,116,548
Nondepreciable Capital Assets Disposed		(192,033)
Depreciable Capital Assets Acquired		1,652,059
Depreciable Capital Assets Disposed		(252,475)
Depreciation Expense		(900,039)
Debt proceeds provide current financial resources to governmental funds by issuing debt, which increases long-term debt in the Statement of Net Position.		
Debt Issuance		(264,025)
Capital Lease Proceeds		(207)
Bond Premiums		(84,875)
Refunding Bonds Issued		(200,620)
Installment Purchase Proceeds		(21,512)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position.		
Debt Service Fund Repayment of Debt Principal		473,695
Payment to Refunded Bond Escrow Agent is an expenditure in the governmental funds, but the refunding reduces long-term debt in the Statement of Net Position.		258,025
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		64,694
Increases/decreases of expenses associated with long-term debt reported in the Statement of Activities do not require the use of, or provide, current financial resources and, therefore, are not reported in the governmental funds.		
Increase in Pension Liability		(212,409)
Increase in OPEB Liability		(85,355)
Increase in Other Long-term Liabilities		(1,480)
Increase in Compensated Absences		(2,179)
Decrease in Interest Expense, Amortization of Deferrals on Long-term Debt and accrued interest liability		62,606
Decrease in Other Liabilities		21,281
Net Increase in Due to Component Units for Capital and Other Projects resulting from appropriation reductions or amounts due to Federal Governments for interest and rebate repayments, which are not reported as expenditures in the fund statements.		(14,082)
The net revenue (expenses) of certain activities of internal service funds is reported within governmental activities.		(83,228)
The amortization of deferred inflows associated with Service Concession Arrangements are not included in the funds.		(1,046,751)
Change in net position of governmental activities (See Government-wide Statement of Activities)	$	1,060,089

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

Proprietary Funds

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

Major Enterprise Funds

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

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

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

Nonmajor Enterprise Funds include those operations of state agencies which are listed on page 205 in the Combining and Individual Fund Statements and Schedules section of this report.

Internal Service Funds include those operations of state agencies which are listed on page 221 in the Combining and Individual Fund Statements and Schedules section of this report.

Statement of Fund Net Position – Proprietary Funds

June 30, 2013
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Assets and Deferred Outflows of Resources				
Current Assets:				
Cash and Cash Equivalents (Notes 1 and 6)	$ 240,342	$ 75,205	$ 279,631	$ 428,922
Investments (Notes 1 and 6)	36,580	-	-	6
Receivables, Net (Notes 1 and 7)	59,485	68,109	141,087	44,804
Due from Other Funds (Note 9)	-	-	1,312	22,724
Due From External Parties (Fiduciary Funds) (Note 9)	-	-	65	-
Due From Component Units (Note 9)	-	-	-	-
Inventory (Note 1)	-	-	-	57,961
Prepaid Items (Note 1)	298	12	-	1,857
Other Assets (Notes 1 and 10)	1	-	-	209
Total Current Assets	336,706	143,326	422,095	556,483
Noncurrent Assets:				
Investments (Notes 1 and 6)	143,888	2,089,337	-	-
Receivables, Net (Notes 1 and 7)	-	174,089	-	-
Other Assets (Notes 1 and 10)	-	-	-	2,682
Nondepreciable Capital Assets (Notes 1 and 12)	-	-	-	58,950
Depreciable Capital Assets, Net (Notes 1 and 12)	7,160	9,948	-	19,247
Total Noncurrent Assets	151,048	2,273,374	-	80,879
Total Assets	487,754	2,416,700	422,095	637,362
Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows	487,754	2,416,700	422,095	637,362
Liabilities and Deferred Inflows of Resources				
Current Liabilities:				
Accounts Payable (Notes 1 and 23)	7,006	791	144	67,331
Amounts Due to Other Governments	-	-	7,740	2,202
Due to Other Funds (Note 9)	22,328	62	2,786	12,895
Due to External Parties (Fiduciary Funds) (Note 9)	103	37	-	404
Interfund Payable (Note 9)	-	-	-	31,265
Unearned Revenue (Note 1)	2,873	-	-	2,024
Obligations Under Securities Lending Program (Notes 1 and 6)	156,266	-	-	127
Other Liabilities (Notes 1 and 24)	124,810	248	39,825	6,592
Claims Payable Due Within One Year (Notes 1 and 22)	-	-	-	38,456
Long-term Liabilities Due Within One Year (Notes 1, 20, and 25)	29,634	209,829	-	3,521
Total Current Liabilities	343,020	210,967	50,495	164,817
Noncurrent Liabilities:				
Interfund Payable (Note 9)	-	-	-	-
Claims Payable Due in More Than One Year (Notes 1 and 22)	-	-	-	18,292
Long-term Liabilities Due in More Than One Year (Notes 1, 20, and 25)	156,297	1,990,518	-	367,082
Total Noncurrent Liabilities	156,297	1,990,518	-	385,374
Total Liabilities	499,317	2,201,485	50,495	550,191
Deferred Inflows of Resources	-	-	-	-
Total Liabilities and Deferred Inflows	499,317	2,201,485	50,495	550,191
Net Position				
Net Investment in Capital Assets	7,160	3,495	-	19,118
Restricted for Unemployment Compensation	-	-	371,600	-
Unrestricted	(18,723)	211,720	-	68,053
Total Net Position (Deficit) (Note 4)	$ (11,563)	$ 215,215	$ 371,600	$ 87,171

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

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

Total	Governmental Activities — Internal Service Funds
$ 1,024,100	$ 290,042
36,586	-
313,485	14,594
24,036	49,961
65	161
-	14,520
57,961	21,275
2,167	480
210	3,493
1,458,610	394,526
2,233,225	-
174,089	-
2,682	-
58,950	25,706
36,355	74,198
2,505,301	99,904
3,963,911	494,430
-	-
3,963,911	494,430
75,272	60,870
9,942	3,086
38,071	1,791
544	259
31,265	24,493
4,897	118,391
156,393	-
171,475	6,340
38,456	201,533
242,984	7,869
769,299	424,632
-	24,345
18,292	537,734
2,513,897	75,316
2,532,189	637,395
3,301,488	1,062,027
-	-
3,301,488	1,062,027
29,773	68,113
371,600	-
261,050	(635,710)
$ 662,423	$ (567,597)
(83)	
$ 662,340	

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

For the Fiscal Year Ended June 30, 2013
(Dollars in Thousands)

	Business-type Activities Enterprise Funds		
	State Lottery	Virginia College Savings Plan	Unemployment Compensation
Operating Revenues			
Charges for Sales and Services	$ 1,689,239	$ 140,764	$ 789,875
Interest, Dividends, Rents, and Other Investment Income	-	159,218	2,395
Other (Note 26)	-	841	-
Total Operating Revenues	1,689,239	300,823	792,270
Operating Expenses			
Cost of Sales and Services	120,954	-	-
Prizes and Claims (Note 27)	1,013,183	-	584,433
Tuition Benefits Expense	-	137,991	-
Personal Services	24,242	8,639	-
Contractual Services	29,890	6,118	-
Supplies and Materials	700	47	-
Depreciation	3,424	498	-
Rent, Insurance, and Other Related Charges	1,687	122	-
Interest Expense	-	-	-
Non-recurring Cost Estimate Payments to Providers	-	-	-
Other (Note 28)	-	2,410	-
Total Operating Expenses	1,194,080	155,825	584,433
Operating Income (Loss)	495,159	144,998	207,837
Nonoperating Revenues (Expenses)			
Interest, Dividends, Rents, and Other Investment Income	1,433	-	-
Capital Disbursements	-	-	-
Other (Note 29)	155	(140)	(2,444)
Total Nonoperating Revenues (Expenses)	1,588	(140)	(2,444)
Income (Loss) Before Capital Contributions, Special Item, and Transfers	496,747	144,858	205,393
Capital Contributions	-	-	-
Special Item (Note 30)	-	-	-
Transfers In (Note 31)	-	-	-
Transfers Out (Note 31)	(498,520)	(291)	(12,709)
Change in Net Position	(1,773)	144,567	192,684
Total Net Position (Deficit), July 1	(9,790)	70,648	178,916
Total Net Position (Deficit), June 30 (Note 4)	$ (11,563)	$ 215,215	$ 371,600

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

Change in Net Position of business-type activities

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

		Governmental Activities
Nonmajor	Total	Internal Service Funds
$ 1,068,726	$ 3,688,604	$ 1,712,346
-	161,613	-
17,813	18,654	-
1,086,539	3,868,871	1,712,346
380,489	501,443	68,827
288,478	1,886,094	1,162,212
-	137,991	-
122,983	155,864	51,350
64,977	100,985	393,677
27,759	28,506	10,237
2,803	6,725	12,249
29,795	31,604	75,736
-	-	15
41,031	41,031	-
3,824	6,234	13,243
962,139	2,896,477	1,787,546
124,400	972,394	(75,200)
216	1,649	201
(61,103)	(61,103)	-
2,151	(278)	(2,551)
(58,736)	(59,732)	(2,350)
65,664	912,662	(77,550)
61,104	61,104	-
-	-	12,308
1,628	1,628	1,001
(160,456)	(671,976)	(16,009)
(32,060)	303,418	(80,250)
119,231	359,005	(487,347)
$ 87,171	$ 662,423	$ (567,597)
	2,978	
	$ 306,396	

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended June 30, 2013
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Cash Flows from Operating Activities				
Receipts for Sales and Services	$ 1,682,617	$ 144,393	$ 803,876	$ 1,069,279
Receipts from Investments	-	-	2,395	-
Internal Activity-Receipts from Other Funds	-	-	5,796	8,964
Internal Activity-Payments to Other Funds	-	(367)	-	(2,401)
Payments to Suppliers for Goods and Services	(120,954)	(1,045)	-	(433,627)
Payments for Contractual Services	(22,003)	(6,385)	-	(65,384)
Payments for Prizes, Claims, and Loss Control (Note 34)	(983,843)	-	(601,605)	(283,398)
Payments for Tuition Benefits	-	(114,210)	-	-
Payments to Employees	(22,491)	(7,948)	-	(117,048)
Payments to Providers for Non-recurring Cost Estimates	-	-	-	(34,669)
Payments for Interest	-	-	-	-
Other Operating Revenue (Note 34)	-	841	-	4,884
Other Operating Expense (Note 34)	-	(2,023)	-	(2,676)
Net Cash Provided by (Used for) Operating Activities	533,326	13,256	210,462	143,924
Cash Flows from Noncapital Financing Activities				
Transfers In From Other Funds	-	-	-	1,628
Transfers Out to Other Funds	(499,292)	(291)	(10,108)	(345,335)
Other Noncapital Financing Receipt Activities (Note 34)	574	-	184,935	223,986
Other Noncapital Financing Disbursement Activities (Note 34)	-	-	(182,231)	(29,323)
Net Cash Provided by (Used for) Noncapital Financing Activities	(498,718)	(291)	(7,404)	(149,044)
Cash Flows from Capital and Related Financing Activities				
Acquisition of Capital Assets	(2,756)	(421)	-	(56,787)
Payment of Principal and Interest on Bonds and Notes	-	(589)	-	-
Proceeds from Sale of Bonds and Notes	-	-	-	313,321
Proceeds from Sale of Capital Assets	59	-	-	-
Capital Contributions	-	-	-	39,401
Capital Disbursements	-	-	-	(39,400)
Other Capital and Related Financing Disbursement Activities (Note 34)	-	-	-	(2,673)
Net Cash Provided By (Used for) Capital and Related Financing Activities	(2,697)	(1,010)	-	253,862
Cash Flows from Investing Activities				
Purchase of Investments	(5,218)	(742,710)	-	-
Proceeds from Sales or Maturities of Investments	36,563	645,290	-	-
Investment Income on Cash, Cash Equivalents, and Investments	1,015	103,193	-	20
Net Cash Provided by Investing Activities	32,360	5,773	-	20
Net Increase (Decrease) in Cash and Cash Equivalents	64,271	17,728	203,058	248,762
Cash and Cash Equivalents, July 1	27,800	57,477	76,573	180,249
Cash and Cash Equivalents, June 30	$ 92,071	$ 75,205	$ 279,631	$ 429,011
Reconciliation of Cash and Cash Equivalents				
Per the Statement of Net Position:				
Cash and Cash Equivalents	$ 240,342	$ 75,205	$ 279,631	$ 428,922
Cash and Travel Advances	1	-	-	209
Less:				
Securities Lending Cash Equivalents	(148,272)	-	-	(120)
Cash and Cash Equivalents per the Statement of Cash Flows	$ 92,071	$ 75,205	$ 279,631	$ 429,011

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

	Governmental Activities
Total	Internal Service Funds
$ 3,700,165	$ 603,123
2,395	-
14,760	1,117,596
(2,768)	(9,558)
(555,626)	(145,324)
(93,772)	(393,118)
(1,868,846)	(1,148,320)
(114,210)	-
(147,487)	(48,529)
(34,669)	-
-	(11)
5,725	-
(4,699)	(8,074)
900,968	(32,215)
1,628	1,001
(855,026)	(781)
409,495	563
(211,554)	(7,991)
(655,457)	(7,208)
(59,964)	(12,636)
(589)	(9,052)
313,321	-
59	1,314
39,401	-
(39,400)	-
(2,673)	(632)
250,155	(21,006)
(747,928)	-
681,853	-
104,228	86
38,153	86
533,819	(60,343)
342,099	350,389
$ 875,918	$ 290,046
$ 1,024,100	$ 290,042
210	4
(148,392)	-
$ 875,918	$ 290,046

Continued on next page

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

For the Fiscal Year Ended June 30, 2013
(Dollars in Thousands)

	Business-type Activities Enterprise Funds			
	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor
Reconciliation of Operating Income To Net Cash Provided by (Used for) Operating Activities:				
Operating Income (Loss)	$ 495,159	$ 144,998	$ 207,837	$ 124,400
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	3,424	498	-	2,803
Interest, Dividends, Rents, and Other Investment Income	(9,339)	(159,218)	-	-
Miscellaneous Nonoperating Income	-	-	(5,148)	-
Other Expenses	-	(5)	(2,600)	(6,150)
Change in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(6,659)	13,773	6,449	(11,703)
(Increase) Decrease in Due From Other Funds	-	-	(678)	(13,638)
(Increase) Decrease in Due From External Parties (Fiduciary Funds)	-	-	(65)	-
(Increase) Decrease in Due From Component Units	-	-	-	-
(Increase) Decrease in Other Assets	-	-	-	-
(Increase) Decrease in Inventory	-	-	-	(6,232)
(Increase) Decrease in Prepaid Items	(68)	(1)	-	(201)
Increase (Decrease) in Accounts Payable	(1,728)	(1,083)	(9)	34,642
Increase (Decrease) in Amounts Due to Other Governments	-	-	(1,107)	27
Increase (Decrease) in Due to Other Funds	6	30	673	(1,141)
Increase (Decrease) in Due to External Parties (Fiduciary Funds)	11	3	-	49
Increase (Decrease) in Interfund Payables	-	-	-	-
Increase (Decrease) in Unearned Revenue	36	-	-	252
Increase (Decrease) in Other Liabilities	72,677	188	5,110	6,178
Increase (Decrease) in Claims Payable: Due Within One Year	-	-	-	4,620
Increase (Decrease) in Claims Payable: Due in More Than One Year	-	-	-	2,632
Increase (Decrease) in Long-term Liabilities: Due Within One Year	(7,136)	16,189	-	(187)
Increase (Decrease) in Long-term Liabilities: Due in More Than One Year	(13,057)	(2,116)	-	7,573
Net Cash Provided by (Used for) Operating Activities	$ 533,326	$ 13,256	$ 210,462	$ 143,924
Noncash Investing, Capital, and Financing Activities:				
The following transactions occurred prior to the statement of net position date:				
Capital Leases Used to Finance Capital Assets	$ -	$ 6,004	$ -	$ -
Installment Purchases Used to Finance Capital Assets	-	-	-	-
Change in Fair Value of Investments	-	56,025	-	-
Capital Asset Addition Included in Accounts Payable	-	-	-	-
Capitalized Interest Accrued	-	-	-	1,385
Total Noncash, Investing, Capital, and Financing Activities	$ -	$ 62,029	$ -	$ 1,385

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

	Governmental Activities
Total	Internal Service Funds
$ 972,394	$ (75,200)
6,725	12,249
(168,557)	-
(5,148)	168
(8,755)	-
1,860	(1,628)
(14,316)	193
(65)	(28)
-	(2,322)
-	3,695
(6,232)	1,631
(270)	28
31,822	(5,453)
(1,080)	890
(432)	(58)
63	23
-	93
288	8,511
84,153	1,236
4,620	16,290
2,632	4,672
8,866	(34)
(7,600)	2,829
$ 900,968	$ (32,215)
$ 6,004	$ 4,462
-	6,711
56,025	-
-	43
1,385	-
$ 63,414	$ 11,216

Fiduciary Funds

Private Purpose Trust Funds

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

Pension and Other Employee Benefit Trust Funds

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

Investment Trust Fund

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

Agency Funds

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

A listing of all Fiduciary Funds is located on pages 230-231 in the Combining and Individual Fund Statements and Schedules section of this report. Combining financial statements for all Fiduciary Funds begin on page 232.

Statement of Fiduciary Net Position – Fiduciary Funds

June 30, 2013
(Dollars in Thousands)

	Private Purpose Trust Funds	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
Assets and Deferred Outflows of Resources				
Cash and Cash Equivalents (Notes 1 and 6)	$ 103,512	$ 441,594	$ 1,096,820	$ 308,207
Investments (Notes 1 and 6):				
Bonds and Mortgage Securities	68,032	18,170,172	18,407	-
Stocks	370,912	21,959,314	-	-
Fixed Income Commingled Funds	-	857,756	-	-
Index and Pooled Funds	708,878	5,343,969	-	-
Real Estate	1,867	4,889,615	-	-
Private Equity	-	8,126,024	-	-
Mutual and Money Market Funds	1,057,499	-	-	-
Short-term Investments	-	121,695	1,220,723	73,408
Other	448,900	3,970,010	-	326,871
Total Investments	2,656,088	63,438,555	1,239,130	400,279
Receivables, Net (Notes 1 and 7):				
Accounts	9	-	-	79,369
Contributions	-	239,359	-	-
Interest and Dividends	1,554	191,877	626	-
Security Transactions	-	1,054,252	-	-
Other Receivables	-	146,134	-	-
Total Receivables	1,563	1,631,622	626	79,369
Due from Other Funds (Note 9)	5	14,899	-	-
Due from Internal Parties (Governmental Funds and Business-type Activities) (Note 9)	-	19,978	-	-
Due from Component Units (Note 9)	-	26,905	-	-
Prepaid Items (Note 1)	224	-	-	-
Other Assets (Notes 1 and 10)	-	-	-	49
Furniture and Equipment (Note 1)	-	33,697	-	-
Total Assets	2,761,392	65,607,250	2,336,576	787,904
Deferred Outflow of Resources	-	-	-	-
Total Assets and Deferred Outflows	2,761,392	65,607,250	2,336,576	787,904
Liabilities and Deferred Inflows of Resources				
Accounts Payable and Accrued Expenses (Notes 1 and 23)	2,207	39,758	-	5,245
Amounts Due to Other Governments	-	-	-	250,447
Due to Other Funds (Note 9)	21	14,883	-	-
Due to Internal Parties (Governmental Funds and Business-type Activities) (Note 9)	33	140	-	156
Obligations Under Securities Lending Program (Notes 1 and 6)	486	3,967,699	-	1,075
Other Liabilities (Notes 1 and 24)	2,982	169,472	-	530,386
Retirement Benefits Payable	-	290,729	-	-
Refunds Payable	-	4,687	-	-
Compensated Absences Payable (Notes 1 and 20)	271	2,293	-	-
Insurance Premiums and Claims Payable	5	49,676	-	595
Payable for Security Transactions	-	2,672,185	-	-
Pension Liability	1,206	12,443	-	-
Other Postemployment Benefits (OPEB) Liability	442	4,599	-	-
Total Liabilities	7,653	7,228,564	-	787,904
Deferred Inflows of Resources	-	-	-	-
Total Liabilities and Deferred Inflows	7,653	7,228,564	-	787,904
Net Position Held in Trust for Pension/ Other Employment Benefits, Pool Participants, and Other Purposes	$ 2,753,739	$ 58,378,686	$ 2,336,576	$ -

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

Statement of Changes in Fiduciary Net Position – Fiduciary Funds

For the Fiscal Year Ended June 30, 2013
(Dollars in Thousands)

	Private Purpose Trust Funds	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:			
Investment Income:			
Interest, Dividends, and Other Investment Income	$ 169,063	$ 6,556,998	$ 3,924
Distributions to Shareholders from Net Investment Income	-	-	(3,924)
Total Investment Income	169,063	6,556,998	-
Less Investment Expenses	4,290	334,574	-
Net Investment Income	164,773	6,222,424	-
Proceeds from Unclaimed Property	131,276	-	-
Contributions:			
Participants	323,602	-	-
Member	-	1,007,148	-
Employer	-	1,962,350	-
Total Contributions	323,602	2,969,498	-
Shares Sold	-	-	3,742,535
Reinvested Distributions	-	-	3,827
Other Revenue (Note 26)	20	2,814	-
Total Additions	619,671	9,194,736	3,746,362
Deductions:			
Loan Servicing Payments	11	-	-
Educational Expense Benefits	130,489	-	-
Retirement Benefits	-	3,672,814	-
Refunds to Former Members	-	81,565	-
Retiree Health Insurance Credits	-	137,538	-
Insurance Premiums and Claims	22,572	156,163	-
Trust Payments	1,482	-	-
Administrative Expenses	6,977	36,398	-
Other Expenses (Note 28)	-	6,877	-
Shares Redeemed	13,968	-	3,861,674
Long-term Disability Benefits	-	30,133	-
Total Deductions	175,499	4,121,488	3,861,674
Transfers:			
Transfers In	5	27	-
Transfers Out	(5)	(27)	-
Total Transfers	-	-	-
Net Increase (Decrease)	444,172	5,073,248	(115,312)
Net Position Held in Trust for Pension/ Other Employment Benefits, Pool Participants, and Other Purposes			
July 1, as restated (Note 2)	2,309,567	53,305,438	2,451,888
June 30	$ 2,753,739	$ 58,378,686	$ 2,336,576

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

Component Units

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

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

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

The Virginia Resources Authority provides financing for the construction of local water supply and wastewater treatment facilities and other local infrastructure projects.

The Virginia College Building Authority provides financing of capital projects and equipment purchases by state-supported colleges and universities.

Nonmajor Component Units include those listed on pages 254-255 in the Combining and Individual Fund Statements and Schedules section of this report.

Statement of Net Position – Component Units

June 30, 2013
(Dollars in Thousands)

	Virginia Housing Development Authority	Virginia Public School Authority	Virginia Resources Authority
Assets and Deferred Outflows of Resources			
Cash and Cash Equivalents (Notes 1 and 6)	$ 11,614	$ 312	$ 5,055
Investments (Notes 1 and 6)	163,065	3,435,911	4,364
Receivables, Net (Notes 1 and 7)	7,223,714	45,769	4,139,981
Contributions Receivable, Net (Note 8)	-	-	-
Due from Primary Government (Note 9)	-	-	274
Due from Component Units (Note 9)	-	-	-
Inventory (Note 1)	-	-	-
Prepaid Items (Note 1)	2,487	-	-
Other Assets (Notes 1 and 10)	10,018	-	74,026
Loans Receivable from Primary Government (Notes 1 and 9)	-	165,720	-
Restricted Cash and Cash Equivalents (Notes 6 and 11)	1,121,217	104,984	291,066
Restricted Investments (Notes 6 and 11)	108,900	1,882	334,036
Other Restricted Assets (Note 11)	56,932	-	-
Nondepreciable Capital Assets (Notes 1 and 12)	3,797	-	196
Depreciable Capital Assets, Net (Notes 1 and 12)	20,531	-	13
Total Assets	8,722,275	3,754,578	4,849,011
Deferred Outflows of Resources (Note 13)	-	-	-
Total Assets and Deferred Outflows	8,722,275	3,754,578	4,849,011
Liabilities and Deferred Inflows of Resources			
Accounts Payable (Notes 1 and 23)	21,642	45	197
Amounts Due to Other Governments	-	86,037	-
Due to Primary Government (Note 9)	-	-	-
Due to Component Units (Note 9)	-	-	-
Due to External Parties (Fiduciary Funds) (Note 9)	-	-	-
Unearned Revenue (Note 1)	-	-	2,561
Obligations Under Securities Lending Program (Notes 1 and 6)	-	-	-
Other Liabilities (Notes 1, 13, and 24)	74,854	60,132	29,861
Loans Payable to Primary Government (Notes 1 and 9)	-	-	-
Claims Payable (Notes 1 and 22):			
Due Within One Year	-	-	-
Due in More Than One Year	-	-	-
Long-term Liabilities (Notes 1, 20, and 25):			
Due Within One Year	500,740	280,043	149,377
Due in More Than One Year	5,608,894	3,369,043	3,272,680
Total Liabilities	6,206,130	3,795,300	3,454,676
Deferred Inflows of Resources (Note 13)	-	-	-
Total Liabilities and Deferred Inflows	6,206,130	3,795,300	3,454,676
Net Position			
Net Investment in Capital Assets	958	-	209
Restricted For:			
Nonexpendable:			
Higher Education	-	-	-
Other	-	-	-
Expendable:			
Bond Indenture	2,379,737	-	-
Capital Projects/Construction/Capital Acquisition	-	-	1,376,945
Debt Service	-	-	-
Gifts and Grants	-	-	-
Higher Education	-	-	-
Virginia Pooled Investment Program	-	-	7,539
Other	-	-	-
Unrestricted	135,450	(40,722)	9,642
Total Net Position (Deficit) (Note 4)	$ 2,516,145	$ (40,722)	$ 1,394,335

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

Virginia College Building Authority	Nonmajor Component Units	Total
$ 50	$ 2,453,403	$ 2,470,434
-	8,215,338	11,818,678
26,043	1,117,686	12,553,193
-	332,828	332,828
4,105	22,406	26,785
-	118,742	118,742
-	99,469	99,469
-	112,312	114,799
-	90,786	174,830
-	-	165,720
41,575	919,059	2,477,901
-	3,752,327	4,197,145
-	219,024	275,956
-	2,652,385	2,656,378
-	13,112,567	13,133,111
71,773	33,218,332	50,615,969
-	18,659	18,659
71,773	33,236,991	50,634,628
9	978,466	1,000,359
-	6,119	92,156
-	15,301	15,301
115,530	3,212	118,742
-	26,905	26,905
-	334,169	336,730
-	50,278	50,278
76,240	998,743	1,239,830
-	32,307	32,307
-	57,998	57,998
-	33,412	33,412
164,238	589,345	1,683,743
2,561,021	8,616,797	23,428,435
2,917,038	11,743,052	28,116,196
-	4,596	4,596
2,917,038	11,747,648	28,120,792
-	9,159,742	9,160,909
-	2,813,686	2,813,686
-	160,525	160,525
-	-	2,379,737
-	246,385	1,623,330
-	90,564	90,564
-	115,609	115,609
1	4,846,163	4,846,164
-	-	7,539
-	9,724	9,724
(2,845,266)	4,046,945	1,306,049
$ (2,845,265)	$ 21,489,343	$ 22,513,836

Statement of Activities – Component Units

For the Fiscal Year Ended June 30, 2013
(Dollars in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenue
Virginia Housing Development Authority	$ 554,188	$ 510,466	$ 134,363	$ -	$ 90,641
Virginia Public School Authority	142,419	119,073	6,092	-	(17,254)
Virginia Resources Authority	156,471	146,254	-	47,709	37,492
Virginia College Building Authority	730,783	77,952	42,489	207	(610,135)
Total Major Component Units	1,583,861	853,745	182,944	47,916	(499,256)
Nonmajor Component Units:					
Higher Education	11,666,701	7,565,920	2,476,583	586,412	(1,037,786)
Other	851,417	571,550	50,648	50,286	(178,933)
Total Nonmajor Component Units	12,518,118	8,137,470	2,527,231	636,698	(1,216,719)
Total Component Units	$ 14,101,979	$ 8,991,215	$ 2,710,175	$ 684,614	$ (1,715,975)

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

General Revenues							
Operating Appropriations from Primary Government	Unrestricted Grants and Contributions	Investment Earnings	Miscellaneous	Contributions to Permanent / Term Endowments	Changes in Net Position	Net Position (Deficit) July 1	Net Position (Deficit) June 30 (Note 4)
$ -	$ -	$ 20,356	$ -	$ -	$ 110,997	$ 2,405,148	$ 2,516,145
-	-	242	276	-	(16,736)	(23,986)	(40,722)
-	-	-	-	-	37,492	1,356,843	1,394,335
197,691	-	-	-	-	(412,444)	(2,432,821)	(2,845,265)
197,691	-	20,598	276	-	(280,691)	1,305,184	1,024,493
1,659,626	71,281	601,311	103,921	139,678	1,538,031	17,915,321	19,453,352
93,888	23,371	9,192	4,560	8,653	(39,269)	2,075,260	2,035,991
1,753,514	94,652	610,503	108,481	148,331	1,498,762	19,990,581	21,489,343
$ 1,951,205	$ 94,652	$ 631,101	$ 108,757	$ 148,331	$ 1,218,071	$ 21,295,765	$ 22,513,836

Index to the Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Reporting Entity

For financial reporting purposes, the Commonwealth of Virginia's (the Commonwealth's) reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable (blended component units), and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading, and they are financially accountable to the primary government (discrete component units). The funds of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included. GASB standards require the inclusion of numerous organizations that raise and hold funds for the direct benefit of the primary government.

Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) describes the criteria for determining which organizations, functions, and activities should be considered part of the Commonwealth for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body, and the Commonwealth's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth. Additionally, in instances where the voting majority is not appointed, the above benefit/burden criteria apply. If the organization's assets are also held for, or can be accessed by, the Commonwealth, the organization is considered part of the reporting entity.

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

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

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

Route 460 Funding Corporation of Virginia (nonmajor enterprise fund) – The Corporation, a private, non-stock nonprofit corporation was created to develop, construct, and provide financing for the U.S. Route 460 Corridor Improvements Project. The Corporation is a blended component unit of the Department of Transportation (VDOT) (primary government) because it is fiscally dependent on the primary government and provides services entirely to the benefit of the Commonwealth. The corporate offices of the Corporation are located at VDOT, 1401 East Broad Street, Richmond, Virginia 23219. Dixon Hughes Goodman, LLP audits the corporation, and a separate report is available from VDOT.

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

GASB statements generally require any organization that raises and holds economic resources for the direct benefit of the reporting entity to be reported as a component unit, even if the reporting entity is not financially accountable for the organization. The entities are included in the Commonwealth's reporting entity as non-profit charitable organizations and exist solely to support the Commonwealth's higher education institutions and certain state agencies. The higher education institution non-profit organizations are included in the applicable higher education institution's column in the accompanying financial statements. In all instances where separate disclosure of these non-profit organizations is required in the accompanying footnotes, the entities' totals are aggregated and disclosed as "foundations."

Due to the implementation of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34,* the criteria for reporting certain component units as major component units has changed. This change now focuses on the nature and significance of the component unit's relationship to the primary government versus other component units.

Discretely presented component units are:

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

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

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

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

Only the activity of the Authority that relates to the financing of capital projects and equipment purchases by state-supported colleges and universities is included in the financial statements. The state-supported colleges and universities reported revenue from the Authority of $480.0 million as Program Revenue Capital Grants and Contributions for the 21st Century Program and $66.5 million as Program Revenue Operating Grants and Contributions for equipment. The Authority reported Operating Appropriations from Primary Government of approximately $197.7 million. In addition, the Authority reported approximately $29.4 million in payments from the state-supported colleges and universities for 21st Century and Equipment Program debt service costs and approximately $13.1 million in interest on Build America Bonds. The Authority assists private institutions of higher education in the financing and refinancing of a broad range of facilities. The Authority is authorized to issue obligations and lend the proceeds to private institutions; however, such financings or refinancings are not obligations of the primary government nor the Authority, but are payable solely from the revenues pledged by the respective private institution. This indebtedness, totaling $675.5 million, is not included in the financial statements.

Higher Education Institutions – The Commonwealth's higher education institutions are granted broad corporate powers by state statutes. The Governor appoints the members of each institution's board of trustees. In addition to the annual appropriations to support the institutions' operations, the Commonwealth provides funding for, and construction of, major academic plant facilities for the institutions. Institutions reported Operating Appropriations from Primary Government of approximately $1.7 billion and Program Revenue Capital Grants and Contributions of approximately $9.3 million from the primary government. Therefore, there is a financial benefit/burden to the primary government. The bonds issued to finance the construction of these facilities are obligations of the Commonwealth. The higher education institutions are: the University of Virginia, including the University of Virginia Medical Center and the University of Virginia's College at Wise; Virginia Polytechnic Institute and State University; Virginia Commonwealth University, including the Virginia Commonwealth University Health System Authority, the College of William & Mary, including Richard Bland College and the Virginia Institute of Marine Science; Virginia Military Institute; Virginia State University; Norfolk State University; University of Mary Washington; James Madison University; Radford University; Old Dominion University; George Mason University; Virginia Community College System; Christopher Newport University; and Longwood University. The Southwest Virginia Higher Education Center, Roanoke Higher Education Authority, Institute for Advanced Learning and Research, Southern Virginia Higher Education Center, and New College Institute are also included as higher education institutions. The colleges and universities are funded through state appropriations, tuition, federal grants, and private donations and grants. As previously noted, certain foundations are considered component units of the higher education institutions, and are included in the accompanying financial statements as well as the higher education institutions' individually published financial statements. The Auditor of Public Accounts (APA) does not audit the Roanoke Higher Education Authority, the Institute for Advanced Learning and Research, and the component units of the higher education institutions, including foundations, but relies on the reports issued by other auditors to render her opinion.

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

Innovation and Entrepreneurship Investment Authority (IEIA) (nonmajor) – The Authority is granted corporate powers by the *Code of Virginia*. The Authority serves to facilitate the marketing, organization, and development of scientific research and technology by the state's institutions of higher education and private industry in the Commonwealth. In addition, the Authority serves to promote the economic development of the Commonwealth by attracting and retaining high technology jobs and businesses in Virginia. The Governor and General Assembly appoint the 15-member board, and there is a financial benefit/burden to the primary government. The Authority's combined financial statements include the accounts of the Center for Innovative Technology (CIT) after elimination of all significant intercompany balances and transactions. CIT is a non-stock, not-for-profit corporation, which acts as the operating arm of the Authority. The address for the administrative offices of the Authority is CIT Building, Suite 600, 2214 Rock Hill Road, Herndon, Virginia 20170-4228. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

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

Virginia Outdoors Foundation (nonmajor) – The Foundation was created as a body politic and is administratively assigned to the Department of Conservation and Recreation (part of primary government) and charged with promoting preservation through the acceptance of donated conservation easements and raising funds for the purchase of preservation land. The Governor appoints the seven-member board of trustees, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 39 Garret St, Suite 200, Warrenton, VA 20186. Dixon Hughes Goodman, LLP, audits the Foundation, and a separate report is issued.

Virginia Port Authority (VPA) (nonmajor) – The Authority was established as a corporate body and operates to serve the citizens and promote commerce through the harbors and ports of Virginia. The Governor appoints a majority of the 12-member board, and the primary government is able to impose its will on the Authority. There is also a financial benefit/burden to the primary government. The administrative offices of the Authority are located at 601 World Trade Center, Norfolk, Virginia 23510. Clifton Larson Allen audits the Authority, and a separate report is issued.

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

Virginia Foundation for Healthy Youth (nonmajor) – The Foundation was created as a body corporate and as a political subdivision of the Commonwealth. The Foundation was established to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund and to distribute monies in this fund for such efforts as restricting the use of tobacco products by minors and the enforcement of laws restricting the distribution of tobacco products to minors. The Governor appoints the majority of the board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 701 East Franklin Street, Suite 500, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation, and a separate report is issued.

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

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

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

The Authority issued three series of revenue bonds for specific customers, the 2002 Series, the 2013B Series, and the 2013A Series. The 2002 Series variable rate revenue bonds were for a facility built specifically for the United Network for Organ Sharing. The 2013B Series variable rate revenue bonds were for the Virginia Blood Services project. The 2013A Series variable rate revenue bonds were to assist the Institute for Transfusion Medicine (ITxM). The bonds are secured by a letter of credit and are payable solely from the payments made by the borrower under the loan agreement. Neither of these bonds constitutes a debt or pledge of the Authority or the Commonwealth. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Virginia Small Business Financing Authority (SBFA) (nonmajor) – The Virginia Small Business Financing Act of 1984 (Chapter 28, Title 9, *Code of Virginia*) established the Authority as a public body corporate and a political subdivision of the Commonwealth. The Governor appoints the 11-member board, and the primary government is able to impose its will on the Authority. The Authority was created to assist small businesses in the Commonwealth in obtaining financing for new businesses or the expansion of existing businesses. The Authority can provide financial assistance to small businesses by providing loans, guarantees, insurance, and other assistance, thereby encouraging the investment of private capital in small businesses in the Commonwealth. The Authority can loan money to local governments as defined by the *Code of Virginia* for economic development purposes. The Authority also guarantees loans made to small businesses by banks. The administrative offices of the Authority are located at 1220

Bank Street, Suite 300, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Authority, and a separate report is issued.

The Authority has issued Industrial Development Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector entity served by the bond issuance. Neither the Authority nor the Commonwealth is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities on the accompanying financial statements.

Virginia School for the Deaf and Blind Foundation (nonmajor) – The Foundation operates as a non-private educational and fundraising organization solely in connection with, and exclusively for the benefit of the Virginia School for the Deaf and Blind (part of primary government). The Foundation uses a December 31 calendar year-end. The administrative offices are located at Post Office Box 2069, Staunton, Virginia 24402. Didawick and Company audits the Foundation, and a separate report is issued.

Science Museum of Virginia Foundation (nonmajor) – The Foundation is a non-stock, non-profit corporation established to implement and fund programs, projects, and operations that are authorized and approved by the trustees of the Science Museum of Virginia (part of primary government). The administrative offices of the Foundation are located at 2500 West Broad Street, Richmond, Virginia, 23220. Cherry, Bekaert, & Holland, LLP, audits the Foundation, and a separate report is issued.

Virginia Commercial Space Flight Authority (VCSFA) (nonmajor) – The Authority is a legally separate political subdivision of the Commonwealth created by the General Assembly to facilitate and coordinate scientific and technological research and development and to promote the industrial and economic development of the Commonwealth. There is a potential financial benefit/burden to the primary government. The Commonwealth provided $26.0 million in bond offerings through the Virginia Public Building Authority to the VCSFA in fiscal year 2009. The administrative offices of the Authority are located at 4111 Monarch Way, Suite 303, Norfolk, Virginia 23508. Dixon Hughes Goodman, LLP audits the Authority, and a separate report is issued.

Danville Science Center, Inc. (nonmajor) – The Center is non-profit corporation formed for the purpose of implementing and funding those programs, projects and operations which are authorized and approved by the trustees of the Science Museum of Virginia (part of primary government). The administrative offices of the Center are located at 677 Craghead Street, Post Office Box 167, Danville, Virginia 24541. Dixon Hughes Goodman, LLP, audits the Center, and a separate report is issued.

Virginia Museum of Fine Arts Foundation (nonmajor) – The Foundation operates as a non-profit corporation under the laws of Virginia to fund exhibitions, programs, and capital asset expansion to ensure that the Virginia Museum of Fine Arts (part of primary government) has the space and resources for art to help improve the quality of life for many. The administrative offices of the Foundation are located at 201 North Boulevard, Richmond, Virginia 23220. Dixon Hughes Goodman, LLP, audits the Foundation, and a separate report is issued.

A. L. Philpott Manufacturing Extension Partnership (nonmajor) – The Partnership has the mission to foster economic growth by enhancing the competitiveness of Virginia's manufacturers. The Partnership provides manufacturing firms with fee-based technology consulting services, access to business modernization resources, and support for interfirm collaboration. Further, the Partnership provides direct assistance to increase sales, decrease costs, and improve quality, productivity, and competitiveness. The Partnership has a 23-member board of trustees. The board consists of the presidents of two public four-year institutions of higher education; three community college presidents; the director of Virginia's Center for Innovative Technology; Virginia's Secretary of Commerce and Trade; and 15 citizen members, representing manufacturing industries, appointed by the Governor. There is also a financial benefit/burden to the primary government. The administrative office is located at 32 Bridge Street, Suite 200, Martinsville, VA 24112. The Auditor of Public Accounts audits the Partnership, and a separate report is issued.

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

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

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

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

Virginia National Defense Industrial Authority (nonmajor) – The Authority was created as a public body corporate and as a political subdivision of the Commonwealth. The Authority fosters and promotes business, technology, transportation, education, economic development and other efforts in support of the mission, execution, and transformation of the United States military and national defense activities located in the Commonwealth. The Governor appoints a majority of the 16-member board, and there is a financial benefit/burden to the primary government. The administrative offices are located at 901 East Byrd Street, Post Office Box 798, Richmond, Virginia 23218-0798. The Auditor of Public Accounts audits the Authority, and a separate report is issued. The Authority ceased to exist during fiscal year 2013.

Virginia Sesquicentennial of the American Civil War Foundation (nonmajor) – The Foundation was established to prepare for and commemorate the sesquicentennial of Virginia's participation in the American Civil War. The Foundation was formed under the Virginia Nonstock Corporation Act. The economic resources received or held by the Foundation are entirely or almost entirely for the direct benefit of the primary government. The administrative offices are located at the General Assembly Building, 2nd Floor, 201 North 9th Street, Richmond, VA 23219. Brown, Edwards & Company, LLP, audits the Foundation, and a separate report is issued.

Virginia Land Conservation Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (part of primary government) by acquiring interests in preservation land and providing grants to other entities to acquire interests in preservation land. The Governor appoints the 18-member board, and the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 600 East Main Street, 24th Floor, Richmond, VA 23219. The Auditor of Public Accounts audits the Foundation as part of the Department of Conservation and Recreation (part of primary government) and discloses its existence in that report.

Virginia Arts Foundation (nonmajor) – The Foundation was created as a body politic and corporate to serve the Virginia Commission for the Arts (part of primary government) by promoting the arts in the Commonwealth. The Governor appoints the board of trustees for the Virginia Commission for the Arts, which also serves as the board for the Virginia Arts Foundation. The Director of the Virginia Commission for the Arts serves as the board chairman. In addition, the primary government can impose its will on the Foundation. The administrative offices of the Foundation are located at 1001 East Broad Street, Suite 3300, Richmond, VA 23219. The Auditor of Public Accounts audits the Foundation as part of the Virginia Commission for the Arts.

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

Company, LLP audits the Foundation, and a separate report is issued.

Virginia Health Workforce Development Authority (nonmajor) – The Authority is a legally separate public body corporate and a political subdivision of the Commonwealth created by the General Assembly. The Authority facilitates the development of a statewide health professions pipeline. The Governor appoints a majority of the board members and the primary government is able to impose its will on the Authority. The administrative offices of the Authority are located at 8527 Mayland Drive, Suite 104A, Richmond, Virginia 23294. The Auditor of Public Accounts audits the Authority and a separate report is issued.

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

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

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

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

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

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

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

C. Government-wide and Fund Financial Statements

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

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

Fund equity is restricted when constraints are placed on them that are imposed by external parties or constitutional provisions. When both restricted and unrestricted resources are available for use, the Commonwealth's policy is to use the restricted resources first. Some institutions of higher education may follow a different policy. When committed, assigned, and unassigned resources are available for use, the Commonwealth's policy is to use the committed resources first, assigned resources next, and unassigned resources last.

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

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

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

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

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

The primary government reports the following major governmental funds:

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

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

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

Literary Fund Special Revenue Fund – Accounts for revenues from fines, forfeitures, and proceeds from unclaimed property used primarily to support public education in the Commonwealth. This fund provides low interest loans to school divisions for construction, renovations, and expansion of school buildings.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements – The financial statements of the proprietary funds, fiduciary funds, and component units are reported using the economic resources measurement focus and the full accrual basis of accounting. As with the government-wide statements, revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus since they only report assets and liabilities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

Foundations' (component units) financial statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. The financial statements are prepared under FASB rather than GASB standards. In some instances, activities of the foundations (component units) are reported separately within the footnotes because of the different reporting standards. Also, some foundations (component units) have a December 31st or March 31st year-end rather than a fiscal year-end. Foundations (component units) with different year-ends are included in these financial statements for the year ending December 31, 2012, or March 31, 2013. Significant intrafund activity/balances between each higher education institution and their foundations have been eliminated.

The following amounts could not be eliminated due to the differing year-ends:

- Old Dominion University (nonmajor component unit):
  - institution liabilities of $69.2 million,
  - foundation assets of $59.1 million, and
  - foundation liabilities of $3.6 million.

- Longwood University (nonmajor component unit):
  - institution assets of $381,383,
  - institution expenses of $3.4 million,
  - foundation assets of $253,525,
  - foundation liabilities of $208,090, and
  - foundation revenues of $3.1 million.

The primary government reports the following major enterprise funds:

State Lottery Fund – Accounts for all receipts and expenses of the State Lottery.

Virginia College Savings Plan Fund – Administers the Virginia prePAID Program.

Unemployment Compensation Fund – Accounts for receipts from employers and expenses incurred to provide benefits to eligible unemployed workers.

Additionally, the primary government reports the following fund types:

Governmental Fund Types:

Special Revenue Funds – Account for transactions related to resources received and used for restricted, committed, or specific purposes.

Debt Service Funds – Account for transactions related to resources retained and used for the payment of interest and principal on long-term obligations.

Capital Project Funds – Account for transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental or proprietary funds. The primary resource for these funds is the proceeds of bond issues and energy performance contracts. Principal uses are for construction and improvement of state office buildings, correctional and mental health facilities, and parks.

Permanent Funds – Account for transactions of the Commonwealth Health Research Fund and the Behavioral Health Endowment Funds whose principal must remain intact and whose income is used to benefit the Commonwealth's citizens and behavioral health patients.

Proprietary Fund Types:

Enterprise Funds – Account for transactions related to resources received and used for financing self-supporting activities of the primary government that offer products and services on a user-charge basis to external users.

Internal Service Funds – Account for transactions related to the financing and sale of goods or services provided by the agencies of the primary government to other agencies and institutions of the Commonwealth. Activities include the provision of information technology, manufacturing activities, insurance programs, fleet services, facilities and property management, engineering and payroll services.

Fiduciary Fund Types:

Private Purpose Trust Funds – Account for transactions of all other trust arrangements in which the principal and income benefit individuals, private organizations, or other governments. These trusts include those for escheat property, educational savings plan, and others.

Pension and Other Employee Benefit Trust Funds – Account for transactions of the Commonwealth administered retirement systems and other employment benefits.

Investment Trust Fund – Accounts for the external portion of the Local Government Investment Pool that is sponsored by the Commonwealth.

Agency Funds – Account for amounts held in trust by the primary government for others. Agency funds include those funds established to account for the collection of taxes and fees for distribution to localities and other states, employee benefits, deposits of insurance carriers, child support collections and other miscellaneous accounts.

E. Budgetary Process

Budgetary amounts shown in the Required Supplementary Information and Combining and Individual Fund Statements and Schedules Sections represent the total of the original budgeted amounts and all supplemental appropriations. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the *Code of Virginia*, submits a budget composed of all proposed expenditures for the Commonwealth, and of estimated revenues and borrowing for a biennium, to the General Assembly. Budgets are adopted for the General and Special Revenue Funds, except for the Literary – Special Revenue (major). Formal budgetary integration is not employed for the Capital Projects (nonmajor), Debt Service (nonmajor), Permanent Funds (nonmajor), and the Literary – Special Revenue (major) because effective budgetary control is alternatively achieved through the General Fund and the remaining Special Revenue Funds.

The budget is prepared on a biennial basis; however, the budgets of the General and Special Revenue Funds contain separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor. For management control purposes, the budget is controlled at the program level. The Governor may transfer an appropriation within a state agency or from one state agency to another, provided that total fund appropriations, as contained within the budget, are not exceeded. Increases in General Fund appropriations must be approved by the General Assembly.

Appropriations for programs funded from Special Revenue Funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

F. Cash, Cash Equivalents, and Investments

Cash

In order to maximize the Commonwealth's earning potential, the majority of the primary government's cash balances are pooled together in the general account for investment purposes. The amounts required for operations are liquidated as needed. Since all amounts not required for operations are held in investment securities, it is possible that the cash balances could be negative due to timing differences in liquidating the investments.

As of June 30, 2013, the General Fund had a negative cash balance of $3.7 billion. In order to properly reflect the general account position, this negative cash balance has been eliminated in the accompanying statements and offset against the primary government's cash equivalents and investments (see Note 6).

Cash Equivalents

Cash equivalents are investments with an original maturity of 90 days or less.

Investments

Investments are principally comprised of monies held by component units, Pension and Other Employee Benefit Trust Funds, and monies held by the State Treasurer in both the general account and other fiduciary accounts.

Governmental and proprietary funds, both primary government and component units, report investments in money market and in the Commonwealth sponsored investment pools at amortized cost which approximates fair value. All other investments are reported at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Investments administered by the Virginia Retirement System (the System) are reported at fair value. The cost of investments sold is the average cost of the aggregate holding of the specific investment sold. Investments in affiliated organizations are accounted for on the equity method of accounting and the System's share of their earnings (losses) for the period is included in investment income using the equity method.

Investments of higher education institutions (component units) are reported at fair value, except for money market investments and investments in the Commonwealth sponsored investment pools, which are reported at amortized cost.

Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes (see Note 13).

G. Receivables

Receivables in the governmental funds consist primarily of the accrual of taxes, as well as receivables of the primary government's Medicaid program. Receivables in the proprietary funds consist primarily of tuition contribution receivables and unemployment compensation. Receivables of fiduciary funds are primarily the accrual of security transactions and interest earnings in the Pension and Other Employee Benefit Trust Funds. Receivables of the component units consist primarily of mortgage receivables, loan receivables, patient receivables, and student receivables. Receivables are recorded net of allowances for doubtful accounts (see Note 7).

H. Contributions Receivable, Net

Contributions Receivable reported by the foundations (component units) represents pledges or unconditional promises to give that have been discounted (see Note 8).

I. Internal Balances

Interfund receivables and payables have been eliminated from the Statement of Net Position, except for the residual amounts due between governmental and business-type activities (see Note 9).

J. Inventory

Inventories consist of materials and supplies and are reported as expenditures when consumed. These assets are classified as nonspendable fund balance. Inventories exceeding $1.0 million of the General and the Special Revenue Funds are maintained at cost using the first-in, first-out (FIFO) methodology, except for the following:

- Department of State Police (VSP)
- Virginia Department of Transportation (VDOT)
- Department of Health (VDH)

VSP inventories are recorded in the General (major) and Other Special Revenue (nonmajor) Funds using the average cost methodology and are maintained at cost. VDOT inventories are recorded in the Commonwealth Transportation Fund (major) using the FIFO and average cost methodologies and are maintained at either cost or average cost. VDH inventories are recorded in the General (major), Health and Social Services Special Revenue (nonmajor), and Federal Trust (major) Funds. These inventories are maintained at cost based on either FIFO or the average cost methodology.

In addition to inventories maintained as stated above, the following agencies reported donated inventory balances on hand at June 30, 2013:

- Department of Health
- Department of Corrections
- Department of Behavioral Health and Developmental Services
- Department of Juvenile Justice

Inventories maintained by the Virginia Museum of Fine Arts (nonmajor enterprise fund), the Science Museum of Virginia (nonmajor enterprise fund), and the Consolidated Laboratory (nonmajor enterprise fund) are stated at cost using FIFO.

Inventories maintained by the Department of Alcoholic Beverage Control (nonmajor enterprise fund) are stated at average cost using FIFO.

The Virginia Industries for the Blind (nonmajor enterprise fund) maintains inventories at cost using the average cost methodology.

Inventories maintained by Correctional Enterprises (internal service fund) are stated at the lower of cost or market using FIFO. Inventories maintained by the internal service funds except for Correctional Enterprises are stated at cost using FIFO.

Institutions of higher education (component units) use several methods for inventory valuations, including cost using FIFO, the lower of cost or market using FIFO, or weighted average methods. Inventories maintained by the Virginia Horse Center Foundation (nonmajor component unit) are stated at the lower of cost or market using FIFO.

Inventories maintained by the Virginia Port Authority (nonmajor component unit) and the Danville Science Center (nonmajor component unit) are reported using the moving average unit cost methodology. Inventories at the gift shop run by the Library of Virginia Foundation are stated at lower of cost or market using FIFO.

K. Prepaid Items

Prepaid assets for rent, insurance, and similar items are recognized when purchased and expensed when used.

L. Interfund Loans Receivable/Payable

Loans Receivable/Payable represents working capital advances from one fund to another (see Note 9).

M. Other Assets

Other Assets include those balances of a miscellaneous nature that are not specifically classified elsewhere (see Note 10).

N. Capital Assets

Capital assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the Government-wide Statement of Net Position. Capital assets of the other funds and component units are capitalized in the fund in which they are utilized. All depreciable capital assets are depreciated on the straight-line basis over their useful lives (see Note 12).

Capital assets are stated at historical cost or, in some instances, estimated historical cost. Donated capital assets from entities external to the reporting entity are stated at fair market value at the time of donation. Asset transfers or donations from within the reporting entity are recorded at the carrying value of the transferring entity as required by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The primary government capitalizes all equipment that has a cost or value greater than $50,000 and expected useful life of greater than two years. The primary government capitalizes all land, water rights/easements, buildings, infrastructure, and software that have a cost or value greater than $100,000 and an expected useful life of greater than two years. Selected agencies, business-type entities, and component units utilize a capitalization limit lower or higher than the primary government's established thresholds for various reasons. Accordingly, reported capital assets may include some items that cost less than those thresholds. Infrastructure, including highways, bridges, and rights-of-way, is capitalized using the historical approach and includes any assets acquired prior to fiscal year 1980.

The primary government's capitalization policy regarding works of art/historical treasures is that capitalization is encouraged, but not required, for works of art/historical treasures that meet the following conditions:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain;
- The collection is protected, kept unencumbered, cared for and preserved; and,
- The collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

The primary government capitalizes construction-in-progress when project expenditures, including construction of intangible assets, exceed $100,000. Interest incurred during construction is not capitalized in governmental funds. Interest incurred during the construction of proprietary fund assets is included in the capitalized value of the asset. The total interest cost incurred during the fiscal year was $11.0 million. Of this amount, $1.4 million was capitalized. Expenditures are classified as construction-in-progress if:

(1) They extend the asset life, improve productivity, or improve the quality of service; and,

(2) They fall into the planning, acquisition, construction, improvement, renovation, repair, replacement, relocation, or demolition phase of the asset life.

The estimated lives of capital assets are as follows:

	Years
Buildings	10–75
Equipment	2–50
Infrastructure	5–50
Software	5–35

Selected agencies, business-type entities, and component units may utilize estimated lives and policies that differ from the above for various reasons.

O. Accounts Payable

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, accounts payable also includes payments for nonexchange transactions that met eligibility requirements prior to year-end (see Note 23).

P. Unearned and Deferred Revenue

Unearned revenue represents monies received or revenues accrued but not earned as of June 30, 2013. Deferred revenue represents revenues accrued but not available to finance expenditures of the current fiscal period. The majority of unearned revenue is reported by higher education institutions (component unit), where it is primarily composed of revenue for student tuition accrued in advance of the semester and advance payments on grants and contracts. In the General Fund (major), deferred revenue represents receivables that will be collected after August 31, 2013. In the special revenue funds, unearned revenue is composed primarily of prepaid toll revenue and contributions from localities and private sectors for highway construction projects recorded in the Commonwealth Transportation Fund (major). In the enterprise funds, a majority of unearned revenue represents on-line ticket monies received by the State Lottery (major) for which corresponding drawings have not been held.

Unearned revenue in the internal service funds represents unearned premiums in the Risk Management Fund; the transfer and purchase of assets for transition agencies, as well as advanced customer receipts in the Virginia Information Technologies Agency (VITA) Fund; and prepaid rent and work orders in the Property Management Fund.

Unearned revenues in the other component units consist primarily of the deferral of fees related to various activities.

Q. Deferred Taxes

Deferred taxes represent the deferral of income taxes related to the period January through June 2013. This amount is the estimate to be refunded (overpayments by taxpayers) reduced by the estimate to be received (underpayments from taxpayers) that will be finalized when income tax returns are filed in subsequent years. Individual income tax estimated overpayments total $890.3 million and estimated underpayments total $410.8 million. This results in deferred taxes of $479.5 million.

Corporate income tax estimated overpayments total $45.6 million and estimated underpayments total $39.1 million. This results in deferred taxes of $6.5 million.

R. Obligations Under Securities Lending Program

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, liabilities resulting from these transactions have been recorded as obligations under securities lending transactions.

S. Other Liabilities

Other liabilities represent amounts owed for various governmental and proprietary activities. Some of these amounts will be paid shortly after fiscal year-end (see Note 24).

T. Claims Payable

Claims payable, reported in the proprietary funds of the primary government, represent both health and liability insurance claims payable at June 30, 2013. This includes both actual claims submitted, as well as actuarially determined claims incurred but not reported. Claims relating to the primary government's liability insurance programs are reported in the Risk Management – internal service fund and the Risk Management – nonmajor enterprise fund. Also, health insurance claims are reported in the Health Care – internal service fund and the Local Choice Health Care – nonmajor enterprise fund (see Notes 22.A. and 22.B.). Claims payable reported by the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University – nonmajor component unit) represents estimated malpractice, workers' compensation, and medical claims payable amounts.

U. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column. The governmental fund statements reflect the portion of long-term liabilities that will be paid from expendable resources that represent payments to employees for separations that occurred prior to June 30. The proprietary fund statements and discrete component unit statements reflect total long-term liabilities and distinguish between those portions payable within one year and those payable in future years (see Note 25).

Bond premiums and discounts, as well as significant issuance costs, are deferred and amortized over the life of the bond. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Expenditures for principal and interest payments for governmental fund general obligation bonds and revenue bonds are recognized in the Debt Service Fund (nonmajor) when due. In these fund statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures (see Note 25).

V. Nonspendable Fund Balances

Nonspendable fund balances indicate that portion of fund balance that cannot be spent because it is either not in spendable form or is legally or contractually required to be maintained intact.

W. Restricted Fund Balances

Restricted fund balances are amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

X. Committed Fund Balances

Committed fund balances are amounts that have constraints placed on the use of resources that are imposed by the formal action of the government's highest level of decision-making authority through enabling legislation. The highest level of decision authority for the Commonwealth is the General Assembly and the Governor.

Y. Assigned Fund Balances

Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Assignments are identified by Commonwealth management pursuant to the delegation of authority granted by the General Assembly and Governor specified in the Appropriations Act.

Z. Unassigned Fund Balances

Unassigned fund balance is the amount of fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

AA. Cash Management Improvement Act

Included in Amounts Due to Other Governments is the Commonwealth's Cash Management Improvement Act (CMIA) interest liability to the federal government, which is calculated in accordance with the interest calculation and exchange provisions of the Federal Cash Management Improvement Act of 1990. The Commonwealth's interest liability is subject to review and final confirmation by the Financial Management Service (FMS) of the U.S. Treasury. The payment is to be made on March 31, 2014. Payment will be made from a sum sufficient appropriation authorized for this purpose by the Appropriation Act. The CMIA interest rate of exchange is based by law on the average of the bond equivalent rates of 13-week Treasury Bills auctioned during the annual reporting period as calculated by FMS.

BB. Investment Income

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investment income reported in the accompanying financial statements include changes in the fair value of investments and the amount reported may be negative. Additionally, the Commonwealth's policy is to record all unrealized gains or losses for the Treasurer's Portfolio in the General Fund.

CC. Intrafund Eliminations

Eliminations have been incorporated into the report to eliminate intrafund transactions within the related fund type. These eliminations prevent overstatement of financial activity.

DD. Interfund Activity

Generally, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions.

In the fund financial statements, transfers represent the movement of resources between funds. For example, transfers are recorded when a fund receives revenue and subsequently disburses the resources to another fund for expenditure.

2. RESTATEMENT OF BEGINNING BALANCES

The government-wide beginning balance restatements resulted from the following:

Governmental Activities

- The Commonwealth implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the fiscal year ending June 30, 2013. As a result of this Statement, Deferred Inflow balances were restated by $535.2 million (Note 36).

- Capital Asset balances were restated by $343.6 million as follows: $339.3 million due to the implementation of GASBS No. 60 and $4.3 million due to errors attributable primarily to the Department of Conservation and Recreation that resulted in an understatement of previous balances.

- The Commonwealth Transportation (major special revenue) beginning balance has been restated by $7.3 million due to an understatement of accounts payable in the previous year.

Fund Statements

The fund statement beginning balance restatements resulted from the following:

- The Commonwealth Transportation (major special revenue) fund balance has been restated by $7.3 million as discussed previously.

- The Private Purpose Trust Fund has been restated by $1.8 million to correct errors which resulted from conversion to a new accounts receivable system by the Virginia College Savings Plan.

Beginning Balance Restatement

(Dollars in Thousands)

	Balance as of June 30, 2012	GASBS No. 60 Service Concession Arrangements	Correction of Prior Year Errors	Balance June 30, 2012 as restated
Government-wide Activities:				
Primary Government:				
Governmental Activities	$ 19,322,883	$ (195,944)	$ (2,973)	$ 19,123,966
Business-type Activities	355,944	-	-	355,944
Total Primary Government	$ 19,678,827	$ (195,944)	$ (2,973)	$ 19,479,910
Component Units	$ 21,295,765	$ -	$ -	$ 21,295,765
Fund Statements - Governmental Funds				
Major Governmental Funds:				
General	$ 512,359	$ -	$ -	$ 512,359
Special Revenue Funds:				
Commonwealth Transportation	2,746,594	-	(7,286)	2,739,308
Federal Trust	99,734	-	-	99,734
Literary	97,582	-	-	97,582
Nonmajor Governmental Funds	973,147	-	-	973,147
Total Governmental Funds	$ 4,429,416	$ -	$ (7,286)	$ 4,422,130
Fund Statements - Fiduciary Funds				
Private Purpose Funds	$ 2,311,338	$ -	$ (1,771)	$ 2,309,567
Pension Trust Funds	$ 53,305,438	$ -	$ -	$ 53,305,438
Investment Trust Funds	$ 2,451,888	$ -	$ -	$ 2,451,888

3. NET POSITION/FUND BALANCE CLASSIFICATIONS

Net Position

The Commonwealth implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* effective for fiscal year 2013. This Statement modified the terms "net assets" to "net position" and "Invested in Capital Assets, Net of Related Debt" to "Net Investment in Capital Assets."

Fund Balance

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* improves the reporting of fund balance so that classifications are more easily understood and can be applied consistently between information reported in the government-wide financial statements and the governmental fund financial statements. The governmental fund balance classifications defined in GASB Statement No. 54 are: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

Nonspendable fund balance includes inventories, prepaid items, and the principal of a permanent fund. These funds are not available for expenditure in the current or following period.

Restricted fund balances include amounts that have constraints placed on the use of resources by the *Constitution of Virginia* or a party external to the Commonwealth.

Committed fund balances include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the General Assembly and Governor through enacted legislation. The distinction between restricted and committed fund balances is the source and strength of the constraints placed on them.

Assigned fund balances are those that the government intends to use for a specific purpose, but for which the use is not legislatively mandated. The assignments are identified by Commonwealth management pursuant to the delegation of authority granted by the General Assembly and Governor specified in the Appropriations Act. The following schedule includes committed and assigned amounts that share the same purpose and title. The distinction between these classifications results from whether there is a statutory restriction on certain amounts contained within the fund.

Unassigned funds are the residual classification for the General Fund. A negative amount indicates that restricted and committed amounts exceed the available modified accrual basis fund balance.

The governmental fund balance classifications and amounts at June 30, 2013, are shown in the following table.

Governmental Fund Balance Classifications

(Dollars in Thousands)

	General Fund	Commonwealth Transportation	Federal Trust	Literary	Nonmajor Governmental	Total
Nonspendable						
Inventory	$ 43,730	$ 70,752	$ 15,921	$ -	$ 5,174	$ 135,577
Prepaid Items	76,654	6,637	1,819	-	17,977	103,087
Permanent Funds	-	-	-	-	30,622	30,622
Total Nonspendable	120,384	77,389	17,740	-	53,773	269,286
Restricted						
Agriculture and Forestry	-	-	-	-	1,406	1,406
Capital Projects/Construction/Capital Acquisition	-	-	-	-	213,818	213,818
Debt Service	-	-	-	-	35,173	35,173
Economic and Technological Development	-	-	-	-	971	971
Educational and Training Programs	-	-	-	-	8,243	8,243
Environmental Quality and Natural Resource Preservation	-	-	-	-	13,170	13,170
Gifts and Grants	-	93,822	90,109	-	2,217	186,148
Government Operations:						
Legislative Services	-	-	-	-	10	10
Administrative Services	-	-	-	-	4,611	4,611
Health and Public Safety	-	-	-	-	112,682	112,682
Literary Fund	-	-	-	63,778	-	63,778
Lottery Proceeds Fund	23,350	-	-	-	-	23,350
Revenue Stabilization Fund	927,786	-	-	-	-	927,786
Transportation Activities	-	197,098	-	-	-	197,098
Virginia Water Supply Assistance Grant Fund	10,693	-	-	-	-	10,693
Total Restricted	961,829	290,920	90,109	63,778	392,301	1,798,937
Committed						
Agriculture and Forestry	125	-	-	-	22,685	22,810
Amount Required for Mandatory Reappropriation	134,657	-	-	-	-	134,657
Amount Required for Reappropriation of 2013 Unexpended Balances for Capital Outlay	25,998	-	-	-	-	25,998
Capital Projects/Construction/Capital Acquisition	642	-	-	-	660	1,302
Central Capital Planning Fund	11,616	-	-	-	-	11,616
Communications Sales and Use Tax	1,948	-	-	-	-	1,948
Contract and Debt Administration	-	16,312	-	-	-	16,312
Economic and Technological Development	16,481	-	-	-	34,791	51,272
Educational and Training Programs	640	3,822	-	-	6,199	10,661
Environmental Quality and Natural Resource Preservation	3,435	-	-	-	98,698	102,133
Federal Action Contingency Trust Fund	22,500	-	-	-	-	22,500
Government Operations:						
Legislative Services	-	-	-	-	367	367
Administrative Services	141	-	-	-	40,344	40,485
Governor's Opportunity Fund	39,400	-	-	-	-	39,400
Health and Public Safety	7,203	2,063	-	-	178,988	188,254
Natural Disaster Sum Sufficient	34,519	-	-	-	-	34,519
Regulatory Oversight	-	-	-	-	121,176	121,176
Transportation Activities	-	2,023,275	-	-	6,826	2,030,101
Virginia Health Care Fund	71,504	-	-	-	-	71,504
Virginia Water Quality Improvement Fund	131,841	-	-	-	-	131,841
Total Committed	502,650	2,045,472	-	-	510,734	3,058,856
Assigned						
Educational and Training Programs	-	-	-	-	4,101	4,101
Environmental Quality and Natural Resource Preservation	-	-	-	-	1,259	1,259
Government Operations:						
Administrative Services	-	-	-	-	3,238	3,238
Health and Public Safety	-	-	-	-	5,823	5,823
Total Assigned	-	-	-	-	14,421	14,421
Unassigned	(946,919)	-	-	-	-	(946,919)
Total Fund Balance	$ 637,944	$ 2,413,781	$ 107,849	$ 63,778	$ 971,229	$ 4,194,581

4. DEFICIT FUND BALANCES/NET POSITION

The State Lottery (major enterprise fund), the Department of Alcoholic Beverage Control (nonmajor enterprise fund), the Department of Environmental Quality's Title V and Air Pollution Permit Fund (nonmajor enterprise fund), and the Payroll Service Bureau (internal service fund) ended the year with deficit net position of $11.6 million, $36.5 million, $3.2 million, and $444,000, respectively. This was solely attributable to the net pension obligation resulting from GASB Statement No. 27*, Accounting for Pensions by State and Local Governmental Employers,* and the net other postemployment benefits (OPEB) obligation resulting from GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Since the Commonwealth is the employer, the agencies do not report this liability in their individually published financial statements.

The Risk Management Fund (nonmajor enterprise fund) ended the year with a deficit net position balance of $6.7 million. The deficit was a result of increasing claims liability for constitutional officers' programs.

The Route 460 Funding Corporation of Virginia (nonmajor enterprise fund) ended the year with a deficit net position balance of $6.3 million. The deficit was a result of the fund only having interest revenues, while the Virginia Department of Transportation contributions are used to fund the capital expenditures.

The Virginia Information Technologies Agency (internal service fund) ended the year with a deficit net position balance of $24.3 million. The deficit was a result of operating expenses exceeding revenues in previous years.

The Enterprise Application Fund (internal service fund) ended the year with a deficit net position balance of $2.3 million. This deficit was the result of high capital expenses in the newly established internal service fund.

The Health Care Fund (internal service fund) ended the year with a deficit net position balance of $59.3 million. This deficit was the result of incurred but not paid liabilities.

The Property Management Fund (internal service fund) ended the year with a deficit net position balance of $25.7 million. This deficit was the result of the purchase of a leasehold interest in a state-owned building in fiscal year 2006. Also, the Property Management Fund incurred additional capital lease liabilities due to transfers of leases from other state agencies in fiscal year 2009. Additionally, in fiscal year 2013, the Property Management Fund entered into three energy leases where the asset is reported in the governmental fund and the liability is recorded in the internal service fund.

The Risk Management Fund (internal service fund) ended the year with a deficit net position balance of $515.4 million. The deficit was the result of the Worker's Compensation Program having estimated claims payable exceeding the available equity in the fund. Claims are paid on a pay-as-you-go basis. To the extent that claims exceed current resources, they will ultimately become a liability of the fund from which the claim originated.

The Virginia Public School Authority (major component unit) ended the year with a deficit net position balance of $40.7 million. This deficit is the result of an accrued credit against future debt service payments on Local School Bonds due from the localities subsequent to June 30.

The Virginia College Building Authority (major component unit) ended the year with a deficit net position balance of $2.8 billion. This deficit occurred because the Authority issued bonds for the 21st Century College and Equipment programs subject to future appropriations from the General Fund of the Commonwealth without any other security.

The Virginia Economic Development Partnership (nonmajor component unit) ended the year with a deficit net position balance of $2.5 million. This deficit occurs because the partnership's Statement of Net Position reflects $6.4 million in non-current liabilities related to compensated absences, net pension obligation, and net other postemployment benefit obligation. The Partnership is funded mainly by state appropriations, which show current funding only.

5. REVENUE STABILIZATION FUND

In accordance with Article X, Section 8 of the *Constitution of Virginia*, the amount estimated as required for deposit to the Revenue Stabilization Fund must be appropriated for that purpose by the General Assembly. A deposit of $132.7 million was made during fiscal year 2013 as required by Section 2.2-1829 of the *Code of Virginia*. There was no withdrawal made in fiscal year 2013.

Under the provisions of Article X, Section 8 of the *Constitution of Virginia*, a deposit of $244.6 million is required during fiscal year 2014 based on fiscal year 2012 revenue collections. Also, Chapter 806, 2013 Acts of Assembly, appropriates an additional amount of $95.0 million to be deposited in fiscal year 2014 as a prepayment towards future deposits required in the 2014-2016 biennium. A deposit of $243.2 million is required during fiscal year 2015 based on fiscal year 2013 revenue collections. Both required deposits are reported as restricted components of fund balance.

Section 2.2-1829(b) of the *Code of Virginia* requires an additional deposit into the Fund when specific criteria have been met. No such deposit is required since the specified criteria were not met for fiscal year 2013.

The Revenue Stabilization Fund has principal and interest on deposit of $440.0 million restricted as a part of General Fund balance. Pursuant to the constitutional amendment of Article X, Section 8, effective January 1, 2012, the amount on deposit cannot exceed 15.0 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. As of June 30, 2013, the Constitutional maximum is $2.2 billion.

6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2013, the carrying amount of cash for the primary government was $3.1 billion and the bank balance was $322.6 million. The carrying amount of cash for component units was $1.7 billion and the bank balance was $824.1 million. Cash equivalents are investments with an original maturity of 90 days or less. Cash and cash equivalents for foundations (component units) totaled $391.6 million as of year-end. A portion of this amount and some balances during the year exceeded Federal Deposit Insurance Corporation (FDIC) insurance coverage. Foundation investments are disclosed in the Interest Rate Risk section of this note.

For purposes of this note, primary government includes governmental, business-type activities, and fiduciary funds. The deposits of the primary government and the component units, excluding foundations (component units), are secured in accordance with the provisions of the Virginia Security for Public Deposits Act, Section 2.2-4400 of the *Code of Virginia*. The act requires any public depository that receives or holds public deposits to pledge collateral to the Treasury Board to cover public deposits in excess of Federal deposit insurance. The required collateral percentage is determined by the Treasury Board and ranges from 50.0 percent to 100.0 percent for financial institutions choosing the pooled method of collateralization, and from 105.0 percent to 130.0 percent for financial institutions choosing the dedicated method of collateralization. As stated in Note 1.BB., unrealized gains or losses for the Treasurer's Portfolio are recorded in the General Fund.

Certain deposits are held by trustees in accordance with the Trust Subsidiary Act, Section 6.1-32.8 et seq. of the *Code of Virginia*. The act requires that cash held by trustees while awaiting investment or distribution is not to be used by an affiliate bank of the trustee in the conduct of its business unless the affiliate bank delivers securities to the trust department as collateral that is at least equal to the fair value of the trust funds held on deposit in excess of amounts insured by the FDIC.

The Commonwealth is authorized, in accordance with the guidelines set forth in Section 2.2-4500 et seq. of the *Code of Virginia*, to invest public funds in the following:

- U.S. Treasury and agency securities
- Corporate debt securities
- Asset–backed securities
- Mortgage–backed securities
- Municipal securities
- AAA rated obligations of foreign governments
- Bankers' acceptances and bank notes
- Negotiable certificates of deposit
- Repurchase agreements
- Money market funds

Permitted investments include agency mortgage-backed securities, corporate or private label mortgage-backed securities, and asset-backed securities which by definition usually expose the investor to prepayment risk.

At June 30, 2013, the Treasurer of Virginia held no investment, with the exception of securities lending, that was out of compliance or in default as to principal or interest.

Prepayment risk, or the prepayment option granted the borrower, can create uncertainty concerning cash flows, can affect the price of the security causing negative convexity, and can expose the investor to reinvestment risk. Similarly, many agency and corporate securities are callable after some predetermined date at a predetermined price. The call options in regular agency debentures and some corporate securities can be open ended and may significantly impact cash flows, security pricing, and reinvestment risks of these securities.

Public funds held by the Commonwealth, public officers, municipal corporations, political subdivisions, and any other public body of the Commonwealth shall be held in trust for the citizens of the Commonwealth. Any investment of such funds pursuant to the provisions of this chapter shall be made solely in the interest of the citizens of the Commonwealth and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Certain investments held in trust by the Treasurer of Virginia in accordance with bond indentures and resolutions may have more restrictive investment policies. Investment policies of institutions of higher education (component units) are established by the institutions' governing boards.

The Board of Trustees of the Virginia Retirement System (the System) (part of primary government) has full power to invest and reinvest the trust funds in accordance with Section 51.1–124.30 of the *Code of Virginia*, as amended. This section requires the Board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so. The System does not have investment policies that place specific restrictions on investments related to custodial risk, interest rate risk, credit risk, or foreign currency risk. The System investment portfolio is intended to be managed through diversification and prudent judgment, rather than through specific policy restrictions.

The information presented for the external investment pool was obtained from audited financial statements. Copies of the Local Government Investment Pool (LGIP) report may be obtained by writing the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218. Participation in this pool is voluntary.

Custodial Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commonwealth may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Policies related to custodial credit risk pertaining to the Commonwealth's securities lending program are found in the securities lending section of this note.

As of June 30, 2013, the primary government had $3.6 billion of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. The majority of this amount, held by the System, consisted of various types of debt and equity securities that were held by counterparties' trust departments or agents, but not in the System's name. Common and preferred stocks represented $2.3 billion of the total. The remainder was for various types of debt securities. The component units had $5.4 million of cash equivalents and investments that were exposed to custodial risk as uninsured and uncollateralized. Fixed income and commingled funds represented $1.7 million, common and preferred stocks represented $1.5 million of the total, and the remainder was for various types of debt and equity securities.

As of June 30, 2013, the investments of the Pension and Other Employee Benefit Trust Funds were approximately 80.0 percent of the primary government investments, and 99.9 percent of those that were exposed to custodial risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Commonwealth has elected the Segmented Time Distribution method of disclosure.

The State Treasurer's guidelines limit the following maximum durations for any single security of the following investment types:

Security Type	Maximum Duration
Corporate Security	15 years
Asset-Backed Securities	5 years
Sovereign Government Obligations (excluding U.S.)	5 years
Negotiable Certificates of Deposit and Negotiable Bank Notes	5 years

The State Treasurer's guidelines further describe target durations for the overall general account portfolio of 1.7 years.

The System manages the risk within the portfolio using the effective duration or option-adjusted methodology. It is widely used in the management of fixed income portfolios in that it quantifies, to a much greater degree, the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All of the System's fixed income portfolios are managed in accordance with the System's investment guidelines, most of which are specific as to the degree of interest rate risk that can be taken.

At June 30, 2013, the Commonwealth had the following investments and maturities:

Primary Government Investments

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 4,802,590	$ 479,639	$ 3,047,928	$ 729,278	$ 545,745
Corporate Bonds and Notes	12,026,053	4,139,654	3,675,981	2,541,559	1,668,859
Corporate Mortgage-Backed Securities	81,895	-	518	152	81,225
Commercial Paper	2,096,068	2,096,068	-	-	-
Negotiable Certificates of Deposit	3,531,276	3,530,543	376	357	-
Repurchase Agreements	3,472,812	3,472,812	-	-	-
Municipal Securities	175,437	18,345	19,576	58,989	78,527
Asset-Backed Securities	233,159	106,201	50,859	33,701	42,398
Agency Mortgage-Backed Securities	3,396,562	79,488	1,830,741	1,275,429	210,904
Agency Unsecured Bonds and Notes	1,955,287	1,365,285	530,183	37,010	22,809
Mutual and Money Market Funds (Includes SNAP)	1,533,843	1,533,843	-	-	-
The Boston Company Polled Employee Trust Fund	20,397	20,397	-	-	-
Guaranteed Investment Contracts	534,680	-	534,680	-	-
Fixed Income and Commingled Funds	1,284,915	40	32,745	549,467	702,663
Investments held by broker-dealers under securities loans					
U. S. Government and Agency Securities	650	204	224	222	-
Corporate Notes	-	-	-	-	-
Corporate Bonds	1,072	205	659	208	-
Other	724,199	210,257	300,165	110,161	103,616
Total	$ 35,870,895	$ 17,052,981	$ 10,024,635	$ 5,336,533	$ 3,456,746

Component Unit Investments

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Debt Securities					
U. S. Treasury and Agency Securities	$ 940,653	$ 313,193	$ 200,603	$ 25,619	$ 401,238
Corporate Bonds and Notes	440,247	76,876	277,549	76,810	9,012
Corporate Mortgage-Backed Securities	15,181	-	-	-	15,181
Commercial Paper	541,118	541,118	-	-	-
Negotiable Certificates of Deposit	284,935	273,255	11,680	-	-
Repurchase Agreements	449,512	449,512	-	-	-
Municipal Securities	3,654,672	38,277	87,532	105,229	3,423,634
Asset-Backed Securities	185,481	10,572	106,038	18,081	50,790
Agency Unsecured Bonds and Notes	319,203	250,291	54,036	14,581	295
Agency Mortgage-Backed Securities	150,891	10,508	42,866	18,517	79,000
Mutual and Money Market Funds (Includes SNAP)	924,785	771,437	36,494	79,512	37,342
Guaranteed Investment Contracts	67,611	2,070	14,572	18,493	32,476
Fixed Income and Commingled Funds	13,560	1,651	979	10,930	-
Other	72,954	70,295	2,572	87	-
Total	$ 8,060,803	$ 2,809,055	$ 834,921	$ 367,859	$ 4,048,968

Foundation Investments

(Dollars in Thousands)

Investment Type	Fair Value
U.S. Treasury and Agency Securities	$ 659,235
Common & Preferred Stocks	819,478
Corporate Bonds and Notes	146,841
Negotiable Certificates of Deposit	9,898
Municipal Securities	9,006
Repurchase Agreements	26,216
Asset Backed Securities	6,849
Agency Mortgage Backed	8,052
Mutual Funds	437,392
Real Estate	549,752
Index Funds	11,294
Others	6,786,141
Total	$ 9,470,154

Note: Foundations represent FASB reporting entities defined in Note 1.B. A portion of these amounts are reported at cost rather than fair value because fair value was not available or readily determinable.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Treasurer of the Commonwealth places emphasis on securities of high credit quality and marketability. At the time of purchase, the following limitations are in place:

- Bankers acceptances: P-1, Moody's Investors Service (Moody's) and A-1, Standard & Poor's (S&P)
- Negotiable CDs and bank notes:
  - o maturities of one year or less: P-1, Moody's and A-1, S&P
  - o maturities over one year: Aa, Moody's and AA, S&P
- Commercial paper: P-1, Moody's and A-1, S&P
- Corporate Notes and Bonds: A3/A- or equivalent by two nationally recognized rating agencies, one of which must be Moody's or S&P. However, each external investment manager may invest up to 10.0 percent of their portfolio in Baa2/BBB rated bonds which, at a minimum, must be rated Baa2/BBB by two nationally recognized rating agencies, one of which must be either Moody's or S&P.
- Municipal Bonds: A3/A- or equivalent by two nationally recognized rating agencies, one of which must be Moody's or S&P
- Asset-backed securities: AAA by two nationally recognized rating agencies, one of which must be Moody's or S&P
- Dollar denominated obligations of sovereign governments: Aaa, Moody's and AAA, S&P
- Commercial Mortgage-Backed Securities (CMBS) and Collateralized Mortgage Obligations (CMOs): AAA by two nationally recognized rating agencies, one of which must be Moody's or S&P

The following tables present the credit ratings for the majority of the investments of the primary government and component units as of June 30, 2013. The ratings presented below are using S&P and Moody's rating scales. Within the primary government, the investments presented in the table represented 84.9 percent of the total debt securities, 23.0 percent of which were invested in corporate unrated investments. Within the component units, the investments presented in the table represented 86.2 percent of the total debt securities, 42.3 percent of which were invested in unrated Municipal Securities.

Credit risk for derivative instruments held by the Commonwealth results from counterparty risk assumed by the Commonwealth. This is essentially the risk that the borrower will be unable to meet its obligation. Information regarding the Commonwealth's credit risk related to derivatives is found in Note 13.

Policies related to credit risk pertaining to the Commonwealth's securities lending program are found in the Securities Lending section of this note.

Credit Rating - Primary Government
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
U. S. Treasury and Agency Securities	$ 4,802,558	N/A	N/A	13.29%
Negotiable Certificates of Deposit	2,605,506	Moody's	P-1	7.21%
Corporate Bonds and Notes	2,505,466	Moody's	Aaa	6.93%
Corporate Bonds and Notes	2,105,004	N/A	N/A	5.82%
Agency Mortgage Backed Securities	2,032,397	Moody's	Aaa	5.62%
Repurchase Agreements	1,890,000	Standard & Poor's	AA+	5.23%
Commercial Paper	1,833,008	Moody's	P-1	5.07%
Agency Unsecured Bonds and Notes	1,671,408	Standard & Poor's	AA+	4.62%
Agency Mortgage Backed Securities	1,090,882	N/A	N/A	3.02%
Corporate Bonds and Notes	1,086,850	Moody's	Baa2	3.01%
Repurchase Agreements	965,566	Moody's	NR	2.67%
Corporate Bonds and Notes	925,243	Moody's	Baa1	2.56%
Negotiable Certificates of Deposit	892,164	Standard & Poor's	A-1	2.47%
Mutual and Money Market Funds (Include SNAP)	781,272	Standard & Poor's	A-3	2.16%
Corporate Bonds and Notes	749,657	Moody's	Baa3	2.07%
Corporate Bonds and Notes	731,292	Moody's	Aa3	2.02%
Mutual and Money Market Funds (Include SNAP)	635,973	Standard & Poor's	AAA	1.76%
Fixed Income and Commingled Funds	574,899	Moody's	Baa	1.59%
Corporate Bonds and Notes	538,934	Moody's	A3	1.49%
Guaranteed Investment Contracts	534,680	N/A	N/A	1.48%
Corporate Bonds and Notes	500,836	Moody's	Aa2	1.39%
Other Debt Securities	452,795	Moody's	Aaa	1.25%
Fixed Income and Commingled Funds	426,009	N/A	N/A	1.18%
Corporate Bonds and Notes	368,393	Moody's	A2	1.02%

Credit Rating - Component Units
(Dollars in Thousands)

Investment	Amount	Rating Agency	Rating	Percent of Portfolio
Municipal Securities	$ 3,409,174	N/A	N/A	42.29%
U. S. Treasury and Agency Securities	940,652	N/A	N/A	11.67%
Mutual and Money Market Funds (Include SNAP)	558,061	Standard & Poor's	AAA	6.92%
Repurchase Agreements	355,000	Standard & Poor's	BBB-	4.40%
Commercial Paper	292,928	Moody's	P-1	3.63%
Negotiable Certificates of Deposit	270,007	Moody's	P-1	3.35%
Mutual and Money Market Funds	239,675	N/A	N/A	2.97%
Commercial Paper	228,951	N/A	N/A	2.84%
Agency Unsecured Bonds and Notes	227,136	Moody's	Aaa	2.82%
Repurchase Agreements	94,512	N/A	N/A	1.17%
Mutual and Money Market Funds (Include SNAP)	90,486	Moody's	Aaa	1.12%
Asset Backed Securities	89,737	Moody's	Aaa	1.11%
Agency Mortgage Backed Securities	81,605	Standard & Poor's	AA+	1.01%
Agency Unsecured Bonds and Notes	75,351	Standard & Poor's	AA+	0.93%

Concentration of Credit Risk

Concentration of credit risk is related to the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The Commonwealth holds no investment in the securities of a single issuer that is more than 5.0 percent of the total market value of its investments. In addition, the Treasury and the System have individual investment policies limiting the amounts that may be invested in any single issuer.

It is the State Treasurer's policy that each portfolio will be diversified with no more than 4.0 percent of the value of the fund invested in the securities of any single issuer. This limitation shall not apply to the U.S. Government, or agency thereof, or U.S. Government sponsored corporation securities and fully insured and/or collateralized certificates of deposit. Certain portfolios are limited to amounts less than 4.0 percent of the value of the fund invested in the securities of any single issuer.

The System investment guidelines for each specific portfolio also limit investments in any corporate entity to no more than 5.0 percent of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents 5.0 percent or more of plan net assets available for benefits.

Foreign Currency Risk

Primary Government

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. All primary government investments exposed to foreign currency risk were part of the System portfolio at June 30, 2013.

The System's currency risk exposure, or exchange rate risk, primarily exists in the international and global equity investment holdings. From time to time, the System's external managers may hedge their portfolios' foreign currency exposures with currency forward contracts. This will depend upon their views about a specific foreign currency relative to the U.S. dollar. The System's exposure to foreign currency risk is highlighted in the following table.

Component Units

All component unit investments exposed to foreign currency risk were part of the College of William and Mary (nonmajor), James Madison University (nonmajor) and the Virginia Economic Development Partnership (nonmajor) portfolios at June 30, 2013.

Foreign Currency Exposures by Asset Class - Primary Government
(Dollars in Thousands)

Currency	Cash & Cash Equivalents	Equity	Fixed Income	Private Equity	Real Estate	International Funds	Total
Euro Currency Unit	$ 25,710	$ 1,071,504	$ (22,419)	$ 880,599	$ (23,428)	$ -	$ 1,931,966
Japanese Yen	19,148	989,722	(22,334)	-	(734)	-	985,802
Hong Kong Dollar	6,176	755,414	-	-	6,463	-	768,053
British Pound Sterling	14,427	878,813	(12,235)	1,421	(124,852)	-	757,574
U.S. Dollar	-	-	-	-	-	483,762	483,762
South Korean Won	2,311	447,838	(142)	-	-	-	450,007
Brazil Real	3,027	245,721	71,641	-	2,737	-	323,126
New Taiwan Dollar	5,762	304,902	-	-	-	-	310,664
Canadian Dollar	7,326	223,009	(1,251)	-	6,836	-	235,920
Australian Dollar	1,562	223,547	(714)	-	476	-	224,871
South African Comm Rand	1,691	169,808	31,673	-	-	-	203,172
Swiss Franc	5,681	182,945	(14)	-	1,555	-	190,167
Thailand Baht	198	128,923	23,560	-	-	-	152,681
Indian Rupee	1,873	142,214	2,663	-	-	-	146,750
Mexican New Peso	4,053	68,056	68,234	-	492	-	140,835
New Turkish Lira	536	91,294	42,579	-	-	-	134,409
Malaysian Ringgit	780	70,935	28,087	-	-	-	99,802
Norwegian Krone	1,421	82,519	3	-	-	-	83,943
Indonesian Rupiah	732	52,710	29,883	-	-	-	83,325
Danish Krone	464	63,223	-	-	-	-	63,687
Polish Zloty	1,266	20,858	34,456	-	-	-	56,580
Russian Ruble (New)	23	-	53,438	-	-	-	53,461
Philippine Peso	952	36,023	8,242	-	-	-	45,217
Swedish Krona	2,641	24,792	-	136	-	-	27,569
Nigerian Naira	96	-	15,387	-	-	-	15,483
Chilean Peso	69	14,772	234	-	-	-	15,075
Hungarian Forint	743	5,086	8,058	-	-	-	13,887
Colombian Peso	113	-	10,640	-	-	-	10,753
Costa Rican Colon	-	-	10,514	-	-	-	10,514
Sri Lanka Rupee	-	-	7,527	-	-	-	7,527
Uruguayan Peso	-	-	7,273	-	-	-	7,273
Turkish Lira	7,189	-	-	-	-	-	7,189
Czech Koruna	83	6,764	-	-	-	-	6,847
Romanian Leu	239	-	5,295	-	-	-	5,534
Perunvian Nuevo Sol	-	-	5,233	-	-	-	5,233
Ghanaian Cedi	-	-	4,763	-	-	-	4,763
Egyptian Pound	85	3,532	-	-	-	-	3,617
UAE Dirham	201	2,669	-	-	-	-	2,870
Omani Rial	-	1,746	-	-	-	-	1,746
Chinese Yuan Renminbi	-	15	(10)	-	-	-	5
Moroccan Dirham	1	-	-	-	-	-	1
Singapore Dollar	2,059	(3,300)	6	-	-	-	(1,235)
New Zealand Dollar	307	(1,784)	-	-	-	-	(1,477)
Israeli Shekel	611	(9,154)	-	-	-	-	(8,543)
Total	$ 119,556	$ 6,295,116	$ 410,270	$ 882,156	$ (130,455)	$ 483,762	$ 8,060,405

Foreign Currency Exposures by Asset Class - Component Units
(Dollars in Thousands)

Currency	Cash & Cash Equivalents	Equity	Fixed Income	Private Equity	Real Estate	International Funds	Total
British Pound Sterling	$ 1,392	$ -	$ -	$ -	$ -	$ -	$ 1,392
Euro Currency Unit	2,806	-	-	-	-	-	2,806
Japanese Yen	26	-	-	-	-	-	26
Other	2	-	-	-	-	-	2
Total	$ 4,226	$ -	$ -	$ -	$ -	$ -	$ 4,226

Securities Lending

The State Treasury's securities lending program is managed by Deutsche Bank AG, New York (Deutsche Bank), under a contract dated March 31, 2006 and Novation Agreement dated November 23, 2009. The enabling legislation for the securities lending program is Section 2.2-4506 of Chapter 45 of the *Code of Virginia*, as amended. No violations of legal or contractual provisions were noted during the year. The general account participated in a securities lending program for the entire year.

All securities lending loans are on an open-ended or one-day basis and may be terminated by Treasury with a 24-hour notice or are term loans with the right of substitution. While all securities may be recalled on a daily basis, securities are often on loan for much longer periods. Generally cash reinvestments security maturities do not match the maturities of loans. Per the contract with Deutsche Bank, all cash collateral reinvestment securities attributable to loans made on the Commonwealth's behalf shall be maintained by Deutsche Bank, and Treasury cannot pledge or sell such collateral absent a default.

The State Treasury's contract with Deutsche Bank provides for loss indemnification against insolvency default with respect to lending transactions and in the case of reverse transactions as defined in the applicable Agency Securities Lending and Repurchase Agreement. Additionally, Deutsche Bank AG is liable for any losses experienced from reinvestment of cash collateral in investments not authorized by the provisions of the investment guidelines for the Commonwealth of Virginia agreed upon by both parties and made a part of the Agency Securities Lending and Repurchase Agreement. There were no realized losses resulting from default and recoveries of prior period losses during this reporting period were $16,689.

When securities are loaned, the collateral received is at least 100.0 percent of fair value of the securities loaned and must be maintained at 100.0 percent or greater. There are no stated restrictions on the amount of securities that may be loaned, but the basic composition of the general account portfolio effectively restricts the maximum percentage of the portfolio that may be loaned. During the past fiscal year, approximately 12.7 percent of the general account securities were on loan.

During the past year, a combination of U.S. Treasury, agency, agency mortgage and corporate securities have been loaned, with the majority of the loaned securities being U.S. Treasury and agency securities. At June 30, 2013, all collateral received was in the form of cash.

Securities loaned for the Treasurer's cash collateral reinvestment pool, which consisted of 77.3 percent general account funds and 22.7 percent State Lottery funds as of June 30, 2013, had a carrying value of $572.2 million and a fair value of $638.8 million. The fair value of the collateral received was $650.9 million providing for coverage of 101.9 percent. All securities are marked to market daily. The carrying value of the cash collateral reinvestment pool received was $651.0 million and the fair value of the investments purchased with the cash collateral was $650.5 million. As of June 30, 2013, the Treasurer's cash collateral reinvestment pool had an unrealized loss of $389,311, and is recorded in the General Fund as stated in Note 1.BB. This amount is included in the total Treasurer's Portfolio discussed earlier in this note.

Current cash collateral reinvestment guidelines allow for a maximum maturity of up to nine months on floating rate investments and up to six months on fixed rate investments. Term repurchase agreements are limited to 60 days. At June 30, 2013, the cash collateral reinvestment portfolio had a weighted average maturity of three days using the next interest reset date as the maturity date for floating rate securities. Using the expected maturity date, the weighted average maturity was 220 days and using the final maturity date, which assumes no pay downs on any asset-backed or mortgage-backed securities, the weighted average maturity was 1.9 years.

Treasury's current cash reinvestment guidelines allow for investment in government securities, bank obligations, commercial paper, corporate bonds and notes, indemnified repurchase agreements, and U.S. government money market funds. Each type of reinvestment security has to meet predetermined minimum credit criteria. At June 30, 2013, the majority of cash collateral reinvestments were in indemnified repurchase agreements, and asset-backed (including mortgage-backed) floating rate securities.

At June 30, 2013, $10.1 million or 1.5 percent of the total par value of the cash collateral reinvestment portfolio was out of compliance with Treasury's current cash collateral reinvestment guidelines due to various security ratings downgrades during the past few years and adoption of more restrictive reinvestment guidelines. Included in the $10.1 million of out of compliance securities are $8.0 million asset-backed securities that Treasury has reason to believe are other than temporarily impaired. Treasury has written off $4.3 million of these securities as of June 30, 2013. These securities are not in default and are making principal payments. Approximately 77.3 percent of these out of compliance securities are part of the general account portion of the securities lending program and the other 22.7 percent is the State Lottery's portion of the securities lending program. The Commonwealth regularly evaluates these positions to determine the most beneficial course of action going forward.

Under authorization of the Board, the Virginia Retirement System (the System) lends its fixed income and equity securities to various broker-dealers on a temporary basis. This program is administered through an agreement with the System's custodial agent bank. All security loan agreements are collateralized by cash, securities, or an irrevocable letter of credit issued by a major bank, and have a market value equal to at least 102.0 percent of the market value for domestic securities and 105.0 percent for international securities. Securities received as collateral cannot be pledged or sold by the System unless the borrower defaults. Contracts require the lending agents to indemnify the System if the borrowers fail to return the securities lent. All securities loans can be terminated on demand by either the System or the borrowers. The majority of loans are open loans, meaning the rebate is set daily.

This results in a maturity of one or two days on average, although securities are often on loan for longer periods. The maturity of loans generally does not match the maturity of collateral investments, which averages 35 days. At year-end, the System has no credit risk exposure to borrowers because the amounts it owes the borrowers exceeded the amounts the borrowers owe the System. All securities are marked to market daily and carried at market value. The market value of securities on loan at June 30, 2013 was $7.4 billion. The June 30, 2013 balance was composed of U.S. Government and agency securities of $2.3 billion, corporate and other bonds of $253.6 million and common and preferred stocks of $4.9 billion. The value of collateral (cash and non-cash) at June 30, 2013, was $7.8 billion.

At June 30, 2013, the invested cash collateral had a market value of $4.0 billion and was composed of commercial paper of $812.5 million, certificates of deposit of $719.8 million, floating rate notes of $1.3 billion, asset-backed securities of $14.3 million, agencies of $48.5 million, time deposits of $500.4 million and repurchase agreements of $601.6 million.

7. RECEIVABLES

The following schedule (dollars in thousands) details the accounts, loans, interest, taxes, prepaid tuition contributions, security transactions, and other receivables presented in the major funds, aggregated nonmajor funds by type, internal service funds, fiduciary funds, major component units, and aggregated nonmajor component units, as of June 30, 2013:

	Accounts Receivable	Loans / Mortgage Receivable	Interest Receivable	Taxes Receivable	Prepaid Tuition Contributions Receivable
Primary Government:					
General	$ 962,336	$ 675	$ 370,941	$ 1,904,890	$ -
Major Special Revenue Funds:					
Commonwealth Transportation	112,654	55,428	-	149,346	-
Federal Trust	801,723	228	-	-	-
Literary	237,608	194,203	21,817	-	-
Nonmajor Governmental Funds	129,493	-	10,988	6,325	-
Major Enterprise Funds:					
State Lottery	59,485	-	-	-	-
Virginia College Savings Plan	10,602	-	3,218	-	228,378
Unemployment Compensation	186,464	-	-	-	-
Nonmajor Enterprise Funds	45,362	-	-	-	-
Internal Service Funds	15,059	-	-	-	-
Private Purpose Trust Funds	1	8	1,554	-	-
Pension and Other Employee Benefit Trust (1)	239,359	-	191,877	-	-
Investment Trust Fund	-	-	626	-	-
Agency Funds	286	-	-	137,077	-
Total Primary Government (2)	$ 2,800,432	$ 250,542	$ 601,021	$ 2,197,638	$ 228,378
Discrete Component Units:					
Virginia Housing Development Authority (3)	$ -	$ 7,366,537	$ 35,237	$ -	$ -
Virginia Public School Authority	-	-	45,769	-	-
Virginia Resources Authority	-	4,108,457	30,554	-	-
Virginia College Building Authority	-	-	26,043	-	-
Nonmajor Component Units (4)	1,313,645	174,675	4,851	6,265	-
Total Component Units	$ 1,313,645	$ 11,649,669	$ 142,454	$ 6,265	$ -

Note (1): Other Receivables of the Pension and Other Employee Benefit Trust Fund of $146,134 (dollars in thousands) are made up of $136,635 (dollars in thousands) in pending investment transactions, including $87,724 (dollars in thousands) futures margins receivable, $46,678 (dollars in thousands) in margin deposits, $1,640 (dollars in thousands) in securities lending, and $593 (dollars in thousands) in other investment receivable; as well as $9,499 (dollars in thousands) in other receivables related to benefit plans.

Note (2): Fiduciary net receivables in the amount of $1,713,180 (dollars in thousands) are not included in the Government-wide Statement of Net Position.

Note (3): The Virginia Housing Development Authority (major component unit) reports $7,098,574 (dollars in thousands) as Restricted Loans Receivable, $33,921 (dollars in thousands) as Restricted Interest Receivable, and $2,214 (dollars in thousands) as Restricted Other Receivables.

Note (4): Other Receivables of the nonmajor component units are primarily comprised of pledges receivable of $14,061 (dollars in thousands) reported by the University of Virginia; sponsors accounts receivable of $23,321 (dollars in thousands) reported by the Virginia Commonwealth University; premium receivables of $62,908 (dollars in thousands) and third-party settlements and non-patient receivables of $18,636 (dollars in thousands) reported by the Virginia Commonwealth University Health System Authority (blended component unit of Virginia Commonwealth University); grants and contracts receivable of $25,060 (dollars in thousands) reported by George Mason University; and $62,533 (dollars in thousands) reported by foundations of the higher education institutions representing FASB reporting entities defined in Note 1.B.; and $34,905 (dollars in thousands) reported by the Virginia Biotechnology Research Park Authority.

Security Transactions	Other Receivables	Allowance for Doubtful Accounts	Net Accounts Receivable	Amounts to be Collected Greater than One Year
$ -	$ -	$ (1,511,934)	$ 1,726,908	$ 346,607
-	-	(24,753)	292,675	58,603
-	-	(15,272)	786,679	33
-	-	(231,519)	222,109	175,289
-	1	(59,179)	87,628	1,483
-	-	-	59,485	-
-	-	-	242,198	174,089
-	-	(45,377)	141,087	-
-	-	(558)	44,804	-
-	-	(465)	14,594	-
-	-	-	1,563	-
1,054,252	146,134	-	1,631,622	-
-	-	-	626	-
-	-	(57,994)	79,369	7,279
$ 1,054,252	$ 146,135	$ (1,947,051)	$ 5,331,347	$ 763,383
$ -	$ 12,883	$ (190,943)	$ 7,223,714	$ 7,169,300
-	-	-	45,769	-
-	1,115	(145)	4,139,981	3,903,998
-	-	-	26,043	-
-	252,804	(634,554)	1,117,686	252,015
$ -	$ 266,802	$ (825,642)	$ 12,553,193	$ 11,325,313

8. CONTRIBUTIONS RECEIVABLE, NET

The following schedule details the contributions receivable for foundations[1] included with the nonmajor component units, as of June 30, 2013. The major component units reported no contributions receivable for fiscal year 2013.

(Dollars in Thousands)

	Due in Less Than One Year	Due Between One and Five Years	Due in More Than Five Years	Subtotal	Present Value Discount (2)	Allowance for Doubtful Accounts	Contributions Receivable, Net
Discrete Component Units:							
Nonmajor Component Units	$ 125,530	$ 183,006	$ 68,823	$ 377,359	$ (22,581)	$ (21,950)	$ 332,828
Total Component Units	$ 125,530	$ 183,006	$ 68,823	$ 377,359	$ (22,581)	$ (21,950)	$ 332,828

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.
Note (2): The discount rate used to determine present value ranges from 0.15 percent to 8.00 percent.

9. INTERFUND AND INTER-ENTITY ASSETS / LIABILITIES

Due from/to Other Funds

Due from Other Funds are amounts to be received from one fund by another fund for goods sold or services rendered. Due to Other Funds are amounts owed by one fund to another fund for goods purchased or services obtained.

The following line items are included in the category "Due from Other Funds":

- Due from Other Funds
- Due from Internal Parties (Governmental Funds and Business-type Activities)
- Due from External Parties (Fiduciary Funds)

The following line items are included in the category "Due to Other Funds":

- Due to Other Funds
- Due to Internal Parties (Governmental Funds and Business-type Activities)
- Due to External Parties (Fiduciary Funds)

The following schedule shows the Due from/to Other Funds as of June 30, 2013.

Schedule of Due from/to Other Funds

June 30, 2013

(Dollars in Thousands)

Due From	Amount	Due To	Amount
Primary Government		**Primary Government**	
General Fund	$ 35,046	Major Special Revenue Funds:	
		Federal Trust	$ 944
		Major Enterprise Funds:	
		State Lottery	22,200
		Nonmajor Enterprise Funds	10,709
		Internal Service Funds	1,193
Major Special Revenue Funds:			
Commonwealth Transportation	21,706	General Fund	21,706
Federal Trust	2,622	Major Enterprise Funds:	
		Unemployment Compensation	2,622
Nonmajor Governmental Funds	8,232	Major Special Revenue Funds:	
		Commonwealth Transportation	4,715
		Federal Trust	2,636
		Major Enterprise Funds:	
		Unemployment Compensation	164
		Nonmajor Enterprise Funds	717
Major Enterprise Funds:			
Unemployment Compensation	1,312	General Fund	943
		Major Special Revenue Funds:	
		Commonwealth Transportation	52
		Federal Trust	164
		Nonmajor Governmental Funds	133
		Major Enterprise Funds:	
		Virginia College Savings Plan	6
		Nonmajor Enterprise Funds	12
		Internal Service Funds	2
Nonmajor Enterprise Funds	22,724	General Fund	278
		Major Special Revenue Funds:	
		Commonwealth Transportation	21,919
		Federal Trust	433
		Nonmajor Governmental Funds	30
		Nonmajor Enterprise Funds	4
		Internal Service Funds	60
Internal Service Funds	49,961	General Fund	24,740
		Major Special Revenue Funds:	
		Commonwealth Transportation	12,005
		Federal Trust	6,334
		Nonmajor Governmental Funds	4,709
		Major Enterprise Funds:	
		State Lottery	128
		Virginia College Savings Plan	56
		Nonmajor Enterprise Funds	1,453
		Internal Service Funds	536
Private Purpose Trust	5	Private Purpose Trust	21
Pension and Other Employee Benefit Trust	14,899	Pension and Other Employee Benefit Trust	14,883
Total Primary Government	$ 156,507	Total Primary Government	$ 156,507

Schedule of Due from/to Internal/External Parties
June 30, 2013

(Dollars in Thousands)

Due From		Amount	Due To		Amount
Primary Government			**Primary Government**		
General Fund	$	12	Private Purpose Trust	$	12
Nonmajor Governmental Funds		91	Agency		91
Major Enterprise Funds:					
Unemployment Compensation		65	Agency		65
Internal Service Funds		161	Private Purpose Trust		21
			Pension and Other Employee Benefit Trust		140
Pension and Other Employee Benefit Trust		19,978	General Fund		12,468
			Major Special Revenue Funds:		
			Commonwealth Transportation		2,933
			Federal Trust		1,516
			Nonmajor Governmental Funds		2,258
			Major Enterprise Funds:		
			State Lottery		103
			Virginia College Savings Plan		37
			Nonmajor Enterprise Funds		404
			Internal Service Funds		259
Total Primary Government	$	20,307	Total Primary Government	$	20,307

Interfund Receivables/Payables

Interfund Receivables/Payables are loans made by one fund to another.

The following schedule shows the Interfund Receivables/Payables for the primary government as of June 30, 2013. There were no Interfund Receivables/Payables for the component units as of June 30, 2013.

Interfund Receivables/Payables
June 30, 2013

(Dollars in Thousands)

Receivable From:		Amount	Payable To:		Amount
Primary Government			**Primary Government**		
Nonmajor Governmental Funds	$	125,663	General Fund	$	13,151
			Major Special Revenue Funds:		
			Commonwealth Transportation		26,000
			Federal Trust		6,409
			Nonmajor Enterprise Funds		31,265
			Internal Service Funds		48,838
Total	$	125,663	**Total**	$	125,663

Due from/to Primary Government and Component Units

Included in this category is activity between the Commonwealth and its component units, as well as activity between component units.

A $273,564 due from primary government amount represents an amount due from the Federal Trust Special Revenue Fund (major governmental fund) to the Virginia Resources Authority (major component unit) for federal receivables. In addition, a due from primary government amount due from the Federal Trust Special Revenue Fund (major governmental fund) to the Virginia College Building Authority (major component unit) of $4.1 million is for interest on Build America Bonds (BABs).

A $15.8 million due from primary government amount represents General Fund (major governmental fund) appropriation available amounts that are due from the General Fund to the nonmajor component units. The General Fund reports $393,644 in the fund financial statements and $15.4 million in the government-wide financial statements. In addition, the due from primary government amount of $5.4 million represents amounts due from the General Fund (major governmental fund) to the nonmajor component units related to interest/rebate allocations.

A $9,355 due from primary government amount represents an amount due from a nonmajor governmental fund related to the Department of the Treasury's reimbursement programs to nonmajor component units.

A $1.2 million due from primary government amount represents an amount due from the General Fund (major governmental fund) to the Virginia Land Conservation Foundation (nonmajor component unit).

A $14.5 million due from component units in the Health Care Fund (internal service fund) represents amounts due from the nonmajor component units.

A $780,871 due from component units represents monies owed for administrative and project expenses from the Science Museum of Virginia Foundation (nonmajor component unit) to a nonmajor governmental fund. The entire nonmajor governmental amount is reported in the government-wide financial statements.

The $115.5 million due from component units amount represents amounts due from the Virginia College Building Authority (major component unit) for the Department of the Treasury's reimbursement programs to higher education institutions (nonmajor component units). There is a due to component units of $3.1 million from the Virginia Commercial Space Flight Authority (nonmajor component unit) to a foundation of the Old Dominion University (nonmajor component unit). There is a $76,322 due to component units from the Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) to the Virginia Economic Development Partnership (nonmajor component unit).

Due from/to Component Units and Fiduciary Funds

A $26.9 million due from component units in the Pension and Other Employee Benefit Trust Funds (fiduciary funds) represents amounts due from nonmajor component units.

Loans Receivable/Payable Between Primary Government and Component Units

The College of William and Mary (nonmajor component unit) loan of $20.5 million and the Virginia Military Institute (nonmajor component unit) loan of $240,000 were used to fund construction projects until bonds were issued. The College of William and Mary (nonmajor component unit) loan of $129,092 was used to fund equipment trust fund expenditures of Richard Bland College pending reimbursement. The Virginia Community College System (nonmajor component unit) loan of $6.5 million was used primarily to advance fund federally-funded grant programs. The Virginia Commercial Space Flight Authority (nonmajor component unit) loan of $5.0 million was used to fund work on the Wallops Flight Facility's Mid-Atlantic Regional Spaceport (MARS). This amount is due to the Commonwealth Transportation Special Revenue Fund (major governmental fund) and is reported entirely in the government-wide statements.

The $165.7 million in loans receivable from primary government represents loans from the Virginia Public School Authority (VPSA) (major component unit) to the Literary Special Revenue Fund (major governmental fund). The VPSA makes grants to local school divisions to finance the purchase of educational technology equipment. The VPSA makes these grants using the proceeds of notes issued for that purpose which will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Special Revenue Fund (major governmental fund).

10. OTHER ASSETS

The following table summarizes Other Assets as of June 30, 2013:

(Dollars in Thousands)

	Cash and Travel Advances	Unamortized Bond Issuance Expense	Other Assets	Total Other Assets
Primary Government:				
General	$ 968	$ -	$ -	$ 968
Major Special Revenue Funds:				
Commonwealth Transportation	422	-	-	422
Federal Trust	3,223	-	-	3,223
Nonmajor Governmental Funds	911	-	1,023	1,934
Major Enterprise Funds:				
State Lottery	1	-	-	1
Nonmajor Enterprise Funds	209	2,682	-	2,891
Internal Service Funds (1)	4	-	3,489	3,493
Agency Funds (2)	-	-	49	49
Total Primary Government (2)	$ 5,738	$ 2,682	$ 4,561	$ 12,981
Discrete Component Units:				
Virginia Housing Development Authority	$ -	$ 2,932	$ 7,086	$ 10,018
Virginia Resources Authority	-	74,009	17	74,026
Nonmajor Component Units	2,509	19,745	68,532	90,786
Total Component Units	$ 2,509	$ 96,686	$ 75,635	$ 174,830

Note (1): Of the $3,489 (dollars in thousands) shown above, $3,485 (dollars in thousands) represents a Virginia Information Technologies Agency interfund asset due from various governmental funds that will not be received within 60 days. This amount is reclassified to an internal balance on the Government-wide Statement of Net Position.

Note (2): Other Assets of the Agency Funds represent prepaid expenses and advances to third party agents. The $49 (dollars in thousands) shown above is not included in the Government-wide Statement of Net Position.

11. RESTRICTED ASSETS

Restricted assets represent monies or other resources that must be used for specific legal or contractual requirements. The Commonwealth Transportation Fund (major special revenue) and Debt Service and Capital Projects (nonmajor governmental funds) reported $1.0 billion in restricted assets related to bond agreements.

The Virginia Housing Development Authority, the Virginia Public School Authority, and the Virginia College Building Authority (all major component units) reported restricted assets totaling $1.3 billion, $106.9 million, and $41.6 million, respectively. These major component units' assets are restricted for debt service under a bond indenture agreement or other agreements.

The Virginia Resources Authority (major component unit) reported restricted assets of $625.1 million. Of this amount, $617.6 million is restricted for loans to local governments, bond indentures, or federal and state regulations for various revolving funds, and $7.5 million is restricted for the Operating Reserve Fund for the Virginia Pooled Financing Program.

The Virginia Port Authority (nonmajor component unit) reported restricted assets of $122.9 million primarily for debt service under bond agreements, construction and other project funds.

The Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) reported restricted assets of $246.8 million to be used for financial aid to tobacco growers and to foster community economic growth.

The Hampton Roads Sanitation District Commission (nonmajor component unit) reported restricted assets of $179.6 million. Of this amount, $23.8 million is for debt service and $155.8 million is revenue bond construction funds.

The Virginia Small Business Financing Authority (nonmajor component unit) reported restricted assets of $28.2 million for gifts and grants.

The higher education institutions (nonmajor component units) reported restricted assets totaling approximately $4.1 billion primarily for endowment and other contractual obligations. Included in this amount is approximately $3.4 billion of foundations' restricted assets. The two museum foundations, the Virginia Museum of Fine Arts Foundation (nonmajor component unit) and the Science Museum of Virginia Foundation (nonmajor component unit) had restricted assets of $235.0 million and $15.5 million, respectively, primarily for donor-imposed restricted endowments.

The remaining $4.6 million is spread among the following nonmajor component units: the Virginia Outdoors Foundation, the Virginia Horse Center Foundation, the Fort Monroe Authority, the Virginia Arts Foundation, the Library of Virginia Foundation, the Danville Science Center, and the Virginia Health Workforce Development Authority.

12. CAPITAL ASSETS

The following schedule presents the changes in the Capital Assets:

Schedule of Changes in Capital Assets

Governmental Activities

(Dollars in Thousands)

	Balance July 1, as restated (1)	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 2,662,896	$ 165,499	$ (80,031)	$ 2,748,364
Water Rights and/or Easements	48,450	8,839	-	57,289
Infrastructure	322,741	-	-	322,741
Construction-in-Progress	3,524,676	1,963,374	(1,698,082)	3,789,968
Total Nondepreciable Capital Assets	6,558,763	2,137,712	(1,778,113)	6,918,362
Depreciable Capital Assets:				
Buildings (2)	3,564,521	240,816	(9,775)	3,795,562
Equipment	1,018,408	54,756	(24,166)	1,048,998
Infrastructure	26,411,364	2,921,832	(271,056)	29,062,140
Software	385,229	43,160	(1,202)	427,187
Total Capital Assets being Depreciated	31,379,522	3,260,564	(306,199)	34,333,887
Less Accumulated Depreciation for:				
Buildings	1,162,609	83,093	(9,234)	1,236,468
Equipment	548,704	51,987	(20,104)	580,587
Infrastructure	11,702,311	750,304	(22,703)	12,429,912
Software	165,877	28,055	(452)	193,480
Total Accumulated Depreciation	13,579,501	913,439	(52,493)	14,440,447
Total Depreciable Capital Assets, Net	17,800,021	2,347,125	(253,706)	19,893,440
Total Capital Assets, Net	$ 24,358,784	$ 4,484,837	$ (2,031,819)	$ 26,811,802

Note (1): Beginning balances have been restated by $343,633 (dollars in thousands) as discussed in Note 2. Additionally, there was a reclassification between depreciable infrastructure and land for $33,730 (dollars in thousands). There have also been reclassifications in the beginning balances of certain line items above.

Note (2): Includes temporarily impaired assets with a carrying value of $10,553 (dollars in thousands).

Depreciation Expense Charged to Functions of the Primary Government

June 30, 2013

(Dollars in Thousands)

Governmental Activities:		
General Government	$	15,132
Education		9,481
Transportation		775,265
Resources and Economic Development		12,440
Individual and Family Services		48,926
Administration of Justice		38,795
Capital Assets held by the Internal Service Funds are charged to various functions		13,400
Total	$	913,439

Schedule of Changes in Capital Assets
Business-type Activities

(Dollars in Thousands)

	Balance July 1, as restated (1)	Increases	Decreases	Balance June 30
Nondepreciable Capital Assets:				
Land	$ 1,977	$ -	$ -	$ 1,977
Construction-in-Progress	734	56,620	(381)	56,973
Total Nondepreciable Capital Assets	2,711	56,620	(381)	58,950
Depreciable Capital Assets:				
Buildings	30,708	-	(71)	30,637
Equipment	61,179	3,613	(3,649)	61,143
Software	2,418	1,496	-	3,914
Total Capital Assets being Depreciated	94,305	5,109	(3,720)	95,694
Less Accumulated Depreciation for:				
Buildings	11,466	560	-	12,026
Equipment	43,941	5,565	(3,590)	45,916
Software	797	600	-	1,397
Total Accumulated Depreciation	56,204	6,725	(3,590)	59,339
Total Depreciable Capital Assets, Net	38,101	(1,616)	(130)	36,355
Total Capital Assets, Net	$ 40,812	$ 55,004	$ (511)	$ 95,305

Note (1): Beginning balance for buildings has been restated by $6,453 (dollars in thousands) due to a change in capital lease assets and obligations by the Virginia College Savings Plan (VCSP). The VCSP beginning net position is not restated because both capital assets and obligations have been restated.

Schedule of Changes in Capital Assets
Component Units

(Dollars in Thousands)

	Balance July 1 as restated (1)	Increases	Decreases	Subtotal June 30	Foundations (2)	Total June 30
Nondepreciable Capital Assets:						
Land	$ 535,083	$ 19,327	$ (958)	$ 553,452	$ 277,357	$ 830,809
Construction-in-Progress	1,734,693	1,206,786	(1,446,379)	1,495,100	230,001	1,725,101
Inexhaustible Works of Art/Historical Treasures	76,523	1,030	-	77,553	19,770	97,323
Livestock	833	75	-	908	2,237	3,145
Total Nondepreciable Capital Assets	2,347,132	1,227,218	(1,447,337)	2,127,013	529,365	2,656,378
Depreciable Capital Assets:						
Buildings	11,921,117	1,242,051	(42,240)	13,120,928	1,042,408	14,163,336
Infrastructure	2,768,020	149,491	(89)	2,917,422	6,564	2,923,986
Equipment	2,796,542	260,203	(125,355)	2,931,390	139,721	3,071,111
Improvements Other Than Buildings	432,067	39,988	(11)	472,044	70,689	542,733
Library Books	772,790	32,276	(8,824)	796,242	-	796,242
Software	377,481	9,847	(1,010)	386,318	-	386,318
Other Intangible Assets	2,000	-	-	2,000	-	2,000
Total Capital Assets being Depreciated	19,070,017	1,733,856	(177,529)	20,626,344	1,259,382	21,885,726
Less Accumulated Depreciation for:						
Buildings	3,589,758	358,821	(20,325)	3,928,254	251,245	4,179,499
Infrastructure	1,257,256	80,325	(88)	1,337,493	2,923	1,340,416
Equipment	1,797,884	224,786	(104,630)	1,918,040	88,614	2,006,654
Improvements Other Than Buildings	242,267	20,386	(11)	262,642	38,465	301,107
Library Books	636,074	33,970	(8,692)	661,352	-	661,352
Software	231,530	31,811	(954)	262,387	-	262,387
Other Intangible Assets	1,067	133	-	1,200	-	1,200
Total Accumulated Depreciation	7,755,836	750,232	(134,700)	8,371,368	381,247	8,752,615
Total Depreciable Capital Assets, Net	11,314,181	983,624	(42,829)	12,254,976	878,135	13,133,111
Total Capital Assets, Net	$ 13,661,313	$ 2,210,842	$ (1,490,166)	$ 14,381,989	$ 1,407,500	$ 15,789,489

Note (1): There have been reclassifications in the beginning balances of certain line items above.

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Since foundations follow FASB rather than GASB reporting requirements, no amounts are reported in the software and other intangible assets categories for foundations.

13. DERIVATIVES

The Government Accounting Standards Board (GASB) issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* which requires additional reporting and disclosures for derivative instruments.

Primary Government

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indexes. They include futures, forwards, options and swap contracts. Some traditional securities, such as structured notes, can have derivative-like characteristics. In this case, the return may be linked to one or more indexes and asset-backed securities, such as collateralized mortgage obligations (CMOs), which are sensitive to changes in interest rates and pre-payments. Futures, forwards, options and swaps generally are not recorded on the financial statements, whereas structured notes and asset-backed investments generally are recorded.

Virginia College Savings Plan (VCSP)

GASB Statement No. 53 defines stable value investment vehicles as synthetic guaranteed investment contracts. Stable value funds are invested in a high quality, diversified, intermediate term, fixed income portfolio that is protected against interest rate volatility by wrap or investment contracts from banks and insurance companies that guarantee the payment of benefits at book value (cost plus accrued interest) which enables the entire investment to be carried at its book value. The VCSP utilizes stable value investments in both the Virginia College Savings Plan (major enterprise fund) and Education Savings Trust Fund (private purpose fund). VCSP's stable value investments meet the definition of fully benefit-responsive synthetic guaranteed investment contracts and are reported at fair value. At June 30, 2013, VCSP had the following stable value investments outstanding in the respective programs as shown in the table below.

Fund	Wrap Provider	Notional Amount	Effective Date	Maturity Date	Credit Rate	June 30, 2013 Fair Value	June 30, 2012 Fair Value
Enterprise	ING Life & Annuity	$ 47,116,564	12/2/2002	Open ended	2.11%	$ 89,975,201	$ 90,043,502
	State Street Bank	22,830,297	5/1/2002	Open ended	2.52%		
	Transamerica Life Ins.	17,164,676	3/5/2003	Open ended	3.08%		
Private Purpose	Aviva Life & Annuity Co.	$ 158,145,019	5/1/2012	Open ended	1.15%	$ 454,724,878	$ 324,832,058
	ING Life & Annuity	132,434,013	12/3/2002	Open ended	2.69%		
	ING Life & Annuity	108,524,564	10/5/2012	Open ended	0.78%		
	State Street Bank	48,464,824	5/1/2002	Open ended	2.80%		

The following two tables contain information relating fair value, changes in fair value, notional value and credit risk relating to these derivative instruments. In aggregate, the fair value of these derivatives was $293,334 as of June 30, 2013. Concentration of credit risk relating to these derivatives did not equate to a significant percentage of the agency's total assets.

Investment Derivatives - Credit Default Swaps

	Changes in Fair Value		Fair Value at June 30, 2013		
Fund	Classification	Amount	Classification	Amount	Notional Amount
Enterprise	Revenue	$ 117,611	Investment	$ 230,137	$ 5,375,000
Private Purpose	Revenue	52,633	Investment	63,198	2,125,000

Aggregate Credit Risk by Counterparty as of June 30, 2013

Counterparty	Fair Value	Collateral	Credit Rating (S&P)
Bank of America, N.A.	$ 263,594	$ 351,456	A
Barclays Bank, PLC	29,740	-	A+
Total	$ 293,334	$ 351,456	

Virginia Retirement System

The Virginia Retirement System (the System) is a party, directly and indirectly, to various derivative financial investments that may or may not appear on the financial statements and that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value resulting from fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the financial statements.

At June 30, 2013, the System had four types of derivative financial instruments: futures, currency forwards, options and swaps. Futures, currency forwards and options contracts provide the System with the opportunity to build passive benchmark positions, manage portfolio duration in relation to various benchmarks, adjust portfolio yield curve exposure and gain market exposure to various indexes in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange-traded or exercised over-the-counter. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates.

Futures Contracts

Futures contracts are contracts to deliver or receive securities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange-traded) and require an initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled daily, in cash, with the exchanges. The net gains or losses resulting from the daily settlements are included in the System's financial statements. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk posed by nonperformance of counterparties to futures contracts is minimal. The notional value of the System's investment in futures contracts at June 30, 2013 and 2012 is shown in the following table.

Futures Contracts
as of June 30
(Dollars in Thousands)

	2013	2012
Cash & Cash Equivalent Derivatives Futures:		
Short	$ (86,971)	$ (143,472)
Equity Derivatives Futures:		
Long	601,441	474,687
Fixed Income Derivatives Futures:		
Long	367,692	17,818
Short	(262,406)	(66,863)
Total Futures	$ 619,756	$ 282,170

Currency Forwards

Currency forwards represent foreign exchange contracts and are used by the System to effect settlements and to protect the base currency ($US) value of portfolio assets denominated in foreign currencies against fluctuations in the exchange rates of those currencies. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated price. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the-counter lies with the counterparty, and exposure usually is equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates. Information on the System's currency forwards contracts at June 30, 2013 and 2012 is shown in the following table.

Currency Forwards
as of June 30

(Dollars in Thousands)

Currency	Cost	Pending Foreign Exchange Purchases	Pending Foreign Exchange Sales	Market Value 2013	Market Value 2012
Australian Dollar	$ (270,312)	$ 80,191	$ (347,273)	$ (267,082)	$ (602,208)
Brazil Real	(27,122)	20,935	(47,260)	(26,325)	(9,176)
British Pound Sterling	(852,342)	232,668	(1,077,945)	(845,277)	(786,539)
Canadian Dollar	(463,783)	53,209	(513,108)	(459,899)	(90,127)
Chilean Peso	250	537	(302)	235	193
Chinese Yuan Renminbi	(79)	5,643	(5,654)	(11)	5,939
Columbian Peso	(3,021)	396	(3,466)	(3,070)	(635)
Czech Koruna	153	7,533	(7,533)	-	-
Danish Krone	(7,690)	52,576	(60,164)	(7,588)	(22,294)
Euro Currency Unit	(836,596)	318,494	(1,150,516)	(832,022)	(2,230,133)
Hong Kong Dollar	(14,180)	152,276	(166,385)	(14,109)	(82,086)
Hungarian Forint	(3,833)	1,130	(4,993)	(3,863)	11,328
Indian Rupee	3,065	9,811	(7,149)	2,662	414
Indonesian Rupian	3,342	7,921	(4,679)	3,242	9,580
Israeli Shekel	(51,163)	-	(50,917)	(50,917)	(14,385)
Japanese Yen	(1,124,117)	75,881	(1,188,869)	(1,112,988)	(875,275)
Malaysian Ringgit	9,895	15,917	(5,972)	9,945	31,105
Mexican New Peso	(1,594)	23,602	(25,197)	(1,595)	(20,430)
New Turkish Lira	14,541	15,233	(1,381)	13,852	8,360
New Zealand Dollar	(5,925)	95,456	(102,094)	(6,638)	(112,944)
Norwegian Krone	1,407	74,072	(73,349)	723	267,170
Peruvian Nuevo Sol	(9,508)	1,290	(10,590)	(9,300)	258
Philippine Peso	3,884	4,622	(756)	3,866	(2,611)
Polish Zloty	10,243	11,261	(1,349)	9,912	2,996
Romanian Leu	826	921	(132)	789	-
Russian Ruble (New)	8,141	13,932	(6,170)	7,762	9,549
Singapore Dollar	(7,328)	14,286	(20,312)	(6,026)	(19,932)
South African Comm Rand	(151,465)	16,538	(167,520)	(150,982)	(22,913)
South Korean Won	(123)	1,513	(1,655)	(142)	2,187
Swedish Krona	(158,900)	30,223	(185,755)	(155,532)	110,356
Swiss Franc	(424,713)	60,576	(481,289)	(420,713)	(260,971)
Thailand Baht	17,327	23,340	(6,314)	17,026	4,995
U.S. Dollar	4,340,722	5,793,657	(1,452,935)	4,340,722	4,646,227
Total Forwards Subject to Foreign Currency Risk				$ 36,657	$ (42,002)

Options Contracts

Options may be either exchange-traded or negotiated directly between two counterparties over the counter. Options grant the holder the right, but not the obligation, to purchase (call) or sell (put) a financial instrument at a specified price and within a specified period of time from the writer of the option. As a purchaser of options, the System typically pays a premium at the outset. This premium is reflected as an asset on the financial statements. The System then retains the right, but not the obligation, to exercise the options and purchase the underlying financial instrument. Should the option not be exercised, it expires worthless and the premium is recorded as a loss.

A writer of options assumes the obligation to deliver or receive the underlying financial instrument on exercise of the option. Certain option contracts may involve cash settlements based on specified indexes such as stock indexes. As a writer of options, the System receives a premium at the outset.

This premium is reflected as a liability on the financial statements, and the System bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Information on the System's options balances at June 30, 2013 and 2012 is shown in the following table.

Options Contracts
as of June 30
(Dollars in Thousands)

	2013	2012
Cash and Cash Equivalent Options:		
Call	$ (10)	$ -
Put	-	-
Equity Options:		
Call	-	-
Put	-	-
Fixed Income Options:		
Call	-	-
Put	-	-
Sw aptions:		
Call	(2)	(978)
Put	(379)	(118)
Total Options	$ (391)	$ (1,096)

Swap Agreements

Swaps are negotiated contracts between two counterparties for the exchange of payments at certain intervals over a predetermined timeframe. The payments are based on a notional principal amount and calculated using either fixed or floating interest rates or total returns from certain instruments or indexes. Swaps are used to manage risk and enhance returns. To reduce the risk of counterparty nonperformance, the System generally requires collateral on any material gains from these transactions. During fiscal year 2013, the System entered into credit defaults, inflation, interest rate and total return swaps. Information on the System's swap balances at June 30, 2013 and 2012 is shown in the following table.

Swap Agreements
as of June 30

(Dollars in Thousands)

Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/ Selling Protection	Pay/ Receive Rate	Market Value 2013	Market Value 2012
Credit Default Swaps:								
Barclays PLC	$ 24,697			12/20/2017	Buying	1.000%	104	-
Barclays PLC	5,600			3/20/2018	Buying	1.000%	(114)	-
Barclays PLC	5,000			3/20/2018	Buying	1.000%	(97)	-
Barclays PLC	4,400			3/20/2018	Buying	1.000%	(98)	-
Barclays PLC	4,100			3/20/2018	Selling	5.000%	546	-
Barclays PLC	3,200			6/20/2018	Selling	5.000%	426	-
Barclays PLC	2,800			3/20/2018	Buying	1.000%	(77)	-
Barclays PLC	1,400			3/20/2018	Buying	1.000%	(29)	-
Barclays PLC	1,300			3/20/2018	Buying	1.000%	29	-
Barclays PLC	1,175			3/20/2018	Buying	1.000%	(26)	-
Barclays PLC	1,000			6/20/2018	Selling	5.000%	80	-
Barclays PLC	900			6/20/2018	Selling	5.000%	54	-
Credit Suisse Group AG	58,150			12/20/2017	Buying	5.000%	(2,604)	-
Credit Suisse Group AG	26,500			6/20/2018	Selling	1.000%	163	-
Credit Suisse Group AG	14,298			12/20/2017	Buying	1.000%	330	-
Credit Suisse Group AG	13,025			9/20/2017	Selling	1.000%	(340)	-
Credit Suisse Group AG	8,000			12/20/2016	Buying	1.000%	(112)	157
Credit Suisse Group AG	6,250			12/20/2016	Buying	1.000%	(103)	(49)
Credit Suisse Group AG	3,700			6/20/2017	Selling	1.000%	(29)	(61)
Credit Suisse Group AG	2,800			3/20/2018	Buying	1.000%	144	-
Credit Suisse Group AG	2,800			3/20/2018	Buying	5.000%	(332)	-
Credit Suisse Group AG	2,800			3/20/2018	Buying	1.000%	98	-
Credit Suisse Group AG	2,750			12/20/2017	Buying	1.000%	(35)	-
Credit Suisse Group AG	2,600			3/20/2018	Buying	1.000%	117	-
Credit Suisse Group AG	2,600			9/20/2017	Buying	1.000%	2	-
Credit Suisse Group AG	2,000			6/20/2018	Selling	5.000%	87	-
Credit Suisse Group AG	1,850			9/20/2017	Buying	1.000%	(21)	-
Credit Suisse Group AG	1,000			3/20/2018	Buying	1.000%	(10)	-
Credit Suisse Group AG	900			6/20/2018	Buying	5.000%	(27)	-
Credit Suisse Group AG	800			12/20/2016	Selling	1.000%	5	(1)
Credit Suisse Group AG	400			3/20/2018	Buying	1.000%	20	-
Credit Suisse Group AG	200			12/20/2016	Selling	1.000%	-	(5)
Credit Suisse Group AG	38,452			6/20/2017	Buying	1.000%	-	2,738
Credit Suisse Group AG	12,533			6/20/2016	Selling	1.000%	-	100
Credit Suisse Group AG	12,000			6/20/2017	Selling	1.000%	-	(72)
Credit Suisse Group AG	5,900			12/20/2016	Selling	1.000%	-	(14)
Credit Suisse Group AG	5,000			12/20/2016	Buying	1.000%	-	(121)
Credit Suisse Group AG	5,000			12/20/2016	Buying	1.000%	-	(68)
Credit Suisse Group AG	5,000			12/20/2016	Buying	1.000%	-	81
Credit Suisse Group AG	4,575			9/20/2017	Selling	1.000%	-	(121)
Credit Suisse Group AG	4,050			12/20/2016	Buying	5.000%	-	(375)
Credit Suisse Group AG	4,050			12/20/2016	Buying	1.000%	-	305
Credit Suisse Group AG	2,500			12/20/2016	Selling	1.000%	-	(3)
Credit Suisse Group AG	2,094			9/20/2017	Selling	5.000%	-	(143)
Credit Suisse Group AG	1,500			12/20/2016	Selling	5.000%	-	(65)
Credit Suisse Group AG	500			12/20/2012	Selling	1.000%	-	1
Credit Suisse Group AG	475			6/20/2017	Buying	1.000%	-	31
Deutsche Bank AG	5,800			6/20/2018	Selling	5.000%	462	-
Deutsche Bank AG	5,600			3/20/2018	Buying	1.000%	(155)	-
Deutsche Bank AG	3,500			9/20/2013	Selling	1.000%	(1)	-
Deutsche Bank AG	3,150			12/20/2016	Buying	1.000%	(56)	42
Deutsche Bank AG	3,000			9/20/2014	Selling	1.000%	(11)	-
Deutsche Bank AG	3,000			9/20/2014	Selling	1.000%	(15)	-
Deutsche Bank AG	2,675			9/20/2017	Buying	1.000%	(4)	-
Deutsche Bank AG	2,675			9/20/2017	Buying	1.000%	(3)	-
Deutsche Bank AG	2,675			9/20/2017	Buying	1.000%	(4)	-
Deutsche Bank AG	2,675			9/20/2017	Buying	1.000%	(4)	-
Deutsche Bank AG	2,450			9/20/2017	Buying	1.000%	2	-
Deutsche Bank AG	2,300			3/20/2018	Buying	1.000%	(75)	-
Deutsche Bank AG	2,300			9/20/2014	Selling	1.000%	(9)	-
Deutsche Bank AG	2,300			9/20/2013	Selling	1.000%	1	9
Deutsche Bank AG	1,800			3/20/2018	Buying	1.000%	(50)	-
Deutsche Bank AG	1,500			12/20/2013	Selling	5.000%	28	(4)
Deutsche Bank AG	1,200			12/20/2016	Selling	1.000%	8	(1)
Deutsche Bank AG	900			6/20/2018	Selling	5.000%	54	-
Deutsche Bank AG	700			6/20/2015	Selling	1.000%	(3)	-
Deutsche Bank AG	700			6/20/2018	Selling	1.000%	(27)	-
Deutsche Bank AG	500			9/20/2014	Selling	1.000%	-	-
Deutsche Bank AG	350			12/20/2017	Selling	5.000%	26	-
Deutsche Bank AG	101			3/20/2018	Selling	1.000%	(4)	-
Deutsche Bank AG	10,000			12/20/2012	Selling	5.000%	-	163
Deutsche Bank AG	9,300			6/20/2017	Selling	5.000%	-	902
Deutsche Bank AG	6,500			12/20/2012	Selling	1.000%	-	(14)
Deutsche Bank AG	6,500			12/20/2012	Selling	5.000%	-	132

Continued on next page

Swap Agreements
as of June 30
(Continued from previous page)

(Dollars in Thousands)

Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/ Selling Protection	Pay/ Receive Rate	Market Value 2013	Market Value 2012
Credit Default Swaps *(continued)* **:**								
Deutsche Bank AG	6,000			12/20/2016	Selling	1.000%	-	56
Deutsche Bank AG	5,800			12/20/2016	Selling	1.000%	-	(100)
Deutsche Bank AG	5,800			12/20/2016	Selling	1.000%	-	(60)
Deutsche Bank AG	5,000			6/20/2017	Selling	1.000%	-	(261)
Deutsche Bank AG	5,000			12/20/2012	Selling	1.000%	-	2
Deutsche Bank AG	5,000			12/20/2012	Selling	1.000%	-	4
Deutsche Bank AG	5,000			12/20/2016	Buying	1.000%	-	260
Deutsche Bank AG	5,000			12/20/2016	Buying	1.000%	-	81
Deutsche Bank AG	4,000			12/20/2016	Selling	1.000%	-	(28)
Deutsche Bank AG	4,000			12/20/2012	Selling	1.000%	-	9
Deutsche Bank AG	3,800			6/20/2021	Selling	1.000%	-	(253)
Deutsche Bank AG	3,426			3/20/2014	Selling	5.000%	-	(40)
Deutsche Bank AG	600			12/20/2012	Selling	1.000%	-	2
Deutsche Bank AG	500			12/20/2012	Selling	1.000%	-	2
Deutsche Bank AG	200			12/20/2012	Selling	1.000%	-	-
Goldman Sachs Group Inc	11,699			12/20/2017	Buying	1.000%	270	-
Goldman Sachs Group Inc	8,400			6/20/2018	Selling	10.000%	(144)	-
Goldman Sachs Group Inc	7,400			6/20/2018	Selling	5.000%	590	-
Goldman Sachs Group Inc	6,889			12/20/2016	Buying	1.000%	32	-
Goldman Sachs Group Inc	5,940			12/20/2016	Buying	Variable Rate	44	-
Goldman Sachs Group Inc	5,940			12/20/2016	Buying	Variable Rate	54	-
Goldman Sachs Group Inc	5,850			9/20/2017	Selling	1.000%	(153)	-
Goldman Sachs Group Inc	5,350			9/20/2018	Selling	0.890%	121	-
Goldman Sachs Group Inc	4,600			3/20/2018	Selling	5.000%	(322)	-
Goldman Sachs Group Inc	3,900			6/20/2018	Buying	Variable Rate	96	-
Goldman Sachs Group Inc	3,900			6/20/2018	Buying	3.000%	134	-
Goldman Sachs Group Inc	3,150			12/20/2016	Buying	1.000%	(43)	1
Goldman Sachs Group Inc	3,100			3/20/2018	Selling	5.000%	413	-
Goldman Sachs Group Inc	2,950			12/20/2017	Selling	5.000%	174	-
Goldman Sachs Group Inc	2,860			3/20/2018	Buying	1.000%	(18)	-
Goldman Sachs Group Inc	2,600			3/20/2018	Buying	1.000%	65	-
Goldman Sachs Group Inc	2,500			12/20/2016	Buying	1.000%	37	165
Goldman Sachs Group Inc	2,000			3/20/2018	Selling	5.000%	(140)	-
Goldman Sachs Group Inc	1,400			9/20/2016	Selling	5.000%	111	46
Goldman Sachs Group Inc	1,200			12/20/2017	Selling	5.000%	89	-
Goldman Sachs Group Inc	975			12/20/2016	Selling	1.000%	(138)	-
Goldman Sachs Group Inc	600			3/20/2015	Selling	1.000%	(2)	-
Goldman Sachs Group Inc	300			9/20/2019	Selling	5.000%	22	-
Goldman Sachs Group Inc	101			12/20/2017	Selling	1.000%	(4)	-
Goldman Sachs Group Inc	101			3/20/2018	Selling	1.000%	(4)	-
Goldman Sachs Group Inc	11,100			6/20/2017	Selling	1.000%	-	(67)
Goldman Sachs Group Inc	7,750			6/20/2017	Selling	5.000%	-	752
Goldman Sachs Group Inc	6,726			12/20/2016	Buying	1.000%	-	370
Goldman Sachs Group Inc	6,600			3/20/2013	Selling	5.000%	-	169
Goldman Sachs Group Inc	6,000			12/20/2016	Selling	1.000%	-	(7)
Goldman Sachs Group Inc	5,800			12/20/2016	Buying	Variable Rate	-	398
Goldman Sachs Group Inc	5,800			12/20/2016	Buying	Variable Rate	-	459
Goldman Sachs Group Inc	5,400			12/20/2016	Buying	1.000%	-	108
Goldman Sachs Group Inc	5,275			6/20/2017	Selling	0.250%	-	(182)
Goldman Sachs Group Inc	5,000			12/20/2016	Buying	1.000%	-	174
Goldman Sachs Group Inc	4,375			6/20/2013	Selling	1.000%	-	(75)
Goldman Sachs Group Inc	4,000			12/20/2016	Selling	1.000%	-	(195)
Goldman Sachs Group Inc	3,950			9/20/2017	Selling	1.000%	-	(349)
Goldman Sachs Group Inc	3,200			12/20/2016	Selling	1.000%	-	(26)
Goldman Sachs Group Inc	3,160			3/20/2014	Selling	5.000%	-	91
Goldman Sachs Group Inc	2,900			12/20/2016	Selling	5.000%	-	(229)
Goldman Sachs Group Inc	2,650			6/20/2017	Selling	1.000%	-	(132)
Goldman Sachs Group Inc	2,500			12/20/2016	Selling	5.000%	-	(28)
Goldman Sachs Group Inc	2,000			9/20/2017	Buying	1.000%	-	21
Goldman Sachs Group Inc	2,000			9/20/2017	Buying	1.000%	-	36
Goldman Sachs Group Inc	2,000			12/20/2016	Selling	1.000%	-	(206)
Goldman Sachs Group Inc	1,800			12/20/2016	Selling	1.000%	-	(348)
Goldman Sachs Group Inc	1,777			3/20/2017	Buying	3.000%	-	119
Goldman Sachs Group Inc	1,600			3/20/2014	Selling	5.000%	-	46
Goldman Sachs Group Inc	1,500			12/20/2012	Selling	1.000%	-	1
Goldman Sachs Group Inc	1,500			3/20/2014	Selling	5.000%	-	60
Goldman Sachs Group Inc	1,300			12/20/2013	Selling	5.000%	-	37
Goldman Sachs Group Inc	1,269			9/20/2017	Buying	1.000%	-	72
Goldman Sachs Group Inc	1,269			9/20/2017	Buying	1.000%	-	72
Goldman Sachs Group Inc	1,000			9/20/2017	Buying	1.000%	-	75
Goldman Sachs Group Inc	1,000			9/20/2017	Buying	1.000%	-	38
Goldman Sachs Group Inc	952			12/20/2016	Selling	1.000%	-	(197)
Goldman Sachs Group Inc	900			6/20/2017	Selling	5.000%	-	(25)
Goldman Sachs Group Inc	800			12/20/2012	Selling	1.000%	-	2

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Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/ Selling Protection	Pay/ Receive Rate	Market Value 2013	Market Value 2012
Credit Default Swaps *(continued)* **:**								
Goldman Sachs Group Inc	800			12/20/2012	Selling	1.000%	-	2
Goldman Sachs Group Inc	300			12/20/2012	Selling	1.000%	-	-
HSBC Holdings PLC	1,900			3/20/2015	Selling	1.000%	(7)	-
HSBC Holdings PLC	700			6/20/2018	Selling	1.000%	(27)	-
HSBC Holdings PLC	200			3/20/2023	Selling	1.000%	(26)	-
HSBC Holdings PLC	100			3/20/2023	Selling	1.000%	(13)	-
UBS AG	7,350			6/20/2017	Buying	1.000%	(200)	(42)
UBS AG	3,200			9/20/2017	Buying	1.000%	3	-
UBS AG	2,800			3/20/2018	Buying	1.000%	(58)	-
UBS AG	6,000			6/20/2021	Selling	1.000%	-	(502)
UBS AG	1,850			9/20/2016	Selling	1.000%	-	(339)
UBS AG	1,600			6/20/2015	Selling	5.000%	-	49
UBS AG	200			12/20/2012	Selling	1.000%	-	-
Total Credit Default Swaps	691,459						(733)	3,632
Interest Rate Swaps:								
Barclays PLC	5,794	Brazil Cetip Interbank Deposit	10.91%	1/2/2017			(8)	-
BlackRock Inc	783	Mexico Interbank 28-day Index	5.00%	2/26/2018			(21)	-
Credit Suisse Group AG	13,807	Brazil Cetip Interbank Deposit	8.50%	1/2/2017			(745)	-
Credit Suisse Group AG	13,128	Brazil Cetip Interbank Deposit	10.45% CDI	1/2/2017			(214)	-
Credit Suisse Group AG	45,000	1.08875%	3-month USD LIBOR	2/14/2017			-	(384)
Credit Suisse Group AG	21,873	Brazil Cetip Interbank Deposit	8.97%	1/2/2015			-	246
Credit Suisse Group AG	18,680	Brazil Cetip Interbank Deposit	7.98%	1/2/2014			-	18
Credit Suisse Group AG	11,274	3-month Malaysia Interbank Fixing	3.33%	1/20/2017			-	68
Credit Suisse Group AG	10,077	3-month Malaysia Interbank Fixing	3.39%	5/9/2017			-	85
Credit Suisse Group AG	6,800	2.75%	3-month USD LIBOR	6/20/2042			-	(366)
Credit Suisse Group AG	6,703	Mexico Interbank 28 day Index	6.35%	4/11/2022			-	264
Credit Suisse Group AG	3,873	Mexico Interbank 28 day Index	6.20%	6/7/2022			-	98
Deutsche Bank AG	11,370	Mexico Interbank 28-day Index	5.00%	2/22/2023			(1,446)	-
Deutsche Bank AG	10,252	6-month Australian BBR-BBSW	4.00%	3/15/2023			(238)	-
Deutsche Bank AG	4,074	Brazil Cetip Interbank Deposit	8.29%	1/2/2017			(241)	-
Deutsche Bank AG	3,531	Brazil Cetip Interbank Deposit	8.485% CDI	1/2/2015			(50)	-
Deutsche Bank AG	1,551	Klibor Interbank Offered Rate	3.335%	4/19/2018			(19)	-
Deutsche Bank AG	1,100	2.75%	3-month LIBOR	6/19/2043			143	-
Deutsche Bank AG	844	5.25%	Mexican Interbank Equlibrium	9/6/2019			(38)	-
Goldman Sachs Group Inc	25,000	1.26%	3-month USD LIBOR	10/3/2016			-	456
Goldman Sachs Group Inc	25,000	1.25%	3-month USD LIBOR	10/3/2016			-	456
HSBC Holdings PLC	2,150	Mexico Interbank 28-day Index	5.75%	6/5/2023			(153)	-
HSBC Holdings PLC	622	Mexico Interbank 28-day Index	5.50%	2/22/2023			(54)	-
HSBC Holdings PLC	136	Brazil Cetip Interbank Deposit	8.32% CDI	1/2/2017			(8)	-
UBS AG	22,408	Brazil Cetip Interbank Deposit	8.2% CDI	1/2/2017			(1,369)	-
UBS AG	11,132	Mexico Interbank 28-day Index	5.80%	6/8/2016			240	-
UBS AG	1,358	Brazil Cetip Interbank Deposit	9.13%	1/2/2017			(43)	-
UBS AG	1,222	Brazil Cetip Interbank Deposit	8.59%	1/2/2017			(66)	-
UBS AG	230	5.25%	Mexican Interbank Equlibrium	9/6/2019			(11)	-
UBS AG	71,713	Brazil Cetip Interbank Deposit	7.96%	1/2/2014			-	51
UBS AG	59,452	Brazil Cetip Interbank Deposit	10.77%	1/2/2014			-	2,264
UBS AG	29,793	Mexico Interbank 28 day Index	5.80%	6/8/2016			-	788
UBS AG	18,331	Brazil Cetip Interbank Deposit	9.84%	7/1/2013			-	438
UBS AG	16,944	Brazil Cetip Interbank Deposit	9.76%	7/1/2013			-	386
UBS AG	7,431	Brazil Cetip Interbank Deposit	8.25%	1/2/2014			-	32
UBS AG	5,758	Mexico Interbank 28 day Index	5.60%	9/6/2016			-	108
UBS AG	5,072	Mexico Interbank 28 day Index	6.75%	9/2/2022			-	336
UBS AG	3,567	Brazil Cetip Interbank Deposit	11.83%	1/2/2013			-	104
Total Interest Rate Swaps	497,833						(4,341)	5,448
Return Swaps:								
Goldman Sachs Group Inc	451,410	0.47%	MSCI AC World Index IMI	4/2/2013			(160)	-
Goldman Sachs Group Inc	125,296	3-month LIBOR + 42 bps	MSCI Daily Small Cap	8/20/2014			19	-
Goldman Sachs Group Inc	7,181	3-month LIBOR	Kuraray Co Ltd	8/20/2014			5	-
Goldman Sachs Group Inc	6,696	3-month LIBOR	Shionogi Co Ltd	8/20/2014			5	-
Goldman Sachs Group Inc	5,895	3-month LIBOR	MSAD Insurance Group	8/20/2014			4	-
Goldman Sachs Group Inc	5,730	3-month LIBOR	Canon Inc	8/20/2014			4	-
Goldman Sachs Group Inc	5,418	3-month LIBOR	Itochu Corp	8/20/2014			4	-
Goldman Sachs Group Inc	4,853	3-month LIBOR	Trend Micro Inc	8/20/2014			3	-
Goldman Sachs Group Inc	4,831	3-month LIBOR	Takeda Pharmaceutica	8/20/2014			3	-
Goldman Sachs Group Inc	4,794	3-month LIBOR	Daiichi Sankyo Co	8/20/2014			3	-

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Counterparty	Notional Amount	VRS Rate	Counterparty Rate	Maturity Date	Buying/ Selling Protection	Pay/ Receive Rate	Market Value 2013	Market Value 2012
Return Swaps *(continued)* **:**								
Goldman Sachs Group Inc	4,440	3-month LIBOR	Dai Nippon Printing	8/20/2014			3	-
Goldman Sachs Group Inc	4,369	3-month LIBOR	Asahi Glass Co Ltd	8/20/2014			3	-
Goldman Sachs Group Inc	4,353	3-month LIBOR	Eisai Co Ltd	8/20/2014			3	-
Goldman Sachs Group Inc	4,310	3-month LIBOR	Mitsui Co Ltd	8/20/2014			3	-
Goldman Sachs Group Inc	4,200	3-month LIBOR	NKSJ Holdings Inc	8/20/2014			3	-
Goldman Sachs Group Inc	4,119	3-month LIBOR	Sumitomo Corp	8/20/2014			3	-
Goldman Sachs Group Inc	3,862	3-month LIBOR	Shiseido Co Ltd	8/20/2014			2	-
Goldman Sachs Group Inc	3,757	3-month LIBOR	Mitsubishi Corp	8/20/2014			2	-
Goldman Sachs Group Inc	3,635	3-month LIBOR	Fast Retailing Co Ltd	8/20/2014			2	-
Goldman Sachs Group Inc	3,502	3-month LIBOR	Sharp Corp	8/20/2014			2	-
Goldman Sachs Group Inc	3,388	3-month LIBOR	Nippon Telegraph	8/20/2014			2	-
Goldman Sachs Group Inc	3,025	3-month LIBOR	Marubeni Corp	8/20/2014			2	-
Goldman Sachs Group Inc	2,968	3-month LIBOR	JX Holdings Inc	8/20/2014			2	-
Goldman Sachs Group Inc	2,967	3-month LIBOR	Alps Electric Co Ltd	8/20/2014			2	-
Goldman Sachs Group Inc	2,931	3-month LIBOR	Sumitomo Mitsui Trus	8/20/2014			2	-
Goldman Sachs Group Inc	2,802	3-month LIBOR	Nippon Electric Glas	8/20/2014			2	-
Goldman Sachs Group Inc	2,758	3-month LIBOR	Sumitomo Mitsui Fin	8/20/2014			2	-
Goldman Sachs Group Inc	2,402	3-month LIBOR	Show a Shell Sekiyu	8/20/2014			2	-
Goldman Sachs Group Inc	2,206	3-month LIBOR	Oji Paper Co Ltd	8/20/2014			1	-
Goldman Sachs Group Inc	2,131	3-month LIBOR	Sumitomo Chemical Co	8/20/2014			1	-
Goldman Sachs Group Inc	2,013	3-month LIBOR	NTN Corp	8/20/2014			1	-
Goldman Sachs Group Inc	1,739	3-month LIBOR	Aozora Bank Ltd	8/20/2014			1	-
Goldman Sachs Group Inc	1,507	3-month LIBOR	Denki Kagaku Kogyo	8/20/2014			1	-
Goldman Sachs Group Inc	1,197	3-month LIBOR	Mizuho Financial Grp	8/20/2014			1	-
Goldman Sachs Group Inc	1,052	3-month LIBOR	NTT Docomo Inc	8/20/2014			1	-
Goldman Sachs Group Inc	937	3-month LIBOR	Mitsui Engineer Ship	8/20/2014			1	-
Goldman Sachs Group Inc	926	3-month LIBOR	Chubu Electric Pow er	8/20/2014			1	-
Goldman Sachs Group Inc	849	3-month LIBOR	Toyobo Co Ltd	8/20/2014			1	-
Goldman Sachs Group Inc	780	3-month LIBOR	Kansai Electric Pow er	8/20/2014			1	-
Goldman Sachs Group Inc	674	3-month LIBOR	Nippon Suisan Kaisha	8/20/2014			-	-
Goldman Sachs Group Inc	704,400	0.47%	MSCI AC World Index IMI	4/2/2013			-	(340)
Total Return Swaps	1,406,303						(57)	(340)
Total Swaps	**$ 2,595,595**						**(5,131)**	**8,740**

Additional information is available in the System's separately issued financial statements which may be obtained from the Virginia Retirement System at P.O. Box 2500, Richmond, Virginia 23218-2500.

Component Units

Investment Derivative Instruments

The Virginia Housing Development Authority (major) had a forward sales contract investment derivative with a $44.5 million notional value and a fair value of $1.8 million as of June 30, 2013. This amount is reported as part of investment earnings and other liabilities.

Hedging Derivative Instruments

At June 30, 2013, the University of Virginia (UVA) (nonmajor) had two fixed-payer interest rate swaps totaling $100.0 million in notional amount. The swaps are used as cash flow hedges by UVA in order to provide a cash flow hedge against changes in interest rates on $78.6 million of the variable rate Series 2003A bonds maturing in June 2034 and $21.4 million of outstanding commercial paper which may have various maturities of no greater than 270 days each. UVA pays fixed rates of 4.2 percent and 4.1 percent and the underlying index for the swaps is the Securities Industry and Financial Markets Municipal Swap Index (SIFMA). The floating rate on June 30, 2013, was 0.1 percent. The payments are settled monthly at the first of each month. The swaps were entered into in January 2007 and February 2007 and both swaps mature June 1, 2038. The swaps were entered into at a zero market value and no payments were made or received when they were initiated. At June 30, 2013, the negative market value of the swaps of $18.7 million is included in other liabilities in the accompanying financial statements. For the year ended June 30, 2013, the change in fair value of UVA's swaps was a decrease of $16.4 million to the prior year's deferred outflows of $35.1 million resulting in deferred outflows of resources as of June 30, 2013 of $18.7 million included in the accompanying financial statements.

The fair value was determined by using the quoted SIFMA index curve at the time of market valuation. UVA would be exposed to the credit risk of its swap counterparties any time the swaps had a positive market value. At June 30, 2013, UVA had no credit risk related to its swaps. As of June 30, 2013, UVA's swap counterparties were rated A- from Standard & Poor's or A3 by Moody's. To mitigate credit risk, UVA limits market value exposure and requires the posting of collateral based on the credit rating of the counterparty. All counterparties, or their guarantors, are required to have at least an A-/A3 rating by Standard & Poor's and Moody's, respectively. As of June 30, 2013, no collateral was required to be posted by the counterparties.

Interest rate risk is the risk that an unexpected change in interest rates will negatively affect the collective value of a hedge and a hedged item. When viewed collectively, the hedges and the hedged item are subject to interest rate risk in that a change in interest rate will impact the collective market value of both the hedge and hedged item. Conversely, the collective effect of the hedges and the hedged item serve to reduce cash flow variability caused by changes in interest rates. Basis risk arises when different indexes are used in connection with a derivative resulting in the hedge and hedged item not experiencing price changes in entirely opposite directions from each other. UVA's swaps are deemed to be effective hedges of its variable rate debt with an amount of basis risk that is within the guidelines for establishing hedge effectiveness. Termination risk arises when the unscheduled termination of a derivative could have an adverse effect on UVA's strategy or could lead to potentially significant unscheduled payments. UVA's derivative contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an additional termination event. That is, the swap may be terminated by either party if the counterparty's credit rating falls below BBB/Baa2 in the case of Standard & Poor's and Moody's, respectively. UVA or the counterparty may also terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative market value, UVA would be liable to the counterparty for a payment equal to the swap's market value.

In December 2005, Virginia Commonwealth University (VCU) (nonmajor) entered into an interest rate swap agreement in anticipation of the issuance of General Revenue Pledge bonds, Series 2006A and Series 2006B, which carry variable interest rates. In November 2012, VCU refunded the Series 2006A and Series 2006B bonds associated with these swaps with General Revenue Pledge bonds, Series 2012A and 2012B, which also carry variable interest rates. At that time the hedging relationship between the interest rate swaps and the Series 2006A and 2006B bonds was terminated. The accumulated change in fair value of the interest rate swaps at the time of the refunding was negative $14.1 million and was included in the calculation of the deferred loss on refunding. Concurrently, VCU reestablished hedge accounting by designating the Series 2012A and 2012B bonds as hedged debt. At June 30, 2013, the swap has a notional amount of $65.5 million which declines over time to $4.8 million at the termination date of November 1, 2030. VCU pays a fixed rate of 3.4 percent and the counterparty pays 67.0 percent of the London Interbank Offered Rate (LIBOR) (0.1 percent as of June 30, 2013). The payments are settled monthly at the first of each month. In December 2005, the Medical College of Virginia Hospitals (MCVH), which is a division of the Virginia Commonwealth University Health System Authority (a blended component unit of VCU), entered into an interest rate swap agreement in conjunction with the issuance of its Series 2005 bonds. The swap has a notional amount of $75.0 million, which declines over time to $8.0 million at the maturity date of July 1, 2030. The notional amount as of June 30, 2013, was $70.6 million. MCVH pays a fixed rate of 3.5 percent and the counterparty pays 67.0 percent of LIBOR (0.1 percent as of June 30, 2013). The payments are settled monthly at the first of each month. In June 2007, the MCVH entered into two interest rate swap agreements in anticipation of the issuance of the Series 2008 bonds. The swaps have a combined notional amount of $125.0 million, which declines over time to $15.7 million at the termination date of July 1, 2037. The notional amount as of June 30, 2013 was $121.3 million. MCVH pays a fixed rate of 3.8 percent and the counterparty pays 67.0 percent of LIBOR (0.1 percent as of June 30, 2013). The payments are settled monthly at the first of each month. In June 2013, MCVH refunded the Series 2005 and Series 2008 bonds associated with these swaps with Series 2013A and Series 2013B bonds, which also carry variable interest rates. At that time the hedging relationship between the interest rate swap agreements and the Series 2005 and 2008 bonds was terminated. The accumulated change in fair value of the interest rate swaps at the time of the refunding was negative $42.1 million and was included in the calculation of the deferred loss on refunding. In June, 2013, MCVH reestablished hedge accounting by designating the Series 2013A and 2013B bonds as hedged debt. At June 30, 2013, the negative market value of VCU's swap of $9.5 million and MCVH's swaps of $42.1 million are included in other liabilities in the accompanying financial statements. At June 30, 2013, the change in fair market value of VCU's swap, since reestablishing hedge accounting, of $4.6 million is included in deferred inflows of resources in the accompanying financial statements. At June 30, 2013, the change in fair value of MCVH's swaps was $22.0 million.

The fair value of VCU's derivative was calculated by Deutshe Bank using undisclosed proprietary methods. The fair values of MCVH's derivatives were calculated by Wells Fargo and Bank of America using undisclosed proprietary pricing models. VCU and MCVH use interest rate swap agreements to limit exposure to rising interest rates on its variable rate debt. VCU and MCVH are exposed to interest rate risk on the interest rate swaps. On the pay-fixed, receive-variable interest rate swaps, as the LIBOR index decreases, VCU and MCVH's net payments on the swaps increase.

The following schedule shows debt service requirements of UVA, VCU, and MCVH bonds payable debt of $334.4 million and UVA's short-term debt (commercial paper) of $21.4 million and net receipts/payments on associated derivative instruments. These amounts assume that current variable and reference rates on the hedging instruments will remain the same for their terms. As these rates vary, net receipt/payments on the hedging instruments will vary. Additional information is available in the individually published financial statements of the higher education institution.

Maturity	Principal	Variable Interest	Derivative Instruments, Net	Total
2014	$ 2,520,000	$ 2,054,298	$ 13,037,652	$ 17,611,950
2015	4,785,000	1,995,632	12,878,390	19,659,022
2016	4,990,000	1,961,588	12,712,302	19,663,890
2017	5,690,000	1,914,476	12,522,567	20,127,043
2018	5,920,000	1,869,379	12,325,468	20,114,847
2019-2023	33,180,000	8,612,049	58,402,488	100,194,537
2024-2028	57,640,000	6,832,317	50,744,978	115,217,295
2029-2033	122,850,000	4,111,103	37,928,557	164,889,660
2034-2038	96,844,000	1,176,918	10,907,954	108,928,872
2039-2043	21,361,000	31,824	865,120	22,257,944
Total	$ 355,780,000	$ 30,559,584	$ 222,325,476	$ 608,665,060

Various foundations of higher education institutions and the Virginia Museum of Fine Arts Foundation (nonmajor) have derivative instruments. The foundations follow FASB rather than GASB reporting requirements. Disclosures for the foundations' derivatives can be found in the individually published financial statements of the foundations.

14. RETIREMENT AND PENSION SYSTEMS

A separately issued financial report that includes financial statements and required supplemental information for each of the individual plans discussed below is publicly available. Copies may be obtained by writing to Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

A. Administration

The Virginia Retirement System (the System) is an independent agency of the Commonwealth that administers two defined benefit pension plans, VRS Plan 1 and VRS Plan 2, other employee benefit plans, and other funds for Commonwealth employees, teachers, political subdivision employees, and other qualifying employees. The Board of Trustees is responsible for the general administration and operation of the plans. The Board consists of five members appointed by the Governor and four members appointed by the Joint Rules Committee, all subject to confirmation by the General Assembly. The Board of Trustees appoints a director to serve as the chief administrative officer of the System and a chief investment officer to direct, manage and administer the investment of the System's funds. The Board of Trustees has appointed BNY Mellon as the custodian of designated assets of the System.

The System administers four pension trust funds: the Virginia Retirement System (VRS); State Police Officers' Retirement System (SPORS); Virginia Law Officers' Retirement System (VaLORS); and the Judicial Retirement System (JRS). In addition to the pension plans, the System administers four Other Employee Benefit Plans: Group Life Insurance Fund; Retiree Health Insurance Credit Fund; the Virginia Sickness and Disability Program (VSDP); and the Line of Duty Act Trust Fund.

B. Summary of Significant Accounting Policies (Virginia Retirement System)

Basis of Accounting

The financial statements of the pension and other employee benefit trust funds are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Employee and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as earned by the plans. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investments

Investments are reported at fair value as determined by the System's master custodian, BNY Mellon, from its Global Pricing System. This pricing system assigns a price source, based on asset type and the vendor pricing products to which the master custodian subscribes, for every security held immediately following its acquisition. Prices supplied by these sources are monitored on a daily basis by the master custodian.

When a pricing source is unable to provide a price, quotes are sought from major investment brokers and market-making dealers; or internal calculations are applied if feasible. As a last resort, the master custodian will contact investment managers for a price. The master custodian prices commingled funds, partnerships, and real estate assets from statements received from the funds, partnerships, or investment managers.

The pricing sources utilized by the master custodian provide daily prices for equity securities, corporate, government and mortgage-backed fixed income securities, private placement securities, futures and options on futures, open-ended funds, and foreign exchange rates. Depending on the vendor, collateralized mortgage obligations (CMOs), adjustable rate mortgages (ARMs) and asset-backed securities are priced daily, weekly or twice a month and at month-end. Municipal fixed income securities and options on Treasury/Government National Mortgage Association securities are priced at month-end.

The System's investment guidelines for each specific portfolio limits investments in any corporate entity to no more than 5.0 percent of the market value of the account for both the internally and externally managed portfolios. There is no concentration of investments in any one organization that represents 5.0 percent or more of plan net assets available for benefits.

C. Plan Description

Retirement Plans

The Virginia Retirement System is a qualified governmental retirement plan that provides defined benefit coverage for state employees, public school board employees, employees of participating political subdivisions and other qualifying employees. VRS is a mixed-agent and cost-sharing, multiple-employer retirement plan, which administers two defined benefit plans, the VRS Plan 1 and the VRS Plan 2. The plan's accumulated assets may legally be used to pay all plan benefits provided to any of the plan members, retirees, and beneficiaries. Contributions for fiscal year 2013 were $2.5 billion with a reserve balance available for benefits of $54.9 billion. At June 30, 2013, the VRS had 826 contributing employers.

Single-employer Retirement Plans

The Commonwealth also administers Plan 1 and Plan 2 for the following single-employer retirement plans:

- State Police Officers' Retirement System (SPORS)
- Virginia Law Officers' Retirement System (VaLORS)
- Judicial Retirement System (JRS)

All full-time, salaried permanent employees of VRS participating employers are automatically covered under VRS, SPORS, VaLORS or JRS with the following exceptions: (1) certain full-time faculty and administrative staff of public colleges and universities; and (2) eligible classified employees of the two state teaching hospitals. These employees have the option to elect not to participate in the Virginia Retirement System. Benefit provisions and all other requirements are established by Title 51.1 of the *Code of Virginia*, as amended.

Benefits vest for all plans after five years of service credit. Vested VRS members in the VRS Plan 1 are eligible for an unreduced retirement benefit at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit as elected by the employer. Vested VRS members in the VRS Plan 2 are eligible for an unreduced retirement benefit at normal social security retirement age with at least five years of service credit or when age and service credit equal 90. Vested SPORS and VaLORS members in both the VRS Plan 1 and the VRS Plan 2 are eligible for an unreduced benefit at age 60 with at least five years of hazardous duty service credit or age 50 with at least 25 years of total service credit.

Annual retirement benefits are payable monthly for life in an amount equal to 1.7 percent of eligible members' average final compensation (AFC) for each year of service credit. Under the VRS Plan 2, the multiplier for general employees was reduced to 1.65 percent beginning January 1, 2013. AFC is the average of the member's 36 consecutive months of highest creditable compensation for members under the VRS Plan 1. Under the VRS Plan 2, member's AFC is the average of the member's 60 consecutive months of highest creditable compensation. The benefit for members of SPORS is calculated using a 1.85 percent multiplier. Members of SPORS also are eligible for a hazardous duty supplement, paid monthly, until they reach full Social Security retirement age.

Members of VaLORS hired before July 1, 2001, were allowed to make a one-time election to increase the multiplier from 1.7 to 2.0 percent instead of receiving a monthly hazardous duty supplement. VaLORS members who elected to retain the 1.7 percent multiplier are eligible for the supplement until age 65. Members of VaLORS hired after June 20, 2001, have their benefit computed using the 2.0 percent multiplier and are not eligible for the supplement.

Members of JRS receive weighted years of service credit for each year of actual service under JRS. VRS, SPORS, VaLORS, and JRS also provide death and disability benefits.

A cost-of-living allowance (COLA), based on changes in the Consumer Price Index and limited to 5.0 percent per year for VRS Plan 1 and 3.0 percent for VRS Plan 2, is granted on July 1 of the second calendar year after retirement and is effective each July 1 thereafter. Beginning January 2013, a member who retires with less than 20 years of service must receive an allowance for one full calendar year after reaching unreduced retirement age to be eligible for a COLA. Members within five years of eligibility for an unreduced benefit as of January 1, 2013 were grandfathered.

Benefits for all vested members are actuarially reduced if they retire before becoming eligible for an unreduced retirement benefit, provided they meet age requirements for a reduced retirement benefit.

As required by Title 51.1 of the *Code of Virginia*, as amended, members contribute 5.0 percent of their annual compensation to the defined benefits plans. Employers may assume the 5.0 percent member contribution. If a member leaves covered employment, the accumulated contributions plus earned interest may be refunded to the member. Each participating employer is required by state statute to contribute the remaining amounts necessary to fund the retirement plans using the entry age normal actuarial cost method adopted by the Board of Trustees. Contributions for fiscal year 2013 were $31.6 million, $30.0 million, and $67.7 million, and reserved balances available for benefits were $625.6 million, $388.8 million, and $992.0 million, for SPORS, JRS, and VaLORS, respectively. State statute may be amended only by the General Assembly. When funding rates are lower than required, the Commonwealth incurs a Net Pension Obligation liability which is reported in the accompanying financial statements as a component of Long-term Liabilities Due in More than One Year.

D. Funding Policy

The funding policy of the retirement plans provides for periodic employer contributions at actuarially determined rates, which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the cost of all basic benefits when due. Contribution rates are developed using the entry age normal cost method for both normal cost and amortization of the unfunded actuarial accrued liability. Gains and losses are reflected in the unfunded actuarial accrued liability that is being amortized as a level percentage of payroll within 30 years or less.

The System's actuary, Cavanaugh MacDonald Consulting, LLC, computed the amount of contributions to be provided by state agency employers, state police and other Virginia law employers. The contribution rates for fiscal year 2013 were based on the actuary's valuation as of June 30, 2011. Employer contributions by the Commonwealth to VRS, SPORS, VaLORS, and JRS were 8.8 percent, 24.7 percent, 14.8 percent, and 45.4 percent, respectively. These rates were lower than the actuary's recommended rates to VRS, SPORS, VaLORS, and JRS of 13.1 percent, 32.6 percent, 19.5 percent, 54.1 percent, respectively.

In addition to determining contribution requirements, the actuarial computations present an estimate of the discounted present value of the prospective accrued liability contributions that employers will have to pay in the future so that such contributions, together with the assets on hand, the normal contributions to be made in the future by employers and members and the income earned by investing funds, will be sufficient to provide all benefits to be paid to present members in the future as well as the annuitants and their designated beneficiaries.

E. Annual Pension Cost and Net Pension Obligation

The following table (dollars in thousands) shows the Commonwealth's annual pension cost and net pension obligation to the VRS, SPORS, JRS, and VaLORS for the current and prior years.

	VRS			SPORS		
	2013	2012	2011	2013	2012	2011
Annual required contribution	$ 589,379	$ 423,268	$ 383,620	$ 45,217	$ 38,178	$ 34,402
Interest on net pension obligation	121,800	108,029	85,192	12,339	11,265	9,285
Adjustment to annual required contribution	(105,445)	(114,626)	(90,255)	(10,682)	(11,928)	(9,831)
Annual pension cost	605,734	416,671	378,557	46,874	37,515	33,856
Contributions made	(324,349)	(117,296)	(73,874)	(26,193)	(11,441)	(7,460)
Increase in net pension obligation	281,385	299,375	304,683	20,681	26,074	26,396
Net pension obligation, beginning of year	1,740,001	1,440,626	1,135,943	176,268	150,194	123,798
Net pension obligation, end of year	$ 2,021,386	$ 1,740,001	$ 1,440,626	$ 196,949	$ 176,268	$ 150,194
Percentage of annual pension cost contributed	53.5%	28.2%	19.5%	55.9%	30.5%	22.0%

	JRS			VaLORS		
	2013	2012	2011	2013	2012	2011
Annual required contribution	$ 39,419	$ 35,804	$ 34,907	$ 93,553	$ 86,052	$ 79,596
Interest on net pension obligation	8,356	7,720	6,427	31,292	29,037	24,469
Adjustment to annual required contribution	(7,234)	(8,174)	(6,806)	(27,090)	(30,746)	(25,910)
Annual pension cost	40,541	35,350	34,528	97,755	84,343	78,155
Contributions made	(27,027)	(18,907)	(17,303)	(50,393)	(24,481)	(17,255)
Increase in net pension obligation	13,514	16,443	17,225	47,362	59,862	60,900
Net pension obligation, beginning of year	119,366	102,923	85,698	447,022	387,160	326,260
Net pension obligation, end of year	$ 132,880	$ 119,366	$ 102,923	$ 494,384	$ 447,022	$ 387,160
Percentage of annual pension cost contributed	66.7%	53.5%	50.1%	51.6%	29.0%	22.1%

The amounts in the previous table include governmental and component unit activity for which the Commonwealth is considered the employer. It does not include the VRS liability for the following nonmajor component units: the Virginia Economic Development Partnership, the Virginia Tourism Authority, and the Fort Monroe Authority of $4.1 million, $2.1 million, and $638,952, respectively. The table also excludes the non-VRS pension liability of $99.8 million for all other component units and includes the fiduciary pension liability of $13.6 million.

The contribution rates were determined during the actuarial valuation conducted as of June 30, 2011.

These valuations were prepared using the entry age normal cost method. The actuarial assumptions included (a) 7.0 percent investment rate of return, per year compounded annually; (b) projected salary increases ranging from 3.5 percent to 6.2 percent, including a 2.5 percent inflation component; and (c) 2.5 percent per year COLA. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining open amortization period at June 30, 2012, was nine years for the deferred contributions from fiscal years 2011 and 2012, and 29 years for the balance of the UAAL. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

F. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012, per the most recent actuarial valuation, was as follows:

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Virginia Retirement System (VRS)			
2012	$ 51,212	$ 77,859	$ 26,647	65.8%	$ 14,880	179.1%
			State Police Officers' Retirement System (SPORS)			
2012	$ 587	$ 1,013	$ 426	57.9%	$ 104	409.0%
			Virginia Law Officers' Retirement System (VaLORS)			
2012	$ 909	$ 1,753	$ 844	51.9%	$ 345	244.8%
			Judicial Retirement System (JRS)			
2012	$ 361	$ 582	$ 221	62.0%	$ 57	388.6%

Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plans and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

G. Defined Contribution Plan for Political Appointees

Officers appointed by the Governor, officers elected by popular vote or the General Assembly, and executive branch chief deputies and confidential assistants may participate in the deferred contribution plan for Political Appointees, rather than the VRS. This optional retirement plan is authorized by the *Code of Virginia* and offered through the ING Institutional Plan Services (ING). This is a defined contribution plan where the retirement benefits are based upon the Commonwealth's 8.8 percent and the employee's (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 2013, the total contributions to this plan were $1.1 million.

The summary of significant accounting policies for the plan is in accordance with those discussed in Note 14. B.

H. Defined Contribution Plan for Public School Superintendents

The Public School Superintendent Plan is a defined contribution pension plan that provides optional postemployment benefits for school superintendents. This plan is authorized by the *Code of Virginia*. The Board of Trustees of the System manages the investments of the fund as custodian. School boards may elect to offer this plan as an option to the standard VRS plan that is available for school board members. Contributions are provided by the school board for credit to the member. At June 30, 2013, there were three participants in this plan. Total contributions to the plan for fiscal year 2013 were $75,315.

I. Virginia Supplemental Retirement Plan

The Virginia Supplemental Retirement Plan is a defined contribution pension plan established by the Department of Education to provide an optional postemployment benefit plan for turnaround specialists in the public school system. This plan is utilized as an incentive to attract highly skilled teachers for participating public schools pursuant to the *Code of Virginia* by Title 51.1-617. The Board of Trustees of the System manages the investments of the fund as custodian. School boards may elect to offer this plan as an option to the standard VRS plan that is available for school board members. Contributions are provided by the school boards for credit to the members. At June 30, 2013, there were two participants in this plan. There were no contributions to the plan for fiscal year 2013.

J. Higher Education Fund (Component Unit)

The Commonwealth's colleges and universities participate in the defined benefit retirement plan administered by VRS. In addition, full-time faculty and certain administrative staff of the Commonwealth's colleges and universities may participate in optional retirement plans as authorized by the *Code of Virginia* rather than the VRS defined benefit retirement plan. These optional retirement plans are defined contribution plans offered through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) Insurance Companies, and Fidelity Investments, Inc. There are two defined contribution plans. Plan 1 is for employees hired prior to July 1, 2010, and retirement benefits received are based upon the employer's 10.4 percent contributions, plus interest and dividends. Plan 2 is for employees hired on or after July 1, 2010, and retirement benefits received are based upon the employer's 8.5 percent not to exceed 8.9 percent contribution and the employee's 5.0 percent contribution, plus interest and dividends. For Plan 2, the employer contributions for fiscal year 2013 were 8.5 percent except the employer contributions for the University of Virginia (nonmajor) were 8.9 percent. During the year ended June 30, 2013, the total contributions to these plans were:

	Plan 1	Plan 2		
	Employer	Employer	Employee	Total
TIAA-CREF	$ 73,897,616	$ 9,992,459	$ 5,978,908	$ 89,868,983
Fidelity Investments	34,594,340	9,332,898	5,240,422	49,167,660
Total	$ 108,491,956	$ 19,325,357	$ 11,219,330	$ 139,036,643

University of Virginia Medical Center (part of the University of Virginia – nonmajor) employees hired after July 1, 1999, cannot participate in Plan 1 or Plan 2 noted above but have the option of participating in the Medical Center's Optional Retirement Plan. This is a defined contribution plan offered through TIAA-CREF, Fidelity Investments, Inc., and Vanguard. Under this plan, the employer contributions are 4.0 percent if hired on or after September 30, 2002, and 8.0 percent if hired prior to September 30, 2002. There are no employee contributions under this plan. During the year ended June 30, 2013, the total employer contributions to this plan were $12.9 million. The Medical Center also has a plan to cover their physicians who work for Community Medicine, LLC. These UVA employees participate in a Defined Contribution plan with retirement benefits based on tax-deferred accumulations. Vesting in the plan is 100.0 percent after 12 months of community service. All Community Medicine employees were hired after July 1, 2010. The current employer paid contribution is 11.9 percent of salaries paid. The total employer contributions to this plan for 2013 were $139,686.

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – nonmajor) contributes to the VRS. The System issues a separate stand-alone report that is publicly available as previously discussed. Effective July 1, 1997, the Authority established the Virginia Commonwealth University Health System Authority Defined Contribution Plan (the plan). All employees, excluding house staff, working at least 20 hours per week in a benefit eligible position are eligible to participate in the plan. Per the plan document as approved by the Authority's Board of Directors, the Authority contributes up to 10.0 percent of the participant's salary to the plan not to exceed the lesser of (a) the amount in accordance with Internal Revenue Code 415(d), or (b) 100.0 percent of the participant's compensation for such limitation year. Total contributions for the year ended June 30, 2013, were approximately $18.5 million. The Authority has the right at any time, and without the consent of any party, to terminate the plan in its entirety. The Authority's Board of Directors must approve any changes to the provisions of the plan, including the contribution requirements, in writing.

The Authority has also established the Virginia Commonwealth University Health System Authority Health Care Providers Defined Contribution Plan (the HCP plan). All persons hired as a health care provider on or after July 1, 1993, and prior to July 1, 1997, and working at least 35 hours of service per week were eligible to participate in the HCP plan. At June 30, 2013, there were four actively employed participants in the HCP plan. Total contributions to the HCP plan for the year ended June 30, 2013, were approximately $31,000.

Previously, the MCV Associated Physicians (MCVAP) (a component unit of the Authority) sponsored the MCVAP 403(b) Retirement Fund (the 403(b) Plan), a defined contribution plan which covered substantially all non-medical employees of MCVAP. As of January 1, 2002, no additional contributions were made to this plan.

The Authority and MCVAP also sponsor the VCUHS Savings Plan (VCUHS 457(b) Plan), a savings plan that represents employee contributions, and employees may also receive a 2.0 percent matching contribution in their VCUHS 401(a) Plan based on their 457(b) contribution.

MCVAP also sponsors the VCUHS 401(a) Retirement Plan, a defined contribution plan which covers all non-medical employees of MCVP. This plan became effective on January 1, 2002, and replaced the MCVAP 403 (b) plan for all non-medical staff. The contributions to the VCUHS 401(a) for the period ended June 30, 2013, were approximately $3.6 million.

MCVAP also sponsors the MCVAP 401(a) Retirement Plan (the 401(a) plan), a noncontributory, defined contribution plan which covers substantially all full-time eligible clinical providers of MCVAP, the MCVAP 403(b) Salary Deferral Plan, a salary deferral plan that represents physician contributions, and the MCVAP 403(b) Supplemental Plan, a noncontributory defined contribution plan for highly compensated employees. Contributions to the 401(a) plan, as determined annually at the discretion of the board of directors were approximately $12.3 million for the year ended June 30, 2013.

VA Premier (a component unit of the Authority) adopted a 401(k) plan sponsored by Fidelity Investments. Employees become eligible to participate in the plan after completing one year of service, during which the employee completes 1,000 hours of service. There is no minimum service or age requirement to be in the 401(k) plan. Employees may contribute 1.0 percent to 15.0 percent of their compensation. VA Premier will match 50.0 percent of the employees' contributions up to 4.0 percent of the employees' compensation. Matching will occur based on the bi-weekly pay periods. In addition, VA Premier contributes 3.0 percent of the employee's compensation (Safe Harbor contribution) and may make additional contributions (Profit Sharing contributions) at the option of the Board of Directors. During 2013, VA Premier made Profit Sharing contributions equal to 2.0 percent of each eligible employee's compensation. VA Premier makes both of these contributions in an annual installment at the end of the year. Employees are fully vested after four years of service in which the employees have at least 1,000 hours of service each year. The total expense to VA Premier in fiscal year 2013 was approximately $1.4 million.

Effective January 1, 1997, James Madison University (nonmajor) established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. Since it is a governmental plan, the plan is not subject to the Employee Retirement Income Security Act of 1974 as amended. Since inception, 214 faculty members have elected to enroll in the plan. As of June 30, 2013, 71 participants remain, including 15 new participants who retired under this plan during fiscal year 2013. In order to satisfy IRS requirements, a trust fund has been established as a means to make the payments to the plan participants. The University prepaid approximately $2.0 million of the fiscal year 2014 plan contribution in 2013.

The Center for Innovative Technology (CIT) is a blended component unit of the Innovation and Entrepreneurship Investment Authority (nonmajor). The CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, contributions are fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by TIAA-CREF. Contributions for the plan totaled $527,149 in fiscal year 2013.

K. Other Component Units

Note 1.B. outlines the component units included in the Commonwealth's reporting entity. The Virginia Public Building Authority (blended - primary government), the Virginia Public School Authority (major), the Virginia College Building Authority (major), the Virginia University Research Partnership (nonmajor), and the Virginia School for the Deaf and Blind Foundation (nonmajor) have no employees. The Virginia Economic Development Partnership, the Virginia Small Business Financing Authority, the Hampton Roads Sanitation District Commission, the Virginia Biotechnology Research Partnership Authority, the A. L. Philpott Manufacturing Extension Partnership, the Virginia Tourism Authority, the Tobacco Indemnification and Community Revitalization Commission, the Virginia Foundation for Healthy Youth, the Virginia Land Conservation Foundation, the Virginia Arts Foundation, and the Library of Virginia Foundation (all nonmajor) contribute solely to the VRS, a mixed-agent and cost-sharing multiple-employer retirement plan. The System issues a separate stand-alone report that is publicly available as previously discussed.

Full-time employees of the Virginia Housing Development Authority (major) participate in a defined contribution employees' retirement savings plan administered by the Authority. This is a noncontributory plan where the Authority incurs employment retirement savings expense equal to between 8.0 and 11.0 percent of full-time employees' compensation. Total retirement savings expense under this plan was $2.8 million in fiscal year 2013.

The Virginia Outdoors Foundation (nonmajor) maintains a 401(k) contribution plan and provides an employer contribution to all eligible employees of 2.0 percent of their salary. Employees can contribute to the plan up to the IRS limit and the Foundation will match up to 4.0 percent of an employees' contribution.

The Virginia Port Authority (nonmajor) contributes to the VRS. The Authority also sponsors two single-employer noncontributory defined benefit pension plans. The Virginia Port Authority Pension Plans are administered by the Authority and provide retirement, disability, and death benefits to plan members and beneficiaries. Benefit provisions and obligations are established and may be amended by the board of commissioners of the Authority.

The components of annual pension cost and prepaid pension obligation for the first single-employer noncontributory defined benefit pension plan are as follows:

Trend Information

	2013	2012	2011
Service cost - benefits earned during the year	$ 3,574,000	$ 3,386,700	$ 3,589,900
Interest cost on projected benefit obligation	4,668,100	5,248,100	4,886,100
Expected return on assets	(5,094,600)	(5,017,000)	(4,212,000)
Net amortization and deferral and gain	3,719,400	2,283,500	3,589,200
FAS88 Special Termination Benefits	-	1,150,500	-
Annual pension cost	6,866,900	7,051,800	7,853,200
Contributions made	(7,035,000)	(2,583,300)	-
Increase (Decrease) in prepaid pension obligation	(168,100)	4,468,500	7,853,200
Prepaid pension obligation, beginning of year	4,074,900	(393,600)	(8,246,800)
Prepaid pension obligation, end of year	$ 3,906,800	$ 4,074,900	$ (393,600)

Costs have been computed in accordance with the aggregate cost method. Changes in plan provisions and actuarial assumptions, and actuarial gains and losses are not separately amortized under this method. Rather the impact is spread through the nominal cost component over the future working lifetime of participants. The actuarial present value of accumulated plan benefits is determined by an actuary using end of year benefit information as of September 30, 2012, 2011 and 2010, respectively, and is determined by applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money and the probability of payment.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2013, 2012, and 2011.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2013	$ 6,866,900	102 %	$ 3,906,800
2012	$ 7,051,800	37 %	$ 4,074,900
2011	$ 7,853,200	- %	$ (393,600)

In November 2001, the second plan was amended to provide benefits to sworn police officers that more closely resemble the new retirement benefits provided to members of the Virginia Law Officers Retirement System. The effect of those changes is included in the accompanying pension data.

The components of annual pension cost and prepaid pension obligation for the second single-employer noncontributory defined benefit pension plan are shown in the following schedule.

Trend Information

	2013	2012	2011
Service cost - benefits earned during the year	$ 884,733	$ 965,081	$ 1,101,909
Interest cost on projected benefit obligation	66,355	72,381	82,643
Expected return on assets	(164,432)	(134,104)	(109,452)
Net amortization and deferral	232,017	215,428	171,448
Annual pension cost	1,018,673	1,118,786	1,246,548
Contributions made	(1,358,196)	(1,523,156)	(1,575,234)
Increase (Decrease) in pension obligation	(339,523)	(404,370)	(328,686)
Pension obligation, beginning of year	(2,192,422)	(1,788,052)	(1,459,366)
Prepaid pension obligation, end of year	$ (2,531,945)	$ (2,192,422)	$ (1,788,052)

The annual pension cost for the current year was determined as part of the July 2013 actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. Because of this, information about the funded status and funding progress is presented using the entry age actuarial cost method. The information presented is intended to serve as a surrogate for the funded status and funding progress of the plan. Actual value of assets was determined using market value. The discount rate used in determining the actuarial liability was based on a 7.5 percent discount rate and a 4.0 percent future compensation level was used for future years.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 2013, 2012, and 2011.

Trend Information

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
2013	$ 1,018,673	133 %	$ (2,531,945)
2012	$ 1,118,786	136 %	$ (2,192,422)
2011	$ 1,246,548	126 %	$ (1,788,052)

The Authority also sponsors two noncontributory supplemental plans covering certain key employees. The plans had assets of $2.6 million and an accrued liability of $3.4 million. No contributions were made to the plans for the year ended June 30, 2013.

As of January 1, 2005, the Virginia Resources Authority (major) began mandatory participation for all new employees and optional participation for then-current employees who chose to enroll in the VRS. For the year ended June 30, 2013, the Authority's annual pension cost of $90,783 was equal to the Authority's required and actual contributions.

The Assistive Technology Loan Fund Authority (nonmajor) sponsors a Simple Employee Plan (SEP) for all of its employees. The Authority contributes 5.0 percent of each employee's wages, which is paid into their account managed by the Virginia Retirement System each pay period.

Employees of the Virginia Museum of Fine Arts Foundation (nonmajor) who are age 21 or older are eligible to participate in the Employee's Savings Plan (the plan), a 401(k) defined contribution profit sharing plan. Under the plan, the Foundation may make a discretionary contribution. For the plan years ended June 30, 2013 and 2012, the Foundation contributed 8.4 percent of employees' gross income to the plan. In addition, contributions made by an employee up to 3.0 percent are matched 100.0 percent and contributions between 3.0 and 5.0 percent of the employee's gross income are matched 50.0 percent by the Foundation. Employees may contribute up to 100.0 percent of gross income each year as long as it is within the IRS limitation. Contributions paid to the plan by the Foundation on behalf of its employees were $155,820 for the fiscal year ended June 30, 2013. Also, the Foundation entered into a supplemental retirement agreement to pay a key employee of the Museum upon retirement the difference between the amount accrued under the VRS defined benefit plan, based on salary, and the amount based on the supplemental salary. The plan vested on July 31, 2011. Therefore, the Foundation accrued a $23,521 liability related to this agreement for the year ended June 30, 2013. Contributions made to the plan were $12,611 in 2013 and $9,458 in 2012.

The Science Museum of Virginia Foundation (nonmajor) has a 403(b) defined contribution pension plan through the Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) Retirement Plan for employees meeting age and service requirements. The Foundation contributes an amount not to exceed 3.0 percent of the regular salary of each participant. The Foundation's employer contributions totaled $13,579 in 2013.

15. OTHER EMPLOYMENT BENEFITS

In addition to the pension plans, the Commonwealth participates in two other employment benefit plans, Group Life Insurance and the Virginia Sickness and Disability Program, which are administered by the Virginia Retirement System (the System). The System administers a third other employment benefit plan, the Volunteer Firefighters' and Rescue Squad Workers' Fund, in which the Commonwealth does not participate, but may provide funding. The significant accounting policies for all three plans are the same as those described in Note 14 for pension plans. A separately issued financial report that includes financial statements for the Group Life Insurance and Virginia Sickness and Disability Program is publicly available. Copies may be obtained by writing to the Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Group Life Insurance

The Group Life Insurance Plan was established for Commonwealth employees, teachers, employees of political subdivisions participating in the VRS, state police officers, other state law enforcement and correctional officers, judges, and other qualifying employees. The program provides life insurance for natural death coverage equal to a member's annual compensation rounded to the next highest $1,000 and then doubled. Accidental death coverage is double the natural death benefit. The program also provides coverage for accidental dismemberment and accidental blindness, a safety belt benefit, a repatriation benefit, a felonious assault benefit and an accelerated death benefit for terminal conditions. Approximately 357,053 members participate in the program at June 30, 2013.

Participating employers and their covered employees are required by Title 51.1 of the *Code of Virginia*, as amended, to contribute to the cost of group life insurance benefits. Employers may assume the employees' contributions.

An optional Group Life Insurance Fund was established for members covered under the group life program as a supplement to that plan. Members may purchase optional life insurance coverage for themselves, their spouses and/or their dependent children. The optional program provides natural death coverage equal to one, two, three or four times the member's annual compensation rounded to the next highest $1,000, up to a maximum of $700,000. Spouse coverage is available for up to one-half of the member's optional insurance amount. Minor children who are at least 15 days old can be insured for $10,000, $20,000 or $30,000, depending on the option chosen by the member. An additional accidental death and dismemberment benefit is payable for death or bodily injuries. Approximately 66,482 members were covered under this program at June 30, 2013.

Optional group life insurance coverage ends for members when they retire or terminate their employment, or when their basic coverage ends. Optional life insurance amounts begin to reduce by 25 percent based on the retiree's age, beginning with the retiree's normal retirement age under his or her plan ending at age 80. Retirees may elect to continue coverage within 31 days of retirement. Spouse coverage terminates should a couple divorce or when the member leaves employment. Children's coverage ends with the termination of the member's coverage or when the child marries or turns 21 years of age (25 years of age for full-time college students).

Employers of members who elect optional life insurance coverage deduct the premiums from the members' paychecks, as required by Title 51.1 of the *Code of Virginia*, as amended. Premiums are based on the member's age and determined by the Board of Trustees. Because optional life insurance is an insured product, the carrier bills each employer directly, and the employer makes the contribution payments to the carrier. Any differences and adjustments are settled between the employer and the carrier.

Virginia Sickness and Disability Program

The System administers the Virginia Sickness and Disability Program (VSDP) to provide income protection in the event of a disability for eligible state employees hired on or after January 1, 1999. State agencies are required by Title 51.1 of the *Code of Virginia* to contribute to the cost of providing long-term disability benefits and administering the program.

VSDP benefits include sick, family and personal leave and short-term and long-term disability benefits. After a seven-calendar day waiting period following the first day of disability, eligible employees receive short-term disability benefits from 60.0 percent to 100.0 percent of their compensation. After 125 work days of short-term disability, eligible employees receive long-term disability benefits equal to 60.0 percent of their compensation. If the employee's condition becomes catastrophic, income replacement increases to 80.0 percent until the condition is no longer catastrophic. Long-term disability benefits continue until employees return to work, retire or reach age 65 (age 60 for state police officers and other state law enforcement and correctional officers) or die.

Full-time permanent salaried state employees, including state police officers and other Virginia law and correctional officers, are automatically enrolled in the VSDP. Part-time permanent salaried state employees who work at least 20 hours a week and accrue leave also are automatically enrolled. Teaching, administrative and research faculty of Virginia public colleges and universities who elect VRS as their retirement plan must make an irrevocable election to participate in either the VSDP or the institution's disability program. If there is no institution program, the faculty member is covered under VSDP.

Eligible state employees and state police officers employed before January 1, 1999, had the option to elect to participate in the VSDP or remain under the Commonwealth's existing sick leave program and retain their eligibility for disability retirement benefits under VRS and SPORS. (Members of VaLORS have been automatically enrolled in the VSDP since October 1, 1999, when VaLORS was created.) Eligible employees enrolled in the VSDP are not eligible for disability retirement benefits under VRS, SPORS, or VaLORS. Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work related short-term disability coverage and certain income replacement levels. Approximately 74,378 members were covered under the program at June 30, 2013.

Volunteer Firefighters' and Rescue Squad Workers' Fund

Volunteer firefighters and rescue squad workers may participate in an optional employment benefit plan. This optional plan is authorized by the *Code of Virginia*. The Board of Trustees of the System manages the investments of the fund as custodian. Members of the plan contribute $30 per quarter. The Commonwealth will contribute an amount determined by the Board and appropriated by the General Assembly, if such funds are appropriated, for a period not to exceed 20 years. For fiscal year 2013, there were no monies appropriated for administration of the program. At June 30, 2013, there were 1,689 workers participating in the fund.

16. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Virginia Retirement System (The System) Administered Plans

The Government Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which requires additional reporting and disclosures for OPEB plans. The statement became effective for System-administered OPEB plans beginning with the fiscal year ended June 30, 2007. The assets and actuarial accrued liabilities for the following other postemployment benefits were determined through an actuarial valuation performed as of June 30, 2012, by Millman, Inc. for the long-term care component of the Disability Insurance Trust Fund and by Cavanaugh Macdonald Consulting, LLC, and are presented in the Required Supplemental Schedule of Funding Progress for Other Postemployment Benefit Plans. The significant accounting policies for all four plans are the same as those described in Note 14 for pension plans and a separately issued report is available as previously discussed.

Group Life Insurance Benefits

Employees who retire or terminate from service after age 50 with at least ten years of service credit or at age 55 with at least five years of service credit (age 50 for vested state police officers, other state law enforcement and correctional officers and hazardous duty employees of participating political subdivisions), or who retire because of disability, are entitled to postemployment group life insurance benefits. Employees enrolled in JRS who retire or terminate from service after age 60 with at least 30 years of service credit or at age 65 with at least five years of service credit are entitled to postemployment group life insurance benefits. At retirement or termination, accidental death benefits cease and natural death coverage reduces at a rate equal to 25.0 percent on January 1 of the first full calendar year following retirement or termination and on January 1 of each year thereafter, until it reaches 25.0 percent of its original value. These group life insurance benefit provisions and requirements are established by Title 51.1 of the *Code of Virginia*. There were approximately 149,926 retirees in the Basic Group Life Insurance Program and 2,469 retirees were covered under the Optional Group Life Insurance Program in fiscal year 2013.

Since 1960, when the group life insurance program was established, a portion of the premium contributions collected during members' active careers has been placed in an advance premium deposit reserve. This reserve was established to pre-fund death benefits to members after retirement.

Employers providing life insurance benefits are part of a cost-sharing pool. Therefore, separate measurements of assets and actuarial accrued liabilities are not made for individual employers participating in the program.

Retiree Health Insurance Credit Program

The Retiree Health Insurance Credit Program was established on January 1, 1990, to provide benefits for retired state employees, state police officers, other state law enforcement and correctional officers and judges who have at least 15 years of service credit under the retirement plans. The program provides a credit reimbursement of $4 per month per year of service credit against the monthly health insurance premiums of eligible retirees.

A similar program was established on July 1, 1993, to provide a health insurance credit for retired teachers and employees of participating political subdivisions with at least 15 years of service credit under the retirement plans. Retired teachers are eligible for a monthly credit of $4 per month per year of service credit. Local government retirees may receive a maximum credit of $1.50 per month per year of service with a maximum monthly credit of $45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the *Code of Virginia*. The amount required to fund all credits is financed by the employers based on contribution rates determined by the System's actuary. Approximately 103,952 retired members were covered under this program at June 30, 2013. The Retiree Health Insurance Credit Program is an agent, multiple-employer defined benefit OPEB plan.

Disability Insurance Trust Fund

The Commonwealth provides OPEB disability insurance benefits, in accordance with state statutes, to eligible retired and terminated employees. State agencies are required by Title 51.1 of the *Code of Virginia* to contribute to the cost of providing long-term disability benefits and administering the program. There were approximately 2,757 former members receiving benefits from the program during fiscal year 2013. The Disability Insurance Trust Fund is a single-employer defined benefit OPEB plan.

Line of Duty Death and Disability

The Commonwealth provides death and health benefits to the beneficiaries of certain law enforcement and rescue personnel disabled or killed in the line of duty. A trust fund has been established to account for this activity. Benefit provisions and eligibility requirements are established by Title 9.1 Chapter 4 of the *Code of Virginia*. The significant accounting policies for this plan are the same as those described in Note 14 for pension plans. There were approximately 838 retirees and 839 other participants in the program in fiscal year 2013. The Line of Duty Death and Disability Program is a cost-sharing, multiple-employer defined benefit OPEB plan. The employer contribution rate was determined by the System's actuary using the anticipated costs and the number of covered individuals associated with all of the covered employers. Additionally, the Department of Accounts provides certain administrative support in claims administration.

B. Pre-Medicare Retiree Healthcare

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the VRS or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

- be receiving (not deferring) the annuity or periodic benefit immediately upon retirement;
- have his or her last employer before retirement be the state;
- be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage); and,
- have submitted within 31 days of his or her retirement date an Enrollment Form to his or her Benefits Administrator to enroll.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. The significant accounting policies for this plan are the same as those described in Note 14 for pension plans. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan and is administered by the Department of Human Resource Management. There were approximately 7,861 retirees in the program in fiscal year 2013.

C. Annual OPEB Cost and Net OPEB Obligation

The Government Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which required additional reporting and disclosures for OPEB plans beginning with the fiscal year ending June 30, 2008. The Commonwealth calculated an OPEB liability as of June 30, 2013 for each of the five OPEB plans. The Retiree Health Insurance Credit Fund, Disability Insurance Trust Fund, and Pre-Medicare Retiree Healthcare OPEB liabilities were $150.0 million, $161.1 million, and $748.5 million, respectively. These amounts are reported in the accompanying financial statements as a component of Long-Term Liabilities Due in More than One year. There is no liability for the Group Life Insurance Fund or Line of Duty Death and Disability.

The following table (dollars in thousands) shows the Commonwealth's annual OPEB cost and net OPEB obligation (asset) for the current and prior years.

	Group Life Insurance Fund			Retiree Health Insurance Credit Fund		
	2013	2012	2011	2013	2012	2011
Annual required contribution	$ 60,457	$ 15,483	$ 13,360	$ 67,804	$ 65,412	$ 58,785
Interest on net OPEB obligation	-	-	-	9,626	5,934	1,922
Adjustment to annual required contribution	-	-	-	(8,336)	(5,341)	(1,728)
Annual OPEB cost	60,457	15,483	13,360	69,094	66,005	58,979
Contributions made	(60,457)	(15,483)	(13,360)	(56,636)	(7,667)	(5,383)
Increase in net OPEB obligation	-	-	-	12,458	58,338	53,596
Net OPEB obligation (asset), beginning of year	-	-	-	137,568	79,230	25,634
Net OPEB obligation (asset), end of year	$ -	$ -	$ -	$ 150,026	$ 137,568	$ 79,230
Percentage of annual OPEB cost contributed	100.0%	100.0%	100.0%	82.0%	11.6%	9.1%

	Disability Insurance Trust Fund			Line of Duty Death and Disability		
	2013	2012	2011	2013 (3)	2012 (2)	2011 (1)
Annual required contribution	$ 29,862	$ 37,578	$ 33,643	$ 5,925	$ 2,901	$ -
Interest on net OPEB obligation	10,247	8,204	5,650	-	-	-
Adjustment to annual required contribution	(8,900)	(7,387)	(5,082)	-	-	(15,607)
Annual OPEB cost	31,209	38,395	34,211	5,925	2,901	(15,607)
Contributions made	(16,986)	(1,092)	-	(5,925)	(2,901)	-
Increase in net OPEB obligation	14,223	37,303	34,211	-	-	(15,607)
Net OPEB obligation (asset), beginning of year	146,893	109,590	75,379	-	-	15,607
Net OPEB obligation (asset), end of year	$ 161,116	$ 146,893	$ 109,590	$ -	$ -	$ -
Percentage of annual OPEB cost contributed	54.4%	2.8%	0.0%	100.0%	100.0%	0.0%

	Pre-Medicare Retiree Healthcare		
	2013	2012	2011
Annual required contribution	$ 182,566	$ 172,532	$ 166,637
Interest on net OPEB obligation	23,274	19,149	13,304
Adjustment to annual required contribution	(24,117)	(19,268)	(13,356)
Annual OPEB cost	181,723	172,413	166,585
Contributions made	(15,479)	(36,600)	(29,583)
Increase in net OPEB obligation	166,244	135,813	137,002
Net OPEB obligation (asset), beginning of year	582,223	446,410	309,408
Net OPEB obligation (asset), end of year	$ 748,467	$ 582,223	$ 446,410
Percentage of annual OPEB cost contributed	8.5%	21.2%	17.8%

(1) Line of Duty Death and Disability became a cost sharing plan effective July 1, 2010. Accordingly, the net OPEB obligation at the beginning of the transition period has been reduced to zero. Fiscal year 2011 activity was funded with a $10.7 million loan that will be repaid in future periods with contributions received.

(2) During fiscal year 2012, the required annual contributions of $2.9 million were paid by the Commonwealth. Additionally, the loan increased to $13.9 million that will be repaid in future periods with contributions received.

(3) During fiscal year 2013, the required annual contributions of $5.9 million were paid by the Commonwealth. Additionally, the loan increased to $14.9 million that will be repaid in future periods with contributions received. This amount is reflected as both a receivable and a contribution in the accompanying statements.

The amounts in the previous table include Governmental and Component Unit activity for which the Commonwealth is considered the employer. It does not include the OPEB liability for the following nonmajor component units: the Virginia Economic Development Partnership, the Virginia Tourism Authority, the Fort Monroe Authority, and the Virginia Outdoors Foundation of $1.5 million, $787,366, $236,289, and $45,749, respectively. The table also excludes non-Commonwealth sponsored OPEB liabilities of $34.7 million for all other component units and includes the fiduciary OPEB liability of $5.0 million.

The annual required contributions for the current year were determined during the actuarial valuations conducted as of June 30, 2011, as that is the most recent report that reflects the current funding policies. Employer contributions by the Commonwealth for Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance were 1.2 percent, 1.0 percent, and 0.5 percent, respectively, of covered payrolls for FY 2013. The valuations were prepared using the entry age normal cost method for all plans except for the Disability Insurance trust fund and the Line of Duty Act trust fund for which the Projected Unit Credit actuarial cost method was used. The Pre-Medicare Retiree Healthcare plan uses a 4.0 percent investment rate of return, per year compounded annually, which approximates the projected rate of return on the Treasurer's Portfolio. The Group Life Insurance, Retiree Health Insurance Credit and Disability Insurance use a 7.0 percent investment rate of return, per year compounded annually. The Line of Duty Act trust fund uses a 4.8 percent rate of return compounded annually. The actuarial assumptions for all but the Pre-Medicare Retiree Healthcare plan included a projected salary increase of 3.0 percent, including a 2.5 percent inflation component. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five year period. The remaining open amortization period at the June 30, 2012 valuation, was 29 years. The actuarial assumptions for the Pre-Medicare Retiree Healthcare plan as to current claim cost, projected increases in health insurance costs, mortality, turnover, retirement, disability and discount rate include (a) projected salary increases ranging from 3.8 percent to 5.6 percent, including a 2.5 percent inflation component; and, (b) assumption that there is no liability associated with those retirees eligible for Medicare, as costs for members aged 65 and older are not subsidized by the active population (no implicit subsidy), participants pay 100.0 percent of the costs, and the liability associated with the health insurance credit is measured and held by the Virginia Retirement System. Initial healthcare costs trend rates used were 10.0 percent, 11.0 percent, and 6.0 percent for medical, pharmacy, and dental benefits, respectively. The ultimate trend rates used were 5.0 percent, 5.0 percent, and 4.0 percent for medical, pharmacy, and dental benefits, respectively. The remaining open amortization period at June 30, 2012 was 30 years.

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012, per the most recent actuarial valuation, was as follows:

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Group Life Insurance Fund			
2012	$ 756	$ 2,458	$ 1,702	30.7%	$ 16,697	10.2%
			Retiree Health Insurance Credit Fund			
2012	$ 130	$ 2,258	$ 2,128	5.8%	$ 14,211	15.0%
			Disability Insurance Trust Fund			
2012	$ 305	$ 262	$ (43)	116.6%	$ 3,433	(1.3%)
			Line of Duty Death and Disability			
2012	$ 6	$ 226	$ 220	2.7%	N/A	N/A
			Pre-Medicare Retiree Healthcare			
2012	$ -	$ 1,351	$ 1,351	-	$ 3,709	36.4%

Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Amounts determined regarding the funded status of the plans and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

E. Higher Education Fund (Component Unit)

The University of Virginia (nonmajor) has a Retiree Health Plan that covers employees who retire before becoming eligible for Medicare until they reach age 65 and can then participate in the Commonwealth's Medicare Supplement Plan. Additional information on this plan can be found in the individually published financial statements of the University.

F. Other Component Units

The Virginia Housing Development Authority (major) has a Retiree Health Care Plan, a single-employer defined benefit plan which is administered through the Virginia Housing Development Authority Retiree Health Care Plan Trust, an irrevocable trust to be used solely for providing benefits to eligible participants. Effective January 1, 2006, eligible retirees must be at least 55 years of age with 15 years of service or at least 55 years of age with 10 years of service if employed by the Authority prior to such date. For the year ended June 30, 2013, the Authority's Annual OPEB cost was $493,044; the percentage of Annual OPEB Cost Contributed was 254.0 percent; and the ending Net OPEB asset was $1.2 million.

Hampton Roads Sanitation District Commission (nonmajor) provides other postemployment benefits for its employees through a single employer defined benefit plan. The plan was established and may be amended by the Commission. The plan furnishes health and dental benefits for life for all employees with at least 15 years of service and who also qualify for an unreduced retirement benefit through the VRS. The plan allows the retiree at their expense to cover their spouse and dependents under the district's health care provider. Contribution requirements are actuarially determined and funding is subject to approval by the Commission. The current rate is 6.0 percent of annual covered payroll. For 2013, the Commission's annual OPEB cost was $2.1 million; the percentage of annual OPEB cost contributed was 100.0 percent.

The Virginia Port Authority (VPA) (nonmajor) offers post retirement medical and dental benefits to employees who retire under either VRS or the VPA pension plan. For employees and their spouses, who are participants in the VPA medical plan, not participants under the state health care plan VRS, benefit provisions and obligations are established and may be amended by the board of commissioners of the Authority. For the year ended June 30, 2013, the Authority's annual OPEB cost was $64,744; contribution towards OPEB cost was $248,566; the percentage of annual OPEB cost contributed was 383.7 percent; and the ending net OPEB obligation was $1,594.

17. DEFERRED COMPENSATION PLANS

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The Virginia Retirement System (the System) administers the deferred compensation plan, pursuant to the Government Employees Deferred Compensation Plan Act, Section 51.1, Chapter 6 et seq. of the *Code of Virginia*. The System contracts with private corporations or institutions subject to the standards set forth in the *Code* to provide investment products as well as any other goods and services related to the administration of the deferred compensation plan. The Department of Accounts is responsible for the accounting, reconciliation, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the System for investment. The plan provides a number of investment options and is designed so that each participant retains investment control of his/her individual account. The plan, available to all state employees, permits them to defer a portion of their salary until future years. The deferred compensation is held in trust for the exclusive benefit of plan participants and their beneficiaries and is not available to employees until termination, retirement, death, unforeseeable emergency, or an in-service distribution at age 70 ½ or later. Since the System has no fiduciary relationship with plan participants, plan assets of $1.7 billion are not included in the financial statements.

In addition, the Commonwealth provides a cash match under Internal Revenue Code Section 401(a) for employees participating in the deferred compensation plan. The match amount for an employee was established at 50.0 percent of the voluntary contributions to the deferred compensation plan. During the current fiscal year, the maximum match was $20 per pay period or $40 per month. The fair value of assets in the cash match savings plan at June 30, 2013, was $302.5 million, which is also excluded from the financial statements.

Most employees of the Commonwealth's colleges and universities may participate in the Commonwealth's deferred compensation plan in accordance with Internal Revenue Code Section 457(b) and/or the institution's deferred compensation plan in accordance with Internal Revenue Code Section 403(b). Under either plan, the institution's cash match under the Internal Revenue Code Section 401(a) during fiscal year 2013 was a maximum match up to $20 per pay period or $40 per month. This employer match is for either plan but not both plans. Employer contributions under these plans were approximately $12.5 million for fiscal year 2013.

The deferred compensation plan for the University of Virginia Medical Center (part of the University of Virginia – nonmajor component unit) employees hired on or after September 30, 2002 allows employee contributions up to 4.0 percent of their salary and the employer match is 50.0 percent of the 4.0 percent deferral not to exceed 2.0 percent of the employees' salary. Employer contributions under this plan were approximately $1.8 million for fiscal year 2013.

The Virginia Housing Development Authority (major component unit) and the Virginia Resource Authority (major component unit) have deferred compensation plans available to all employees created in accordance with Internal Revenue Section 457. The plans permit participants to defer a portion of their salary or wage until future years. The deferred compensation is not available to employees until termination, retirement, or death. The assets of the plans are in irrevocable trusts with an external trustee and, accordingly, no assets or liabilities are reflected in the financial statements.

The Virginia Port Authority (VPA) (nonmajor component unit) offers three deferred compensation plans and two matching savings plans under Internal Revenue Code Sections 457 and 401(a), respectively. Employees who maintain status under VRS are covered under the deferred compensation plan administered by the System as discussed above. The VPA deferred compensation plan covers all employees hired after July 1, 1997, and those employees electing coverage under the authority's deferred compensation plan. The VPA also offers a matching savings plan that covers substantially all employees. The matching savings plan requires the VPA to match contributions in an amount equal to half of the first 6.0 percent of the participant's base pay contributed to the plan. VPA's total contribution to the matching savings plan was $109,907 for the fiscal year ended June 30, 2013. Further, the rights to modify, alter, amend, or terminate the deferred compensation plan and matching savings plan rests with the VPA Board of Commissioners.

The third deferred compensation plan and second matching savings plan covers substantially all non-union employees with 90 days or more of service. The matching savings plan requires the VPA to match employee contributions in an amount equal to half of the first 3.0 percent of the participant's base pay contributed to the deferred compensation plan. VPA's total contribution to the matching savings plan was $299,005 for the fiscal year ended June 30, 2013.

18. STATE NON-ARBITRAGE POOL

The Commonwealth sponsors the Virginia State Non-Arbitrage Program (SNAP) for use by the Commonwealth and local governments to invest bond proceeds. The Commonwealth's responsibility is limited to hiring service providers to manage SNAP. The investment manager and the custodian have the fiduciary responsibility for SNAP.

The SNAP fund is a class of the PFM Funds Prime Series, a money market mutual fund registered with the Securities and Exchange Commission. PFM Funds is a diversified, open-end management investment company organized as a Virginia business trust. Shares of the SNAP fund are solely available to investors participating in the SNAP program. The PFM Funds Board of Trustees has overall responsibility for supervising the SNAP fund's business and affairs, including the oversight of organizations providing investment advisory, administration, and distribution services to the SNAP fund. PFM Asset Management LLC serves as the investment adviser of the SNAP fund. The SNAP individual investment portfolios are the responsibility of the SNAP investment manager and the governments investing proceeds in the portfolios. These investments are held solely in the SNAP participants' names. Since the Commonwealth has no fiduciary relationship with local governmental entities participating in the plan, these assets of $2.5 billion are not included in the financial statements.

19. COMMITMENTS

A. Construction Projects

Primary Government

Highway Projects

At June 30, 2013, the Department of Transportation had contractual commitments of approximately $4.8 billion for construction of various highway projects. Funding for these expenditures is expected to be provided as follows: (1) federal funds – approximately 33.0 percent or $1.6 billion, (2) state funds – approximately 42.0 percent or $2.0 billion, and (3) Proceeds from Bonds – approximately 25.0 percent or $1.2 billion.

At June 30, 2013 the Route 460 Funding Corporation of Virginia (nonmajor enterprise fund) had contractual commitments of approximately $184.7 million for the U.S Route 460 Corridor Improvements Project.

Mass Transit Projects

At June 30, 2013, the Department of Rail and Public Transportation had contractual commitments of approximately $166.4 million for various public transportation, rail preservation, and rail enhancement projects. Funding of the future expenditures is expected to be as follows: (1) State Funds – approximately 86.7 percent or $144.3 million, and (2) Federal Funds – approximately 13.3 percent or $22.1 million.

Wastewater Treatment Projects

At June 30, 2013, the Department of Environmental Quality was committed to grant contracts with localities to reimburse a portion of construction costs for nutrient reduction facilities at wastewater treatment plants totaling $66.3 million provided by bond proceeds and the Water Quality Improvement Fund.

Other Construction Projects

At June 30, 2013, the Department of Behavioral Health and Developmental Services had construction commitments of approximately $36.8 million.

At June 30, 2013, the Department of Forensic Science had non-contractual commitments of approximately $29.6 million for construction and energy performance contracts.

At June 30, 2013, the Virginia State Police had construction commitments of approximately $21.2 million for a driver training facility.

At June 30, 2013, the Jamestown-Yorktown Foundation had construction commitments of approximately $17.9 million for the Yorktown Museum Project.

At June 30, 2013, the Department of Game and Inland Fisheries had construction commitments of approximately $8.7 million for a new headquarters building.

Component Units

Port Projects

At June 30, 2013, the Virginia Port Authority (nonmajor) was committed to construction contracts totaling $75.0 million.

Wallops Island Project

At June 30, 2013, the Virginia Commercial Space Flight Authority (nonmajor) was committed to construction programs totaling $6.8 million.

Higher Education Institutions

Colleges and universities had contractual commitments as of June 30, 2013, of approximately $568.6 million primarily for construction contracts. Higher education foundations' commitments total approximately $59.9 million and are primarily for construction contracts.

B. Operating Leases

The Commonwealth has entered into numerous agreements to lease land, buildings, and equipment. Most of the operating leases contain the provision that the Commonwealth may renew the operating leases at the expiration date of the lease on a month-to-month basis. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases of a similar nature. Rental expense for the primary government under these operating leases for the year ended June 30, 2013, was $66.3 million for governmental activities (including internal service funds) and $22.8 million for business-type activities. Rental expense for the discrete component units (excluding foundations) for the year ended June 30, 2013, was $133.9 million. The Commonwealth has, as of June 30, 2013, the following minimum rental payments due under the above leases (dollars in thousands):

	Primary Government		
	Governmental Activities	Business-type Activities	Component Units (1)
2014	$ 61,973	$ 21,424	$ 113,292
2015	50,856	17,656	108,640
2016	40,717	14,104	100,704
2017	31,662	9,320	96,191
2018	23,895	5,221	96,502
2019-2023	41,132	4,356	460,173
2024-2028	6,279	-	517,826
2029-2033	150	-	237,612
2034-2038	23	-	823
2039-2043	23	-	823
2044-2048	23	-	823
2049-2053	9	-	165
Total	$ 256,742	$ 72,081	$ 1,733,574

Note (1): The above amounts exclude operating lease obligations of foundations.

	Foundations (2)
2014	$ 3,319
2015	2,386
2016	1,948
2017	1,462
2018	1,009
Thereafter	3,670
Total	$ 13,794

Note (2): Foundations represent FASB reporting entities defined in Note 1.B. Rental expense for the year ended June 30, 2013, was approximately $3.4 million.

Lease agreements are for various terms and contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

C. Investment Commitments – Virginia Retirement System

The Virginia Retirement System extends investment commitments in the normal course of business, which, at June 30, 2013, amounted to $4.4 billion.

D. Tobacco Grants

The Tobacco Indemnification and Community Revitalization Commission (nonmajor component unit) had $191.0 million in grant award commitments not reflected in the accompanying financial statements since eligibility requirements were not met as of June 30, 2013, in accordance with GASB Statement No. 33.

The Virginia Foundation for Healthy Youth (nonmajor component unit) had $12.5 million in grant commitments and outstanding contracts not reflected in these statements since eligibility requirements were not met as of June 30, 2013, in accordance with GASB Statement No. 33.

E. Other Commitments

Primary Government

At June 30, 2013, the Department of Motor Vehicles had contractual commitments of approximately $33.6 million for security technology services.

At June 30, 2013, the Department of Corrections had contractual commitments of approximately $5.9 million for teacher services.

At June 30, 2013, the Virginia Department of Health had commitments of approximately $27.6 million to localities, trauma centers, trainers, grants to rescue squads, and water supply assistance grants.

At June 30, 2013, the Virginia College Savings Plan (major enterprise fund) had $129.7 million in private equity commitments.

At June 30, 2013, the Virginia Employment Commission (major enterprise fund) had contractual commitments of approximately $16.4 million and non-contractual commitments of approximately $12.8 million for an information systems modernization project. The agency also had approximately $6.4 million in other contractual commitments.

The Virginia Wireless E-911 (nonmajor enterprise fund) had $2.8 million in outstanding grants awarded but not yet disbursed to localities as of June 30, 2013, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

Component Units

The Virginia Housing Development Authority (major) had $423.7 million in commitments to fund new loans as of June 30, 2013, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

The Virginia Resource Authority (major) was obligated to disburse $172.7 million in loan commitments to various localities and other governmental entities in the Commonwealth of Virginia as of June 30, 2013, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

The Virginia Small Business Financing Authority (nonmajor) had $15,000 in loan commitments to banks and borrowers as of June 30, 2013, since all of the eligibility criteria have not been met in accordance with GASB Statement No. 33.

20. ACCRUED LIABILITY FOR COMPENSATED ABSENCES

Employees accrue annual leave at a rate of four to nine hours semimonthly, depending on their length of service. The maximum leave accumulation is dependent upon years of service, but in no case may it exceed 432 hours. The maximum compensation for annual leave balances is also dependent upon years of service, but in no case may an employee be compensated for more than 336 hours.

All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program (VSDP) (see Note 15). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the calendar year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the original sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the original sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave state service after a minimum of five years employment receive the lesser of 25.0 percent of the value of their disability credits or accumulated sick leave at their current earnings rate or $5,000. All employees leaving state service are paid for accrued annual leave up to the maximum calendar year limit at their current earnings rate.

In conformance with Section C60 of the GASB Codification, the monetary value of accumulated annual and sick leave and disability credits payable upon termination is included in the accompanying financial statements and is reported as Compensated Absences. In the government-wide statements, proprietary fund statements, and discrete component unit fund statements, compensated absence amounts are segregated into two components – the amount due within one year and the amount due in more than one year. Compensated absences due within one year consist of an estimate of the amount that will be used by active employees for paid time off and/or paid upon termination, plus the actual amount paid after June 30 for employees terminating on or before June 30. In the governmental fund statements, amounts to be paid from expendable resources are recognized as fund liabilities in the applicable governmental fund types as long-term liabilities and represent payments to employees for separations that occurred on or before June 30. Amounts not payable from expendable resources are reflected in the governmental activities column in the Government-wide Statement of Net Position (see Note 25). All amounts related to the fiduciary funds are recognized in those funds.

The liability at June 30, 2013, was computed using salary rates effective at that date, and represents vacation, compensatory and sick leave earned or disability credits held by employees up to the allowable ceilings.

21. POLLUTION REMEDIATION OBLIGATIONS

The Commonwealth has pollution remediation obligations of $3.5 million, of which $2.9 million is due within one year. With the exception of the Department of Environmental Quality (DEQ), agencies estimated future obligations based on professional consultant estimates and/or historical project expenses of similar projects; however, there is the potential for change in estimates due to price increases or reductions, technology, or applicable laws and regulations. Remediations for DEQ are not estimates but contractual obligations between the Commonwealth and the U.S. Environmental Protection Agency (EPA), and any change due to a reconciliation of incurred costs requires mutual consent and contract amendment.

The estimated Commonwealth pollution remediation liability relates to the anticipated cost of hazardous waste removal, cleanup relating to leakage of underground storage tanks, soil and groundwater contaminations, dump site cleanups, asbestos, lead contamination and remediation relating to superfund state contracts.

Agencies involved in remediation include:

- Department of Behavioral Health and Developmental Services (DBHDS)
- Department of Corrections (DOC)
- Department of Emergency Management (VDEM)
- Department of Environmental Quality (DEQ)
- Department of Juvenile Justice (DJJ)
- Department of Transportation (VDOT)

A Facility Lead Agreement was signed between the EPA and VDOT to resolve an issue concerning the storage of lab wastewater in an outdoor lined surface impoundment that operated between 1979 and 1983 for which contamination is present in soil and groundwater. DOC was fined by the EPA in September/October 2003. DOC proposed to conduct a Supplemental Environmental Project (SEP) which included the formation of the Pollution Prevention Section of the Environmental Services Unit, disclosure of all environmental deficiencies to both the EPA and DEQ and corrections of those deficiencies.

The following pollution remediation outlays could not reasonably be estimated as of June 30, 2013:

- Department of Behavioral Health and Developmental Services (DBHDS) relating to asbestos and groundwater contamination
- Department of Emergency Management (VDEM) relating to cleanup of an emergency fuel storage facility
- Department of Transportation (VDOT) relating to groundwater contamination

22. INSURANCE

A. Self-Insurance

The Commonwealth maintains two types of self-insurance plans. The first type of self-insurance is a health care plan administered by the Department of Human Resource Management for Commonwealth employees. The plan is accounted for in the Health Care Internal Service Fund. Interfund premiums are accounted for as internal activity receipts from other funds. At June 30, 2013, $116.4 million is reported as the estimated claims payable for this fund, which is undiscounted as nearly all health care claims are current in nature. The estimated liability is based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported as described in Note 1.T. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2012-2013	$ 109,591	$ 1,085,886	$ (1,079,045)	$ 116,432
2011-2012	$ 81,480	$ 1,012,254	$ (984,143)	$ 109,591

(1) The entire ending balance shown above is due within one year.

The second type of plan, Risk Management, is administered by the Department of the Treasury, Division of Risk Management and the Department of Human Resource Management, Worker's Compensation Program. These plans are accounted for in the Risk Management Internal Service Fund. The Department of the Treasury administers risk management programs providing property, general (tort) liability, medical malpractice, automobile and surety bond exposures for the Commonwealth of Virginia as provided in Sections 2.2-1834 through 1838 and Section 2.2-1840 of the *Code of Virginia*. Established subject to the approval of the Governor, risk management plans provide state agencies with protection through purchased insurance, self-insurance or a combination thereof. Interfund premiums for the fund are accounted for as internal activity receipts from other funds. The claims payable is an estimated liability based upon actual claims that have been submitted as well as actuarially determined claims incurred but not reported. At June 30, 2013, $622.8 million is reported as the estimated claims payable for the risk management plan. This amount is discounted to present value at a rate of 3.0 percent. Undiscounted claims payable at June 30, 2013, is $926.2 million. The estimated losses are based upon actual claims that have been submitted, as well as claims incurred but not reported. Changes in the balances of claims liabilities (dollars in thousands) during the current and prior fiscal years are as follows:

	Balance July 1,	Current Year Claims and Changes in Estimates	Claim Payments	Balance June 30, (1)
2012-2013	$ 608,714	$ 84,681	$ (70,560)	$ 622,835
2011-2012	$ 488,188	$ 194,898	$ (74,372)	$ 608,714

(1) Of the balance shown above, $85.1 million is due within one year.

For workers' compensation, the Commonwealth assumes the full risk of claims filed. For tort and automobile, liability is assumed at a maximum of $2.0 million per occurrence. Medical malpractice is assumed at the maximum per occurrence recovery limited stated in Section 8.01-581.15 of the *Code of Virginia*. Risk Management purchases commercial insurance to protect state-owned property with deductibles as stated in the insurance policies.

The Commonwealth has not had any insurance settlements exceed the coverage during the past three years.

The Virginia Commonwealth University Health System Authority (Authority) (a blended component unit of the Virginia Commonwealth University – nonmajor component unit) is self-insured for medical malpractice and provides for the liability on an undiscounted basis, based on the ultimate cost of known claims and claims incurred but not yet reported. The Authority is also self-insured for workers' compensation and provides for the liability on a blended discounted and undiscounted basis, based on the ultimate cost of known claims and claims incurred but not yet reported. These liabilities include assumptions and factors related to the frequency and severity of claims, claims development history, and claims settlement practices. Estimated losses on malpractice and workers' compensation claims for the current and prior fiscal years are as follows (dollars in thousands):

Estimated Malpractice Losses

	Balance July 1,	Claims Expense (2)	Claims Settled	Balance June 30, (1)
2012-2013	$ 23,467	$ 5,797	$ (5,333)	$ 23,931
2011-2012	$ 23,501	$ 5,052	$ (5,086)	$ 23,467

(1) Of the balance shown above, $3.5 million is due within one year.
(2) This column represents malpractice claims expense, net of actuarial adjustments.

Estimated Workers' Compensation Losses

	Balance July 1,	Claims Expense (2)	Claims Settled	Balance June 30, (1)
2012-2013	$ 17,527	$ (355)	$ (2,091)	$ 15,081
2011-2012	$ 18,409	$ 597	$ (1,479)	$ 17,527

(1) Of the balance shown above, $2.1 million is due within one year.
(2) This column represents workers' compensation expense, net of actuarial adjustments.

In addition, expenses and liabilities arising from services rendered to VA Premier's Plan (component unit of the Authority) HMO members are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable includes an estimate of claims that have been incurred but not reported. At June 30, 2013, the amount of these liabilities is approximately $52.4 million and is reported as Claims Payable – Due within One Year. This liability is VA Premier's best estimate based on available information.

Additional information on the claims payable amounts reported by the Authority can be found in the individually published financial statements of the Authority.

Virginia International Terminals, Inc., a component unit of the Virginia Port Authority (nonmajor component unit) is partially self-insured for certain workers' compensation claims. The Authority maintains insurance coverage of $5.0 million per claim, but is obligated to pay the first $1.0 million of any individual's claims per incident. The Authority is also partially self-insured for employee health coverage. The Authority is responsible for actual claim costs up to $125,000 per individual per calendar year. Insurance coverage is maintained for claims in excess of the individual employee limit and for aggregate claims in excess of $5.5 million.

B. Public Entity Risk Pools

The Commonwealth administers two types of public entity risk pools for the benefit of local governmental units: health care and risk management insurance. The Local Choice Health Care plan was established to make comprehensive health care insurance available to localities and political subdivisions at affordable rates and with stable premiums. During the fiscal year, there were 319 local government units participating in the pool. This includes 35 school districts, 39 counties, 111 cities/towns, and 134 other subdivisions. This program is accounted for in the Local Choice Health Care Enterprise Fund (nonmajor).

The Department of Human Resource Management, under Section 2.2-1204 of the *Code of Virginia*, has the authority to design, set rates, and administer the Local Choice Health Care fund. The pool's standard contract period is one year. However, a member group may withdraw on the last day of any month with three month's written notice. Contributions are based on the current necessary contribution and the amortization of experience adjustments in the pool. At June 30, 2013, $31.2 million is reported as the actuarially determined estimated claims payable for this fund based on claims incurred but not reported.

The actuarial liability is determined for the membership pool in total and then adjusted for each locality based on individual historic and demographic data. If the pool's assets were to be exhausted, the program participants would share the responsibility for any liabilities or deficits.

The Department of the Treasury, Division of Risk Management administers risk management programs for political subdivisions, constitutional officers and others in accordance with Section 2.2-1839 of the *Code of Virginia*. These pools were established to provide an economical, low-cost alternative to the commercial insurance market for the Commonwealth's political subdivisions. These risk programs are accounted for in the Risk Management Enterprise Fund (nonmajor). The pool is established subject to approval by the Governor. It may be insurance, self-insurance, or any combination thereof, and must provide protection and legal defense against liability. Participation is voluntary and open to those identified in Section 2.2-1839, *Code of Virginia*. As of June 30, 2013, there were 489 units of local government in the pool, including 2 cities, 25 towns, and 30 counties. The remaining 432 units include a large variety of boards, commissions, authorities, and special districts.

The pool has a minimum membership period of one year. However, a member group can cancel membership and withdraw from the plan on their coverage anniversary date or at the end of the fiscal year with 30 days notice.

The pool is actuarially valued annually and is considered sound. No excess insurance or reinsurance is provided, but a "stability fund" is incorporated into the actuarially determined required reserves. For the liability insurance pool, participation is voluntary and open to those identified in Section 2.2-1839 of the *Code of Virginia*. The risk assumed by the local public entity pool for member liability is $1.0 million per occurrence.

At June 30, 2013, $25.5 million is reported as estimated claims payable for these programs. This figure is actuarially determined for the fund in total and is reported at gross and does not reflect possible reimbursements for insurance recoveries.

The following schedule (dollars in thousands) shows the changes in claims liabilities for the past two fiscal years.

	Local Choice Health Care		Risk Management	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	$ 26,507	$ 18,656	$ 24,533	$ 19,799
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	279,842	244,788	(1,684)	1,409
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	2,431	2,832
Total Incurred Claims and Adjustment Expenses	279,842	244,788	747	4,241
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	275,124	236,937	335	1,677
Total Payments	275,124	236,937	335	1,677
Change in Provision for Discounts	-	-	578	626
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted) (1) (2) (3)	$ 31,225	$ 26,507	$ 25,523	$ 22,989
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	$ 31,225	$ 26,507	$ 27,404	$ 24,533

Note (1): The entire balance for Local Choice Health Care, $31,225 (dollars in thousands) is due within one year.

Note (2): Of the balance shown above for Risk Management, $7,231 (dollars in thousands) is due within one year.

Note (3): The interest rate used for discounting is 3.0 percent.

23. ACCOUNTS PAYABLE

The following table (dollars in thousands) summarizes Accounts Payable as of June 30, 2013.

	Vendor	Salary/ Wage	Retainage	Other	Foundations (1)	Total
Primary Government:						
General	$ 161,522	$ 91,316	$ 182	$ -	$ -	$ 253,020
Major Special Revenue Funds:						
Commonwealth Transportation	286,299	29,015	3,862	-	-	319,176
Federal Trust	113,295	15,384	3,710	-	-	132,389
Literary	34	-	-	-	-	34
Nonmajor Governmental Funds	27,167	21,562	8,274	196	-	57,199
Major Enterprise Funds:						
State Lottery (2)	2,009	1,144	-	3,853	-	7,006
Virginia College Savings Plan (2)	88	378	-	325	-	791
Unemployment Compensation	144	-	-	-	-	144
Nonmajor Enterprise Funds	61,990	5,341	-	-	-	67,331
Internal Service Funds	57,644	2,889	337	-	-	60,870
Private Purpose Trust Funds	254	150	-	1,803	-	2,207
Pension and Other Employee Benefit Trust (3)	265	1,732	-	37,761	-	39,758
Agency Funds	1,677	-	-	3,568	-	5,245
Total Primary Government (4)	$ 712,388	$ 168,911	$ 16,365	$ 47,506	$ -	$ 945,170
Discrete Component Units:						
Virginia Housing Development Authority	$ 1,797	$ 2,117	$ -	$ 17,728	$ -	$ 21,642
Virginia Public School Authority	45	-	-	-	-	45
Virginia Resources Authority	187	10	-	-	-	197
Virginia College Building Authority	9	-	-	-	-	9
Nonmajor Component Units	441,131	363,547	46,715	12,150	114,923	978,466
Total Component Units	$ 443,169	$ 365,674	$ 46,715	$ 29,878	$ 114,923	$ 1,000,359

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Note (2): Other Accounts Payable for the State Lottery represents administrative costs payable. Other Accounts Payable for the Virginia College Savings Plan represents program distributions payable.

Note (3): Other Accounts Payable for the Pension and Other Employee Benefit Trust Fund consists of $23,629 (dollars in thousands) in investment management expense, $14,132 (dollars in thousands) in program benefit liabilities.

Note (4): Fiduciary liabilities of $47,210 (dollars in thousands) are not included in the Government-wide Statement of Net Position. In addition, governmental fund liabilities of $126,539 (dollars in thousands) are included in the Government-wide Statement of Net Position, but excluded from the above amounts.

24. OTHER LIABILITIES

The following table (dollars in thousands) summarizes Other Liabilities as of June 30, 2013.

	Primary Government				
	General	Commonwealth Transportation	Federal Trust	Nonmajor Governmental Funds	State Lottery
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ 124,810
Due to Program Participants, Escrows, and Providers	-	-	-	-	-
Medicaid Payable	341,196	-	344,465	-	-
Family Access to Medical Insurance Security Payable	5,062	-	9,400	-	-
Accrued Interest Payable	-	-	-	-	-
Tax Refunds Payable	375,974	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	6,591	7,690	-	2,191	-
Car Tax Payable	263,025	-	-	-	-
Other Liabilities	192	9	11	631	-
Total Other Liabilities	$ 992,040	$ 7,699	$ 353,876	$ 2,822	$ 124,810

	Primary Government				
	Virginia College Savings Plan	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds (1)	Private Purpose Funds
Lottery Prizes Payable	$ -	$ -	$ -	$ -	$ -
Due to Program Participants, Escrows, and Providers	248	39,825	-	-	2,982
Medicaid Payable	-	-	-	-	-
Family Access to Medical Insurance Security Payable	-	-	-	-	-
Accrued Interest Payable	-	-	6,221	-	-
Tax Refunds Payable	-	-	-	-	-
Insurance Carrier Surety Deposit	-	-	-	-	-
Deposits Pending Distribution	-	-	178	54	-
Car Tax Refund Payable	-	-	-	-	-
Other Liabilities	-	-	193	6,286	-
Total Other Liabilities	$ 248	$ 39,825	$ 6,592	$ 6,340	$ 2,982

Note (1): The Other Liabilities amount of $6,286 (dollars in thousands) is due to third party clearing amounts that have increased from the prior year due to timing issues with checks clearing the bank.

	Primary Government		
	Pension and Other Employee Benefit Trust Funds (2)	Agency Funds	Total Primary Government (3)
Lottery Prizes Payable	$ -	$ -	$ 124,810
Due to Program Participants, Escrows, and Providers	-	36,605	79,660
Medicaid Payable	-	-	685,661
Family Access to Medical Insurance Security Payable	-	-	14,462
Accrued Interest Payable	-	-	6,221
Tax Refunds Payable	-	-	375,974
Insurance Carrier Surety Deposit	-	434,448	434,448
Deposits Pending Distribution	-	57,777	74,481
Car Tax Refund Payable	-	-	263,025
Other Liabilities	169,472	1,556	178,350
Total Other Liabilities	$ 169,472	$ 530,386	$ 2,237,092

Note (2): Other Liabilities of $169,472 (dollars in thousands) reported in pension and other employee benefit trust funds are made up of $31,410 (dollars in thousands) in funds held for the Commonwealth Health Research Fund; $22,852 (dollars in thousands) in other funds managed by the System; $80,869 (dollars in thousands) in pending investment transactions, including $80,849 (dollars in thousands) for futures contract, $20 (dollars in thousands) in other investment payables; $1,396 (dollars in thousands) in other payable related to the System benefit plans; $2,876 (dollars in thousands) in foreign taxes payables related to the System benefit plans, and $30,069 (dollars in thousands) in interest and dividends payable related to the System benefit plans.

Note (3): Fiduciary liabilities of $702,840 (dollars in thousands) are not included in the Government-wide Statement of Net Position. Governmental fund liabilities of $571,447 (dollars in thousands) are included in the Government-wide Statement of Net Position, but excluded from the above amounts.

	Component Units					
	Virginia Housing Development Authority	Virginia Public School Authority	Virginia Resources Authority	Virginia College Building Authority	Nonmajor Component Units	Total Component Units
Accrued Interest Payable	$ 74,720	$ 60,132	$ 26,820	$ 76,093	$ 62,693	$ 300,458
Other Liabilities	134	-	3,041	147	264,026	267,348
Deposits Pending Distribution	-	-	-	-	480,973	480,973
Short-term Debt	-	-	-	-	182,834	182,834
Grants Payable	-	-	-	-	8,217	8,217
Total Other Liabilities	$ 74,854	$ 60,132	$ 29,861	$ 76,240	$ 998,743	$ 1,239,830

Medicaid Payable

Medicaid Payable represents services rendered but not billed by providers and potential liability resulting from cost reports not settled as of year-end. Providers subject to cost settlement are paid in the interim based on established per diem or diagnosis related group rates for services.

The Department of Medical Assistance Services (DMAS) estimates, based on past experience, the total amount of Medicaid claims that will be paid from the Medicaid program in the future which relate to services provided before year-end. At June 30, 2013, the estimated liability related to Medicaid claims totaled $685.7 million. Of this amount, $341.2 million is reflected in the General Fund (major) and $344.5 million in the Federal Trust Special Revenue Fund (major).

Family Access to Medical Insurance Security Payable

DMAS estimates the total amount of claims that will be paid from the Family Access to Medical Insurance Security program in the future which relate to services provided before year-end. At June 30, 2013, the estimated liability related to claims totaled $14.5 million. Of this amount, $5.1 million is reflected in the General Fund (major) and $9.4 million in the Federal Trust Special Revenue Fund (major).

Tax Refunds Payable

Tax refunds payable represent refunds due on individual tax returns filed for the calendar year ended on or before December 31, 2012, and on business tax returns filed for corporate fiscal years ending on or before June 30, 2013. The individual tax return filing deadline is May 1 of each year for the preceding calendar year. The corporate tax return filing deadline is the 15th day of the fourth month following the close of the corporate fiscal year.

Car Tax Refund Payable

During the year ended June 30, 1998, the General Assembly passed the Personal Property Tax Relief Act. Under the terms of this legislation, the Commonwealth assumed financial responsibility for a portion, ranging from 12.5 percent to 70.0 percent, of the personal property taxes assessed by localities.

During 2004, the General Assembly modified this legislation. Chapter 1 of Special Session 1 (2004) established a $950.0 million limit on the amount the Commonwealth would appropriate for personal property tax relief, beginning in tax year 2006. It further established that each county, city, and town would receive a fixed percentage of the $950.0 million, with payments to begin on or after July 1, 2006 (fiscal year 2007). The accrued liability amount of $263.0 million reflects payments owed to localities as of June 30 and paid in July.

Termination Benefits

During fiscal year 2013, the Commonwealth laid off 89 employees. The affected employees had the option of volunteering for enhanced retirement benefits or severance benefits. The enhanced retirement benefits option was elected by 5 employees, and the remaining 84 employees elected severance benefits. The severance benefits include salary payments based on years of service and insurance premium payments for health and life insurance. All severance benefits were initiated during fiscal year 2013 and will end no later than June 30, 2014. The benefit cost expended and the outstanding liability as of June 30, 2013, are $1.1 million and $629,399, respectively. Since the severance benefits last for a maximum of 12 months, discounting of future cash flows is unnecessary. Additionally, the estimated payments are calculated using the Department of Human Resources' Termination Benefits Calculator and actual costs.

Short-term Debt

Short-term debt results from borrowings from anticipation notes, lines of credit, and similar loans with parties external to the primary government. The primary government's policy is to disclose activity related to short-term borrowings occurring during the fiscal year. For fiscal year 2013, the primary government's agencies did not participate in short-term borrowings with external parties.

Various higher education institutions and foundations (nonmajor component units) have short-term debt totaling $182.8 million. Of this amount, $146.0 million provides bridge financing for capital projects. The remaining short-term debt is for working capital, property acquisition, construction costs, operating costs, and refinancing. The Library of Virginia Foundation (nonmajor component unit) has a $45,000 note with a related party. During the year ended June 30, 2013, $8,000 of the loan was forgiven and has been recognized as a contribution.

The balance of Other Liabilities is spread among various other funds.

25. LONG-TERM LIABILITIES

Commonwealth bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(a) bonds have been issued to redeem previous debt obligations. Section 9(b) bonds have been authorized by the citizens of Virginia through bond referenda to finance capital projects. These bonds are retired through the use of state appropriations. Section 9(c) bonds are issued to finance capital projects which, when completed, will generate revenue to repay the debt. Section 9(a), 9(b), and 9(c) bonds are tax-supported general obligation bonds and are backed by the full faith and credit of the Commonwealth. No other long-term debt obligations are backed by the full faith and credit of the Commonwealth.

Section 9(d) bonds are revenue bonds that are not backed by the full faith and credit of the Commonwealth. These bonds are not general obligation bonds and are not deemed to constitute a legal liability of the Commonwealth. However, this debt may be supported by state appropriations in whole or in part, as in the case of certain debt of the Virginia Port Authority (nonmajor component unit) and the Commonwealth Transportation Board (primary government). Other 9(d) revenue bonds are payable from general revenues of the component units, or from revenues of specific revenue-producing capital projects such as the teaching hospitals, dormitories, student centers, and dining halls at the various colleges and universities (nonmajor component units).

The 9(d) Route 460 Funding Corporation Bonds (primary government) are special, limited obligations of the Corporation, secured by a gross revenue pledge and payable solely from revenues.

Certain 9(d) bonds are considered, with 9(a), 9(b), and 9(c) bonds, to be tax-supported debt of the Commonwealth. Tax-supported debt includes all bonds and short-term debt for which debt service payments are made or are ultimately pledged to be made from tax revenues (net of sinking fund requirements).

Other 9(d) revenue bonds are considered debt not supported by taxes. For this debt, the Commonwealth has no direct or indirect pledge of tax revenues. In certain limited cases, the Commonwealth has made a moral obligation pledge. A government's moral obligation pledge provides a deficiency make-up for bondholders in the event pledged revenues prove to be insufficient. If a revenue deficiency exists, monies held in a debt service reserve fund are used to pay bondholders. The issuer then requests that the legislative body provide an appropriation to replenish the reserve fund before subsequent debt service is due. The legislative body may, but is not legally required to, replenish the reserve fund.

The following schedule presents the total long-term liabilities of the Commonwealth, and the portion of these amounts which are due within one year, as reported on the Government-wide Statement of Net Position.

Total Long-term Liabilities
June 30, 2013

(Dollars in Thousands)	**Balance At June 30**	**Amount Due Within One Year**
Primary Government:		
Governmental Activities:(1)		
General Obligation Bonds: (2)		
9(b) Public Facilities (3)	$ 752,493	$ 65,980
9(c) Parking Facilities (3)	17,538	806
9(c) Transportation Facilities (3)	21,961	2,290
Total General Obligation Bonds	791,992	69,076
Nongeneral Obligation Bonds - 9(d):		
Transportation Debt (3) (4)	3,058,881	152,375
Virginia Public Building Authority (3)	2,534,347	168,170
Total Nongeneral Obligation Bonds	5,593,228	320,545
Other Long-term Obligations:		
Pension Liability	1,875,011	-
OPEB Liability	493,443	-
Compensated Absences	317,528	136,843
Capital Lease Obligations	71,835	11,478
Pollution Remediation Obligations	3,494	2,850
Regional Jail Financing Payable	837	837
Notes Payable	29,083	20,554
Installment Purchase Obligations	106,367	10,398
Economic Development Authority Obligations (3)	77,472	4,270
Other Liabilities	29,606	4,400
Total Other Long-term Obligations	3,004,676	191,630
Total Governmental Activities (3)	9,389,896	581,251
Business-type Activities: (1) (5)		
Nongeneral Obligation Bonds - 9(d):		
Route 460 Funding Corporation of Virginia Bonds	314,662	-
Other Long-term Obligations:		
Pension Liability	48,798	-
OPEB Liability	15,688	-
Compensated Absences	9,727	4,733
Capital Lease Obligations	6,453	534
Tuition Benefits Payable	2,189,079	209,131
Lottery Prizes Payable	172,474	28,586
Total Other Long-term Obligations	2,442,219	242,984
Total Business-type Activities	2,756,881	242,984
Total Primary Government	12,146,777	824,235

Total Long-term Liabilities
June 30, 2013

(Dollars in Thousands)	**Balance At June 30**	**Amount Due Within One Year**
Component Units:		
General Obligation Bonds: (2)		
Higher Education Fund - 9(c) Bonds (3)	877,858	47,482
Nongeneral Obligation Bonds:		
Higher Education Institutions - 9(d) (3) (5)	1,538,395	20,910
Virginia College Building Authority (3)	2,725,259	164,238
Innovation and Entrepreneurship Investment Authority	1,220	1,220
Virginia Port Authority (3) (6)	505,435	16,025
Virginia Housing Development Authority (3) (5)	5,742,689	302,780
Virginia Resources Authority (3) (7)	3,419,579	148,674
Virginia Public School Authority (3) (5)	3,483,366	226,298
Hampton Roads Sanitation District Commission (5)	790,503	54,225
Virginia Biotechnology Research Park Authority (3)	35,284	3,313
Foundations (5) (8)	878,435	36,027
Total Nongeneral Obligation Bonds	19,120,165	973,710
Other Long-term Obligations:		
Pension Liability (9)	924,512	-
OPEB Liability (10)	582,714	-
Compensated Absences	265,246	179,305
Capital Lease Obligations	85,631	5,177
Notes Payable (5)	2,179,181	301,313
Installment Purchase Obligations	86,315	16,164
Trust and Annuity Obligations (5) (11)	3,058	-
Other Liabilities (5)	282,755	87,109
Total Other Long-term Obligations (Excluding Foundations)	4,409,412	589,068
Other Long-term Obligations (Foundations): (5) (8)		
Pension Liability	90,252	-
OPEB Liability	-	-
Compensated Absences	9,567	8,198
Capital Lease Obligations	2,899	457
Notes Payable	340,297	44,051
Trust and Annuity Obligations (11)	78,377	2,986
Other Liabilities	183,351	17,791
Total Other Long-term Obligations - Foundations	704,743	73,483
Total Other Long-term Obligations	5,114,155	662,551
Total Component Units	25,112,178	1,683,743
Total Long-term Liabilities	$ 37,258,955	$ 2,507,978

1. Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.
2. Total general obligation debt of the Commonwealth is $1.7 billion.
3. Amounts are net of any unamortized discounts, premiums, and deferrals.
4. This debt includes $563.6 million that is not supported by taxes.
5. This debt is not supported by taxes.
6. This debt includes $276.8 million that is not supported by taxes.
7. This debt is not supported by taxes; however, $836.7 million is considered moral obligation debt.
8. Foundations represent FASB reporting entities defined in Note 1.B.
9. This includes pension obligations that do not relate to the Virginia Retirement System from Virginia Commonwealth University of $2.2 million and Virginia Port Authority of $7.3 million. It does not include pension obligations from fiduciary funds of $13.6 million.
10. This includes OPEB obligations that do not relate to the Virginia Retirement System from University of Virginia of $34.7 million and Virginia Port Authority of $1,594. It does not include OPEB obligations from fiduciary funds of $5.0 million.
11. These generally represent split-interest agreements that represent donor contributed assets with the requirement that an annual distribution be made to the donor or specified beneficiary. The annual distributions are usually for a fixed dollar amount or a fixed percentage of the trust's fair market value. The present value of these commitments is reported as Trust and Annuity Obligations.

Primary Government

Transportation Facilities Debt

Transportation Facilities Bonds include $22.0 million of Section 9(c) general obligation bonds and $3.1 billion of Transportation Facilities Section 9(d) debt. The Section 9(d) debt includes $2.5 billion of Section 9(d) revenue bonds, $89.8 million of outstanding Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes, and $473.7 million of Grant Anticipation Revenue Vehicles (GARVEES) in addition to the outstanding Section 9(d) revenue bonds. 9(c) Principal and interest requirements for the current year totaled $3.2 million. 9(d) Principal and interest requirements for the current year totaled $339.3 million. The Section 9(c) Transportation Facilities Bonds were issued to fund the construction and improvement of the George P. Coleman Bridge. The Section 9(d) Transportation Facilities Bonds were issued to fund the construction of State Route 28, U.S. Route 58, the Northern Virginia Transportation District Program, and the Oak Grove Connector (Chesapeake). The Commonwealth of Virginia Federal Highway Reimbursement Anticipation Notes were issued to finance various capital transportation projects throughout the Commonwealth. The interest rates for these bonds range from 3.0 percent to 5.0 percent and the issuance date was September 28, 2005. The GARVEES were issued to finance various Federal Aid Transportation projects throughout the Commonwealth. The interest rates for these bonds range from 3.0 percent to 5.0 percent and the issuance dates range from March 15, 2012 to July 26, 2012.

The following schedules detail the annual funding requirements necessary to amortize Transportation Facilities 9(c) bonds and 9(d) debt. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive an interest subsidy to reimburse interest payments of $118.5 million for Build America Bonds (BABs) issued. The BABs are applicable to Commonwealth of Virginia Transportation Series 2010A Capital Project Revenue Bonds and Series 2009A Northern Virginia Transportation District Revenue Bonds.

9(c) TRANSPORTATION FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 2,290,000	$ 900,600	$ 3,190,600
2015	2,405,000	786,100	3,191,100
2016	2,520,000	665,850	3,185,850
2017	2,620,000	568,200	3,188,200
2018	2,730,000	463,400	3,193,400
2019-2023	8,855,000	717,400	9,572,400
Less: Deferral on Debt Defeasance	(33,200)	-	(33,200)
Add: Unamortized Premium	574,525	-	574,525
Total	$ 21,961,325	$ 4,101,550	$ 26,062,875

9(d) TRANSPORTATION FACILITIES DEBT
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 152,375,000	$ 130,484,022	$ 282,859,022
2015	159,845,000	123,456,316	283,301,316
2016	166,920,000	115,691,791	282,611,791
2017	143,515,000	108,361,001	251,876,001
2018	149,555,000	101,569,344	251,124,344
2019-2023	649,750,354	412,921,684	1,062,672,038
2024-2028	589,064,917	266,503,915	855,568,832
2029-2033	466,740,000	142,880,375	609,620,375
2034-2038	322,380,000	30,650,710	353,030,710
Less: Unamortized Discount	(105,228)	-	(105,228)
Add: Accretion on Capital Appreciation Bonds	18,496,838	-	18,496,838
Unamortized Premium	240,343,887	-	240,343,887
Total	$ 3,058,880,768	$ 1,432,519,158	$ 4,491,399,926

Fairfax Economic Development Authority Obligations

In fiscal year 2006, the Fairfax County Economic Development Authority (EDA) issued Section 9(d) revenue bonds to pay for the Commonwealth's (VDOT) costs of the planning, design and construction of a transportation infrastructure and related public safety operations complex to be developed on the contiguous sites in the county commonly referred to as "Camp 30" for the joint use of VDOT and the county. The Commonwealth's obligation is set out in a payment agreement between Fairfax County EDA and the Commonwealth of Virginia, Department of Transportation, in which the Commonwealth agrees to make payments equal to the debt service from amounts appropriated by the General Assembly. The interest rates for these bonds range from 4.3 percent to 5.0 percent and the issue date was April 12, 2006. The principal and interest requirements for current year totaled $7.8 million. The following schedule details the annual funding requirements necessary to repay these bonds.

FAIRFAX COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 4,270,000	$ 3,555,938	$ 7,825,938
2015	4,485,000	3,342,438	7,827,438
2016	4,710,000	3,118,188	7,828,188
2017	4,945,000	2,882,688	7,827,688
2018	5,195,000	2,635,438	7,830,438
2019-2023	29,805,000	9,338,713	39,143,713
2024-2028	21,420,000	2,064,400	23,484,400
Unamortized Premium	2,641,594	-	2,641,594
Total	$ 77,471,594	$ 26,937,803	$ 104,409,397

Route 460 Funding Corporation of Virginia Debt

At June 30, 2013, Route 460 Funding Corporation of Virginia (nonmajor enterprise) bonds included $231.6 million of Current Interest bonds, $61.8 million of Capital Appreciation bonds, and $1.6 million of accreted value in Capital Appreciation bonds. No principal or interest payments were required for fiscal year 2013; however, the first interest payment of $6.2 million is due July 1, 2013, and is therefore recorded as accrued interest payable. On December 20, 2012, the Route 460 Funding Corporation of Virginia issued $231.6 million of Toll Road Senior Revenues Bonds (Current Interest Bonds), Series 2012A. Series 2012A will be maturing in annual installments on July 1 in the years 2045 to 2052 and interest is payable on January 1 and July 1 at rates varying from 5.0 percent to 5.3 percent beginning July 1, 2013 through July 1, 2052. The proceeds of the series 2012A bonds will be used to pay a portion of the costs of the design, construction, and financing of the Project including, without limitation, to pay interest payable on the series 2012A bonds through January 1, 2018, and to pay certain costs of issuance of the Series 2012 Senior Lien Bonds or as otherwise permitted by the Indenture. On December 20, 2012, the Route 460 Funding Corporation of Virginia issued $61.8 million of Toll Road Senior Revenues Bonds (Capital Appreciation Bonds), Series 2012B. Series 2012B will be maturing in annual installments on July 1 in the years 2024 to 2045. The Series 2012B Bonds will not bear current interest but each Series 2012B will accrete in value, compounded semiannually from its date of issuance on January 1 and July 1 at interest rates varying from 3.9 percent to 5.2 percent and interest will be payable only upon maturity or early redemption date. The proceeds of the series 2012B bonds will be used to pay a portion of the costs of the design, construction, and financing of the Project including, without limitation, and to pay certain costs of issuance of the Series 2012 Senior Lien Bonds or as otherwise permitted by the Indenture.

9(d) ROUTE 460 FUNDING CORPORATION OF VIRGINIA BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2014	$ -	$ 12,084,204	$ 12,084,204
2015	-	11,725,913	11,725,913
2016	-	11,725,913	11,725,913
2017	-	11,725,913	11,725,913
2018	-	11,725,913	11,725,913
2019-2023	-	58,629,562	58,629,562
2024-2028	7,410,000	58,629,562	66,039,562
2029-2033	28,400,000	58,629,562	87,029,562
2034-2038	49,325,000	58,629,562	107,954,562
2039-2043	75,125,000	58,629,562	133,754,562
2044-2048	109,505,000	55,417,982	164,922,982
2049-2053	176,100,000	23,578,369	199,678,369
Less: Unaccreted Capital Appreciation Bonds	(150,876,219)	-	(150,876,219)
Add: Unamortized Premium	19,672,759	-	19,672,759
Total	$ 314,661,540	$ 431,132,017	$ 745,793,557

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 2004A, Series 2004B Refunding, Series 2005A, Series 2006A Refunding, Series 2006B, Series 2007A, Series 2007B, Series 2008A, Series 2008B, Series 2008B Refunding, Series 2009A, Series 2009D Refunding, Series 2009E, Series 2012A Refunding, and Series 2013B Refunding. Bonds were issued to fund construction projects for higher educational institutions, mental health, and/or park facilities. The Series 2004B bonds were issued to advance refund outstanding Series 1997, Series 1998, and Series 1999A bonds. The Series 2006A bonds were issued to advance refund outstanding Series 1996 bonds. The Series 2008B bonds were issued to advance refund outstanding Series 1998 refunding bonds. The Series 2009D bonds were issued to advance refund outstanding Series 2004A, Series 2005A, and Series 2006B bonds. The Series 2012A bonds were issued to advance refund outstanding Series 2002, Series 2003A, Series 2004A, and Series 2005A bonds. The Series 2013B bonds were issued to advance refund outstanding Series 2005A, Series 2006B, Series 2007A, and Series 2007B. Principal and interest requirements for the current year totaled $105.9 million. The interest rates for all bonds range from 1.2 percent to 5.5 percent and the issuance dates range from August 4, 2004, to March 6, 2013. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive an interest subsidy to reimburse interest payments of $5.0 million for Build America Bonds (BABs) issued. The BABs are applicable to Series 2009E Public Facilities Revenue Bonds.

9(b) PUBLIC FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	*Principal*	*Interest*	*Total*
2014	$ 65,980,000	$ 32,807,063	$ 98,787,063
2015	68,240,000	29,754,223	97,994,223
2016	60,715,000	26,569,473	87,284,473
2017	53,120,000	23,622,745	76,742,745
2018	49,830,000	21,031,403	70,861,403
2019-2023	245,430,000	70,382,135	315,812,135
2024-2028	160,425,000	19,337,971	179,762,971
2029-2033	6,375,000	291,625	6,666,625
Less: Deferral on Debt Defeasance	(32,179,200)	-	(32,179,200)
Add: Unamortized Premium	74,556,931	-	74,556,931
Total	$ 752,492,731	$ 223,796,638	$ 976,289,369

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, Series 2004A, 2009B, and 2009D Refunding, and 2012A Refunding. The Series 2004A bonds were issued to fund the renovation of the 9th and Franklin Street parking deck. The Series 2009B bonds were issued to fund the construction of a new 1,000 vehicle parking structure at 7th and Franklin Streets. The Series 2009D Refunding bonds were issued to advance refund outstanding Series 2004A and 2006B Refunding bonds. The Series 2012A Refunding bonds were issued to advance refund outstanding Series 2002 Refunding and Series 2004A bonds. The interest rates for these bonds range from 2.5 percent to 5.5 percent, and the issuance dates range from August 4, 2004, to March 7, 2012. Current year principal and interest requirements totaled $1.6 million.

The following schedule details the annual funding requirements necessary to repay these bonds.

9(c) PARKING FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 805,604	$ 780,730	$ 1,586,334
2015	847,843	743,436	1,591,279
2016	722,093	704,073	1,426,166
2017	890,000	667,610	1,557,610
2018	940,000	623,110	1,563,110
2019-2023	5,436,256	2,366,894	7,803,150
2024-2028	5,087,789	1,015,389	6,103,178
2029-2033	1,080,000	54,000	1,134,000
Less: Deferral on Debt Defeasance	(499,900)	-	(499,900)
Add: Unamortized Premium	2,228,041	-	2,228,041
Total	$ 17,537,726	$ 6,955,242	$ 24,492,968

Virginia Public Building Authority

Virginia Public Building Authority (VPBA) Section 9(d) bonds consist of Series 2003A Refunding, 2004A Refunding, 2004B, 2004C Refunding, 2004D Refunding, 2005A Refunding, 2005B Refunding, 2005C, 2005D, 2006A, 2006B, 2007A, 2008B, 2009A, 2009B, 2009C, 2009D Refunding, 2010A, 2010B-1, 2010B-2, 2010B-3 Refunding, 2011AB, 2012A Refunding, 2013A, and 2013B Refunding. All bonds were issued for the purpose of constructing, improving, furnishing, maintaining, and acquiring public buildings for the use of the Commonwealth and also to reimburse localities, regional jail authorities or other combination of localities under the Regional Jail Financing Program. The Series 2003A and 2004A bonds were issued to advance refund outstanding Series 1993A, 1994A, 1995, and 1997A bonds. The Series 2004C and 2005A bonds were issued to refinance certain capital lease obligations of the Commonwealth. The Series 2004D bonds were issued to advance refund outstanding Series 1997A, Series 1999B, and Series 2000A bonds. The Series 2005B bonds were issued to advance refund outstanding Series 1996A, Series 1998B, and Series 1999A bonds. The Series 2008A bonds were issued to advance refund outstanding series 1998A Refunding bonds. The Series 2009D bonds were issued to advance refund outstanding series 2001A and 2002A Revenue bonds. The Series 2010B-3 bonds were issued to advance refund outstanding series 2002A and 2004B Revenue bonds. The Series 2012A bonds were issued to advance refund outstanding series 2004B and 2005C Revenue bonds. The Series 2013B bonds were issued to advance refund 2006A and 2006B revenue bonds. The interest rates for all fixed rate bonds range from 2.0 percent to 5.8 percent and the issuance dates range from January 20, 2003, to February 21, 2013. The Series 2005D bonds are variable rate bonds and the rates are reset weekly by the remarketing agent. Current year principal and interest requirements totaled $294.2 million. The following schedule details the annual funding requirements necessary to repay these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive an interest subsidy to reimburse interest payments of $97.0 million for Build America Bonds (BABs) issued. The BABs are applicable to Series 2010 Revenue Bonds.

9(d) VIRGINIA PUBLIC BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 168,170,000	$ 108,228,639	$ 276,398,639
2015	182,730,000	100,195,667	282,925,667
2016	180,165,000	91,552,071	271,717,071
2017	164,445,000	83,473,443	247,918,443
2018	147,490,000	75,999,075	223,489,075
2019-2023	637,115,000	286,319,611	923,434,611
2024-2028	614,565,000	142,097,596	756,662,596
2029-2033	292,520,000	25,145,935	317,665,935
2034-2038	10,130,000	151,950	10,281,950
Less: Deferral on Debt Defeasance	(28,320,705)	-	(28,320,705)
Add: Unamortized Premium	165,337,178	-	165,337,178
Total	$ 2,534,346,473	$ 913,163,987	$ 3,447,510,460

Regional Jail Financing Program

The Regional Jail Financing Program of the Commonwealth of Virginia Treasury Board was created during the 1993 Session of the General Assembly to establish a method of reimbursing localities, regional jail authorities or other combination of localities for a portion of the capital and financing costs of a jail project, made pursuant to Sections 53.1-80, 53.1-81, or 53.1-82 of the *Code of Virginia*. The General Assembly, upon recommendation from the Department of Planning and Budget, may determine to reimburse localities for approved capital costs over time through a contractual reimbursement agreement between the localities or authority and the Treasury Board. The Board of Corrections determines the amount of reimbursable capital costs. If approved for reimbursement over time, the Treasury Board determines the amount of reimbursable financing costs and calculates the periodic reimbursement payments.

In 1996, the General Assembly adopted legislation that authorized funding of jail project reimbursements through bonds issued by the Virginia Public Building Authority (VPBA). As of June 30, 1998, all future jail reimbursements were approved for funding through the VPBA as opposed to the Treasury Board. All reimbursements whether up front or over time, are subject to appropriation by the General Assembly. Current year principal and interest requirements totaled $2.6 million.

The following schedule details the annual funding requirements necessary to repay these obligations.

REGIONAL JAILS FINANCING Financial Obligations to Maturity			
Calendar Year Obligations	Capital Costs	Financing Costs	Total
2014	$ 837,165	$ (646,925)	$ 190,240
Total	$ 837,165	$ (646,925)	$ 190,240

Component Units

Higher Education Institution Bonds

Higher Education Institution Bonds are comprised of both 9(c) general obligation bonds and 9(d) revenue bonds. Section 9(d) bonds are from several sources as shown on the following schedule (dollars in thousands).

College and university bonds backed by pledge of general revenue or revenue from specific revenue-producing capital projects	$ 1,269,149
College and university debt backed exclusively by pledged revenues of an institution	269,246
Total Higher Education Institution 9(d) debt	$ 1,538,395

The interest rates for these bonds range from 0.1 percent to 6.2 percent and the issuance dates range from April 23, 1982, to March 6, 2013. The VCBA Series 2006B and 2006C bonds, the Virginia Commonwealth University Health System Authority (a blended component unit of the Virginia Commonwealth University) Series 2013A and 2013B bonds, and the UVA Series 2003A bonds are variable rate bonds and the rates are reset weekly by the remarketing agent.

The following schedules detail the annual funding requirements necessary to amortize Higher Education Institution 9(c) and 9(d) bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive an interest subsidy to reimburse interest payments of $381.6 million for Build America Bonds (BABs) issued. The BABs are applicable to General Obligation Series 2010A Bonds, Series 2009F and 2010B 21st Century Virginia College Building Authority Education Facilities Bonds, and the University of Virginia's Series 2009 and 2010 General Revenue Bonds.

9(c) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 45,529,396	$ 37,157,607	$ 82,687,003
2015	48,922,157	35,058,050	83,980,207
2016	48,787,907	32,769,664	81,557,571
2017	48,255,000	30,634,072	78,889,072
2018	45,280,000	28,435,252	73,715,252
2019-2023	225,408,744	112,711,026	338,119,770
2024-2028	221,847,211	63,073,128	284,920,339
2029-2033	119,715,000	22,152,983	141,867,983
2034-2038	32,455,000	3,917,740	36,372,740
2039-2043	3,515,000	249,100	3,764,100
Less: Deferral on Debt Defeasance	(22,633,400)	-	(22,633,400)
Add: Unamortized Premium	60,776,169	-	60,776,169
Total	$ 877,858,184	$ 366,158,622	$ 1,244,016,806

9(d) HIGHER EDUCATION INSTITUTION BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest (1)	Total
2014	$ 20,913,747	$ 63,800,294	$ 84,714,041
2015	24,910,177	62,957,026	87,867,203
2016	24,975,524	62,047,194	87,022,718
2017	19,718,431	61,169,573	80,888,004
2018	20,490,417	60,587,331	81,077,748
2019-2023	98,870,467	293,454,538	392,325,005
2024-2028	112,311,638	278,268,212	390,579,850
2029-2033	187,809,200	262,882,019	450,691,219
2034-2038	328,814,000	236,241,699	565,055,699
2039-2043	712,860,000	84,128,438	796,988,438
Less: Deferral on Debt Defeasance	(73,563,215)	-	(73,563,215)
Add: Unamortized Premium	60,284,274	-	60,284,274
Total	$ 1,538,394,660	$ 1,465,536,324	$ 3,003,930,984

Note (1): The future interest requirements exclude any net payments associated with hedging derivative instruments. See Note 13 for more details on hedging derivative instruments.

9(d) VIRGINIA COLLEGE BUILDING AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 148,905,000	$ 114,291,468	$ 263,196,468
2015	162,005,000	105,716,516	267,721,516
2016	160,675,000	98,722,420	259,397,420
2017	167,505,000	91,791,235	259,296,235
2018	153,025,000	84,442,760	237,467,760
2019-2023	699,655,000	326,283,312	1,025,938,312
2024-2028	672,590,000	171,492,250	844,082,250
2029-2033	388,345,000	35,088,017	423,433,017
Less: Deferral on Debt Defeasance	(12,646,200)	-	(12,646,200)
Add: Unamortized Premium	185,199,761	-	185,199,761
Total	$ 2,725,258,561	$ 1,027,827,978	$ 3,753,086,539

Various higher education institutions' foundations (component units) and a museum foundation (component unit) have bonds outstanding as of year-end. The purpose of a majority of these bonds is for construction, property acquisition, and defeasance of prior debt. The following schedule details the future principal payments.

FOUNDATIONS' BONDS (1)
Debt Service Requirements to Maturity

Maturity	Principal
2014	$ 36,028,070
2015	24,193,116
2016	28,028,479
2017	26,688,760
2018	104,277,378
Thereafter	659,219,488
Total	$ 878,435,291

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Innovation and Entrepreneurship Investment Authority

The Innovation and Entrepreneurship Investment Authority (IEIA) (nonmajor) has issued Taxable Lease Revenue Bonds, Series 1989, and Series 1997 Refunding. The Series 1989 bonds were issued to cover a portion of the costs related to the construction of a software development center and office building. Series 1997 bonds were issued to advance refund $11.2 million of the outstanding 1989 bonds.

The 1989 bonds had an average interest rate of 10.3 percent and the 1997 bonds have an average interest rate of 7.4 percent. The bonds were issued on March 1, 1989, and May 1, 1997, respectively. The following schedule details the annual funding requirements necessary to amortize IEIA bonds.

9(d) INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 1,220,000	$ 91,744	$ 1,311,744
Total	$ 1,220,000	$ 91,744	$ 1,311,744

Virginia Port Authority

The Virginia Port Authority (VPA) (nonmajor) has issued Section 9(d) revenue bonds and notes pursuant to powers provided to its board of commissioners by the *Code of Virginia*. The interest rates for these bonds range from 3.4 percent to 5.5 percent, and the issuance dates range from July 23, 2002, to January 25, 2012. Series 2006A bonds were issued to advance refund $22.9 million of outstanding Series 1996 bonds. Series 2010 bonds were issued to currently refund in full the outstanding principal amount of the Authority's Series 2009 Bond Anticipation Note. Series 2012 bonds were issued to currently refund in full the outstanding principal amount of the Authority's Commonwealth Port Fund Revenue Bonds and to pay all or a portion of the expenses incurred with respect to the issuance of the Series 2012 Bonds and the refunding of the Series 2002 Bonds. Series 2012B and 2012C bonds were issued to pay the cost of refunding all or a portion of the Series 2005A and 2005B bonds, and to pay costs of issuance of the 2012B and 2012C bonds. The following schedule details the annual funding requirements necessary to amortize VPA bonds.

9(d) VIRGINIA PORT AUTHORITY DEBT
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 15,725,000	$ 20,713,678	$ 36,438,678
2015	16,290,000	20,369,316	36,659,316
2016	16,820,000	19,978,854	36,798,854
2017	17,235,000	19,426,594	36,661,594
2018	16,320,000	18,916,675	35,236,675
2019-2023	90,040,000	85,805,304	175,845,304
2024-2028	108,335,000	66,873,050	175,208,050
2029-2033	101,670,000	42,702,314	144,372,314
2034-2038	105,050,000	14,581,663	119,631,663
2039-2043	13,130,000	1,006,000	14,136,000
Less: Deferral on Debt Defeasance	(6,430,218)	-	(6,430,218)
Add: Unamortized Premium	11,250,489	-	11,250,489
Total	$ 505,435,271	$ 310,373,448	$ 815,808,719

Virginia Housing Development Authority

The Virginia Housing Development Authority (VHDA) (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.3 percent to 6.9 percent and the origination dates range from March 20, 2002, to May 30, 2013. The following schedule details the annual funding requirements necessary to amortize these bonds.

9(d) VIRGINIA HOUSING DEVELOPMENT AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 302,779,770	$ 221,480,983	$ 524,260,753
2015	247,530,000	213,283,313	460,813,313
2016	254,355,000	204,192,554	458,547,554
2017	258,825,000	194,784,789	453,609,789
2018	249,865,000	184,798,274	434,663,274
2019-2023	1,133,760,000	772,591,424	1,906,351,424
2024-2028	840,555,000	572,292,066	1,412,847,066
2029-2033	810,438,168	399,929,172	1,210,367,340
2034-2038	743,687,933	252,607,579	996,295,512
2039-2043	861,780,141	148,369,474	1,010,149,615
2044-2048	22,200,000	1,716,106	23,916,106
Add: Unamortized Premium	16,912,566	-	16,912,566
Total	$ 5,742,688,578	$ 3,166,045,734	$ 8,908,734,312

Virginia Resources Authority

The Virginia Resources Authority (VRA) (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 1.0 percent to 6.3 percent and the origination dates range from March 1, 2000, to June 20, 2013. The following schedule details the annual funding requirements necessary to amortize these bonds.

9(d) VIRGINIA RESOURCES AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 132,363,450	$ 142,387,472	$ 274,750,922
2015	141,920,000	138,625,255	280,545,255
2016	147,645,000	132,529,178	280,174,178
2017	162,840,000	125,820,614	288,660,614
2018	172,580,000	118,307,554	290,887,554
2019-2023	780,005,000	482,028,596	1,262,033,596
2024-2028	746,695,000	303,880,597	1,050,575,597
2029-2033	550,460,000	144,018,681	694,478,681
2034-2038	262,770,000	54,657,382	317,427,382
2039-2043	127,670,000	12,363,445	140,033,445
Less: Unaccreted Capital Appreciation Bonds	(39,724,097)	-	(39,724,097)
Add: Unamortized Premium	234,354,212	-	234,354,212
Total	$ 3,419,578,565	$ 1,654,618,774	$ 5,074,197,339

Virginia Public School Authority

The Virginia Public School Authority (VPSA) (major) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 0.1 percent to 6.0 percent, and the origination dates range from December 21, 2001, to May 9, 2013. The following schedule details the annual funding requirements necessary to amortize these bonds. Pursuant to the American Recovery and Reinvestment Act, the Commonwealth will receive an interest subsidy to reimburse interest payments of $211.6 million for Qualified School Construction Bonds (QSCBs) issued. The QSCBs are applicable to Series 2010-1, 2011-1, and 2012-1 Revenue Bonds.

9(d) VIRGINIA PUBLIC SCHOOL AUTHORITY BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 223,520,000	$ 150,573,596	$ 374,093,596
2015	222,475,000	140,842,833	363,317,833
2016	222,144,060	130,163,595	352,307,655
2017	217,733,003	119,623,820	337,356,823
2018	212,710,000	109,219,868	321,929,868
2019-2023	952,225,000	403,514,521	1,355,739,521
2024-2028	892,050,000	201,863,930	1,093,913,930
2029-2033	418,605,000	50,007,728	468,612,728
2034-2038	63,645,000	4,380,780	68,025,780
2039-2043	4,225,000	273,819	4,498,819
Less: Deferral on Debt Defeasance	(97,440,300)	-	(97,440,300)
Add: Unamortized Premium	151,474,458	-	151,474,458
Total	$ 3,483,366,221	$ 1,310,464,490	$ 4,793,830,711

Hampton Roads Sanitation District Commission

The Hampton Roads Sanitation District Commission (nonmajor) issued bonds under a Master Trust Indenture and a Trust Agreement dated December 1, 1993 and March 1, 2003. The interest cost for these bonds range from 0.3 percent to 5.9 percent. The following schedule details the annual funding requirements necessary to amortize these bonds.

HAMPTON ROADS SANITATION DISTRICT COMMISSION
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 27,739,000	$ 31,851,000	$ 59,590,000
2015	28,424,000	31,059,000	59,483,000
2016	27,858,000	30,274,000	58,132,000
2017	22,595,000	29,545,000	52,140,000
2018	23,055,000	28,831,000	51,886,000
2019-2023	127,864,000	129,825,000	257,689,000
2024-2028	147,040,000	101,101,000	248,141,000
2029-2033	150,191,000	67,141,000	217,332,000
2034-2038	139,145,000	32,226,000	171,371,000
2039-2043	67,310,000	5,187,000	72,497,000
2044-2048	5,400,000	216,000	5,616,000
Add: Unamortized Premium	23,882,000	-	23,882,000
Total	$ 790,503,000	$ 487,256,000	$ 1,277,759,000

Virginia Biotechnology Research Partnership Authority

The Virginia Biotechnology Research Partnership Authority (nonmajor) consists of Series 2009 Commonwealth of Virginia Lease Revenue bonds. Coupon interest rates range from 3.0 percent to 5.0 percent.

VIRGINIA BIOTECH RESEARCH PARTNERSHIP AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2014	$ 3,270,000	$ 1,486,900	$ 4,756,900
2015	3,385,000	1,370,150	4,755,150
2016	3,525,000	1,231,950	4,756,950
2017	3,665,000	1,088,150	4,753,150
2018	3,815,000	938,550	4,753,550
2019-2023	17,245,000	1,778,625	19,023,625
Less: Unamortized Discount	(502,418)	-	(502,418)
Deferral on Debt Defeasance	(2,189,213)	-	(2,189,213)
Add: Unamortized Premium	3,070,514	-	3,070,514
Total	$ 35,283,883	$ 7,894,325	$ 43,178,208

Total principal outstanding at June 30, 2013, on all component unit bonds amounted to $20.0 billion.

The following schedule summarizes the changes in long-term liabilities:

Schedule of Changes in Long-term Debt and Obligations (1) (2)

(Dollars in Thousands)

	Balance July 1 as restated (3)	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30
Primary Government				
Governmental Activities:				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - 9(b) and 9(c):				
Public Facilities Bonds	$ 784,917	$ 128,250	$ (203,052)	$ 710,115
Parking Facilities Bonds	16,565	-	(755)	15,810
Transportation Facilities Bonds	23,605	-	(2,185)	21,420
Add: Unamortized Premium	65,931	25,138	(13,710)	77,359
Less: Deferral on Debt Defeasance	(17,277)	1,181	(16,616)	(32,712)
Total General Obligation Bonds	873,741	154,569	(236,318)	791,992
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Transportation Facilities Bonds	2,885,066	120,625	(205,545)	2,800,146
Virginia Public Building Authority Bonds	2,442,785	215,770	(261,225)	2,397,330
Regional Jails Financing Payable	2,748	-	(1,911)	837
Economic Development Authority Obligations	78,900	-	(4,070)	74,830
Add: Unamortized Premium	387,368	59,737	(38,782)	408,323
Accretion on Capital Appreciation Bonds	16,339	2,158	-	18,497
Less: Unamortized Discount	(110)	5	-	(105)
Deferral on Debt Defeasance	(25,153)	5,192	(8,360)	(28,321)
Installment Purchase Obligations	114,959	28,223	(36,815)	106,367
Notes Payable - Transportation	8,000	-	-	8,000
Notes Payable - Aviation	1,050	-	(286)	764
Notes Payable - Tax Refund	40,639	-	(20,320)	20,319
Compensated Absences	315,176	7,312	(4,960)	317,528
Capital Lease Obligations	77,400	4,670	(10,235)	71,835
Pension Liability	1,660,768	225,758	(11,515)	1,875,011
OPEB Liability	406,969	89,672	(3,198)	493,443
Pollution Remediation Liability	5,171	614	(2,291)	3,494
Other	27,647	6,003	(4,044)	29,606
Total Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	8,445,722	765,739	(613,557)	8,597,904
Total Governmental Activities	9,319,463	920,308	(849,875)	9,389,896
Business-type Activities:				
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Debt:				
Non-General Obligation Bonds - 9(d)				
Route 460 Funding Corporation of Virginia Bonds (5)	-	314,662	-	314,662
Capital Lease Obligations	6,902	-	(449)	6,453
Compensated Absences	9,267	2,732	(2,272)	9,727
Pension Liability	42,249	6,680	(131)	48,798
OPEB Liability	12,751	2,941	(4)	15,688
Lottery Prizes Payable	194,481	5,217	(27,224)	172,474
Tuition Benefits Payable	2,175,296	111,994	(98,211)	2,189,079
Total Business-type Activities	2,440,946	444,226	(128,291)	2,756,881
Total Primary Government	$ 11,760,409	$ 1,364,534	$ (978,166)	$ 12,146,777

Foundations (4)	Balance June 30	Due Within One Year
$ -	$ 710,115	$ 65,980
-	15,810	806
-	21,420	2,290
-	77,359	-
-	(32,712)	-
-	791,992	69,076
-	2,800,146	152,375
-	2,397,330	168,170
-	837	837
-	74,830	4,270
-	408,323	-
-	18,497	-
-	(105)	-
-	(28,321)	-
-	106,367	10,398
-	8,000	-
-	764	235
-	20,319	20,319
-	317,528	136,843
-	71,835	11,478
-	1,875,011	-
-	493,443	-
-	3,494	2,850
-	29,606	4,400
-	8,597,904	512,175
-	9,389,896	581,251
-	314,662	-
-	6,453	534
-	9,727	4,733
-	48,798	-
-	15,688	-
-	172,474	28,586
-	2,189,079	209,131
-	2,756,881	242,984
$ -	$ 12,146,777	$ 824,235

Continued on next page

Schedule of Changes in Long-term Debt and Obligations (1) (2)
(continued)

(Dollars in Thousands)

	Balance July 1 as restated	Issuances and Other Increases	Retirements and Other Decreases	Subtotal June 30
Component Units				
Long-term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
General Obligation Bonds - Higher Education 9(c) (6)	$ 906,474	$ 126,746	$ (155,362)	$ 877,858
Long-term Debt/Obligations Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth:				
Bonds (6)	17,813,398	5,004,777	(4,576,445)	18,241,730
Installment Purchase Obligations	100,161	15,291	(29,137)	86,315
Capital Lease Obligations	91,166	-	(5,535)	85,631
Notes Payable	2,070,152	422,530	(313,501)	2,179,181
Compensated Absences	253,845	246,297	(234,896)	265,246
Pension Liability	785,472	145,009	(5,969)	924,512
OPEB Liability	470,661	112,451	(398)	582,714
Trust and Annuity Obligations	2,508	550	-	3,058
Other	293,405	843,561	(854,211)	282,755
Total Component Units	$ 22,787,242	$ 6,917,212	$ (6,175,454)	$ 23,529,000

Note (1) Pursuant to GASB Statement No. 34, governmental activities include internal service funds. Business-type activities are considered enterprise funds.

Note (2) Payments on bonded debt that pertain to the Commonwealth's governmental activities are made through the debt service funds. Payments for installment purchases, compensated absences, capital leases, pension, and other obligations that pertain to the Commonwealth's governmental activities are made through the general and special revenue funds. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the total for governmental activities. Enterprise funds, or business-type activities, are self-supporting funds. Accordingly, long-term liabilities are paid from each respective fund.

Note (3) Beginning balances have been restated by $6,453 (dollars in thousands) for the Virginia College Savings Plan (VCSP) (major enterprise) due to a revaluation of a capital lease obligation. The VCSP beginning net position is not restated because both capital assets and obligations have been restated.

Note (4) Foundations represent FASB reporting entities defined in Note 1.B.

Note (5) Reflected in the Statement of Cash Flows partly as capitalized interest accrued.

Note (6) Amounts are net of any unamortized discounts, premiums, and deferrals.

Foundations (4)	Balance June 30	Due Within One Year
$ -	$ 877,858	$ 47,482
878,435	19,120,165	973,710
-	86,315	16,164
2,899	88,530	5,634
340,297	2,519,478	345,364
9,567	274,813	187,503
90,252	1,014,764	-
-	582,714	-
78,377	81,435	2,986
183,351	466,106	104,900
$ 1,583,178	$ 25,112,178	$ 1,683,743

Bond Defeasance

Primary Government

On February 21, 2013, the Virginia Public Building Authority issued $72.4 million of Series 2013B Public Facilities Revenue refunding bonds. The bonds refunded were $24.3 million of Series 2006A and $54.1 million of Series 2006B Public Facilities Revenue Bonds. The net proceeds from the sale of the refunding bonds of $89.8 million were deposited in an irrevocable trust with an escrow agent to provide for all future debt service on the defeased bonds. The reacquisition price exceeded the net carrying amount of the old debt by $8.4 million. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt which is shorter than the life of the new debt issued. Total debt service payments over the next 12 years will be reduced by $6.6 million, resulting in an economic gain of $6.6 million discounted at the rate of 1.7 percent.

On March 6, 2013, the Commonwealth issued $217.8 million General Obligation Refunding Bonds, Series 2013B, pursuant to Sections 9(b) and 9(c) of Article X of the *Constitution of Virginia*, with a true interest cost (TIC) of 2.1 percent to refund $223.8 million of certain outstanding bonds. The bonds that were refunded include $15.1 million of outstanding Higher Education Institution Bonds, Series 2005A, $25.2 million of Higher Education Institution Bonds, Series 2006B, $12.6 million of Higher Education Institution Bonds, Series 2007A, $38.9 million of Higher Education Institution Bonds, Series 2007B, $17.6 million of Public Facilities Bonds, Series 2005A, $30.2 million of Public Facilities Bonds, Series 2006B, $56.2 million of Public Facilities Bonds, Series 2007A, and $28.0 million of Public Facilities Bonds, Series 2007B. The net proceeds from the sale of the Refunding Bonds of $258.5 million (after payment of underwriter's fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service and redemption premiums on the refunded bonds. The debt defeasance resulted in an accounting loss of $28.2 million. It will, however, reduce total debt service payments over the next 17 years by $17.1 million, resulting in an economic gain of $15.9 million discounted at the rate of 1.9 percent.

Component Units

Various higher education institutions (nonmajor component units) refunded General Revenue Pledge 9d bonds during fiscal year 2013. University of Virginia issued $230.4 million of Series 2013A and 2013B to refund $15.8 million of Series 2003B, $131.5 million of Series 2005, and converted $100.0 million of commercial paper to long-term debt. Virginia Commonwealth University (VCU) issued $65.7 million of Series 2012A and 2012B to refund $65.5 million of Series 2006A and 2006B and also issued $14.8 million of Series 2013 to refund $15.9 million of Series 2003A. Virginia Commonwealth University Health System Authority (blended component unit of VCU) issued $69.5 million of Series 2013A to refund Series 2005A and 2005C and issued $120.9 million of Series 2013B to refund Series 2008A, 2008B, and 2008C. In addition, the Authority made a payment to pay off the Series

2005B of $20.8 million. Virginia Polytechnic Institute and State University used a portion of the Virginia College Building Authority Pooled Bond Series 2012B of $32.4 million to refund a portion of the General Revenue Pledge bond Series 2004D of $33.7 million. For additional information regarding these refundings, see the institution's individually published financial statements.

GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of June 30, 2013, there were $486.8 million in bonds from the primary government that have been refunded and defeased in-substance from the governmental activities column by placing existing assets and the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments. In addition, there were $1.3 billion in bonds outstanding considered defeased from the component units.

Energy Lease Refinancings

The Treasury Board of the Commonwealth of Virginia (the Board) entered into a Master Lease Agreement with Banc of America Public Capital Corp dated October 31, 2012 for the purpose of refinancing certain outstanding leases (installment purchase obligations) under the Board's Energy Leasing Program.

Primary Government

The leases refinanced totaled $15.4 million. The energy leases and amounts that were refinanced include the following governmental agencies (non-major governmental): Science Museum of Virginia $864,924, Virginia Museum of Fine Arts $2.0 million, Virginia Department for the Blind and Vision Impaired $1.2 million, Catawba Hospital $1.9 million, and Department of Forensic Science $9.5 million. The aggregate difference in debt service between the refinanced debt service and the refinancing debt service is $3.1 million. The present value savings for each individual lease was calculated using the new lease rate. The aggregate present value savings is $2.8 million or 18.2 percent of the refinanced principal.

Component Units

The leases refinanced totaled $12.0 million. The energy leases and amounts that were refinanced include the following higher education institutions (nonmajor component units): Richard Bland College (part of the College of William and Mary) $1.5 million, Virginia State University $1.8 million, George Mason University $5.6 million, Virginia Community College System $2.4 million, and Southwest Virginia Higher Education Center $654,748. The aggregate refinanced amount of $12.1 million includes $29,545 of accrued interest, $98,872 in prepayment penalties and a credit in the amount of $2,948 for proceeds that remained in a Virginia Community College escrow account. The refinancing reduced the total debt service for each institution over the remaining term. The aggregate difference in debt service between the refinanced debt service and the refinancing debt service is $2.3 million. The present value savings for each individual lease was calculated using the new lease rate. The aggregate present value savings is $2.1 million or 17.8 percent of the refinanced principal.

Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986 calculate and rebate arbitrage earnings to the federal government. The U.S. Treasury has issued regulations on calculating the rebate amount and complying with the provisions of the Tax Reform Act of 1986. Governmental issuers must comply with the rebate regulations in order for their bonds to maintain tax-exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, to be rebated to the federal government. Income earned on excess earnings is also subject to rebate. Rebate liability, if any, must be paid every five years over the life of the bonds. Governmental issuers may elect to pay a penalty in lieu of rebate. Some bonds may be exempt from the rebate requirements if they qualify for certain regulatory exceptions. If the issuer meets one of the exceptions, the issuer retains any arbitrage earnings. Rebate and penalty payments are calculated and paid as required by law on bond issues that do not qualify for an exception.

Although rebatable arbitrage need only be calculated for tax purposes every fifth year that debt is outstanding, and consistent with modified accrual basis of accounting, is not recognized as a liability in governmental funds until amounts actually become due and payable, a liability is recognized in accrual basis government-wide statements as soon as the underlying event has occurred. Accordingly, as of June 30, 2013, the Commonwealth has recognized a government-wide liability of $1.2 million and the Virginia Resources Authority (major component unit) has recognized a liability of $2.5 million.

Amounts remitted to the federal government for rebate liability are generally paid from earnings derived from the issue. However, if all proceeds (including earnings) have been expended and depending on the type of issue, it may be necessary to use project revenues or general or nongeneral fund appropriations to satisfy any rebate liability. During fiscal year 2013, a rebate payment in the amount of $236,850 was made on the Commonwealth's Series 2007A General Obligation Bonds. No rebate payments were owed on bonds of the Virginia Public Building Authority, Commonwealth Transportation Board, or the Virginia College Building Authority 21st Century or Pooled Bond Programs.

Capital Leases

The Commonwealth leases buildings and equipment under various agreements that are accounted for as capital leases. The lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

Gross minimum lease payments, together with the present value of the net minimum lease payments as of June 30, 2013, are shown in the following table (dollars in thousands).

	Governmental Activities	Business-Type Activities	Component Units (1)
2014	$ 16,400	$ 534	$ 8,413
2015	16,097	542	8,115
2016	15,920	561	8,027
2017	8,911	575	6,357
2018	7,976	589	6,186
2019-2023	24,239	3,172	28,131
2024-2028	2,983	480	25,905
2029-2033	2,076	-	23,968
2034-2038	2,253	-	1,825
2039-2043	1,750	-	1,254
2044-2048	-	-	639
2049-2053	-	-	577
Total Gross Minimum Lease Payments	98,605	6,453	119,397
Less: Amount Representing Executory Costs	(8,761)	-	-
Net Minimum Lease Payments	89,844	6,453	119,397
Less: Amount Representing Interest	(18,009)	-	(33,766)
Present Value of Net Minimum Lease Payments	$ 71,835	$ 6,453	$ 85,631

Note (1): The above amounts exclude capital lease obligations of foundations.

	Foundations (2)
2014	$ 459
2015	443
2016	434
2017	324
2018	302
Thereafter	1,310
Net Minimum Lease Payments	3,272
Less: Amount Representing Interest	(373)
Present Value of Net Minimum Lease Payments	$ 2,899

Note (2): Foundations represent FASB reporting entities defined in Note 1.B.

At June 30, 2013, assets purchased under capital leases were included in depreciable capital assets as follows (dollars in thousands). The amounts are net of accumulated depreciation where applicable. For a portion of these assets, ownership will pass to the Commonwealth at the end of the lease term.

	Buildings	Equipment	Total
Governmental Activities:			
Gross Capital Assets	$ 169,693	$ 3,736	$ 173,429
Less: Accumulated Depreciation	(65,076)	(1,513)	(66,589)
Total Governmental Activities	$ 104,617	$ 2,223	$ 106,840
Business-Type Activities:			
Gross Capital Assets	$ 8,800	$ -	$ 8,800
Less: Accumulated Depreciation	(463)	-	(463)
Total Business-Type Activities	$ 8,337	$ -	$ 8,337
Component Units:			
Gross Capital Assets	$ 131,872	$ 1,705	$ 133,577
Less: Accumulated Depreciation	(39,571)	(1,703)	(41,274)
Subtotal (excluding Foundations)	92,301	2	92,303
Foundations:			
Gross Capital Assets	2,655	649	3,304
Less: Accumulated Depreciation	(284)	(155)	(439)
Subtotal Foundations	2,371	494	2,865
Total Component Units (3)	$ 94,672	$ 496	$ 95,168

Note (3): Land purchased under capital leases by the University of Virginia (nonmajor) is $8,095 (dollars in thousands).

Notes Payable

Notes Payable consist of several items as shown in the following schedule (dollars in thousands):

Primary Government	
Transportation Note	$ 8,000
Aviation Note	764
Installment Notes	106,367
Tax Refund Note	20,319
Total Primary Government	135,450
Component Units	
Virginia Public School Authority	165,720
Virginia Housing Development Authority	151,047
Virginia Resources Authority	2,384
Nonmajor Component Units	1,860,030
Installment Notes	86,315
Subtotal (excluding Foundations)	2,265,496
Foundations:	
Notes Payable	340,297
Subtotal - Foundations	340,297
Total Component Units	2,605,793
Total Notes Payable	$ 2,741,243

The Transportation (primary government) Note represents an interest free note payable to Chesterfield County, Virginia, of $8.0 million for the repayment of the Powhite Parkway Extension Toll Road from surplus net revenues of the project prior to the retirement of all the bonds issued.

The Aviation (primary government) Note represents a loan agreement with the Virginia Resources Authority (major component unit) with an outstanding balance of $763,525. The purpose of the loan was to finance and refinance grants-in-aid made to the Peninsula Airport Commission to provide funding for capital improvements at the Newport News/Williamsburg International Airport. The principal amount shall be paid semi-annually with the final payment due in 2017.

The Tax Refund (primary government) Note of $20.3 million is owed to a taxpayer and will be paid in four annual installments. Variable interest not to exceed 4.0 percent will be included in the annual payments.

The Virginia Public School Authority (major component unit) notes of $165.7 million are for the School Equipment Financing Notes Educational Technology program. The note proceeds were used to make grants to school divisions for the purchase of educational technology equipment. The notes will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund (major special revenue fund).

The Virginia Housing Development Authority (major component unit) has notes payable of $151.0 million representing a credit agreement with the Federal Home Loan Bank of Atlanta. The proceeds along with the bond proceeds are used to make mortgage loans.

The Virginia Resources Authority (major component unit) notes of $2.4 million are Equipment and Term Financing loans.

An additional amount of $1.9 billion is comprised primarily of higher education institutions' (nonmajor component unit) promissory notes with the Virginia College Building Authority (VCBA) (major component unit) to finance the construction of various higher education facilities. Interest rates range from 2.1 percent to 5.8 percent and shall be paid semi-annually. The final principal payment is due in 2041. The University of Virginia (nonmajor component unit) has notes payable of $153,000 for software. Virginia State University (nonmajor component unit) has a note payable of $1.4 million, which is the result of a loan agreement with the U.S. Department of Housing and Urban Development to repair seven dormitories. The loan is to be repaid over 30 years at 3.0 percent interest per annum, and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair.

The Virginia Biotechnology Research Partnership Authority (nonmajor component unit) has notes payable in the amount of $955,254 used for refunding the 1998 bonds issued for BioTech One, making tenant improvements to BioTech Six and purchasing two pieces of land.

Various foundations (component units) have notes outstanding as of year-end. The purpose of a majority of these notes is for property acquisition, working capital, and construction. Future principal payments as of June 30, 2013, are shown in the following table (dollars in thousands).

Foundations' Notes Payable (Component Units) (1)

Maturity	Principal
2014	$ 44,068
2015	35,732
2016	148,120
2017	65,132
2018	9,153
Thereafter	38,092
Total	$ 340,297

Note (1): Foundations represent FASB reporting entities defined in Note 1.B.

Installment purchase obligations have been entered into by agencies and institutions of the Commonwealth. These agreements, other than those in the component units and certain institutions of higher education, contain nonappropriation clauses indicating that continuation of the installment purchase obligations is subject to funding by the General Assembly. Installment purchase obligations represent $192.7 million of the total outstanding debt of the Commonwealth. Presented in the following tables are repayment schedules for installment purchase obligations as of June 30, 2013.

Installment Purchase Obligations - Governmental Funds
June 30, 2013

Maturity	Principal	Interest	Total
2014	$ 10,397,911	$ 3,075,433	$ 13,473,344
2015	10,595,042	2,784,226	13,379,268
2016	10,438,682	2,518,009	12,956,691
2017	9,948,659	2,239,079	12,187,738
2018	9,395,463	1,966,589	11,362,052
2019-2023	36,871,203	6,107,833	42,979,036
2024-2028	18,719,673	1,153,621	19,873,294
Total	$ 106,366,633	$ 19,844,790	$ 126,211,423

Installment Purchase Obligations - Component Units

Maturity	Principal	Interest	Total
2014	$ 16,164,734	$ 1,790,484	$ 17,955,218
2015	14,369,058	1,258,686	15,627,744
2016	11,224,891	1,017,967	12,242,858
2017	10,877,439	818,741	11,696,180
2018	13,161,115	619,279	13,780,394
2019-2023	17,732,402	1,165,248	18,897,650
2024-2028	2,785,783	132,644	2,918,427
Total	$ 86,315,422	$ 6,803,049	$ 93,118,471

The various foundations (component units) had no installment purchase obligations as of June 30, 2013.

Lottery Prizes Payable

Lottery prizes are paid in 20, 25, 26, or 30 installments. The first installment is paid on the day the prize is claimed. The subsequent annual payments are funded with U.S. Treasury STRIPS purchased by the Virginia Lottery. For Life prizes payable represent estimated prizes payable monthly, quarterly or annually for the life of the winner based on life expectancy tables from the Virginia Bureau of Insurance, and funded with a pool of U.S. Treasury STRIPS.

Lottery prizes payable represent the future annual prize payments valued at cost plus accrued interest (present value of securities held to maturity) of the investment securities funding the payments.

Lottery prizes payable for the fiscal year ended June 30, 2013, are shown in the following table:

	Jackpot	Win For Life	Total
Due within one year	$ 23,685,913	$ 4,900,520	$ 28,586,433
Due in subsequent years	80,194,199	63,693,768	143,887,967
Total (present value)	103,880,112	68,594,288	172,474,400
Add:			
Interest to Maturity	35,603,888	39,996,712	75,600,600
Lottery Prizes Payable at Maturity	$ 139,484,000	$ 108,591,000	$ 248,075,000

Tuition Benefits Payable

The Virginia College Savings Plan administers the Virginia 529 prePAID Program. Virginia 529 prePAID offers contracts which, for actuarially determined amounts, provide for guaranteed full future tuition payments at state higher education institutions. The contract provisions also allow the benefits to be used for private or out-of-state institutions at a prorated amount based upon the amounts charged by the state's higher education institutions.

At June 30, 2013, tuition benefits payable of $2.2 billion have been recorded for the Virginia 529 prePAID Program on the balance sheet for the actuarially determined present value of future obligations anticipated for payment of benefits and administrative expenses for the Virginia 529 prePAID program. In addition, a receivable in the amount of $228.4 million has been recorded to reflect the actuarially determined present value of future payments anticipated from contract holders.

26. OTHER REVENUE

The following table (dollars in thousands) summarizes Other Revenue for the fiscal year ended June 30, 2013.

	Assessments and Receipts for Support of Special Services	Fines, Forfeitures, Court Fees, Penalties, and Escheats	Receipts from Cities Counties, and Towns	Private Gifts, Grants, and Contracts	Sales of Property
Primary Government:					
General	$ 828	$ 222,476	$ 15,813	$ 473	$ 25,410
Major Special Revenue Funds:					
Commonwealth Transportation	17,534	11,310	59,889	6,713	2,396
Federal Trust	-	10,812	-	-	477
Literary	-	69,057	-	-	-
Nonmajor Governmental Funds	106,623	52,024	65,602	7,690	6,720
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	-	-
Nonmajor Enterprise Funds	-	13,140	-	-	-
Private Purpose Trust Funds	-	-	-	-	-
Pension and Other Employee Benefit Trust	-	-	-	-	-
Total Primary Government	$ 124,985	$ 378,819	$ 141,304	$ 14,876	$ 35,003

	Tobacco Master Settlement	Taxes	E-Z Pass	Other (1)	Total Other Revenue
Primary Government:					
General	$ 74,010	$ -	$ -	$ 231,751	$ 570,761
Major Special Revenue Funds:					
Commonwealth Transportation	-	-	9,421	27,080	134,343
Federal Trust	-	-	-	138,852	150,141
Literary	-	-	-	76,008	145,065
Nonmajor Governmental Funds	-	-	-	111,415	350,074
Major Enterprise Funds:					
Virginia College Savings Plan	-	-	-	841	841
Nonmajor Enterprise Funds	-	3,787	-	886	17,813
Private Purpose Trust Funds	-	-	-	20	20
Pension and Other Employee Benefit Trust	-	-	-	2,814	2,814
Total Primary Government	$ 74,010	$ 3,787	$ 9,421	$ 589,667	$ 1,371,872

Note (1): $75,000 (dollars in thousands) of the total amount recorded for the Literary Fund is related to unclaimed property.

27. PRIZES AND CLAIMS

The following table summarizes Prizes and Claims Expense for the fiscal year ended June 30, 2013.

(Dollars in Thousands)

	Insurance Claims	Lottery Prize Expense	Total Prizes and Claims
Proprietary Funds:			
Major Enterprise Funds:			
State Lottery	$ -	$ 1,013,183	$ 1,013,183
Unemployment Compensation	584,433	-	584,433
Nonmajor Enterprise Funds	288,478	-	288,478
Total Enterprise Funds	$ 872,911	$ 1,013,183	$ 1,886,094
Internal Service Funds	$ 1,162,212	$ -	$ 1,162,212

28. OTHER EXPENSES

The following table summarizes Other Expenses for the fiscal year ended June 30, 2013.

(Dollars in Thousands)

	Grants and Distributions To Localities	Expendable Equipment/ Improvements	Other (1)	Total Other Expenses
Proprietary Funds:				
Major Enterprise Funds:				
Virginia College Savings Plan	$ -	$ 397	$ 2,013	$ 2,410
Nonmajor Enterprise Funds	82	2,733	1,009	3,824
Total Enterprise Funds	$ 82	$ 3,130	$ 3,022	$ 6,234
Internal Service Funds	$ 1,605	$ 4,289	$ 7,349	$ 13,243
Pension and Other Employee Benefit Trust (2)	$ -	$ -	$ 6,877	$ 6,877

Note (1): $6,141 (dollars in thousands) can be attributed to expenses related to closing cases in the Risk Management internal service fund. $2,013 (dollars in thousands) can be attributed to the SOAR scholarship program for Virginia College Savings Plan Fund.

Note (2): Fiduciary expenses of $6,877 (dollars in thousands) are not included in the Government-wide Statement of Activities.

29. OTHER NON-OPERATING REVENUE/EXPENSES

The following table summarizes Other Non-Operating Revenue/Expenses for the fiscal year ended June 30, 2013.

(Dollars in Thousands)

	Loss on Sale of Capital Assets	Expenses for Securities Lending Transactions	Interest Expense	Federal Unemployment Tax Act	Other (1)	Total Other Non-Operating Revenue/ (Expenses)
Proprietary Funds:						
Major Enterprise Funds:						
State Lottery	$ -	$ (270)	$ -	$ -	$ 425	$ 155
Virginia College Savings Plan	-	-	(140)	-	-	(140)
Unemployment Compensation	-	-	-	(2,444)	-	(2,444)
Nonmajor Enterprise Funds	-	-	(6,176)	-	8,327	2,151
Total Enterprise Funds	$ -	$ (270)	$ (6,316)	$ (2,444)	$ 8,752	$ (278)
Internal Service Funds	$ 84	$ (2)	$ (3,245)	$ -	$ 612	$ (2,551)

Note (1): Other Non-Operating Revenue/Expenses of the nonmajor enterprise funds are comprised of $8,344 (dollars in thousands) reported by the Department of Alcoholic Beverage Control, $23 (dollars in thousands) reported by the Science Museum of Virginia, and offset by $40 (dollars in thousands) of expenses reported by the Route 460 Funding Corporation of Virginia.

30. SPECIAL ITEM

The Commonwealth authorized an Internal Service Fund to account for the activities associated with the development and operation of the Commonwealth's Performance Budgeting and Cardinal (General Ledger replacement) Systems. Prior to the authorized establishment of the Internal Service Fund, the related activities were reported in the Other Special Revenue Fund (nonmajor governmental fund). The transfer of the assets and working capital advance occurred in July 2012 as a result of this authorized reporting change.

31. TRANSFERS

The following table summarizes Transfers In and Transfers Out for the fiscal year ended June 30, 2013 (dollars in thousands).

	Transfers In (Reported In):				
Transfers Out (Reported In):	**General**	**Commonwealth Transportation**	**Federal Trust**	**Literary**	**Nonmajor Governmental Funds**
Primary Government					
General	$ -	$ 87,540	$ 513	$ -	$ 421,840
Major Special Revenue Funds:					
Commonwealth Transportation	26,827	-	443	-	304,344
Federal Trust	80	21,802	-	-	15,503
Nonmajor Governmental Funds	52,820	-	4,134	16	1,552
Major Enterprise Funds:					
State Lottery	486,528	-	-	11,992	-
Virginia College Savings Plan	291	-	-	-	-
Unemployment Compensation	-	-	12,709	-	-
Nonmajor Enterprise Funds	143,718	-	-	3	16,735
Internal Service Funds	781	-	-	-	15,228
Total Primary Government	$ 711,045	$ 109,342	$ 17,799	$ 12,011	$ 775,202

Transfers are used to (1) move revenues from the fund that the *Code of Virginia* or budget requires to collect them to the fund that the *Code of Virginia* or budget requires to expend them; (2) move receipts restricted for debt service from the funds holding the resources to the debt service fund as principal and interest payments become due; (3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; and (4) reimburse the General Fund for expenses incurred on behalf of nongeneral funds.

During the fiscal year, the following significant transfers were made that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

Various nongeneral funds transferred approximately $8.9 million to the General Fund as required by Chapter 806, 2013 Acts of Assembly.

Nonmajor Enterprise Funds	Internal Service Funds	Total Primary Government
$ -	$ 638	$ 510,531
-	363	331,977
24	-	37,409
1,604	-	60,126
-	-	498,520
-	-	291
-	-	12,709
-	-	160,456
-	-	16,009
$ 1,628	$ 1,001	$ 1,628,028

32. ON-BEHALF PAYMENTS

Higher education institutions (component units) received various on-behalf payments from foundations primarily for salary supplements and stipends during fiscal year 2013. Since the foundations are included as part of the higher education entity, most on-behalf payments were considered intrafund and were eliminated from the financial statements. On-behalf payments not eliminated for fiscal year 2013 totaled $27,405 and were recorded as program revenue – operating grants and contributions with corresponding expenses.

33. ENDOWMENTS

Donor restricted endowments reside primarily within the higher education institutions. The net appreciation available for expenditure is $1.1 billion. Of this amount, $1.2 million is reported as unrestricted net position and the remainder is reported as restricted net position. The *Code of Virginia* authorizes acceptance of donations. The governing boards of these entities and the donor agreements determine whether net appreciation can be spent and the accepted spending rate. These policies are entity specific and vary with each institution.

34. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (dollars in thousands) summarizes specific cash flows for the fiscal year ended June 30, 2013.

	State Lottery	Virginia College Savings Plan	Unemployment Compensation	Nonmajor Enterprise Funds
Cash Flows Resulting from:				
Payments for Prizes, Claims, and Loss Control:				
Lottery Prizes	$ (983,843)	$ -	$ -	$ -
Claims and Loss Control	-	-	(601,605)	(283,398)
Total	$ (983,843)	$ -	$ (601,605)	$ (283,398)
Other Operating Revenue:				
Other Operating Revenue	$ -	$ 841	$ -	$ 4,884
Total	$ -	$ 841	$ -	$ 4,884
Other Operating Expense:				
Other Operating Expenses (1)	$ -	$ (2,023)	$ -	$ (2,676)
Total	$ -	$ (2,023)	$ -	$ (2,676)
Other Noncapital Financing Receipt Activities:				
Advances/Contributions from the Commonwealth	$ -	$ -	$ 48,000	$ 31,265
Receipts from Taxes	-	-	2,704	192,466
Other Noncapital Financing Receipt Activities (2)	574	-	134,231	255
Total	$ 574	$ -	$ 184,935	$ 223,986
Other Noncapital Financing Disbursement Activities:				
Repayments of Advances/Contributions from the Commonwealth	$ -	$ -	$ (48,000)	$ (28,489)
Other Noncapital Financing Disbursement Activities (3)	-	-	(134,231)	(834)
Total	$ -	$ -	$ (182,231)	$ (29,323)
Other Capital and Related Financing Disbursement Activities:				
Other Capital and Related Financing Disbursement Activities	$ -	$ -	$ -	$ (2,673)
Total	$ -	$ -	$ -	$ (2,673)

Note (1): $2,023 (dollars in thousands) can be attributed to disbursements related to Virginia College Savings Plan for the SOAR scholarship. Also, $6,141 (dollars in thousands) can be attributed to disbursements related to closing cases in the Risk Management internal service fund.

Note (2): $134,231 (dollars in thousands) can be attributed to Federal repayable advances under Title XII of the Social Security Act. Also, $16 (dollars in thousands) can be attributed to the Property Management internal service fund related to energy performance contracts where the asset is retained by the primary government.

Note (3): $134,231 (dollars in thousands) can be attributed to repayments of Federal repayable advances under Title XII of the Social Security Act.

Total Enterprise Funds		Internal Service Funds	
$	(983,843)	$	-
	(885,003)		(1,148,320)
$	(1,868,846)	$	(1,148,320)
$	5,725	$	-
$	5,725	$	-
$	(4,699)	$	(8,074)
$	(4,699)	$	(8,074)
$	79,265	$	-
	195,170		-
	135,060		563
$	409,495	$	563
$	(76,489)	$	(7,991)
	(135,065)		-
$	(211,554)	$	(7,991)
$	(2,673)	$	(632)
$	(2,673)	$	(632)

35. TOBACCO SETTLEMENT AND SECURITIZATION

On November 23, 1998, 46 states' Attorneys General and the major tobacco companies signed a proposed settlement that reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. At the time of the settlement, it was estimated that the Commonwealth could receive approximately $4.1 billion over the duration of the settlement. The settlement was approved in a Consent Decree in December 1998. On March 29, 1999, the General Assembly enacted a law approving the establishment of the Virginia Tobacco Indemnification and Community Revitalization Commission (Commission) (nonmajor component unit), in compliance with the Consent Decree, to help communities in Virginia hurt by the decline of tobacco.

The Commission was established for the purposes of determining the appropriate recipients of monies in the Tobacco Indemnification and Community Revitalization Fund. The monies are to be used to provide payments to tobacco farmers as compensation for the tobacco equipment and barns and lost tobacco production opportunities associated with a decline in quota. The monies are also to be used to revitalize tobacco dependent communities.

The General Assembly also created the Virginia Foundation for Healthy Youth (Foundation) (nonmajor component unit). The purpose of the Foundation is to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund. The Foundation will also be responsible for distributing monies for the purposes provided in the legislation. Disbursements can be made to assist in financing efforts to restrict the use of tobacco products by minors, through educational and awareness programs describing the health effects of tobacco use on minors, and laws restricting the distribution of tobacco products to minors.

Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies were accounted for in these funds and in the General Fund. Of the Settlement monies, 50.0 percent was deposited into the Tobacco Indemnification and Community Revitalization Fund at the Commission and 10.0 percent continues to be deposited into the Virginia Tobacco Settlement Fund at the Foundation. The remaining 40.0 percent continues to be reported in the General Fund.

Pursuant to Purchase and Sale Agreements executed in 2005 and 2007, the Commonwealth, acting as an agent on behalf of the Commission, sold 25.0 percent of its future right, title and interest in the Tobacco Settlement Revenues (TSRs) to the Tobacco Settlement Financing Corporation (Corporation) (related organization) in each Agreement. After the 2007 Agreement was executed, the entire 50.0 percent originally provided to the Commission is received by the Corporation.

Consideration paid by the Corporation to the Commission for TSRs consisted of a cash amount deposited into an endowment to fund the long-term spending plan approved by the Commission. Bonds issued by the Corporation to finance the purchase price are asset-backed instruments secured solely by the TSRs, and the Corporation's right to receive TSRs. At the time of issuance these revenues were expected to produce sufficient funds to repay the bond obligations issued by the Corporation.

The Commission is a nonmajor component unit of the Commonwealth, and the Corporation is disclosed as a related organization.

36. SERVICE CONCESSION ARRANGEMENTS

The Commonwealth implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, during fiscal year 2013. GASB Statement No. 60 describes the criteria for when an arrangement is classified as a Service Concession Arrangement (SCA). The basic criteria are: the operator of the capital asset owned by the transferor has the right to provide services in exchange for significant consideration; the operator's revenue must come from a third party; the transferor must retain some level of control over the asset; and the transferor must receive significant residual interest at the conclusion of the arrangement.

The Commonwealth of Virginia has two SCAs as of June 30, 2013: Pocahontas 895 and the 495 Express Lanes. They are both related to highway construction and operation and were established per the Public-Private Transportation Act of 1995, as amended (PPTA). PPTA project goals are to provide highway projects to the public in a timely and cost effective manner with private funding and support.

Pocahontas 895

On June 21, 2006, the Pocahontas Parkway Association (Association – previously reported as a blended component unit of the Virginia Department of Transportation (VDOT), part of primary government) signed an agreement with Transurban (895) LLC (Transurban). Under the terms of the agreement, all assets and rights of the Association under the Comprehensive Agreement with VDOT were transferred to Transurban. In exchange for the existing toll road and other assets, Transurban transferred sufficient funds and securities to pay or defease all outstanding bonds of the Association and pay all other outstanding obligations owed to VDOT. Additionally, Transurban agreed to construct an enhancement to the original toll road, and this enhancement was completed and placed in service in 2011.

During the 99-year agreement term, VDOT will have fee title or good and valid interest in the asset. VDOT retains the right of inspection of the asset and has outlined maximum toll charges and increases in the terms of the agreement. Capital assets of $337.0 million and deferred inflow balances of $529.5 million are included in the government-wide financial statements. No contractual liabilities exist for this arrangement as of June 30.

Subsequent to June 30, the Transurban Board has approved the transfer of Pocahontas 895 to the lenders of the asset due to lower revenues than anticipated. Transfer discussions have commenced with the lenders, however the final structure has not yet been approved.

495 Express Lanes

On December 19, 2007, VDOT signed an 80-year public-private partnership agreement with Capital Beltway Express, LLC. The purpose of this agreement is to build new express lanes to provide users with a faster and more reliable travel option. The construction of the express lanes was completed in November 2012.

During the 80-year agreement, VDOT maintains regulatory control and jurisdiction of the express lanes. VDOT will have fee title or good and valid interest in the express lanes. The lanes will remain open for the public as long as the applicable tolls are paid. Capital assets of $1.1 billion and deferred inflows of $1.1 billion are included in the government-wide financial statements. Liabilities are contingent on specific events occurring per the agreement, and no events occurred during fiscal year 2013.

37. INFORMATION TECHNOLOGY INFRASTRUCTURE PARTNERSHIP – NORTHROP GRUMMAN

The Comprehensive Infrastructure Agreement (CIA) is a contract, executed on November 13, 2005, between the Commonwealth of Virginia (Commonwealth) acting through the Virginia Information Technologies Agency (VITA) and Northrop Grumman Systems Corporation (NG). The Commonwealth's primary goal is to significantly improve the Commonwealth's IT infrastructure and the manner in which such infrastructure is operated, supported, and maintained for the following service towers: Cross-Functional Services, Desktop Computing Services, Data Network Services, Voice and Video Telecom Services, Mainframe and Server Services, Help Desk Services, Messaging Services, Security Services, Internal Application Services, and Data Center facilities.

On March 31, 2010, contract revisions to the CIA were completed between the Commonwealth and Northrop Grumman. As a result of the contract changes, the Commonwealth renewed the contract for an additional three years, the parties established the products and services covered in the contractual cap including the baseline quantities to be billed and the prices at which those quantities will be billed, a shortened formula for contract year ten cost of living adjustment, and increased resolution and disentanglement fees. These contract changes are intended to provide improved performance to the VITA customer agencies, provide greater accountability and operational efficiencies for the services provided, and resolve outstanding financial issues. Additional contract revisions to the CIA were completed between the Commonwealth and Northrop Grumman during fiscal years 2011, 2012, and 2013. The contract term expires June 30, 2019.

Expenses associated with the CIA in fiscal year 2013 are $277.7 million, including payments to Northrop Grumman of $225.3 million. The Commonwealth expects to spend an additional $1.6 billion over the next six fiscal years.

The Commonwealth may terminate the CIA due to a variety of reasons including the Commonwealth's convenience; a significant change of control in the equity interests in NG; NG's failure to implement satisfactory improvements; or, NG's failure to prevent service interruption of 15 days or more. In these instances, the Commonwealth will be required to pay exit and resolution fees as outlined in the CIA. Additional causes for termination that do not require the payment of exit or resolution fees are NG's default on the CIA terms, the Commonwealth's lack of funds, or NG's incurrence of liabilities equal to or more than 75.0 percent of the direct damages cap. NG may terminate the CIA only if the Commonwealth owes an aggregate amount in excess of $100.0 million that is more than 30 days past due and not being disputed in good faith. The Commonwealth may be required to pay exit and resolution fees, as outlined in the CIA, if NG terminates the CIA. Fees resulting from the termination of the agreement are expected to be significant to the Commonwealth. However, exit fees are subject to the appropriation, allocation and availability of Commonwealth funds. Further, if the Commonwealth and NG terminate the business relationship at the conclusion of the CIA term, the Commonwealth could incur significant costs to obtain and transition the IT infrastructure necessary to continue the Commonwealth's operations.

38. CONTINGENCIES

A. Grants and Contracts

The Commonwealth has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the Commonwealth.

Institutions of higher education (component units) and other state agencies are required to comply with various federal regulations issued by the Office of Management and Budget, if such agencies are recipients of federal grants, contracts, or other sponsored agreements. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. It is believed that the ultimate disallowance pertaining to these regulations, if any, will be immaterial to the overall financial condition of the Commonwealth.

The U.S. Department of Health and Human Services (DHHS) Office of the Inspector General conducted a review and indicated that the Commonwealth's Statewide Indirect Cost Allocation Plan rates have allowed over-recoveries and transfers in the internal service funds. The U.S. DHHS has received the 2014 cost allocation plan, which is based on fiscal year 2012 data. The Commonwealth believes this liability has the potential to total $2.3 million as of June 30, 2013.

Virginia's combined overpayment and underpayment SNAP error rate for fiscal year 2012 was 1.8 percent. The national performance measure (national average payment error rate) for fiscal year 2012 was 3.4 percent. Information for fiscal year 2013 is not yet available.

Under the Food and Nutrition Act of 2008 (the Act), a 2-year liability system for excessive payment error rates is in place. Under this system, a liability amount shall be established when, for the second or subsequent consecutive fiscal year, FNCS (Food, Nutrition, and Consumer Services) determines that there is a 95.0 percent statistical probability that a state's payment error rate exceeds 105.0 percent of the national performance measure for payment error rates. Virginia was notified that fiscal year 2012 fell within the tolerance level and therefore will not count as a first year for the Virginia Department of Social Services.

The Virginia Tourism Authority (nonmajor component unit) had unclaimed awards totaling $1.4 million payable to awardees upon submission of proper claims for reimbursement for the Marketing Leverage Program. Additionally, the Authority had unclaimed awards totaling $96,256 payable to awardees' upon submission of proper claims for reimbursement for the Sesquicentennial Marketing Program.

B. Litigation

The Commonwealth is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations, some involving substantial amounts. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Commonwealth in respect to the various proceedings; however, it is believed that any ultimate liability resulting from these suits or investigations will not have a material, adverse effect on the financial condition of the Commonwealth.

C. Subject to Appropriation

Both the primary government and the discretely presented component units enter into agreements and issue debt secured solely by future appropriations from the General Fund of the Commonwealth. The primary government has leases and other agreements of such debt of $2.7 billion. The discretely presented component units have such debt of $2.8 billion.

D. Bailment Inventory

The Department of Alcoholic Beverage Control (ABC) houses and controls bailment inventory in the warehouse and is therefore responsible for the exercise of reasonable care to preserve the inventory until it is purchased by ABC or returned to the supplier. ABC uses the bailment system for payment of merchandise for resale. ABC initiates payments to the vendors based on shipments from the ABC warehouse to the retail stores, rather than receipt of invoice from the vendor. At June 30, 2013, the bailment inventory was valued at $33.2 million.

E. Loan Guarantees

The Assistive Technology Loan Fund Authority (nonmajor component unit) has an alternative financing program which provides guarantees of loans made and serviced by its banking partner. As of June 30, 2013, there was approximately $287,843 of guaranteed loans held by the Authority's banking partner.

The Virginia Small Business Financing Authority (nonmajor component unit) has a loan guaranty program which provides guarantees up to the lesser of $500,000 or 75.0 percent of a bank loan for lines of credit and short-term working capital loans for small businesses. As of June 30, 2013, the loan guaranty program has guarantees outstanding of $8.1 million.

F. Other

Pursuant to the Second Memorandum of Understanding (MOU) by and among the Virginia Commercial Space Flight Authority (the Authority), the Commonwealth of Virginia, and Orbital Sciences Corporation (Orbital) executed in September 2012, the Commonwealth of Virginia purchased certain Launch Pad 0A improvements from Orbital, on behalf of the Authority, for the total sum of $25.6 million. The Second MOU also provides for the Commonwealth of Virginia, under HB1301, to purchase, on behalf of the Authority, additional Launch Pad 0A assets up to $16.5 million subject to an independent third party review of the utility of those additional assets. The parties dispute the effect of this review, and Orbital has filed a civil complaint relating to the dispute. The complaint has not been formally served, and the parties are in ongoing discussions for resolution.

Following the completion of an Orbital test mission in April 2013, the Authority invoiced Orbital for $1.5 million as a test launch fee for its use of Launch Pad 0A, as provided for in the Second MOU. In June 2013, Orbital made a partial payment of $549,518 and made another payment of $460,000, leaving a balance of $490,482 in accounts receivable. Orbital has disputed a portion of the costs, and the parties are also in ongoing discussions over payment of the amount remaining in accounts receivable.

Additionally, under the terms of the Second MOU, the VSCFA has waived $18.0 million in bond payments to be received from Orbital. In return, Orbital is required to use the VCSFA's launch pad for ten scheduled launches. If Orbital fails to adhere to the terms of the Second MOU, Orbital will be required to resume bond payments.

G. Virginia Horse Center Foundation Going Concern

The Virginia Horse Center Foundation (nonmajor component unit) has incurred recurring losses from operations and is in violation of selected covenants contained in agreements with the USDA and with the Commonwealth. In February 2013, the Center failed to make $168,705 of the payments then due to the USDA. In addition, resources have not been segregated to support temporarily restricted activities, causing doubt about the ability of the Center to fulfill the terms of the gifts. Management is actively developing plans in regard to these matters.

39. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The GASB has issued Statement No. 67 (GASB No. 67), *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25,* and Statement No. 68 (GASB No. 68), *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Both statements will significantly impact the Commonwealth's reporting disclosures and accrued pension liability amounts. The Virginia Retirement System will implement GASB Statement No. 67 in fiscal year 2014. The Commonwealth will implement GASB Statement No. 68 in fiscal year 2015.

40. SUBSEQUENT EVENTS

Primary Government

Debt

On November 21, 2013, $273.4 million Commonwealth Transportation Board, Commonwealth of Virginia Federal Transportation Grant Anticipation Revenue Notes, Series 2013A were issued. Bond proceeds were used to finance certain eligible transportation projects in the Commonwealth.

Other

Subsequent to June 30, Moody's revised the Commonwealth's credit outlook to stable. The previous negative outlook assigned in August 2011 followed Moody's placing the rating of the U. S. government on negative outlook. It was due to the Commonwealth's close economic linkages to the federal employment and uncertainties surrounding the federal budget. The stable rating for Virginia follows the move to a stable outlook for the U. S. government.

Component Units

Debt

Subsequent to June 30, 2013, the Virginia Housing Development Authority (VHDA) issued $82.2 million of Bank of America, N.A., Revolving Credit Agreement, Series E Non-AMT, and Series F Non-AMT Bonds. In July 2013, VHDA repaid $59.1 million in Homeownership Mortgage Bonds 2009 B-1, B-2, B-3, and B-4. Additionally, in July 2013, VHDA remarked $90.0 million in CMB 2012 Series C Non-AMT Subseries C-5 Bonds.

On July 31, 2013, the Virginia Public School Authority (VPSA) issued its Special Obligation School Financing Bonds, Prince William County Series, 2013 in the amount of $60.0 million. The Bonds will be used by the County to finance a portion of the costs of certain capital improvements to the County school system.

On November 21, 2013, the VPSA issued $45.1 million of School Financing Bonds (1997 Resolution) Series 2013B to purchase certain general obligation local school bonds to finance capital projects for public schools.

Subsequent to June 30, 2013, the Virginia Resources Authority issued bonds in the amount of $66.5 million. The interest rates range from 1.8 percent to 5.0 percent with a final due date of November 1, 2043.

On August 9, 2013, Treasury Board of the Commonwealth of Virginia on behalf of Old Dominion University refinanced its $1.4 million outstanding energy lease originally financed under the Board's Energy Leasing Program for debt service savings. The refinanced amount includes $1,552 in accrued interest. The present value savings is $171,105 or 11.9 percent of the refinanced principal.

On September 26, 2013, the Virginia College Building Authority (VCBA) issued its Educational Facilities Revenue Bonds (21st Century College and Equipment Programs) Series 2013A in the amount of $331.8 million. Bond proceeds were used to finance certain capital projects and acquire equipment at public institutions of higher education.

On November 19, 2013, VCBA issued its $74.9 million Educational Facilities Revenue Bonds, Series 2013A and $12.4 million Educational Facilities Federally Taxable Revenue Bonds, Series 2013B under the Public Higher Education Financing Program (the Pool Program). The Authority will use the proceeds of the Series 2013A Bonds to acquire Institutional Notes from participating public institutions of higher education. Each participating Institution will use the proceeds of its Institutional Note to finance capital projects approved by the General Assembly. The Authority will use the proceeds of the Series 2013B Bonds to refund portions of maturities of prior Authority Bonds.

In October 2013, the Virginia Port Authority issued $37.9 million of Virginia Port Authority Port Facilities Revenue Refunding Bond, Series 2013, with registered owner Banc of America Preferred Funding Corporation. This bond had not been registered under the Securities Act of 1933. Series 2013 Bonds issued in the principal amount of $37.9 million are payable in annual installments beginning July 1, 2016 in amounts ranging from $610,000 to $9.8 million with interest of 3.1 percent, payable semiannually, the first interest installment due January 1, 2014 and the final installment due July 1, 2028. The bonds are payable from the net revenues of the Authority.

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds

Fiscal Year Ended June 30, 2013
(Dollars in Thousands)

	General Fund			
	Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
Revenues:				
Taxes:				
Individual and Fiduciary Income	$ 10,911,300	$ 11,092,600	$ 11,339,966	$ 247,366
Sales and Use	3,434,015	3,471,616	3,441,195	(30,421)
Corporation Income	886,000	820,900	796,728	(24,172)
Motor Fuel	-	-	-	-
Motor Vehicle Sales and Use	-	-	-	-
Communications Sales and Use	440,000	440,000	427,262	(12,738)
Deeds, Contracts, Wills, and Suits	331,409	345,604	388,633	43,029
Premiums of Insurance Companies	293,600	255,600	262,242	6,642
Alcoholic Beverage Sales	184,800	191,300	195,192	3,892
Tobacco Products	180,100	187,800	187,874	74
Public Service Corporations	93,900	95,300	96,222	922
Other Taxes	22,180	18,605	18,036	(569)
Rights and Privileges	100,119	79,663	76,931	(2,732)
Sales of Property and Commodities	10,243	1,700	25,477	23,777
Assessments and Receipts for Support of Special Services	11,810	655	858	203
Institutional Revenue	41,807	41,668	37,210	(4,458)
Interest, Dividends, and Rents	77,392	68,064	72,958	4,894
Fines, Forfeitures, Court Fees, Penalties, and Escheats	231,206	215,850	216,788	938
Federal Grants and Contracts	6,350	6,350	6,354	4
Receipts from Cities, Counties, and Towns	15,195	9,932	15,813	5,881
Private Donations, Gifts and Contracts	505	792	439	(353)
Tobacco Master Settlement	50,805	52,733	74,010	21,277
Other	118,695	178,712	238,148	59,436
Total Revenues	17,441,431	17,575,444	17,918,336	342,892
Expenditures:				
Current:				
General Government	2,389,778	2,360,523	2,173,327	187,196
Education	7,543,877	7,670,879	7,587,805	83,074
Transportation	30	172	172	-
Resources and Economic Development	473,238	512,266	389,221	123,045
Individual and Family Services	5,390,971	5,488,489	5,383,507	104,982
Administration of Justice	2,395,241	2,477,411	2,443,464	33,947
Capital Outlay	18,368	36,297	6,274	30,023
Total Expenditures	18,211,503	18,546,037	17,983,770	562,267
Revenues Over (Under) Expenditures	(770,072)	(970,593)	(65,434)	905,159
Other Financing Sources (Uses):				
Transfers:				
Transfers In	649,278	699,253	712,400	13,147
Transfers Out	(496,450)	(493,024)	(509,749)	(16,725)
Bonds Issued	-	-	-	-
Premium on Debt Issuance	-	-	-	-
Total Other Financing Sources (Uses)	152,828	206,229	202,651	(3,578)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(617,244)	(764,364)	137,217	901,581
Fund Balance, July 1	1,683,412	1,683,412	1,683,412	-
Fund Balance, June 30	$ 1,066,168	$ 919,048	$ 1,820,629	$ 901,581

See notes on page 179 in this section.

Special Revenue Funds			
Commonwealth Transportation Fund			
Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
$ -	$ -	$ -	$ -
519,500	640,629	499,382	(141,247)
-	-	-	-
900,552	892,792	848,192	(44,600)
511,160	618,421	581,680	(36,741)
-	-	-	-
38,400	40,500	46,336	5,836
141,800	130,100	130,064	(36)
-	-	-	-
-	-	-	-
-	-	-	-
41,160	44,359	39,610	(4,749)
550,213	561,975	562,451	476
556	556	81,881	81,325
17,410	18,040	17,527	(513)
-	-	-	-
20,550	11,925	26,524	14,599
16,539	11,369	11,388	19
938,807	1,390,531	1,423,378	32,847
235,321	211,780	58,909	(152,871)
-	-	6,505	6,505
-	-	-	-
686	27,499	36,333	8,834
3,932,654	4,600,476	4,370,160	(230,316)
3,206	4,161	3,256	905
2,417	2,417	2,417	-
4,417,764	5,746,178	4,606,664	1,139,514
13,641	13,985	12,585	1,400
-	-	-	-
9,767	9,767	9,767	-
39,356	41,052	17,559	23,493
4,486,151	5,817,560	4,652,248	1,165,312
(553,497)	(1,217,084)	(282,088)	934,996
62,439	62,441	108,602	46,161
(342,165)	(345,423)	(332,017)	13,406
120,625	120,625	120,625	-
23,974	23,974	23,974	-
(135,127)	(138,383)	(78,816)	59,567
(688,624)	(1,355,467)	(360,904)	994,563
2,757,742	2,757,742	2,757,742	-
$ 2,069,118	$ 1,402,275	$ 2,396,838	$ 994,563

Continued on next page

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds *(Continued from previous page)*

Fiscal Year Ended June 30, 2013
(Dollars in Thousands)

	Special Revenue Funds			
	Federal Trust			
	Original Budget	Final Budget	Actual	Final/Actual Variance Positive (Negative)
Revenues:				
Taxes:				
Individual and Fiduciary Income	$ -	$ -	$ -	$ -
Sales and Use	-	-	-	-
Corporation Income	-	-	-	-
Motor Fuel	-	-	-	-
Motor Vehicle Sales and Use	-	-	-	-
Communications Sales and Use	-	-	-	-
Deeds, Contracts, Wills, and Suits	-	-	-	-
Premiums of Insurance Companies	-	-	-	-
Alcoholic Beverage Sales	-	-	-	-
Tobacco Products	-	-	-	-
Public Service Corporations	-	-	-	-
Other Taxes	-	-	-	-
Rights and Privileges	-	-	-	-
Sales of Property and Commodities	304	304	391	87
Assessments and Receipts for Support of Special Services	-	-	-	-
Institutional Revenue	-	-	-	-
Interest, Dividends, and Rents	1,082	1,036	679	(357)
Fines, Forfeitures, Court Fees, Penalties, and Escheats	1,174	1,198	10,818	9,620
Federal Grants and Contracts	6,875,983	7,608,596	8,506,239	897,643
Receipts from Cities, Counties, and Tow ns	-	-	-	-
Private Donations, Gifts and Contracts	137	-	-	-
Tobacco Master Settlement	-	-	-	-
Other	23,042	22,665	166,230	143,565
Total Revenues	6,901,722	7,633,799	8,684,357	1,050,558
Expenditures:				
Current:				
General Government	140,248	198,061	188,876	9,185
Education	894,990	1,118,093	1,074,575	43,518
Transportation	34,917	23,086	16,089	6,997
Resources and Economic Development	163,051	204,735	166,507	38,228
Individual and Family Services	5,590,123	5,989,961	7,167,597	(1,177,636)
Administration of Justice	56,346	56,976	34,845	22,131
Capital Outlay	22,047	34,353	13,657	20,696
Total Expenditures	6,901,722	7,625,265	8,662,146	(1,036,881)
Revenues Over (Under) Expenditures	-	8,534	22,211	13,677
Other Financing Sources (Uses):				
Transfers:				
Transfers In	-	-	15,199	15,199
Transfers Out	-	(8,534)	(37,410)	(28,876)
Bonds Issued	-	-	-	-
Premium on Debt Issuance	-	-	-	-
Total Other Financing Sources (Uses)	-	(8,534)	(22,211)	(13,677)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	-	-
Fund Balance, July 1	-	-	-	-
Fund Balance, June 30	$ -	$ -	$ -	$ -

See notes on page 179 in this section.

1. Basis of Budgeting vs. Modified Accrual Basis Fund Balance (1)

Since the presentation of financial data on the basis of budgeting differs from that presented under accounting principles generally accepted in the United States of America, a schedule reconciling the fund balance on a budgetary basis at June 30, 2013, to the fund balance on a modified accrual basis follows.

Fund Balance Comparison
Budgetary Basis to GAAP Basis

(Dollars in Thousands)

	General Fund	Commonwealth Transportation Fund	Federal Trust Fund
Fund Balance, Basis of Budgeting	$ 1,820,629	$ 2,396,838	$ -
Adjustments from Budget to Modified Accrual:			
Accrued Revenues:			
Taxes	698,690	139,820	-
Tax Refunds	(375,975)	-	-
Other Revenue/Other Sources	59,042	86,240	599,372
Deferred Taxes (2)	(486,009)	-	-
Medicaid Payable	(341,196)	-	(353,865)
Accrued Expenditures/Other Uses	(737,237)	(209,117)	(137,658)
Fund Balance, Modified Accrual Basis	$ 637,944	$ 2,413,781	$ 107,849

1. As discussed in Note 1.E., the Literary Fund has no approved budget.
2. See also Note 1.Q.

2. Appropriations

The amounts presented in the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Major Special Revenue Funds are principally on a cash basis and represent the original budget adopted by the General Assembly and all supplemental appropriations and transfers. The following schedule reconciles original appropriations to the final adjusted expenditure appropriations for the General Fund and Major Special Revenue Funds, at June 30, 2013, except the Literary Fund which has no approved budget.

(Dollars in Thousands)	General Fund (9)	Commonwealth Transportation Fund	Federal Trust Fund (10)
Appropriations (1)	$ 18,211,503	$ 4,486,151	$ 6,901,722
Supplemental Appropriations:			
Reappropriations (2)	125,299	46,540	31,624
Subsequent Executive (3)	124,517	951,184	683,196
Subsequent Legislative (4)	142,590	358,881	77,995
Capital Outlay and Operating Reversions (5)	(28)	(5,546)	(4,081)
Transfers (6)	(45,151)	23,090	(37,861)
Capital Outlay Adjustment (7)	(12,693)	(39,297)	(27,330)
Debt Service Adjustment (8)	-	(3,443)	-
Appropriations, as adjusted	$ 18,546,037	$ 5,817,560	$ 7,625,265

1. Represents the budget appropriated through Chapter 3, 2012 Acts of Assembly, as amended by Chapter 806, 2013 Acts of Assembly.
2. Actions taken to reappropriate any prior year unexpended balances per authority of the language in the Appropriation Act.
3. Actions taken by the Governor to carry forward any prior year unexpended balances, sum sufficient authority, and year 2 to year 1 reductions (General Fund) and actions taken to appropriate any additional revenues collected so that they can be legally spent (Special Revenue Funds).
4. Actions taken by the Governor and the General Assembly to adjust the budget.
5. Represents reversions of unexpended capital outlay and operating balances.
6. Represents transfers required by the Appropriation Act. Transfers out are reduced by approximately $1.6 billion (General Fund) and $3.8 million (Commonwealth Transportation Fund) for transfers to component units and fiduciary funds that have been reclassified as expenditures in accordance with GASB Statement No. 34.
7. Capital outlay appropriations cover the projects' lives and usually extend beyond the current fiscal year. These amounts have been adjusted to report the amount authorized for expenditure during the current fiscal year.
8. The Special Revenue Commonwealth Transportation Fund appropriations have been adjusted for debt service.
9. Budgetary reductions totaling $6.9 million are excluded since they were not available for disbursement during the current fiscal year.
10. Appropriations do not include food stamp issuances of $1.4 billion since this is a noncash item; however, this amount is included in actual expenditures.

Funding Progress for Defined Benefit Pension Plans

(Dollars in Millions)

Actuarial Valuation Date June 30	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
			Virginia Retirement System (VRS)			
2012	$ 51,212	$ 77,859	$ 26,647	65.8%	$ 14,880	179.1%
2011	52,559	75,185	22,626	69.9%	14,709	153.8%
2010	52,729	72,801	20,072	72.4%	14,758	136.0%
* 2009	53,185	66,323	13,138	80.2%	14,948	87.9%
2008	52,548	62,554	10,006	84.0%	14,559	68.7%
2007	47,815	58,116	10,301	82.3%	13,834	74.5%
2006	42,669	52,822	10,153	80.8%	13,002	78.1%
* 2005	40,372	49,628	9,256	81.3%	12,212	75.8%
2004	39,691	43,958	4,267	90.3%	11,510	37.1%
2003	39,243	40,698	1,455	96.4%	10,885	13.4%
			State Police Officers' Retirement System (SPORS)			
2012	$ 587	$ 1,013	$ 426	57.9%	$ 104	409.0%
2011	617	986	369	62.6%	100	370.3%
2010	634	949	315	66.8%	98	321.4%
* 2009	647	879	232	73.6%	101	229.7%
2008	646	844	198	76.5%	103	192.2%
2007	595	806	211	73.8%	101	208.9%
2006	539	730	191	73.8%	94	203.2%
* 2005	514	673	159	76.4%	91	174.7%
2004	510	656	146	77.7%	82	178.0%
2003	509	616	107	82.6%	79	135.4%
			Virginia Law Officers' Retirement System (VaLORS)			
2012	$ 909	$ 1,753	$ 844	51.9%	$ 345	244.8%
2011	926	1,683	757	55.0%	356	212.5%
2010	925	1,579	654	58.6%	346	189.0%
* 2009	913	1,412	499	64.7%	359	139.0%
2008	873	1,281	408	68.1%	368	110.9%
2007	766	1,166	400	65.7%	341	117.3%
2006	656	1,096	440	59.9%	321	137.1%
* 2005	575	980	405	58.7%	307	131.9%
2004	509	927	418	54.9%	298	140.3%
2003	458	854	396	53.6%	292	135.6%
			Judicial Retirement System (JRS)			
2012	$ 361	$ 582	$ 221	62.0%	$ 57	388.6%
2011	371	569	198	65.2%	59	336.8%
2010	372	560	188	66.4%	61	308.2%
* 2009	378	521	143	72.6%	63	227.0%
2008	374	495	121	75.6%	61	198.4%
2007	340	442	102	76.9%	58	175.9%
2006	302	424	122	71.2%	54	225.9%
* 2005	288	402	114	71.6%	52	219.2%
2004	285	366	81	77.9%	48	168.8%
2003	282	348	66	81.0%	48	137.5%

* Revised economic and demographic assumptions due to experience study.

See Notes on following page.

Valuation Date:		June 30, 2012
Actuarial Cost Method:		Entry Age Normal
Amortization Method:		
State Employees		Level percent, open
Teachers		Level percent, open
Political Subdivision Employees		Level percent, open
State Police/VA Law Officers/Judges		Level percent, open
Payroll Grow th Rate:		
State Employees		3.00%
Teachers		3.00%
Political Subdivision Employees		3.00%
State Police/VA Law Officers/Judges		3.00%
Remaining Amortization Period:		
State Employees		9 and 29 years
Teachers		9 and 29 years
Political Subdivision Employees		29 years
State Police/VA Law Officers/Judges		9 and 29 years
Asset Valuation Method:		5 year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return (1)		7.00%
Projected Salary Increases (1)		
State Employees		3.75% to 5.60%
Teachers		3.75% to 6.20%
(Non-Hazardous Duty Employees)		3.75% to 5.60%
Political Subdivision Employees (Hazardous Duty Employees)		3.50% to 4.75%
State Police/VA Law Officers		3.50% to 4.75%
Judges		4.50%
Cost of Living Adjustments	Plan 1	2.50%
	Plan 2	2.25%

(1) Includes inflation at 2.50%.

Schedule of Employer Contributions – Defined Benefit Pension Plans (1)

(Dollars in Thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Statutory Required Contribution	Percentage Contributed
	Virginia Retirement System (VRS)			
2013	$ 2,227,090	75.79%	$ 1,687,865	100.00%
2012	1,614,464	59.56%	961,653	100.00%
2011	1,577,131	46.73%	736,950	100.00%
2010	1,489,124	66.57%	991,334	100.00%
2009	1,501,018	81.25%	1,219,645	100.00%
2008	1,378,993	92.58%	1,276,645	100.00%
2007	1,299,606	85.89%	1,116,217	100.00%
2006	864,245	89.51%	773,553	100.00%
2005	810,944	85.26%	691,415	100.00%
2004	469,200	91.66%	430,064	100.00%
	State Police Officers' Retirement System (SPORS)			
2013	$ 34,535	75.84%	$ 26,193	100.00%
2012	26,250	43.58%	11,441	100.00%
2011	24,570	30.36%	7,460	100.00%
2010	23,791	66.05%	15,714	100.00%
2009	24,241	83.23%	20,175	100.00%
2008	22,941	91.49%	20,989	100.00%
2007	19,402	84.31%	16,358	100.00%
2006	23,132	65.96%	15,258	100.00%
2005	21,946	65.96%	14,475	100.00%
2004	20,187	51.16%	10,328	100.00%
	Virginia Law Officers' Retirement System (VaLORS)			
2013	$ 66,463	75.82%	$ 50,392	100.00%
2012	55,306	44.27%	24,481	100.00%
2011	53,686	32.14%	17,255	100.00%
2010	57,894	67.41%	39,027	100.00%
2009	60,059	84.80%	50,932	100.00%
2008	61,325	91.20%	55,929	100.00%
2007	56,190	86.03%	48,338	100.00%
2006	77,414	67.96%	52,611	100.00%
2005	74,301	67.96%	50,495	100.00%
2004	72,752	55.80%	40,596	100.00%
	Judicial Retirement System (JRS)			
2013	$ 32,185	83.98%	$ 27,028	100.00%
2012	27,631	68.43%	18,907	100.00%
2011	28,101	61.57%	17,303	100.00%
2010	23,638	72.20%	17,065	100.00%
2009	23,148	90.72%	21,000	100.00%
2008	23,599	94.86%	22,386	100.00%
2007	22,557	91.02%	20,530	100.00%
2006	23,871	67.89%	16,206	100.00%
2005	22,490	67.89%	15,269	100.00%
2004	21,341	71.18%	15,190	100.00%

(1) Contributions made by employers were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet statutory requirements.

Funding Progress for Other Postemployment Benefit Plans

(Dollars in Millions)

Actuarial Valuation Date June 30		Actuarial Value of Assets [a]		Actuarial Accrued Liability (AAL) [b]		Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]		Covered Payroll [c]	UAAL as a Percentage of Covered Payroll [b-a]/[c]
						Group Life Insurance Fund				
2012	$	756	$	2,458	$	1,702	30.7%	$	16,697	10.2%
2011		852		2,359		1,507	36.1%		16,543	9.1%
2010		929		2,245		1,316	41.4%		16,526	8.0%
2009		967		1,995		1,028	48.5%		16,728	6.1%
2008		975		1,772		797	55.0%		16,267	4.9%
2007		880		1,552		672	56.7%		14,822	4.5%
2006 (1)		751		1,436		685	52.3%		13,923	4.9%
						Retiree Health Insurance Credit Fund				
2012	$	130	$	2,258	$	2,128	5.8%	$	14,211	15.0%
2011		213		2,195		1,982	9.7%		14,111	14.0%
2010 (2)		281		2,162		1,881	13.0%		14,220	13.2%
2009 (2)		296		2,007		1,711	14.8%		14,339	11.9%
2008 (2)		264		1,943		1,679	13.6%		13,686	12.3%
2007 (2)		207		1,883		1,676	11.0%		11,935	14.0%
						Disability Insurance Trust Fund				
2012	$	305	$	262	$	(43)	116.6%	$	3,433	(1.3%)
2011		369		296		(73)	124.6%		3,372	(2.2%)
2010 (3)		336		311		(25)	108.0%		3,168	(0.8%)
2009 (3)		290		291		1	99.7%		4,080	-
2008 (3)		313		392		79	79.9%		4,111	1.9%
2007		264		451		187	58.5%		3,909	4.8%
2006 (1)		192		423		231	45.4%		3,716	6.2%
						Line of Duty Death and Disability				
2012	$	6	$	226	$	220	2.7%	$	N/A	-
2011		-		399		399	-		N/A	-
2010 (4)		-		576		576	-		N/A	-
2009		-		373		373	-		N/A	-
2008		3		185		182	1.6%		N/A	-
2007		-		146		146	-		N/A	-
2006 (1)		-		99		99	-		N/A	-
						Pre-Medicare Retiree Healthcare				
2012	$	-	$	1,351	$	1,351	-	$	3,709	36.4%
2011		-		1,269		1,269	-		3,566	35.6%
2010 (3)		-		1,298		1,298	-		3,297	39.4%
2009		-		1,218		1,218	-		3,170	38.4%
2007 (5)		-		982		982	-		2,931	33.5%

(1) 2006 was the first actuarial valuation prepared using the required parameters of GASB Statement No. 43.
(2) Data for 2007-2010 has been restated to include the state-funded Retiree Health Insurance Credit benefit for local employees. Similar information for 2006 was not available so that year has been excluded.
(3) Data for 2008-2010 has been restated to include state-funded Long-Term Care program. Prior years were funded by premiums paid to insurance carrier and the insurance carrier was responsible for the liability.
(4) Contributions into the Line of Duty Act Trust Fund are based on the number of participants in the program using a per capita based contribution versus a payroll based contribution.
(5) 2007 was the first actuarial valuation prepared for Pre-Medicare Retiree Healthcare.

See Notes on following page.

Notes for Funding Progress for Other Postemployment Benefit Plans

	Group Life Insurance Fund	Retiree Health Insurance Credit Fund	Disability Insurance Trust Fund	Line of Duty Death and Disability	Pre-Medicare Retiree Healthcare
Valuation Date	June 30, 2012	June 30, 2012	June 30, 2012	June 30, 2012	July 01, 2012
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Pay, Open	Level Percent of Pay, Open	Level Percent of Pay, Open	Level Percent of Pay, Open	Level dollar, Open
Payroll Growth Rate:					
State Employees	3.00%	3.00%	3.00%	3.00%	3.00%
Teachers	3.00%	3.00%	N/A	N/A	N/A
Political Subdivision Employees	3.00%	3.00%	N/A	3.00%	N/A
State Police / Virginia Law Officers	3.00%	3.00%	3.00%	3.00%	3.00%
Judges	3.00%	3.00%	N/A	N/A	N/A
Remaining Amortization Period	29 years	29 years	29 years	4 and 30 years	30 years
Asset Valuation Method					
State Employees and Teachers	5-Year, Smoothed Market	5-Year, Smoothed Market	Market Value	Market Value	Market Value
Political Subdivision Employees and State-Funded Local Employees	5-Year, Smoothed Market	Market Value	N/A	Market Value	Market Value
Actuarial Assumptions:					
Investment Rate of Return (1)	7.00%	7.00%	7.00%	4.75% and 7.00%	4.00%
Projected Salary Increases (1)					
State Employees	3.75% to 5.60%	3.75% to 5.60%	3.75% to 5.60%	N/A	4.00%
Teachers	3.75% to 6.20%	3.75% to 6.20%	N/A	N/A	N/A
Political Subdivision Employees (Non-Hazardous Duty Employees)	3.75% to 5.60%	3.75% to 5.60%	N/A	N/A	N/A
Political Subdivision Employees (Hazardous Duty Employees)	3.50% to 4.75%	3.50% to 4.75%	N/A	N/A	N/A
State Police / Virginia Law Officers	3.50% to 4.75%	3.50% to 4.75%	3.50% to 4.75%	N/A	4.00%
Judges	4.50%	4.50%	N/A	N/A	N/A
Medical Trend Assumptions (Under Age 65)	N/A	N/A	N/A	9.50% to 5.00%	
Medical Trend Assumptions (Ages 65 and Older)	N/A	N/A	N/A	7.00% to 5.00%	
Year of Ultimate Trend Rate	N/A	N/A	N/A	2019	

(1) Includes inflation rate of 2.5 percent.

Schedule of Employer Contributions – Other Postemployment Benefit Plans (1)

(Dollars in Thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Statutory Required Contribution	Percentage Contributed
		Group Life Insurance Fund		
2013	$ 221,622	90.15%	$ 199,796	100.00%
2012	181,527	26.05%	47,293	100.00%
2011	177,378	25.23%	44,744	100.00%
2010	145,228	65.54%	95,185	100.00%
2009	146,545	92.13%	135,019	100.00%
2008	158,740	100.00%	158,740	100.00%
		Retiree Health Insurance Credit Fund		
2013	$ 145,416	95.09%	$ 138,282	100.00%
2012	138,195	37.54%	51,882	100.00%
2011	133,655	36.46%	48,736	100.00%
2010	148,956	66.70%	99,356	100.00%
2009	150,048	96.63%	144,989	100.00%
2008	147,524	100.00%	147,524	100.00%
		Disability Insurance Trust Fund		
2013	$ 21,032	81.03%	$ 17,043	100.00%
2012	30,285	3.62%	1,096	100.00%
2011	28,646	-	-	-
2010	76,530	40.32%	30,861	100.00%
2009	78,120	91.33%	71,344	100.00%
2008	97,975	80.00%	78,380	100.00%
		Line of Duty Death and Disability (2)		
2013	$ 21,895	42.66%	$ 9,341	100.00%
2012	25,033	33.25%	8,323	100.00%
2011	-	-	-	-
2010	16,901	53.75%	9,084	100.00%
2009	16,523	51.51%	8,511	100.00%
2008	9,786	102.45%	10,026	100.00%
		Pre-Medicare Retiree Healthcare		
2013	$ 182,970	8.48%	$ -	-
2012	172,910	21.21%	-	-
2011	166,984	17.75%	-	-
2010	136,710	17.43%	-	-
2009	131,925	23.34%	-	-
2008	127,426	25.21%	-	-

(1) Contributions made by employers were not in all cases in accordance with the actuarially determined Annual Required Contribution (ARC), but they did meet statutory requirements.

(2) Line of Duty Death and Disability became a cost sharing plan effective July 1, 2010. Accordingly, the net OPEB obligation at the beginning of the transition period has been reduced to zero.

Claims Development Information – Risk Management

(Dollars in Thousands)

Comparison of Earned Revenues and Investment Income to Related Costs of Loss and Other Expenses

Fiscal and Policy Year Ended	**2004**	**2005**	**2006**	**2007**
1. Required contribution and investment revenue:				
Earned	$ 5,279	$ 5,788	$ 6,166	$ 6,560
Ceded (a)	-	-	-	-
Net earned	5,279	5,788	6,166	6,560
2. Unallocated expenses	1,209	1,068	1,008	1,047
3. Estimated incurred claims and expenses, end of policy year:				
Incurred	2,861	2,791	1,539	2,060
Ceded (a)	-	-	-	-
Net incurred	2,861	2,791	1,539	2,060
4. Net paid (cumulative) as of:				
End of policy year	161	227	177	106
One year later	1,072	1,699	745	1,051
Two years later	1,420	2,079	1,421	2,436
Three years later	1,539	2,332	2,087	2,631
Four years later	1,559	2,438	2,176	2,662
Five years later	1,569	2,451	2,554	2,671
Six years later	1,569	2,455	2,591	2,671
Seven years later	1,594	2,474	2,630	
Eight years later	1,649	2,679		
Nine years later	1,671			
5. Reestimated ceded claims and expenses (a)	-	-	-	-
6. Reestimated incurred claims and expenses:				
End of policy year	2,861	2,791	1,539	2,060
One year later	3,302	3,563	2,168	3,316
Two years later	2,306	3,418	2,494	3,224
Three years later	1,700	3,204	2,872	2,887
Four years later	1,697	2,763	2,820	2,730
Five years later	1,648	2,736	2,591	2,731
Six years later	1,642	2,671	2,676	2,731
Seven years later	1,621	2,746	2,698	
Eight years later	1,691	2,758		
Nine years later	1,671			
7. Increase (decrease) in estimated net incurred claims and expense from end of policy year	(1,190)	(33)	1,159	671

The Commonwealth, through the Department of the Treasury, Division of Risk Management, provides errors and omissions liability insurance and law enforcement professional liability insurance for local governmental units, which went into effect in fiscal year 1987.

See Notes on page 190 in this section.

2008	2009	2010	2011	2012	2013
$ 6,759	$ 6,197	$ 5,485	$ 4,131	$ 5,019	$ 5,043
-	-	-	-	-	-
6,759	6,197	5,485	4,131	5,019	5,043
1,307	1,272	1,269	1,310	1,382	1,273
3,330	3,681	3,404	3,213	5,390	3,394
-	-	-	-	-	-
3,330	3,681	3,404	3,213	5,390	3,394
493	300	412	396	1,677	335
1,697	1,858	2,236	1,940	4,468	
3,476	2,690	5,237	3,943		
3,753	3,679	6,744			
3,834	3,867				
5,065					
-	-	-	-	-	-
3,330	3,681	3,404	3,213	5,390	3,394
3,928	3,742	6,096	3,919	8,704	
5,420	3,943	8,428	4,523		
5,309	4,721	8,640			
5,094	4,555				
6,065					
2,735	874	5,236	1,310	3,314	-

Claims Development Information – Health Care

(Dollars in Thousands)

Comparison of Earned Revenues and Investment Income to Related Costs of Loss and Other Expenses

Fiscal and Policy Year Ended	2004	2005	2006	2007
1. Required contribution and investment revenue:				
Earned	$ 137,582	$ 157,959	$ 184,360	$ 202,366
Ceded (a)	-	-	-	-
Net earned	137,582	157,959	184,360	202,366
2. Unallocated expenses	6,271	10,655	11,899	13,782
3. Estimated incurred claims and expenses, end of policy year:				
Incurred	124,887	144,976	152,289	163,787
Ceded (a)	-	-	-	-
Net incurred	124,887	144,976	152,289	163,787
4. Net paid (cumulative) as of:				
End of policy year	99,656	140,452	147,534	159,769
One year later	N/A	N/A	N/A	N/A
Two years later	N/A	N/A	N/A	N/A
Three years later	N/A	N/A	N/A	N/A
Four years later	N/A	N/A	N/A	N/A
Five years later	N/A	N/A	N/A	N/A
Six years later	N/A	N/A	N/A	N/A
Seven years later	N/A	N/A	N/A	
Eight years later	N/A	N/A		
Nine years later	N/A			
5. Reestimated ceded claims and expenses (a)	-	-	-	-
6. Reestimated incurred claims and expenses:				
End of policy year	124,887	144,976	152,289	163,787
One year later	124,887	144,976	152,289	163,787
Two years later	N/A	N/A	N/A	N/A
Three years later	N/A	N/A	N/A	N/A
Four years later	N/A	N/A	N/A	N/A
Five years later	N/A	N/A	N/A	N/A
Six years later	N/A	N/A	N/A	N/A
Seven years later	N/A	N/A	N/A	
Eight years later	N/A	N/A		
Nine years later	N/A			
7. Increase (decrease) in estimated net incurred claims and expense from end of policy year	-	-	-	-

The Commonwealth, through its Department of Human Resource Management, provides health care insurance for local governmental units, which went into effect in fiscal year 1987.

See Notes on page 190 in this section.

2008	2009	2010	2011	2012	2013
$ 211,034	$ 222,498	$ 240,305	$ 246,730	$ 259,135	$ 284,526
-	-	-	-	-	-
211,034	222,498	240,305	246,730	259,135	284,526
16,215	16,400	15,936	15,849	16,701	18,781
185,117	214,411	215,376	213,694	250,019	277,455
-	-	-	-	-	-
185,117	214,411	215,376	213,694	250,019	277,455
181,566	204,655	214,371	209,365	235,058	267,256
N/A	N/A	N/A	N/A	N/A	
N/A	N/A	N/A	N/A		
N/A	N/A	N/A			
N/A	N/A				
N/A					
-	-	-	-	-	-
185,117	214,411	215,376	213,694	250,019	277,455
185,117	214,411	215,376	213,694	250,019	
N/A	N/A	N/A	N/A		
N/A	N/A	N/A			
N/A	N/A				
N/A					
-	-	-	-	-	-

Notes for Claims Development Information Tables

The tables on the previous four pages illustrate how the Risk Management and Health Care Claims Funds earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of each of the past several years. The rows of the tables are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

2. This line shows each fiscal year's other operating costs of the funds, including overhead and claims expense not allocable to individual claims.

3. This line shows the funds' gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

4. This section of rows shows the cumulative net amounts paid as of the end of successive years for each policy year.

5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.

6. This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)

7. This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years.

The columns of the tables show data for successive policy years.

Notes:

(a) During fiscal year 1997, the Commonwealth implemented GASB Statement No. 30, *Risk Financing Omnibus*. The Commonwealth has no reinsurers; therefore, the ceded amounts on lines 1, 3, and 5 are zero.

LITERARY FUND

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LITERARY FUND

General

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

Article VIII, Section 8 of the Constitution of Virginia, as amended, provides:

> The General Assembly shall set apart as a permanent and perpetual school fund the present Literary Fund; the proceeds of all public lands donated by Congress for free public school purposes, of all escheated property, of all waste and unappropriated lands, of all property accruing to the Commonwealth by forfeiture except as hereinafter provided, of all fines collected for offenses committed against the Commonwealth, and of the annual interest on the Literary Fund; and such other sums as the General Assembly may appropriate. But so long as the principal of the Fund totals as much as eighty million dollars, the General Assembly may set aside all or any part of additional moneys received into its principal for public school purposes, including the teachers retirement fund.
>
> The General Assembly may provide by general law an exception from this section for the proceeds from the sale of all property seized and forfeited to the Commonwealth for a violation of the criminal laws of this Commonwealth proscribing the manufacture, sale or distribution of a controlled substance or marijuana. Such proceeds shall be paid into the state treasury and shall be distributed by law for the purpose of promoting law enforcement.
>
> The Literary Fund shall be held and administered by the Board of Education in such manner as may be provided by law. The General Assembly may authorize the Board of Education to borrow other funds against assets of the Literary Fund as collateral, such borrowing not to involve the full faith and credit of the Commonwealth.
>
> The principal of the Fund shall include assets of the Fund in other funds or authorities which are repayable to the Fund.

Literary Fund Loans

Pursuant to Chapter 10, Title 22.1, Code of Virginia, 1950, as amended, the Board of Education is empowered to make Literary Fund loans to local school jurisdictions for the construction, renovation and expansion of school buildings. When construction or renovation is completed or the amount of the loan commitment is reached, the local school jurisdictions issue "Literary Fund Obligations". The annual income on the Literary Fund Obligations is available for all purposes of the Literary Fund.

Income

In fiscal year 2013, the Literary Fund had gross receipts of approximately $210 million and disbursements of approximately $243 million. In fiscal year 2012, the Literary Fund had gross receipts of approximately $194 million and disbursements of $221 million. In fiscal year 2011, the Literary Fund had gross receipts of approximately $201 million and disbursements of $238 million. In fiscal year 2010, the Literary Fund had gross receipts of approximately $241 million and disbursements of approximately $290 million. In fiscal year 2009, the Literary Fund had gross receipts of approximately $238 million and disbursements of $335 million.

Appropriations from the Literary Fund

By the terms of the constitutional provision creating the Literary Fund, the General Assembly may appropriate Literary Fund moneys for "public school purposes, including the teacher retirement fund". Although, prior to 1990, Literary Fund moneys had been used primarily to make Literary Fund loans, the General Assembly has since appropriated a substantial portion of moneys from the Literary Fund to supplement appropriations from the Commonwealth's General Fund for teacher retirement benefits and for other educational related purposes. The 2011 Appropriation Act provided appropriations from the Literary Fund of approximately $139.6 million and $130.1 million respectively in fiscal years 2011 and 2012 for teacher retirement benefits. The 2013 Appropriation Act, as amended, provided appropriations of $140.1 and $144.4 million for fiscal years 2013 and 2014, respectively. In addition, the Governor's proposed budget for the 2014-2016 biennium would provide appropriations of $142.8 million and $106.2 million for fiscal years 2015 and 2016, respectively for teacher retirement and the Commonwealth's share local school boards' Social Security costs.

In May 2010, the Authority issued $54.11 million School Educational Technology Notes, Series X. In May 2011, the Authority issued $51.9 million School Educational Technology Notes, Series XI. In May 2012, the Authority issued $52.0 million School Educational Technology Notes, Series XII. In May 2013, the Authority issued $58.4 million School Technology and Security Notes, Series I. All four series of notes are payable from appropriations from the Literary Fund.

The Governor's proposed budget for 2014-2016 directs the Authority to issue approximately $70.7 million and $71.0 million of School Educational Technology Notes as well as $6.0 million and $6.0 million of School Security Equipment Notes in the 2015 and 2016 fiscal years, respectively. The Governor's proposed budget includes sufficient appropriations from the Literary Fund to pay debt service coming due during the biennium on the Authority's School Educational Technology Notes Series X, XI, XII and School Technology and Security Notes Series I as well as its School Technology and Security Notes Series II, which are expected to be issued prior to June 30, 2014. See "THE AUTHORITY – Other Authority Financings – *School Technology and Security Notes*" in the front portion of this Official Statement.

The following table reflects the financial activity of the Literary Fund for the year ended June 30, 2013.

Literary Fund
Report of Receipts, Disbursements and Changes in Fund Balance (Cash Basis Unaudited)
Years Ended June 30

	2013	2012	2011	2010	2009
Beginning Fund Balance:					
Cash and Investments	$14,101,675	$15,659,644	$17,681,539	$52,478,676	$151,091,810
Temporary Loans Receivable	-	-	-	-	3,907,075
Permanent Loans Receivable	236,239,206	262,348,010	297,013,703	312,050,993	305,754,973
Total Beginning Balance	250,340,881	278,007,654	314,695,242	364,529,669	460,753,858
Receipts:					
Revenues:					
Interest on Temporary Loans	-	-	-	822	42,218
Interest on Permanent Loans	6,475,362	7,041,475	8,337,160	8,566,454	8,473,315
Interest on Investments	1,073,279	962,950	1,060,865	2,850,842	5,289,342
Miscellaneous Revenue	10	7,710	-	-	-
Principal Payments on Perm Loans	42,036,221	26,108,805	34,665,693	30,037,289	30,203,982
Total Revenues	49,584,872	34,120,940	44,063,718	41,455,407	44,008,857
Transfers from VPSA 1987 Reserve	-	-	-	7,360,336	9,531,945
Transfer Perm. Loans From VPSA	-	-	-	-	-
Transfer from VPSA	-	-	-	-	-
Increase in Temporary Loans Receivable	-	-	-	-	-
Other Transfers In:					
Unclaimed Property Act	75,000,000	75,000,000	75,000,000	105,000,000	100,000,000
VPSA	1,020,368	2,288,800	1,997,638	1,546,853	-
Escheats	17,359	(1,152)	(407)	(442)	3,892
Unclaimed Lottery Prizes	11,991,777	11,297,790	10,853,086	10,295,690	13,300,053
Fines, Fees and Forfeitures (1)	72,558,369	70,837,692	69,318,001	75,173,652	71,546,697
Total Transfers In	160,587,873	159,423,130	157,168,318	199,376,089	194,382,587
Total Receipts	210,172,745	193,544,070	201,232,036	240,831,496	238,391,444
Disbursements:					
Interest Rate Subsidy Program	44,457	2,140,574	77,389	3,064,434	11,075,204
Investment Fees	(124,506)	(77,062)	(91,305)	(122,663)	175,151
Temporary Loan Disbursements	-	-	-	15,000,000	32,592,925
Decrease in Temporary Loans Receivable	-	-	-	-	3,907,075
Decrease in Permanent Loans Receivable	42,036,221.00	26,108,804.00	34,665,693.00	15,037,290	(6,296,019)
Subtotal	41,956,172	28,172,316	34,651,777	32,979,061	41,454,336
Other Transfers Out:					
Appropriations to Dept. of Education (2)	140,086,428	130,086,428	139,575,000	195,000,000	228,691,828
Transfers to the General Fund	-	-	-	-	-
To VPSA; Equipment Issues (3)	60,698,480	62,694,848	63,510,236	62,441,535	64,469,470
To VPSA; Cost of Issuance	-	103,126.00	-	-	-
Total Transfers Out	200,784,908	192,884,402	203,085,236	257,441,535	293,161,298
Total Disbursements	242,741,080	221,056,718	237,737,013	290,420,596	334,615,634
Ending Fund Balance:					
Cash and Investments	23,320,546	14,101,676	15,659,644	17,681,539	52,478,676
Temporary Loans Receivable	-	-	-	-	-
Permanent Loans Receivable	194,202,985	236,239,206	262,348,010	297,013,703	312,050,993
Ending Fund Balance	217,523,531	250,340,882	278,007,654	314,695,242	364,529,669
Less Encumbered Funds (4)	(2,072,268)	(2,116,725)	(4,257,299)	(4,334,688)	(22,399,122)
Available Fund Balance	$ 215,451,263	$ 248,224,157	$ 273,750,355	$ 310,360,554	$ 342,130,547

(1) Includes interest on Unclaimed Property balances and interest on fines, fees and forfeitures.
(2) Represents appropriations for teacher retirement benefits and other educational related purposes.
(3) Represents funds transferred to the Authority to pay debt service and cost of issuance on the Authority's School Educational Technology Notes.
(4) Represents funds restricted for payment to localities for approved Literary Fund Loans and Interest Rate Subsidy Program amounts.

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APPENDIX F

CONTINUING DISCLOSURE UNDERTAKINGS

APPENDIX F
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CONTINUING DISCLOSURE UNDERTAKING OF THE VIRGINIA PUBLIC SCHOOL AUTHORITY PURSUANT TO THE SERIES RESOLUTION ADOPTED APRIL 2, 2014

The following continuing disclosure undertaking was adopted by the Virginia Public School Authority in its Series Resolution adopted April 2, 2014. Defined terms used in such undertaking as contained in such Series Resolution have been changed to reflect the defined terms used in this Official Statement.

Continuing Disclosure Undertaking

(a) **Purpose**. This continuing disclosure undertaking is being made by the Authority with respect to the School Financing Bonds (1997 Resolution), Series 2014A and School Financing Refunding Bonds (1997 Resolution), Series 2014B (collectively, the "2014 Bonds") for the benefit of the holders and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). The Authority acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this undertaking.

(b) **Definitions**. In addition to the definitions elsewhere set forth in this Official Statement, the following capitalized terms shall have the following meanings:

"**Annual Report**" shall mean any Annual Report provided by the Authority pursuant to, and as described in, subsections I and (d) below.

"**Dissemination Agent**" shall mean the Authority, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by such Authority and which has filed with such Authority a written acceptance of such designation.

"**Fiscal Year**" shall mean the twelve-month period, at the end of which the Authority's financial position and the results of its operations for the preceding twelve months are determined. Currently the Authority's Fiscal Year begins July 1 and continues through June 30 of the next calendar year.

"**[H]older**" shall mean, for purposes of this undertaking, any person who is a record owner or beneficial owner of a Bond.

"**Listed Events**" shall mean any of the events listed in subsection (b)(5)(i)(C) of the Rule which are as follows:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(vii) modifications to rights of security holders, if material;

(viii) bond calls, if material, and tender offers;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Bonds, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of the Authority;

For the purposes of the event identified in this subsection (xii), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Authority in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority;

(xiii) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional paying agent or the change of name of a paying agent, if material.

"**MOP**" shall mean (i) a Local Issuer that has outstanding Local School Bonds held to the credit of the General Pledge Fund and the principal, interest and redemption premium components on which are credited to the 1997 Resolution Pledge Account in an aggregate principal amount that exceeds 10% of the aggregate principal amount of the Authority's outstanding Bonds and (ii) the Commonwealth.

"**MSRB**" shall mean the Municipal Securities Rulemaking Board, or any successor thereto or to the functions of the MSRB contemplated by this Undertaking.

"**Participating Underwriter**" shall mean any of the original underwriters of the Authority's 2014 Bonds required to comply with the Rule in connection with the offering of such Bonds.

"**Rule**" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"**Undertaking**" shall mean the continuing disclosure undertaking assumed by the Authority in this undertaking.

(c) **Provision of Annual Reports; Audited Financial Statements.**

1. Not later than 10 months after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2014, the Authority shall, or shall cause the Dissemination Agent (if different from the Authority) to, provide to the MSRB, in the electronic format prescribed by the MSRB, an Annual Report which is consistent with the requirements of (d) of this undertaking. Not later than 10 days prior to said date, the Authority shall provide the Annual Report to the Dissemination Agent (if applicable). In each case, the Annual Report (A) may be submitted as a single document or as separate documents comprising a package, (B) may cross-reference other

information as provided in (d) of this undertaking, and (C) shall include such financial statements as may be required by the Rule.

2. The annual financial statements of the Authority shall be prepared on the basis of generally accepted accounting principles and will be audited by either the Auditor of Public Accounts or a firm of independent certified public accountants. Copies of the audited annual financial statements, which may be filed separately from the Annual Report, will be filed with the MSRB when they become publicly available.

3. If the Authority fails to provide an Annual Report to the MSRB by the date required in clause (i), or to file its audited annual financial statements when available as described in clause (ii), the Authority shall send an appropriate notice to the MSRB in substantially the form attached hereto as Schedule 1.

(d) **Content of Annual Reports.** Each Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, the following information, all with a view toward assisting Participating Underwriters in complying with the Rule.

1. Updated information showing the expected "Income Available to Pay Debt Service" as of the date of issuance of the most recent Series of Bonds issued during the period beginning July 1 and ending on the date of the Annual Report. In the event no Bonds were issued during the aforementioned time period, the updated information shall be as of the end of the preceding Fiscal Year.

2. Updated information showing the names of the Local Issuers and the principal amount of their Local School Bonds held in the General Pledge Fund and the principal, interest and redemption premium of which are credited to the 1997 Resolution Pledge Account and an updated list showing the names of the Local Issuers who are MOPs as of the end of the preceding Fiscal Year, who have ceased to be MOPs during the preceding Fiscal Year and who were MOPs as of the date of issuance of the most recent Series of Bonds issued during the period beginning July 1 and ending on the date of the Annual Report. In the event no Bonds were issued during the aforementioned time period, the updated information shall be as of the end of the preceding Fiscal Year.

3. A summary of receipts and disbursements for the Literary Fund for the preceding Fiscal Year.

4. A summary of information respecting appropriations made by the Virginia General Assembly from the Literary Fund for the current biennium.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Authority, which have been filed with the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Authority shall clearly identify each such other document so incorporated by reference.

(e) **Reporting of Listed Events.** The Authority will provide in a timely manner, not in excess of ten business days after the occurrence of the event, to the MSRB notice of any of the Listed Events with respect to the 2014 Bonds. The Authority does not undertake to provide the above-described notice in the event of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of redemption are set forth in detail in the Official Statement, (ii) the only open issue is which 2014 Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Bondholders as required under the terms of the Bond Resolution, and (iv) public notice of the redemption is given pursuant to 1934 Act Release No. 23856 of the SEC, even if the originally scheduled amounts may be reduced by prior optional redemptions or Bond purchases.

(f) **Dissemination Agent.** The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its undertaking and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Authority shall be the Dissemination Agent.

(g) **Amendment.** Notwithstanding any other provision of the Bond Resolution, the Authority may amend its undertaking as set forth in this undertaking if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws to the effect that such amendment is permitted or required by the Rule.

(h) **Additional Information.** Nothing in this undertaking shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this undertaking. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this undertaking, the Authority shall have no obligation under this undertaking to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

(i) **Default.** Any person referred to in section (j) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to file its Annual Report or to give notice of a Listed Event. In addition, holders of not less than a majority in aggregate principal amount of the 2014 Bonds outstanding may take such actions as may be permitted by law to challenge the adequacy of any information provided pursuant to this Continuing Disclosure undertaking, or to enforce any other obligation of the Authority hereunder. A default under this undertaking shall not be deemed an event of default under the Bond Resolution or the 2014 Bonds, and the sole remedy under this undertaking in the event of any failure of the Authority to comply with its undertaking shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

(j) **Beneficiaries.** This undertaking shall inure solely to the benefit of the Authority, the Participating Underwriters, and holders from time to time of the Authority's 2014 Bonds, and shall create no rights in any other person or entity.

(k) **Format of Filings.** Unless otherwise required by the MSRB, all notice, documents and information provided to the MSRB pursuant to this Undertaking shall be provided to the MSRB's Electronic Municipal Market Access (EMMA) system, the current Internet address of which is www.emma.msrb.org. All notices, documents and information provided to the MSRB shall be provided in an electronic format prescribed by the MSRB (currently, portable document format (pdf) which must be word-searchable except for non-textual elements) and shall be accompanied by identifying information as prescribed by the MSRB.

(l) **Obligated Persons.** The Authority has determined that the Commonwealth is an "obligated person", within the meaning of the Rule, that is or may be material to the 2014 Bonds, as evidenced by its inclusion in the definition of MOP. In addition, the Authority has established in the definition of a MOP the objective criteria that it will apply consistently, on a continuing basis, in determining whether a particular Local Issuer is an "obligated person", within the meaning of the Rule, that is or may be material to the 2014 Bonds. The Authority covenants that it will require each Local Issuer that is or may become a MOP to execute and deliver to the Authority an undertaking by which the Local Issuer will agree that if it becomes a MOP, it will, so long as it remains a MOP, file annually the financial information, operating data, and financial statements, and provide notices of Listed Events with respect to its bonds held in the General Pledge Fund and credited to the 1997 Resolution Pledge Account if material, as required by the Rule.

(m) **Termination.** The obligations of the Authority pursuant to its undertaking with respect to the 2014 Bonds shall terminate upon the earlier to occur of the legal defeasance or final retirement of the 2014 Bonds.

SCHEDULE 1

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT
[AUDITED ANNUAL FINANCIAL STATEMENTS]

$266,915,000
VIRGINIA PUBLIC SCHOOL AUTHORITY
SCHOOL FINANCING BONDS
(1997 RESOLUTION)
consisting of:

$51,510,000 **School Financing Bonds** **(1997 Resolution)** **Series 2014A**	**$215,405,000** **School Financing Refunding Bonds** **(1997 Resolution)** **Series 2014B**

CUSIP Numbers: 92817S S41- 92817S W95

Dated: May 15, 2014

NOTICE IS HEREBY GIVEN that the Virginia Public School Authority (the "Authority") has not provided an Annual Report [Audited Annual Financial Statements] as required by Section 12 of the Series Resolution which was adopted on April 2, 2014, by the Board of Commissioners of the Authority and which authorized the bonds described above. [The Authority anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by ____________________.]

Dated: ____________________

VIRGINIA PUBLIC SCHOOL AUTHORITY

By:____________________________________

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Commonwealth of Virginia (the "Commonwealth") in connection with the issuance by the Virginia Public School Authority (the "Authority") of $266,915,000 aggregate principal amount of its School Financing Bonds (1997 Resolution) Series 2014A and School Financing Refunding Bonds (1997 Resolution) Series 2014B (collectively, the "2014 Bonds") pursuant to the provisions of a resolution adopted on April 2, 2014 (the "Series Resolution") by the Board of Commissioners of the Authority. Proceeds of the 2014 Bonds are being used by the Authority to purchase general obligation bonds issued by local governments for capital school projects. The Authority has advised the Commonwealth that it has determined that the Commonwealth constitutes an "obligated person" within the meaning of the Rule in respect of the 2014 Bonds and the Commonwealth concurs in such determination. The Commonwealth represents that it is in compliance with its undertakings regarding the Rule. The Commonwealth hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Commonwealth for the benefit of the Holders of the Bonds and in order to assist the Participating Underwriters in complying with the Rule. The Commonwealth acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the 1997 Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Commonwealth pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Dissemination Agent" shall mean the Commonwealth, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Commonwealth and which has filed with the Commonwealth a written acceptance of such designation.

"EMMA" shall mean the MSRB's Electronic Municipal Market Access system, the current Internet address of which is http://emma.msrb.org, and any successor thereto.

"Fiscal Year" shall mean the twelve-month period, at the end of which the financial position of the Commonwealth and results of its operations for such period are determined. Currently, the Commonwealth's Fiscal Year begins July 1 and continues through June 30 of the next year.

"Holder" shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a 2014 Bond.

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Agreement.

"Participating Underwriter" shall mean any of the original underwriters of the 2014 Bonds required to comply with the Rule in connection with the offering of such 2014 Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports; Audited Financial Statements.

(a) Not later than seven months following the end of each Fiscal Year of the Commonwealth, commencing with the Fiscal Year ending June 30, 2014, the Commonwealth shall, or shall cause the Dissemination

Agent (if different from the Commonwealth) to submit to EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than 10 days prior to said date, the Commonwealth shall provide the Annual Report to the Dissemination Agent (if applicable). In each case, the Annual Report (i) may be submitted as a single document or as separate documents comprising a package, (ii) may cross-reference other information as provided in Section 4 of this Disclosure Agreement and (iii) shall include such financial statements as may be required by the Rule.

(b) The annual financial statements of the Commonwealth shall be prepared on the basis of generally accepted accounting principles and will be audited. Copies of the audited annual financial statements, which may be filed separately from the Annual Report, will be submitted to EMMA when they become publicly available.

(c) If the Commonwealth fails to submit an Annual Report to EMMA by the date required in subsection (a) hereof, or to submit its audited annual financial statements to EMMA when they become publicly available, the Commonwealth shall send an appropriate notice to the MSRB in substantially the form attached hereto as Schedule 1.

SECTION 4. Content of Annual Reports. Each Annual Report required to be filed hereunder shall include, at a minimum, the information referred to in Schedule 2 as it relates to the Commonwealth, all with a view toward assisting Participating Underwriters in complying with the Rule. Any and all of such information may be incorporated by reference from other documents, including official statements containing information with respect to the Commonwealth, which have been filed with the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Commonwealth shall clearly identify each such other document so incorporated by reference.

SECTION 5. Notice of Rating Changes. The Commonwealth will provide in a timely manner, not in excess of ten business days after the occurrence of the event, to the Authority and to EMMA notice of any changes in the ratings of the Commonwealth's general obligation bonds by the rating agencies requested by the Commonwealth to rate such bonds.

SECTION 6. Notice of Bankruptcy, Insolvency, Receivership or Similar Event. The Commonwealth will provide to the Authority and to EMMA in a timely manner, not excess of ten business days after the occurrence of the event, notice of any bankruptcy, insolvency, receivership or similar event of the Commonwealth. For purposes of this Section, a bankruptcy, insolvency, receivership or similar event of the Commonwealth is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Commonwealth in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Commonwealth, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Commonwealth.

SECTION 7. Notice of Merger, Consolidation, Acquisition or Similar Event. The Commonwealth will provide to the Authority and to EMMA in a timely manner, not in excess of ten business days after the occurrence of the event, notice of any consummation of a merger, consolidation, or acquisition involving the Commonwealth or the sale of all or substantially all of the assets of the Commonwealth, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

SECTION 8. Termination of Reporting Obligation. The obligations of the Commonwealth under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of the 2014 Bonds, and the Authority shall notify the Commonwealth promptly of the occurrence of either such event.

SECTION 9. Dissemination Agent. The Commonwealth may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Commonwealth shall be the Dissemination Agent.

SECTION 10. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the Commonwealth may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws to the effect that such amendment is permitted or required by the Rule.

SECTION 11. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Commonwealth from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice described in Section 5 above or the notices described in Sections 6 and 7 above, in addition to that which is required by this Disclosure Agreement. If the Commonwealth chooses to include any information in any Annual Report or notice described in Section 5 above or the notices described in Sections 6 and 7 above, in addition to that which is specifically required by this Disclosure Agreement, the Commonwealth shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice.

SECTION 12. Default. Any person referred to in Section 13 (other than the Commonwealth) may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligation of the Commonwealth to file its Annual Report or to give notice as described in Section 5 above or to give the notices described in Sections 6 and 7 above. In addition, Holders of not less than a majority in aggregate principal amount of the 2014 Bonds outstanding may take such actions as may be permitted by law to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the Commonwealth hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under any applicable resolution or other debt authorization of the Commonwealth, and the sole remedy under this Disclosure Agreement in the event of any failure of the Commonwealth to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any Holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Commonwealth, the Authority, the Participating Underwriters, and Holders from time to time of the 2014 Bonds, and shall create no rights in any other person or entity.

SECTION 14. EMMA. All filings under this Disclosure Agreement shall be made solely by transmitting such filings to the MSRB via EMMA, as described in 1934 Act Release No. 59062. Should the Securities and Exchange Commission approve any additional or subsequent internet-based electronic filing system for satisfying the continuing disclosure filing requirements of the Rule, any filings required under this Disclosure Agreement may be made by transmitting such filing to such system, as described in the applicable Securities and Exchange Commission regulation or release approving such filing system.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: May 15, 2014

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COMMONWEALTH OF VIRGINIA

By: ____

AGREED TO AND ACKNOWLEDGED:

VIRGINIA PUBLIC SCHOOL AUTHORITY

By: ____
Authorized Representative

SCHEDULE 1

NOTICE OF FAILURE TO FILE ANNUAL REPORT
[AUDITED ANNUAL FINANCIAL STATEMENTS]

COMMONWEALTH OF VIRGINIA

in connection with

$266,915,000
VIRGINIA PUBLIC SCHOOL AUTHORITY
SCHOOL FINANCING BONDS
(1997 RESOLUTION)
consisting of:

$51,510,000 **School Financing Bonds** **(1997 Resolution)** **Series 2014A**	**$215,405,000** **School Financing Refunding Bonds** **(1997 Resolution)** **Series 2014B**

CUSIP Numbers: 92817S S41- 92817S W95

Dated: May 15, 2014

NOTICE IS HEREBY GIVEN that the Commonwealth of Virginia (the "Commonwealth") has not provided an Annual Report [Audited Annual Financial Statements] as required by Section 3 of the Continuing Disclosure Agreement, which was entered into in connection with the above-named bonds issued pursuant to that certain Series Resolution adopted on April 2, 2014, by the Board of Commissioners of the Virginia Public School Authority. The Commonwealth anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by ____________________.

Date: _______________, 2014

COMMONWEALTH OF VIRGINIA

By: ___________________________________
State Treasurer

SCHEDULE 2

CONTENT OF ANNUAL REPORT

General Fund. Information concerning revenues, sources of revenues, expenditures, categories of expenditures and balances of the General Fund of the Commonwealth for the preceding fiscal year.

Appropriation Act. A summary of the material budgetary aspects of the Appropriation Act for the current biennium.

Debt. Updated information **respecting** tax-supported and other outstanding debt of the Commonwealth including a historical summary of outstanding tax-supported debt; a summary of authorized but unissued tax-supported debt and a summary of annual debt service on outstanding tax-supported debt.

Retirement Plans. Updated **information** (to the extent not shown in the latest audited annual financial statements) respecting pension and retirement plans administered by the Commonwealth including a summary of membership, revenues, expenses and actuarial valuation(s) of such plans.

Litigation. A summary of **material** litigation pending against the Commonwealth.

Demographic Information. **Updated** demographic information respecting the Commonwealth such as its population and tax base.

Economic Information. Updated **economic** information respecting the Commonwealth such as income, employment, industry and infrastructure data.

In general, the foregoing will include information as of the end of the most recent fiscal year or as of the most recent practicable date. Where information for the fiscal year just ended is provided, it may be preliminary and unaudited. Where information has historically been provided for more than a single period, comparable information will in general be provided for the same number of periods where valid and available. Where comparative demographic or economic information for the Commonwealth and the United States as a whole is contemporaneously available and, in the judgment of the Commonwealth, informative, such information may be included. Where, in the judgment of the Commonwealth, an accompanying narrative is required to make data presented not misleading, such narrative will be provided.

Local Issuer Standard Form[1]

CONTINUING DISCLOSURE AGREEMENT

[This Continuing Disclosure Agreement will impose obligations on the Local Issuer if and only if the Local Issuer is or has become and remains a "Material Obligated Person," as defined below]

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the [County/City/Town of ____________], Virginia (the "Local Issuer") in connection with the issuance by the Virginia Public School Authority (the "Authority") of $[principal amount] aggregate principal amount of its School Financing Bonds (1997 Resolution) Series [year][letter] (the "Series [year][letter] Bonds") pursuant to the provisions of a bond resolution [(the "1997 Resolution") adopted on October 23, 1997][2], as amended and restated. The Series [year][letter] Bonds and all other parity bonds heretofore and hereafter issued under the 1997 Resolution are collectively called the "Bonds." A portion of the proceeds of the Series [year][letter] Bonds is being used by the Authority to purchase the general obligation school bond (the "Local School Bond") of the Local Issuer pursuant to a bond sale agreement between the Authority and the Local Issuer (the "Bond Sale Agreement"). Pursuant to paragraph 3 of the Bond Sale Agreement, the Local Issuer hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Local Issuer for the benefit of the holders of the Series [year][letter] Bonds and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). The Local Issuer acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the 1997 Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Local Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"bond sale agreement" shall mean the Bond Sale Agreement and any other comparable written commitment of the Local Issuer to sell its local school bond to the Authority.

"Dissemination Agent" shall mean the Local Issuer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by such Local Issuer and which has filed with such Local Issuer a written acceptance of such designation.

"Filing Date" shall have the meaning given to such term in Section 3(a) hereof.

"Fiscal Year" shall mean the twelve-month period at the end of which financial position and results of operations are determined. Currently, the Local Issuer's Fiscal Year begins July 1 and continues through June 30 of the next calendar year.

"holder" shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a Series [year][letter] Bond.

"Listed Events" shall mean any of the events listed in subsection 5(b)(5)(i)(C) of the Rule.

[1] This agreement, in substantially this form, has been executed by substantially every Local Issuer with Local School Bonds outstanding and pledged to Bonds issued under the 1997 Resolution.
[2] Alternatively, the agreement may refer to the Authority's 1991 Resolution if the Local School Bonds were acquired with the proceeds of 1991 Resolution bonds and transferred and pledged under the 1997 Resolution in connection with a refunding transaction under the 1997 Resolution.

"local school bonds" shall mean any of the Local School Bonds and any other bonds of the Local Issuer pledged as security for Bonds issued under the Authority's 1997 Resolution.

"Material Obligated Person" (or "MOP") shall mean the Local Issuer if it has local school bonds outstanding in an aggregate principal amount that exceeds 10% of the aggregate principal amount of all outstanding Bonds of the Authority.

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Agreement.

"Participating Underwriter" shall mean any of the original underwriters of the Authority's Series [year][letter] Bonds required to comply with the Rule in connection with the offering of such Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Local Issuer shall, or shall cause the Dissemination Agent to, provide the MSRB, in the format prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Such Annual Report shall be filed on a date (the "Filing Date") that is not later than 12 months after the end of any Fiscal Year (commencing with its Fiscal Year ending June 30, [year]) as of the end of which such Local Issuer was a MOP, unless as of the Filing Date the Local Issuer is no longer a MOP.[1] Not later than ten (10) days prior to the Filing Date, the Local Issuer shall provide the Annual Report to the Dissemination Agent (if applicable) and shall provide copies to the Authority. In each case, the Annual Report (i) may be submitted as a single document or as separate documents comprising a package, (ii) may cross-reference other information as provided in Section 4 of this Disclosure Agreement and (iii) shall include the Local Issuer's audited financial statements prepared in accordance with applicable state law or, if audited financial statements are not available, such unaudited financial statements as may be required by the Rule. In any event, audited financial statements of such Local Issuer must be submitted, if and when available, together with or separately from the Annual Report.

(b) If the Local Issuer is unable to provide an Annual Report to the MSRB by the date required in subsection (a), the Local Issuer shall send a notice to the MSRB in substantially the form attached hereto as Exhibit A.

SECTION 4. <u>Content of Annual Reports</u>. Except as otherwise agreed, any Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, annual financial information relating to the Local Issuer, including operating data,

(i) updating such information relating to the Local Issuer as shall have been included or cross-referenced in the final Official Statement of the Authority describing the Authority's Series [year][letter] Bonds or

(ii) if there is no such information described in clause (i), updating such information relating to the Local Issuer as shall have been included or cross-referenced in any comparable disclosure document of the Local Issuer relating to its tax-supported obligations or

(iii) if there is no such information described in clauses (i) or (ii) above, initially setting forth and then updating the information referred to in Exhibit B as it relates to the Local Issuer, all with a view toward assisting Participating Underwriters in complying with the Rule.

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[1] The Authority will covenant in the Bond Sale Agreement to advise the Local Issuer within 60 days of the end of each Fiscal Year if such Local Issuer was a Material Obligated Person as of the end of such Fiscal Year. Upon written request, the Authority will also advise the Local Issuer as to its status as a MOP as of any other date.

Any or all of such information may be incorporated by reference from other documents, including official statements of securities issues with respect to which the Local Issuer is an "obligated person" (within the meaning of the Rule), which have been filed with the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Local Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Listed Events. Whenever the Local Issuer is a Material Obligated Person required to file Annual Reports pursuant to Section 3(a) hereof and obtains knowledge of the occurrence of a Listed Event, such Local Issuer shall file in a timely manner, not in excess of ten business days after the occurrence of the event, a notice of such occurrence with the MSRB with a copy to the Authority.

SECTION 6. Termination of Reporting Obligation. The Local Issuer's obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of all the Local School Bonds.

SECTION 7. Dissemination Agent. The Local Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Local Issuer shall advise the Authority of any such appointment or discharge. If at any time there is not any other designated Dissemination Agent, the Local Issuer shall be the Dissemination Agent. [The initial Dissemination Agent shall be _____________.]

SECTION 8. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the Local Issuer may amend this Disclosure Agreement, if such amendment has been approved in writing by the Authority and is supported by an opinion of independent counsel, acceptable to the Authority, with expertise in federal securities laws, to the effect that such amendment is permitted or required by the Rule.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Local Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Local Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, such Local Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. Any person referred to in Section 11 (other than the Local Issuer) may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Local Issuer to file its Annual Report or to give notice of a Listed Event. The Authority may, and the holders of not less than a majority in aggregate principal amount of Bonds outstanding may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the Local Issuer hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the applicable resolution or bonds of the Local Issuer, and the sole remedy under this Disclosure Agreement in the event of any failure of the Local Issuer to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

SECTION 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Local Issuer, the Participating Underwriters, and holders from time to time of the Authority's Bonds, and shall create no rights in any other person or entity.

SECTION 12. Form of Filings. Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB pursuant to this Disclosure Agreement shall be provided to the MSRB's Electronic Municipal Market Access (EMMA) system, the current Internet address of which is www.emma.msrb.org. All notices, documents and information provided to the MSRB shall be provided in an electronic format prescribed by the MSRB (currently, portable document format (pdf) which must be word-searchable except for non-textual elements) and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: ______________________

[COUNTY/CITY/TOWN OF _________], VIRGINIA

By: ______________________________________
Name: ______________________________________
Title: ______________________________________

[Signature Page to Continuing Disclosure Agreement]

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT
[AUDITED FINANCIAL STATEMENTS]

Re: VIRGINIA PUBLIC SCHOOL AUTHORITY
SCHOOL FINANCING BONDS (1997 Resolution)
SERIES [year][letter]

CUSIP Numbers:

Dated: [Closing Date]

Name of Local Issuer: [COUNTY/CITY/TOWN OF ______________], VIRGINIA

NOTICE IS HEREBY GIVEN that the [County/City/Town of ________,] Virginia (the "Local Issuer") has not provided an Annual Report as required by Section 3(a) of the Continuing Disclosure Agreement, which was entered into in connection with the above-named bonds issued pursuant to that certain Series Resolution adopted on ________, 20__, by the Board of Commissioners of the Virginia Public School Authority, the proceeds of which were used to purchase $____________ [General Obligation School Bond], Series [year][letter]of the Local Issuer. [The Local Issuer anticipates that the Annual Report will be filed by _____________.] The Local Issuer is a material "obligated person" within the meaning of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, with respect to the above-named bonds of the Authority.

Dated:_______________

[COUNTY/CITY/TOWN OF _________], VIRGINIA

By: ______________________________________
Name: ______________________________________
Title: ______________________________________

EXHIBIT B

CONTENT OF ANNUAL REPORT

Description of the Local Issuer. A description of the Local Issuer including a summary of its form of government, budgetary processes and its management and officers.

Debt. A description of the terms of the Local Issuer's outstanding tax-supported and other debt including a historical summary of outstanding tax-supported debt; a summary of authorized but unissued tax-supported debt; a summary of legal debt margin; a summary of overlapping debt; and a summary of annual debt service on outstanding tax-supported debt as of the end of the preceding fiscal year. The Annual Report should also include (to the extent not shown in the latest audited financial statements) a description of contingent obligations as well as pension plans administered by the Local Issuer and any unfunded pension liabilities.

Financial Data. Financial information respecting the Local Issuer including a description of revenues and expenditures for its major funds and a summary of its tax policy, structure and collections as of the end of the preceding fiscal year.

Capital Improvement Plan. A summary of the Local Issuer's capital improvement plan.

Demographic, Economic and Supplemental Information. A summary of the Local Issuer's demographic and economic characteristics such as population, income, employment, and public school enrollment and infrastructure data as of the end of the preceding fiscal year. The Annual Report should also include a description of material litigation pending against the Local Issuer.

APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL

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[FORM OF BOND COUNSEL OPINION]

May 15, 2014

Virginia Public School Authority
Richmond, Virginia

VIRGINIA PUBLIC SCHOOL AUTHORITY
SCHOOL FINANCING BONDS
(1997 RESOLUTION)
consisting of:

$51,510,000	**$215,405,000**
School Financing Bonds	**School Financing Refunding Bonds**
(1997 Resolution)	**(1997 Resolution)**
Series 2014A	**Series 2014B**

Ladies and Gentlemen:

We have served as Bond Counsel to the Virginia Public School Authority ("VPSA") in connection with the issuance of VPSA's $51,510,000 School Financing Bonds (1997 Resolution), Series 2014A (the "2014A Bonds") and $215,405,000 School Financing Refunding Bonds (1997 Resolution) Series 2014B (the "2014B Bonds," and together with the 2014A Bonds, the "2014 Bonds"). The 2014 Bonds have been issued under (i) Chapter 11, Title 22.1, Code of Virginia of 1950, as amended (the "Enabling Act"), (ii) a bond resolution adopted by VPSA's Board of Commissioners on October 23, 1997, as last amended and restated on September 20, 2012, and as previously supplemented (the "Bond Resolution"), and (iii) a series resolution adopted by VPSA's Board of Commissioners on April 2, 2014 (the "Series Resolution" and together with the Bond Resolution, the "Resolution"). We refer you to the 2014 Bonds and the Series Resolution for a description of the purposes for which the 2014 Bonds are issued, the terms of the 2014 Bonds and the security for the 2014 Bonds. Unless otherwise defined, each capitalized term used in this opinion has the meaning given it in the Resolution.

In connection with our opinion, we have examined the Constitution of Virginia and the applicable laws of both the United States and the Commonwealth of Virginia (the "Commonwealth"), including without limitation the Internal Revenue Code of 1986, as amended (the "Code"), and the Enabling Act, and such certified proceedings and other documents of VPSA as we deem necessary to render this opinion.

The Authority is issuing the 2014A Bonds for the purpose of purchasing certain general obligation school bonds to be issued by certain Virginia localities, as further described in the Resolution (the "2014A Local Issuers") and the 2014B Bonds for the purpose of refunding in advance of their stated maturity certain bonds of the Authority issued under the Bond Resolution, which were issued for the purpose of purchasing certain general obligation school bonds issued by certain Virginia localities (the "Related Local Issuers").

Without undertaking to verify them by independent investigation, as to questions of fact material to this opinion we have relied upon, among other things, (i) representations of VPSA contained in the Resolution and related documents and the certified proceedings, (ii) computations provided by Davenport & Company LLC the mathematical accuracy of which was verified by Bingham Arbitrage Rebate Services, Inc., as verification agent, relating to the yield of certain investments purchased with a portion of the proceeds of the 2014B Bonds and the yield on the 2014 Bonds, and (iii) other certifications of public officials furnished to us.

In rendering this opinion, we have assumed that all documents, certificates and instruments relating to this financing have been duly authorized, executed and delivered by all parties to them other than VPSA, and we have further assumed the due organization, existence and powers of such parties other than VPSA.

Based on the foregoing, we are of the opinion that, under current law:

(1) VPSA is a public body corporate and an agency and instrumentality of the Commonwealth duly created by and existing pursuant to the Enabling Act.

(2) The Resolution has been duly adopted by VPSA.

(3) VPSA has the requisite authority and power under the Enabling Act and the Resolution to issue and sell the 2014 Bonds and to apply the proceeds from the issuance and sale of the 2014 Bonds as set forth in the Series Resolution. All conditions precedent to the issuance of the 2014 Bonds as set forth in the Enabling Act and the Resolution have been fulfilled.

(4) The 2014 Bonds have been duly authorized, executed, and delivered in accordance with the Enabling Act and the Resolution and constitute valid and binding limited obligations of VPSA.

(5) The 2014 Bonds, the outstanding bonds heretofore issued under the Resolution and any additional series of bonds that may be hereafter issued from time to time under the Resolution, under the conditions, limitations and restrictions set forth in the Resolution, for the purpose of providing funds for the purchase of local school bonds and for the purpose of refunding bonds issued under the provisions of the Resolution or other indebtedness of VPSA, are payable from certain funds of VPSA pledged to their payment, including (i) payments derived from local school bond principal, interest and redemption premium, if any, components ("Components") credited to the Virginia Public School Authority General Pledge Fund 1997 Resolution Account (the "1997 Resolution Pledge Account"), a special account established within the Virginia Public School Authority General Pledge Fund, a special fund established under the Resolution within which certain local school bonds are held (the "General Pledge Fund"), (ii) the proceeds of the sale of any such Components credited to the 1997 Resolution Pledge Account, (iii) payments of monies derived from operation of the "State Aid Intercept Provision" contained in Section 15.2-2659, Code of Virginia 1950, as amended, in the event of default in payment of debt service on local school bonds having Components credited to the 1997 Resolution Pledge Account, and (iv) appropriations by the General Assembly of the Commonwealth to VPSA to make up deficiencies in debt service. The Resolution requires that if a payment default occurs on a local school bond and if VPSA has not received the defaulted payment from the implementation of the State Aid Intercept Provision, VPSA shall file a warrant with the State Treasurer requesting that an amount equal to the deficiency be made available to VPSA from moneys appropriated by the General Assembly. The Resolution requires the Chairman to notify the Governor on or before November 1 of each year of his estimate of total debt service during each fiscal year of the biennium on bonds of VPSA issued and projected to be issued under the Resolution. The Enabling Act requires the Governor to include such appropriations for the payment of debt service in his budget submission to the General Assembly each year. The General Assembly has the power, but is not legally obligated, to make appropriations in respect of the payment of such debt service. The 2014 Bonds do not constitute a debt of the Commonwealth or pledge of the faith and credit of the Commonwealth, and neither the faith and credit nor the taxing power of the Commonwealth or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the 2014 Bonds.

(6) Interest on the 2014 Bonds, including any accrued "original issue discount" properly allocable to the owners of the 2014 Bonds, (i) is excludable from gross income for federal income tax purposes under Section 103 of the Code and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations (a "Specific Tax Preference Item"). However, for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes) under Section 56 of the Code, interest on the 2014 Bonds must be included in computing adjusted current earnings. The "original issue discount" on any 2014 Bond is the excess of its stated redemption price at maturity over the initial offering price to the public at which price a substantial amount of the 2014 Bonds of the same maturity was sold. The "public" does not include bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. We express no opinion regarding other federal tax consequences arising with respect to the 2014 Bonds.

In delivering this opinion, we are (i) relying on an opinion from other firms of municipal bond attorneys serving as bond counsel to three of the six 2014A Local Issuers, the City of Lexington and the Counties of Hanover and Wise, regarding the application of the proceeds of the 2014A Bonds and the ownership, use and operation of the property financed thereby by such 2014A Local Issuers, and (ii) assuming continuing compliance with the Covenants (as defined below) by VPSA, each of the 2014A Local Issuers, each of the local school boards associated with the 2014A Local Issuers (the "2014A Local School Boards"), each of the Related Local Issuers and each of the local school boards associated with the Related Local Issuers (the "Related Local School Boards") so that interest on the 2014 Bonds will (A) remain excludable from gross income for federal income tax purposes under Section 103 of the Code and (B) not become a Specific Tax Preference Item. It should be noted that this firm has served as bond counsel to three of the 2014A Local Issuers, the City of Manassas Park, Virginia, Frederick County, Virginia and Stafford County, Virginia, and certain of the Related Local Issuers. VPSA, the 2014A Local Issuers, the 2014A Local School Boards, the Related Local Issuers and the Related Local School Boards, as applicable, have covenanted in their respective tax agreements to comply with the provisions of the Code applicable to the 2014 Bonds including, among other things, requirements as to the use, expenditure and investment of the proceeds thereof, the use of the property financed or refinanced thereby, the source of the payment thereof and the security therefor, the arbitrage yield restrictions and rebate payment obligations imposed by the Code and certain other actions that could cause interest thereon to be includable in gross income of their owners (the "Covenants"). Failure by VPSA, any of the 2014A Local Issuers, any of the 2014A Local School Boards, any of the Related Local Issuers or any of the Related Local School Boards, as applicable, to comply with the Covenants could cause interest on the 2014 Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the 2014 Bonds from becoming includable in gross income for federal income tax purposes.

We have no responsibility to monitor compliance with the Covenants after the date of issue of the 2014 Bonds.

(7) In accordance with Section 22.1-172 of the Enabling Act, the 2014 Bonds, their transfer and the income from them, including any profit made on their sale, are exempt from taxation by the Commonwealth and any municipality, county or other political subdivision thereof. We express no opinion regarding (i) other Virginia tax consequences arising with respect to the 2014 Bonds or (ii) any consequences arising with respect to the 2014 Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth and its political subdivisions.

The rights of the registered owners of the 2014 Bonds and the enforceability of VPSA's obligations under the 2014 Bonds and the Resolution may be limited or otherwise affected by bankruptcy, insolvency, reorganization, moratorium, and similar laws now or hereafter in effect affecting creditors' rights. The enforceability of those rights and obligations is also subject to the exercise of judicial discretion in accordance with general principles of equity.

Our services as Bond Counsel have been limited to rendering the foregoing opinion based on our review of such legal proceedings as we deem necessary to approve the validity of the 2014 Bonds and the tax-exempt status of the interest on them and the enforceability of the Resolution. The foregoing opinion is in no respect an opinion as to VPSA's business or financial resources or its ability to provide for the payment of the 2014 Bonds or the accuracy or completeness of any information, including VPSA's Preliminary Official Statement dated April 15, 2014, and Official Statement dated April 24, 2014, that anyone may have relied upon in making the decision to purchase the 2014 Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

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