

LOUDOUN COUNTY PUBLIC SCHOOLS

A Component Unit of the County of Loudoun, Virginia



Comprehensive Annual Financial Report

**For the Fiscal Year Ended
June 30, 2012**



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2012

LOUDOUN COUNTY PUBLIC SCHOOLS

Prepared by:
Department of Business & Financial Services
Division of Accounting

Dr. Edgar B. Hatrick, Superintendent
E. Leigh Burden, Assistant Superintendent for Business & Financial Services
Thomas C. Yetter, Director of Financial Services



Loudoun County Public Schools
A Climate for Success

A Component Unit of the County of Loudoun, Virginia



LOUDOUN COUNTY PUBLIC SCHOOLS

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2012

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INTRODUCTORY SECTION



The **Introductory Section** contains the letter of transmittal, which provides an overview of Loudoun County Public Schools' organizational structure, economic condition and outlook, strategic governance, major initiatives, management controls, and accomplishments. Also included in the introductory section is a listing of School Board Members and administration, an organizational chart, and awards for excellence in financial reporting.





LOUDOUN COUNTY PUBLIC SCHOOLS

OFFICE OF THE SUPERINTENDENT

21000 Education Court

Ashburn, VA 20148

571-252-1020

November 30, 2012

Loudoun County School Board
21000 Education Court
Ashburn, Virginia 20148

Dear Chairman Hornberger, Members of the Board and Citizens of Loudoun County:

We hereby submit the Comprehensive Annual Financial Report (CAFR) of the Loudoun County Public Schools (LCPS) for the fiscal year ended June 30, 2012. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with LCPS' management. We believe the data, as presented, are accurate in all material respects, that they are presented in a manner designed to fairly set forth the financial position and results of operations of LCPS as measured by the financial activity of our various funds, and that all disclosures necessary to enable the reader to understand LCPS' financial activity have been included. LCPS is considered a component unit of the County of Loudoun, Virginia (County) and, accordingly, LCPS' financial position and results of operations are included in the County's CAFR for the fiscal year ended June 30, 2012. We specifically direct you to the section entitled, "Management's Discussion and Analysis" (MD&A) or a summary of LCPS' financial activity. The MD&A is management's narrative overview and analysis of the financial statements, which should be read in conjunction with the letter of transmittal.

LCPS is required to undergo an annual compliance or "single" audit in conformity with the provisions of the revised Single Audit Act of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-profit Organizations." Information related to this single audit, including the Schedule of Expenditures of Federal Awards, findings and recommendations, and the auditor's report on internal control over financial reporting and on compliance and other matters, is included in a separate report.

These financial statements were audited by the accounting firm of Cherry, Bekaert & Holland, L.L.P., who expressed an unqualified opinion. They have examined, on a test basis, documents supporting the amounts and disclosures in the financial statements; assessed the accounting principles used and significant estimates made by management; and evaluated the overall financial statement presentation. The independent auditors' report is included in the financial section of this report.

Organizational Structure

The Virginia Board of Education is responsible for apportioning the Commonwealth of Virginia (State) into school divisions based on geographic area and school age population. The school divisions are charged with promoting the realization of the standards of quality required by Article VIII, of the Constitution of Virginia. The General Assembly shall determine the manner in which funds are to be provided for the cost of maintaining an educational program meeting the prescribed standards of quality, and shall provide for the apportionment of the cost of such programs between the Commonwealth and the local units of government comprising such school divisions. Each unit of local government shall provide its portion of such cost by local taxes or from other available funds. The supervision of schools in each school division shall be vested in a school board.

The LCPS School Board function is to set general school policy and, within the framework of the Virginia Board of Education regulations, establish guidelines and rules that will ensure the proper administration of the school system. The nine-member School Board is elected by the County citizens and serves a four-year term. There is one member from each of the County's eight magisterial districts and one at-large member. A non-voting student representative is selected from each high school to serve a one-month term to provide student input on educational issues. The School Board is entrusted with the responsibility of hiring the school division's superintendent. The superintendent along with his senior staff, manage the day-to-day operations of the school system.

Economic Condition and Outlook

The growth in the county population is the greatest single factor governing LCPS' budgets. By fall 2017, Loudoun County is projected to have 76,143 students.

To provide for an increasing student population, Loudoun will fund the construction of four new schools in FY13 and anticipates a continuing need for new schools. To maintain manageable class sizes, LCPS hired 602 new teachers for the 2011-2012 school year (along with 448 classified employees and 40 administrators). That brought the school system's total labor force in FY12 to 8,900 fulltime employees and 3,500 part-time employees. The FY13 budget funds 214 additional positions. Over 92 percent of LCPS employees are school based.

Loudoun's average cost per pupil for the 2011-2012 school year is \$12,105, which puts it fourth out of five school divisions in average cost per pupil in the Northern Virginia area. Approximately 80 percent of this figure supports instruction of our students.

The Loudoun County Board of Supervisors on April 3, 2012, approved an appropriation for LCPS of \$809,071,743 for FY 2013, which was an increase of \$63.1 million from FY12 appropriated levels.

As LCPS sustains its comprehensive educational programs, school staff will focus on achieving success in the following areas:

- At least 90 percent of students will pass all required Standards of Learning tests.
- Continuing project ACCESS (All Children Choosing Electronic Sources Successfully) which has been recognized as an exemplary combination of cutting edge instructional technology for the classroom, teacher training, and technical support.
- To pursue technological advancements to complement all classroom activities and provide individualized instruction for students.
- To continue implementing proactive safety initiatives.
- To continue to encourage parental and community involvement.
- To offer fair and competitive compensation to all employees.
- To pursue excellence in academic achievement for all LCPS students.
- To continue to provide facilities to accommodate the estimated new students to enroll each year.

Major Initiatives

The School Board has a wide variety of initiatives that reflect their commitment to the students of the County. LCPS will continue to serve its public in the following ways:

- Providing teachers to serve 2,502 additional students.
- Emphasizing character and values in the classroom.
- Continuing to work with the Virginia Department of Instruction staff to integrate SOL objectives into the classroom.
- Continuing to address needs of identified racial and ethnic groups through minority achievement initiatives such as CAMPUS (College Achievement – A Minority Program for Unique Students).
- "A Climate for Success" initiatives to support superior academic achievement are in place at all levels of LCPS, from broad-based textbook adoption committees to programs such as foreign language study in grades 1-7.

Loudoun County Public Schools' enrollment continues to grow. As of September 30, 2011, 65,668 students attended Loudoun County's 80 schools, a one-year increase of 3.8 percent.

Loudoun County is one of the fastest-growing counties in America and is expected to continue attracting new residents. As an example, when the class of 2012 entered our school system as kindergarteners in 1999, it had 2,320 members. LCPS had an enrollment of 26,787 students in 44 schools. When this class graduates in June, it will have 4,469 members and there are 80 LCPS schools.

Academic Achievement

Loudoun County Public Schools had the fifth-highest on-time graduation rate in Virginia (95.3 percent) in 2011. The on-time graduation rate posted by LCPS in 2011 was the highest in the school division's history. LCPS' graduation rate was 8.7 percent higher than the Virginia average of 86.6 percent. It also was higher than 94 percent rate posted by the LCPS Class of 2010. All 10 LCPS high schools with a graduating class exceeded the average state on-time graduation rate. Only four school divisions out of the 131 in the commonwealth had a higher on-time graduation rate. These school divisions had total graduating classes numbering 25, 142, 182 and 194, far fewer graduates than Loudoun County's 4,046. 1,046 (27 percent) of the graduates earned a scholarship or grant to continue their education. Graduates in the Class of 2011 earned \$23,490,561 in grants and scholarships. The 59 members of Loudoun Academy of Science Class of 2011 were offered \$5.1 million in scholarships; \$1.5 million of which they had accepted.

SAT participation for Loudoun County Public Schools (LCPS) students rose 17 percent from 2010 to 2011. In 2011, 3,138 LCPS students took the SAT, a 17 percent increase from the 2,676 that took this test in 2010. The increase exceeded a national trend that saw a 3.5 percent participation increase in Virginia and a 3.1 percent increase nationwide. With participation up, LCPS' average SAT scores remained stable and well above the national and state averages.

The Washington Post has ranked five LCPS high schools (Briar Woods, Dominion, Loudoun Valley, Stone Bridge and Freedom) as among the 200 best in America. The 200 schools cited by The Post are the top echelon of the roughly 27,000 public high schools nationwide.

At the end of the 2010-2011 school year, eight of LCPS's 13 middle schools have been designated as a School to Watch by the National Forum to Accelerate Middle Grades Reform. Since the first four schools attained this honor during the 1999-2000 school year, only 300 schools in 19 states have been named Schools to Watch with 25 of these schools in Virginia. Loudoun County and Prince William County have the most Schools to Watch – with eight each – of any school divisions in America. (All eight Loudoun County middle schools that have applied for this honor have received it.)

Belmont Station Elementary was named a National Blue Ribbon School by the U.S. Department of Education in September 2011. Only 11 Virginia schools received this honor for 2011. The Blue Ribbon Schools Program honors public and private K-12 schools that are either academically superior or that demonstrate dramatic gains in student achievement.

Community Involvement

Loudoun County Public Schools continues to be an integral part of the Loudoun community. Parents and other volunteers donate nearly 200,000 hours a year to support schools by mentoring, tutoring, helping with special projects, fundraising and reading.

Besides LCPS students, Loudoun County's Department of Parks, Recreation and Community Services, churches, homeowners associations, PTA's and PTO's, youth and adult sports leagues, adult education classes, civic organizations and the Boy and Girl Scouts use the interior facilities and athletic fields of the public schools. During the 2010-2011 school year, Parks and Recreation used school facilities for a total of 203,201 hours of indoor and outdoor uses. Church organizations used schools for a total of 6,015 hours. Scouts used LCPS facilities for 8,677 hours and non-LCPS educational programs for 3,031 hours. In addition, PTA's and PTO's used schools for a total of 2,984 hours and HOA's for 285 hours. Altogether, 233,158 hours (9,714 24-hour days) of non-school activities were held on school property.

Future Challenges

As LCPS sustains its comprehensive educational programs for all Loudoun students in future years, it will confront several challenges:

- The continued enrollment growth of approximately 1,900 students per year for the foreseeable future.

One of the primary budgetary increases each year is to provide sufficient staff to address the educational needs of the additional students. In addition, enrollment growth creates the need to continue building and opening new schools.

- The continuous need for additional schools and the debt incurred in order to build those schools has a significant impact on the County's debt capacity.
- During the last several years, due to the economic conditions, class sizes have been increased. Significant financial resources will be required to reduce the class sizes to those included in the School Board's Goals. Operating budget funds will be needed to fund additional staff and CIP funds will be needed to build additional class rooms.

- Employee compensation will continue to be a challenge as LCPS tries to regain its competitive position relative to surrounding jurisdictions.
- Over the next four years, LCPS will be required to continue the implementation of the Virginia Retirement System change to require employees to fund the employee contribution and offset that cost to employees with an equal raise. During FY13, LCPS will implement the first phase of 1%. Each of the next four years LCPS will be required to increase the raise and the employee contribution by 1% per year.
- Educational program enhancement or the addition of new programs will be challenging since it will be competing with both class size reductions and employee compensation.

Management Controls

LCPS utilizes a number of control systems to ensure the integrity of its financial information and the protection of its assets.

Internal Controls

LCPS is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of LCPS are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles.

The internal control structure is designed to provide reasonable assurance that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits, which require estimates and judgments by management, is reasonable.

Budgetary Controls

In addition to internal controls, LCPS maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the Appropriations Resolution and adopted in the Budget by the County's Board of Supervisors and the School Board.

The level of budgetary control (that is, the level at which Appropriated Budget expenditures cannot legally exceed the appropriated amount) is established at the individual fund level.

However, management control is maintained at the object level within each organizational unit. LCPS also maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

Encumbered amounts lapse at year-end; however, after review, they generally are re-appropriated as part of the following year's budget.

Cash Management

The County is the custodian of all cash and investments of LCPS except certain cash on hand and funds held in local student activity accounts. LCPS' respective share of the County's pooled cash and temporary investments is reported in the financial statements as cash on deposit with County of Loudoun, Virginia.

Risk Management

LCPS' automobile liability, general liability and professional liability insurance are provided through the Virginia Association of Counties (VACO).

These agreements have an \$11 million per occurrence limit. Member jurisdictions contribute to the pool based on their size and past claims experience. Claims that arose from incidents occurring prior to the existence of all the foregoing agreements are covered under LCPS' previous commercial insurance programs.

LCPS received and has maintained a Certificate, since 1990, as a Qualified Self-Insurer for Workman's Compensation from the Virginia State Industrial Commission. Workman's Compensation benefits are provided on a statutory basis and employers' liability coverage carries a \$1,000,000 limit.

LCPS maintains excess insurance limiting individual claims against the self-insurance program to \$400,000.

LCPS contracts a third-party administrator, PMA Companies, to process workers' compensation claims, recommend reserve levels, and provide safety and loss control services.

All other lines of property and casualty insurance either have been or are expected to be renewed as they become due. This administrator is Virginia Association of Counties Risk Pool (VACoRP).

LCPS self-insures health insurance for all eligible employees and all retirees. LCPS purchases specific stop loss insurance from Connecticut General Life Insurance Company (CIGNA) limiting claims against the self-insurance program to \$300,000 per occurrence for individual claims. A reserve for pending claims and incurred but not reported claims of \$10,073,490 has been accrued as a liability within the self-insurance fund based upon estimates from LCPS' health insurance claims administrators. LCPS retained CIGNA a third party administrator, to adjudicate health insurance claims, provide underwriting services, recommend reserve levels, including claims reported but not settled.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to LCPS for its CAFR for the fiscal year ended June 30, 2009, 2010 and 2011. In order to be awarded a GFOA Certificate of Achievement, certain requirements must be met, including the issuance of an easily readable and efficiently organized CAFR. The report must also satisfy both GAAP and applicable legal requirements.

LCPS was also awarded the Association of School Business Officials International (ASBO) Certificate of Excellence for fiscal year 2009, 2010 and 2011 CAFRs.

ASBO's Certificate of Excellence in Financial Reporting program fosters excellence in the preparation and issuance of school system's annual financial reports. The ASBO program is similar to the GFOA Certificate of Achievement for Excellence in Financial Reporting program.

Fiscal year 2009 was the first year that LCPS presented a CAFR and received prestigious awards from both GFOA and ASBO. We believe that the current CAFR also conforms to the GFOA and ASBO Certificate program requirements: and we are therefore submitting it to them to confirm our compliance and to obtain another GFOA and ASBO certificate.

Acknowledgements

LCPS continues to maintain a strong financial position through responsible and progressive management of financial operations and through sound accounting and financial reporting practices.

The current accounting and financial reporting standards represent significant enhancements and enable increased efficiency in governmental accounting and financial reporting. LCPS continues to support the achievements in these areas by the Governmental Accounting Standards Board, the Government Finance Officers Association, and the Association of School Business Officials International.

These practices provide, in staff's opinion, a sound framework for a truly "comprehensive" annual financial report.

The timely preparation of the Comprehensive Annual Financial Report could not have been accomplished without the effort of the entire staff of this Department's Accounting division.

Special recognition goes to the entire Accounting staff for their technical expertise, review, and dedicated service in the preparation of this Comprehensive Annual Financial Report.

Their continued and diligent efforts towards upgrading LCPS' Financial Accounting and Management Information System, Fixed Asset Accounting and Control System, and other ancillary financial systems, have led to the improved quality of financial information being reported to management, the Superintendent, the School Board and the citizens of the County.

It is only appropriate to express appreciation to all other members of the Department of Business and Financial Services, to LCPS' independent auditors and to all departments that assisted and contributed to the preparation of this Report.

Thanks are also due to the members of the School Board for their interest and continued support in planning and implementing efficient yet effective financial operations of LCPS. This support and cooperation represents responsible and progressive financial management for LCPS. Staff will strive to maintain the direction the School Board requires to maintain an equitable balance between available resources and the demand for high quality education.

LCPS' financial health is reflected in the soundness of its current financial condition, and it is anticipated that current financial management practices will continue LCPS' tradition of fiscal stability. The School Board's emphasis on sound fiscal planning, budget development and financial management contributes to the present financial condition of LCPS and sets the parameters and tasks for next year.

Respectfully submitted,



Dr. Edgar B. Hatrick
Division Superintendent



E. Leigh Burden
Assistant Superintendent for
Business and Financial Services

School Board Members and Administration

Loudoun County Public Schools
As of June 30, 2012

SCHOOL BOARD

Eric Hornberger
Chairman
Ashburn District

Jill Turgeon
Vice Chairman
Blue Ridge District

Thomas E. Reed
At Large

Debbie Rose
Algonkian District

Kevin Kuesters
Broad Run District

Jennifer K. Bergel
Catoctin District

Jeff Morse
Dulles District

Bill Fox
Leesburg District

Brenda L. Sheridan
Sterling District

ADMINISTRATION

Dr. Edgar B. Hatrick
Superintendent

Ned D. Waterhouse
Deputy Superintendent

Sharon D. Ackerman
Assistant Superintendent for Instruction

Dr. Mary Ann Hardebeck
Assistant Superintendent for Personnel Services

E. Leigh Burden
Assistant Superintendent for Business & Financial Services

Dr. Mary V. Kealy
Assistant Superintendent for Pupil Services

Jeffrey K. Platenberg
Assistant Superintendent for Support Services

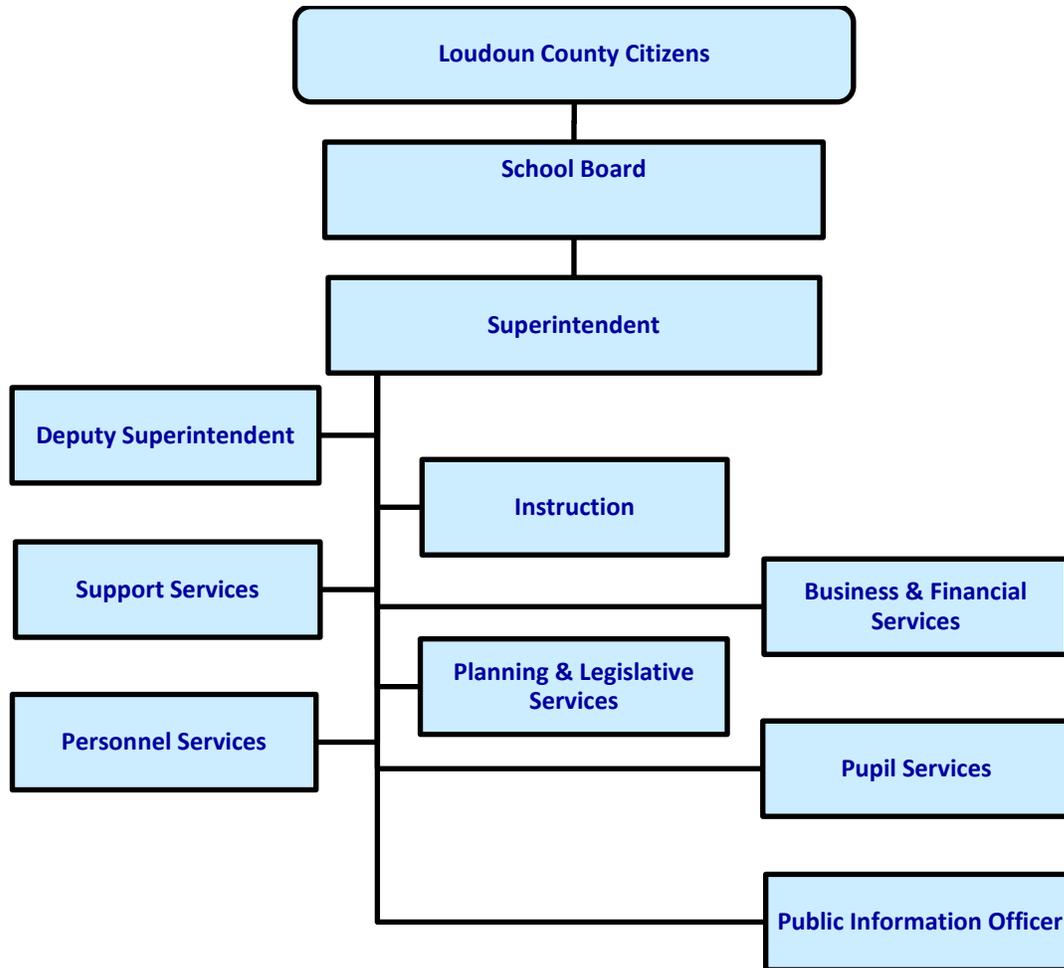
Dr. Sam C. Adamo
Executive Director for Planning & Legislative Services

Wayde B. Byard
Public Information Officer

Stephen L. DeVita
Division Counsel

Christine E. Coleman
Clerk of the School Board

Organizational Chart

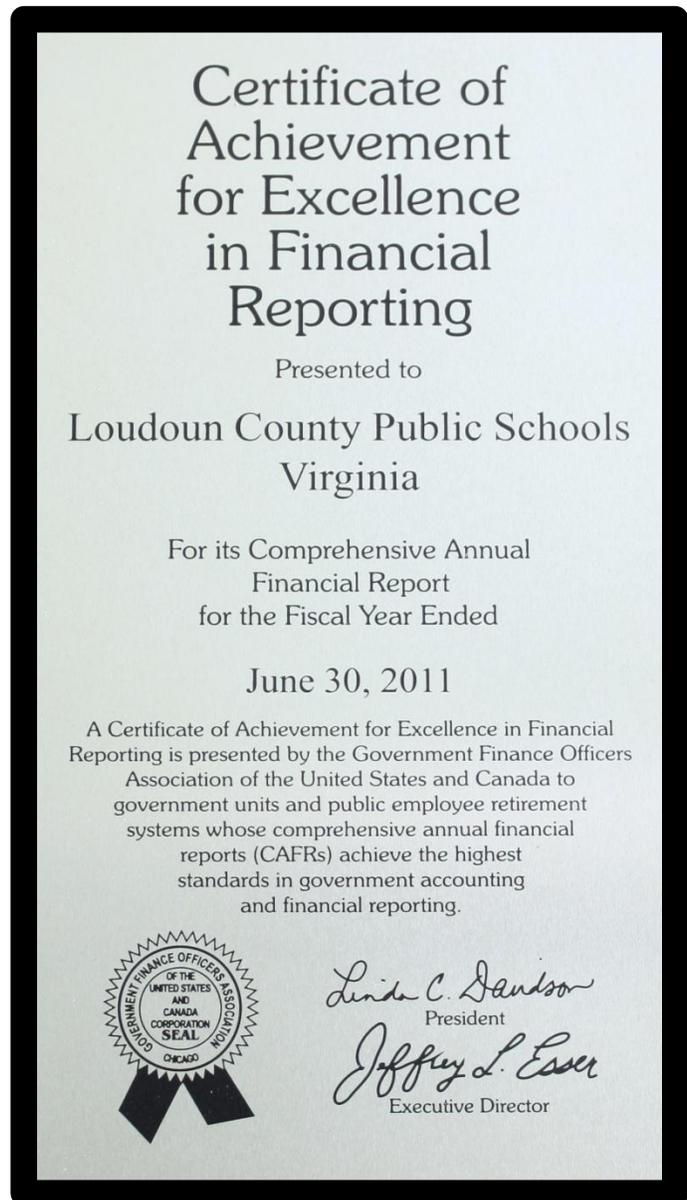


AWARDS FOR EXCELLENCE IN FINANCIAL REPORTING

GOVERNMENT FINANCE OFFICERS ASSOCIATION AWARD

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Loudoun County Public Schools (LCPS) for its Comprehensive Annual Financial Report (CAFR) for the third year ended June 30, 2011. The Certificate of Achievement for Excellence in Financial Reporting is a prestigious, national award, which recognizes conformance with the highest standards for preparation of state and local government CAFRs.

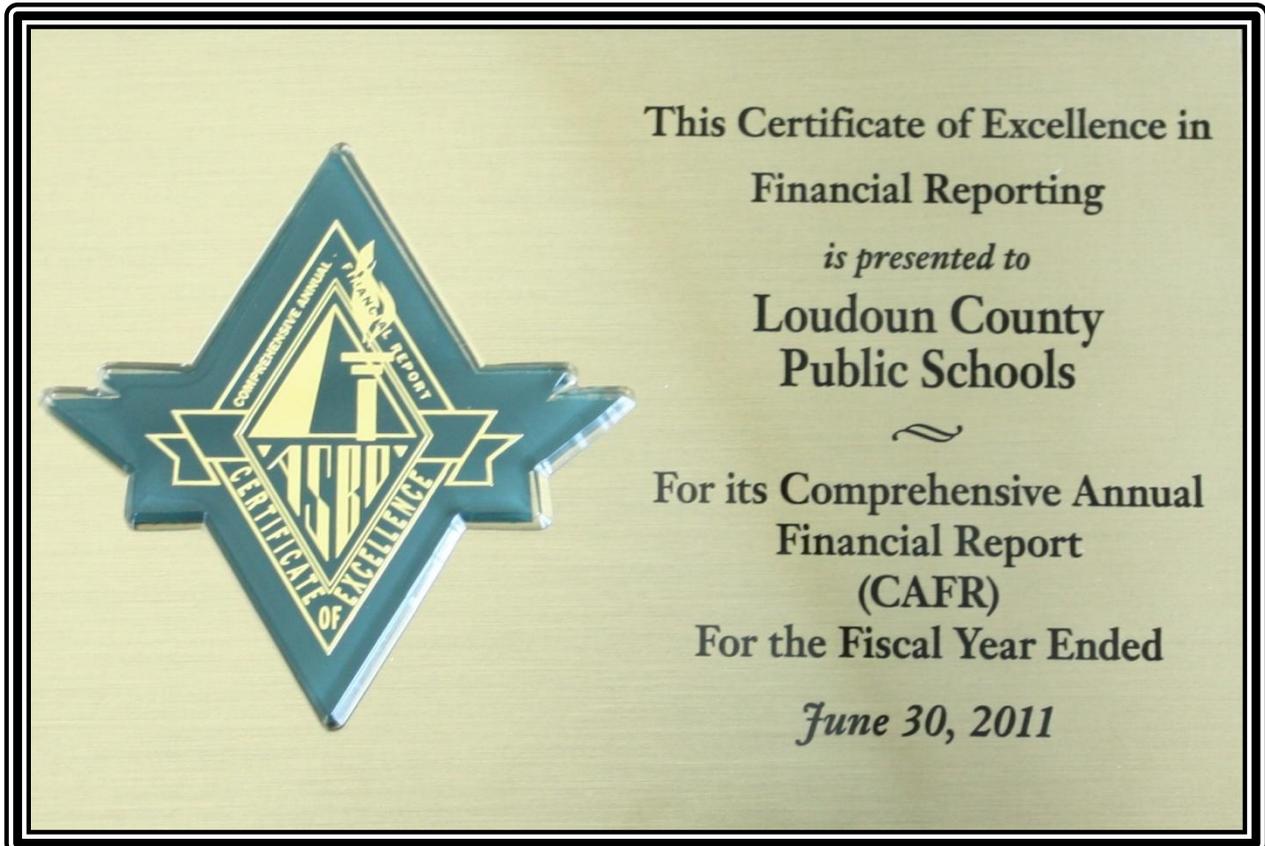
In order to receive a Certificate of Achievement for Excellence in Financial Reporting, a governmental unit must publish a CAFR whose contents conform to program standards of creativity, presentation, understandability, and reader appeal. In addition, this report must satisfy both accounting principles generally accepted in the United States of America (GAAP) and applicable legal requirements.



ASSOCIATION OF SCHOOL BUSINESS OFFICIALS AWARD

The Association of School Business Officials International (ASBO) awarded a Certificate of Excellence in Financial Reporting to LCPS, for its CAFR for the third year ended June 30, 2011. This nationally recognized program was established by ASBO to encourage school business officials to achieve a high standard of financial reporting. The award is the highest recognition for school division financial operations offered by ASBO, and it is only conferred upon school systems that have met or exceeded the standards of the program.

Participation in the Certificate of Excellence in Financial Reporting program validates LCPS' commitment to fiscal and financial integrity and enhances the credibility of LCPS' operations with the School Board and the community. The program reviews the accounting practices and reporting procedures used by LCPS in its CAFR based upon specific standards established by the Governmental Accounting Standard Board.



FINANCIAL SECTION



The **Financial Section** includes the independent auditor's report, management's discussion and analysis, basic financial statements, including the accompanying notes, required supplementary information, and other supplementary information.



Independent Auditor's Report





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INDEPENDENT AUDITORS' REPORT

To the School Board and Management
Loudoun County Public Schools
Loudoun, Virginia

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Loudoun County Public Schools (the "LCPS") as of and for the year ended June 30, 2012, which collectively comprise the LCPS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Student Activity Agency Fund, which represents 12% of the assets of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Student Activity Agency fund, is based on the report of 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; and the *Specification for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of LCPS, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note G to the financial statements, beginning net assets were restated to correct previously reported depreciation expense and related accumulated depreciation. We audited the adjustments necessary to restate the July 1, 2011 net assets and, in our opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012, on our consideration of the LCPS' 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules as listed in the table of contents 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the LCPS' financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements 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. The 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 information is fairly stated in all material respects in relation to the basic financial statements 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.

Cherry, Beraet & Holland, LLP

Tysons Corner, Virginia
November 30, 2012

Management's Discussion and Analysis



The **Management's Discussion and Analysis** subsection provides a narrative introduction to and overview and analysis of the basic financial statements. It includes a description of the government-wide and fund financial statements, as well as, analysis of Loudoun County Public Schools' financial position and results of operations.

Management's Discussion and Analysis

It is a pleasure to present the financial performance of Loudoun County Public Schools (LCPS). This subsection of the Comprehensive Annual Financial Report (CAFR) presents management's narrative overview and analysis of the financial activities of LCPS for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information we furnished in our letter of transmittal, which is also contained in this CAFR.

FINANCIAL HIGHLIGHTS

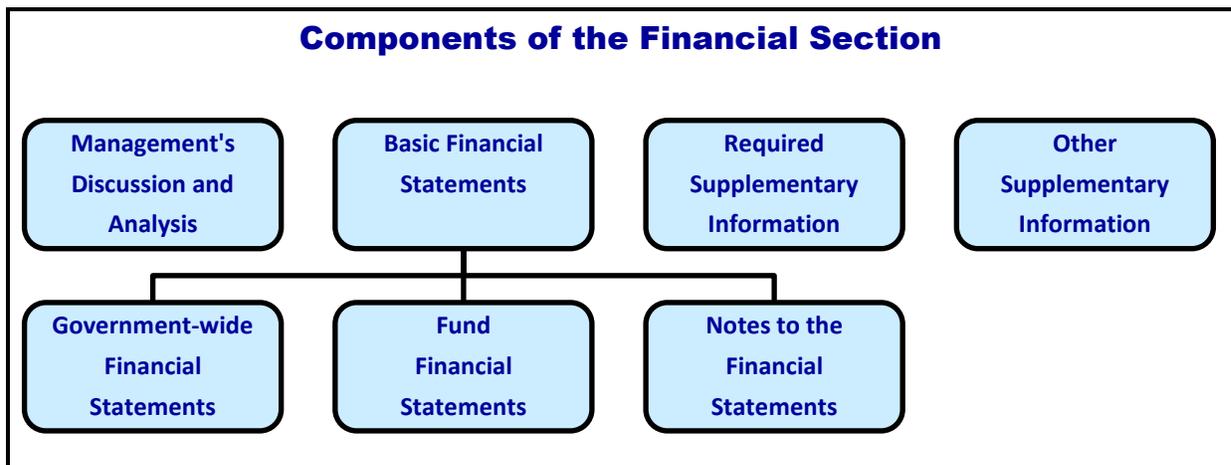
GOVERNMENT-WIDE FINANCIAL STATEMENTS

- LCPS' assets exceeded liabilities (net assets) by \$1,240.0 million for governmental activities at June 30, 2012. Of this amount, \$1,296.8 million has been invested in capital assets, net of related debt and \$12.6 is restricted.
- At the close of the fiscal year, total revenue of LCPS' governmental activities amounted to \$789.7 million, while total expenses incurred were \$842.4 million, which resulted in a decrease in net assets of \$52.8 million, or 1,416.3 percent, from the net increase of \$4.0 million for fiscal year 2011.

- The fiscal year ended June 30, 2012 net costs of governmental activities (\$842.4 million) exceeded program revenues (charges for services, \$19.6 million; operating grants and contributions, \$32.4 million; and capital grants and contributions, \$14.4 million) by \$776.0 million.
- General revenues, which are funds available for all educational purposes, including contributions from the County of Loudoun, VA (County), and other changes in net assets in the amount of \$723.2 million, were not sufficient to cover the excess of programs costs over revenues.

FUND FINANCIAL STATEMENTS

- LCPS' governmental funds reported a combined fund balance of \$62.3 million at June 30, 2012, a decrease of \$96.8 million over the prior year. Approximately 1.7 percent of the fund balance was available for spending at LCPS' discretion (unassigned fund balance).
- At June 30, 2012, the General Fund reported an ending fund balance of \$42.7 million, a decrease of \$18.9 million from June 30, 2011. Unassigned fund balance was \$1.1 million, or .14 percent of total General Fund expenditures, excluding other financing uses.



OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this CAFR consists of four parts: 1) management's discussion and analysis (presented here), 2) basic financial statements, 3) required supplementary information, and 4) other supplementary information.

LCPS' basic financial statements consist of two types of statements, each with a different perspective of LCPS' financial condition.

The government-wide financial statements provide both long-term and short-term information about LCPS' overall finances. The fund financial statements focus on the details of individual components of LCPS' operations in more detail than the government-wide financial statements. The basic financial statements also include notes to provide additional explanation and detailed information that is essential to a full understanding of the data provided in the financial statements.

The financial statements and notes are followed by required supplementary information, which consists of the budget to actual comparison schedule for the General Fund and trend data pertaining to the Virginia Retirement System and the Other Post-Employment Benefits (OPEB) Trust Fund. In addition to these required elements, LCPS provides other supplementary information that includes a budgetary comparison schedule of the Capital Improvements Fund, combining fund statements for the nonmajor governmental funds, budget to actual comparison schedules for the nonmajor governmental funds, combining fund statements for the Internal Service Funds, and the statement of changes in assets and liabilities for the Agency Funds.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the activities of LCPS as a whole using accounting methods similar to those used by private-sector businesses. In addition, they report LCPS' net assets and how they have changed during the fiscal year.

The first government-wide statement, the statement of net assets, presents information on all of the LCPS' assets and liabilities; with the difference between the two, reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of LCPS' ability to cover costs and continue to provide services in the future.

The second statement, the statement of activities, presents information on the net change of LCPS' costs of providing services (i.e., expenses) and resources used to finance those services (i.e., revenues). This statement highlights the extent to which specific programs are able to cover their costs with user fees, contributions, and grants, as opposed to being financed with general revenues. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid. The change in net assets from year to year may serve as a gauge of whether LCPS' financial position, as a whole, is improving or diminishing.

All of LCPS' basic services are reported as governmental activities. These activities are financed primarily by charges for services and Federal, State, and County grants and contributions. Included in the governmental activities in the government-wide financial statements, are the governmental funds and internal service funds.

FUND FINANCIAL STATEMENTS

Fund financial statements provide an additional level of detail about LCPS' most significant funds. 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. LCPS uses fund accounting to track transactions in individual funds, as well as to ensure and demonstrate compliance with finance-related legal requirements. All of LCPS' funds are divided into the following three classifications:

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on 1) how cash and other financial assets that can be readily converted to cash, flow in and out; and 2) the balances remaining at year-end that are available for spending. The governmental funds provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance LCPS' programs. Because this information does not encompass the additional long-term focus of the governmental activities in the government-wide financial statements, reconciliations are provided to explain the relationship (or differences).

The General Fund accounts for the main operating activities of LCPS. The General Fund is always reported as a major fund.

The Capital Improvements Fund is also reported as a major fund and represents largest of all funds.

All other governmental funds, which include the Food Service Fund, the Capital Asset Preservation Fund, the Debt Service Fund and the Peabody Trust Fund, are collectively referred to as nonmajor governmental funds.

Information on the General Fund and the Capital Improvements Fund is presented separately in the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances. Data for the four nonmajor governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in combining statements elsewhere in the CAFR.

Proprietary Funds – Proprietary funds, which consist of LCPS' Internal Service Funds, are used to account for operations that are financed and operated in a manner similar to private-sector businesses in which costs are recovered primarily through user charges.

Proprietary fund financial statements, like the government-wide financial statements, provide both long-term and short-term financial information. The Internal Service Funds are used to account for LCPS' Central Service Fund and Self Insurance Funds activities on a cost reimbursement basis. Because these services only benefit LCPS' governmental activities, they have been included with governmental activities in the government-wide financial statements. Both Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for each of these Internal Service Funds is provided in combining statements elsewhere in the CAFR.

Fiduciary Funds – Fiduciary funds are used to account for resources that are held by LCPS for the benefit of parties outside of LCPS. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support LCPS' programs. LCPS' fiduciary funds consist of an OPEB Trust Fund and Agency Funds. The OPEB Trust Fund is used to account for assets held in trust by LCPS for post-retirement health benefits. The Agency Fund, Student Activity, is used to account for monies collected and disbursed in connection with student athletics, classes, clubs, various fund raising activities, and private donations.

These monies are only available to support student programs at their respective schools and not for LCPS as a whole. The Agency Fund, Payroll Liabilities Distribution, is used to account for monies collected and disbursed in connection with payroll liabilities. These monies are only available to pay liabilities deducted from employee payroll and not for LCPS as a whole.

FINANCIAL ANALYSIS OF GOVERNMENTAL ACTIVITIES

The statement of net assets and the statement of activities provide the financial status and operating results of LCPS as a whole.

STATEMENT OF NET ASSETS

As noted earlier, net assets may serve over time as a useful indicator of LCPS' financial position. LCPS' assets exceeded liabilities by \$1,240.0 million at the close of fiscal year 2012, representing a decrease of \$87.3 million. A prior period adjustment for improper capitalization of buildings resulted in \$34.5 million of the decrease in net assets, while \$52.8 million decrease in net assets represents current year operations. Current year operations decrease of \$52.8 million is a 4.1 percent decrease, from the restated net assets at June 30, 2011.

By far, the largest portion of LCPS' net assets (104.6 percent) reflects its investment in capital assets (e.g., land, construction in progress, equipment, and buildings) less any related debt used to acquire those assets that was still outstanding.

LCPS uses these capital assets to provide services; consequently, they are not available for future spending.

Although LCPS' 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.

The Code of Virginia precludes school districts from issuing general obligation debt. As a result, the County issues general obligation debt for LCPS and reports, in its financial statements, the general obligation debt related to LCPS' capital assets.

LCPS is responsible for the outstanding debt obligations of capital leases amounting to \$18.9 million at June 30, 2012. The restricted net assets balance of \$12.5 million or 1.0 percent of total net assets represent the amounts restricted and not available for general purposes.

The following table provides a summary of LCPS' net assets as of June 30, 2012 and 2011:

SUMMARY OF NET ASSETS				
As of June 30				
(Dollars in Millions)				
	Governmental Activities			
	2012	2011	Variance	Percent Variance
ASSETS				
Current and other assets	\$ 151.3	\$ 252.1	\$ -100.8	-40.0%
Capital assets, net (restated)	1,315.7	1,290.9	24.8	1.9%
Total assets	<u>1,467.0</u>	<u>1,543.0</u>	<u>-76.0</u>	-4.9%
LIABILITIES				
Current liabilities	75.5	76.4	-0.9	-1.1%
Long-term liabilities	151.5	139.3	12.2	8.7%
Total liabilities	<u>227.0</u>	<u>215.7</u>	<u>11.3</u>	5.2%
NET ASSETS				
Invested in capital assets, net of related debt	1,296.8	1,270.6	26.2	2.1%
Restricted net assets	12.6	69.5	-56.9	-81.9%
Unrestricted	-69.4	-12.8	-56.6	441.8%
Total net assets	<u>\$ 1,240.0</u>	<u>\$ 1,327.3</u>	<u>\$ -87.3</u>	-6.6%



STATEMENT OF ACTIVITIES

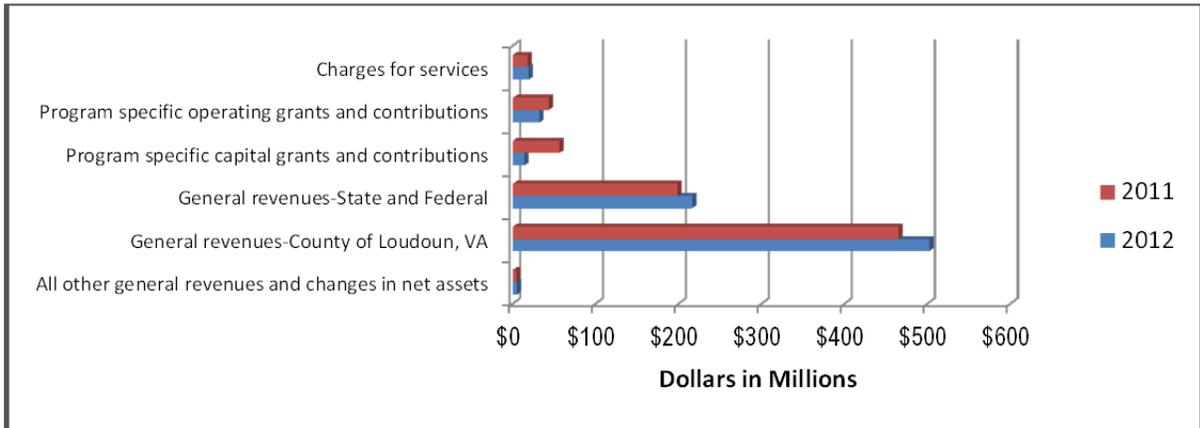
The following table provides a summary of the changes in LCPS' net assets for the fiscal years ended June 30, 2012 and 2011:

SUMMARY OF CHANGES IN NET ASSETS				
For the Fiscal Year Ended June 30, 2012				
(Dollars in Millions)				
	Governmental Activities			
	2012	2011	Variance	Percent Variance
REVENUES				
Program revenues:				
Charges for services	\$ 19.6	\$ 17.5	\$ 2.1	12.0%
Operating grants and contributions	32.5	43.0	-10.5	-24.3%
Capital grants and contributions	14.4	56.2	-41.8	-74.4%
General revenues:				
Grants and contributions	718.0	662.9	55.1	8.3%
Revenue from the use of money	2.5	2.0	0.5	23.4%
Other	2.7	2.3	0.4	19.4%
Total revenues	<u>789.7</u>	<u>783.9</u>	<u>5.9</u>	0.7%
EXPENSES				
Instruction:				
Regular	498.2	462.9	35.3	7.6%
Special	134.9	124.0	10.9	8.8%
Adult education	0.8	0.8	0.0	-1.6%
Other	3.7	2.9	0.8	27.2%
Support Services:				
Administration	18.1	15.1	3.0	19.6%
Attendance and health	10.7	10.0	0.7	7.3%
Pupil transportation	55.3	51.6	3.7	7.2%
Facilities services	3.5	3.3	0.2	7.0%
Operation and maintenance	73.9	68.5	5.4	7.8%
Food services	22.9	21.0	1.9	9.0%
Technology	20.0	19.3	0.7	3.9%
Interest on long-term debt	0.4	0.5	-0.1	-24.3%
Total expenses	<u>842.4</u>	<u>779.9</u>	<u>62.5</u>	8.0%
Increase in net assets	<u>-52.8</u>	<u>4.0</u>	<u>-56.7</u>	-1416.3%
Net assets, beginning of year	<u>1,327.3</u>	<u>1,303.6</u>	<u>23.7</u>	1.8%
Prior period adjustments	<u>-34.5</u>	<u>0.0</u>	<u>-34.5</u>	0.0%
Net assets, beginning of year, restated	<u>1,292.8</u>	<u>1,323.3</u>	<u>-30.5</u>	-2.3%
Net assets, end of year	<u>\$ 1,240.0</u>	<u>\$ 1,327.3</u>	<u>\$ -87.2</u>	-6.6%

Revenues

Revenues for LCPS' governmental activities totaled \$789.7 million during the fiscal year 2012, representing an increase of \$4.2 million over fiscal year 2011. The following table represents revenues by source for the fiscal years ended June 30, 2012 and 2011:

GOVERNMENTAL ACTIVITIES – REVENUES BY SOURCE
For the Fiscal Years Ended June 30



The events contributing to the decrease in revenues during the fiscal 2012 were:

- Operating grants and contributions decreased \$10.5 million, or 24.3 percent from fiscal year 2011. The decrease was a result of decreased revenue from the (American Recovery and Reinvestment Act for special education (\$7.0 million or 36.9 percent), technology funds from the Commonwealth of Virginia (\$1.8 million or 86.7 percent) and all other operating grants and contributions (\$1.7 million or 7.7 percent).
- Capital grants and contributions decreased \$41.8 million from fiscal year 2011 due primarily to a decrease in revenue for construction.
- From the previous fiscal year, LCPS received an increase of \$56.0 million in general revenues – grants and contributions. LCPS received a 8.0 percent increase, or \$37.1 million, in the contribution from the County. This contribution is LCPS’ primary revenue source. Additionally, LCPS received decreased general revenue from the Federal government in the amount of \$9.1 million, or 25.0 percent, from fiscal year 2011. This decrease represents the phase out of the American Recovery and Reinvestment Act. The Commonwealth of Virginia increased its general revenues by \$16.4 million or 8.1 percent from 2011.



Expenses

The following table compares the total program costs of each LCPS' programs (or functions) and the net cost of each program (total costs less fees generated by the program and program-specific intergovernmental aid) for the fiscal years ended June 2012 and 2011:

SUMMARY OF PROGRAM COSTS BY FUNCTION						
For the Fiscal Year Ended June 30						
(Dollars in Millions)						
Function	Total Cost of Function			Net Cost (Revenue) of Function		
	2012	2011	Percent Variance	2012	2011	Percent Variance
Governmental Activities:						
Instruction:						
Regular	\$ 498.2	\$ 462.9	7.6%	\$ 484.8	\$ 447.6	8.3%
Special	134.9	124.0	8.8%	123.0	105.1	17.0%
Adult education	0.8	0.8	-1.6%	0.3	0.3	100.0%
Other	3.7	2.9	27.2%	3.2	2.5	27.9%
Support Services:						
Administration	18.1	15.1	19.6%	16.7	13.9	20.2%
Attendance and health	10.7	10.1	6.3%	10.7	10.1	6.3%
Pupil transportation	55.3	51.5	7.4%	55.3	51.5	7.4%
Facilities services	3.5	3.3	7.0%	-10.9	-52.9	79.5%
Operation and maintenance	73.9	68.4	8.0%	73.9	68.3	8.2%
Food services	22.9	21.0	9.0%	-1.3	-1.1	14.3%
Technology	20.0	19.3	3.9%	19.8	17.3	14.3%
Interest on long-term debt	0.4	0.5	-24.3%	0.4	0.5	-24.3%
Total expenses	<u>\$ 842.4</u>	<u>\$ 779.8</u>	8.0%	<u>\$ 776.0</u>	<u>\$ 663.1</u>	17.0%

The total costs of LCPS' programs for fiscal year 2012 were \$842.4 million representing an increase of \$62.6 million over fiscal year 2011. Some of the costs of governmental activities were paid by those who directly benefited from the programs (\$19.6 million) and other government and organizations that subsidized certain programs with grants and contributions (\$46.8 million).

As the chart indicates, regular instruction continues to be LCPS' largest program. Regular instruction includes those activities and programs that are conducted during the regular instructional day for students attending kindergarten through 12th grade, with the exception of programs specifically designed to improve or overcome disabilities and programs intended for gifted and talented students. LCPS' second largest program, special instruction, includes those activities for students with special needs/services or programs for other types of students such as alternative education, Head Start, and preschool programs.

Salaries and benefits make up 82.3 percent and 82.3 percent of regular and special instruction expenses, respectively. Regular instruction expenses increased \$35.3 million and special instruction expenses increased \$10.9 million from the prior fiscal year. There was an increase in enrollment and students eligible to receive special instruction.

The majority of LCPS' functional areas required general revenues to cover their operational costs. In fiscal year 2012, the facilities services function was self-supporting with program revenues exceeding program costs by \$10.9 million. The primary revenue source of facilities was general obligation bond proceeds from the County used for the construction, acquisition, or renovation of capital assets.

Interest on LCPS' long-term debt decreased \$0.1 million from the prior year.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

As noted earlier, LCPS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of LCPS' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing LCPS' financing requirements. In particular, unassigned fund balance may serve as a useful measure of LCPS' net resources available for spending at the end of the fiscal year.

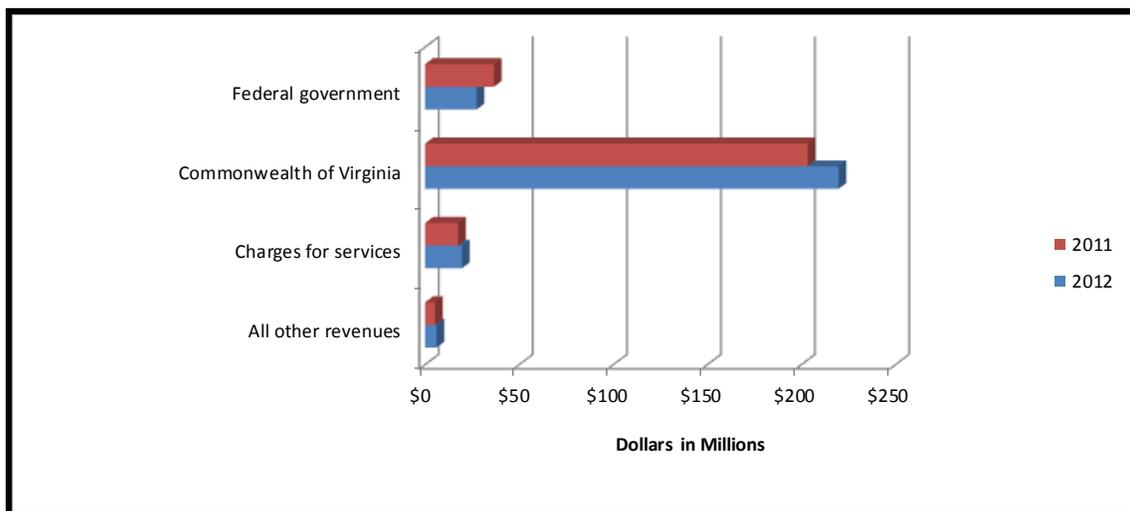
As of June 30, 2012, LCPS' governmental funds, reported a combined fund balance of \$62.3 million, a decrease of \$96.8 million, compared to a decrease of \$26.5 million at June 30, 2011.

Of the combined fund balance, approximately \$1.0 million was nonspendable and not available for future funding, \$12.8 million was restricted by grantors and bond covenants, \$36.4 million was committed by various board actions, and \$11.0 million was assigned to specific contractual and financial planning purposes. The remaining \$1.1 million in fund balance constitutes unassigned fund balance, which is available for spending at LCPS' discretion.

Excluding transfers in, the total revenues for governmental funds in fiscal year 2012 totaled \$789.1 million, a 0.7 percent increase over fiscal year 2011. LCPS' primary source of revenue was intergovernmental (from the Federal government, State, and the County) and amounted to \$763.4 million in fiscal year 2012, a 0.6 percent increase over fiscal year 2011. All other revenue sources (e.g., charges for services, and recovered costs) totaled \$25.7 million, representing an increase of 13.0 percent over the previous fiscal year.

The following table compares the total revenues by source for governmental funds (excluding revenue from the County and transfers in) for the fiscal years ended in June 30, 2012 and 2011:

REVENUES BY SOURCE (EXCLUDING COUNTY REVENUE AND TRANSFERS IN) For the Fiscal Years Ended June 30



Several factors contributing to the net decrease in total revenues during fiscal year 2012 include:

- Funding from the County decreased \$4.7 million from fiscal year 2011. Capital improvement costs and therefore, County funding for capital improvements decreased \$41.8 million from fiscal year 2011. The net increase of County funding for operations was \$37.1 million from fiscal year 2011.

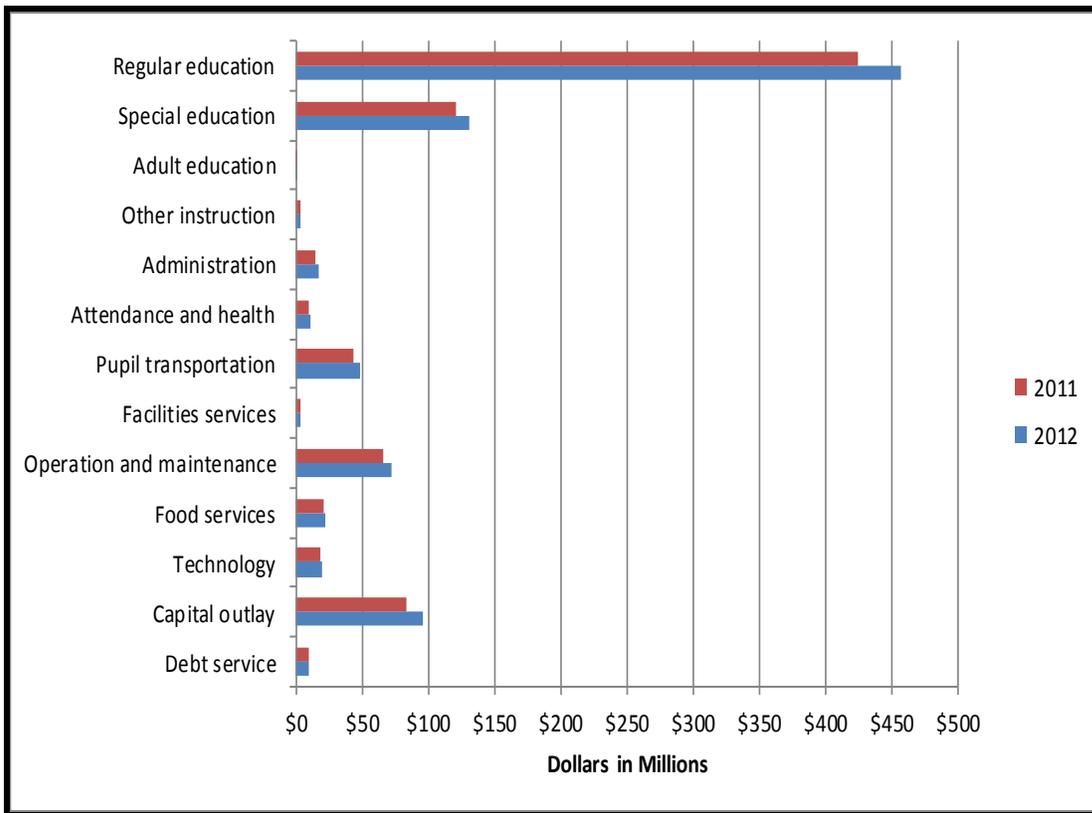
- Revenue from the federal government decreased by \$9.1 million mostly from the American Recovery and Reinvestment Act phase out.
- The State allocates one and one-eighth percent of the five percent State sales tax to run programs for school age children. Sales tax revenue increased by \$2.8 million. Other State revenue increased by \$13.6 million from fiscal year 2011.

- LCPS received an additional \$9.4 million for Basic Aid from the State, which is the primary component of the Standards of Quality (SOQ). The SOQ establishes standards for personnel, instructional materials, and system wide planning and management.

In addition, the SOQ establishes performance objectives for the Virginia Board of Education and local school divisions.

The following table compares the expenditures (excluding transfers out) for each LCPS' functional areas for the fiscal years ended June 30, 2012 and 2011:

**EXPENDITURES BY FUNCTION (EXCLUDING TRANSFERS OUT AND SPECIAL ITEMS)
For the Fiscal Years Ended June 30**



Excluding other financing uses, the total expenditures for governmental funds for the fiscal year ended June 30, 2012 were \$ 890.3 million, an increase of 9.0 percent over fiscal year 2011. Regular and special instruction continues to be LCPS' largest programs.

Regular and special instruction had a \$43.4 million combined increase in expenditures in comparison to fiscal year 2011, due primarily to 3,857 additional students were educated, and three schools were opened.

For the fiscal year ended June 30, 2012, regular instruction expenditures were \$457.4 million in comparison to \$424.9 million in fiscal year 2011. This represents an increase of \$32.5 million, or 7.6 percent. Special instruction expenditures amounted to \$131.3 million, representing an increase of \$10.9 million, or 9.1 percent. The majority of regular and special instruction expenditures were primarily attributed to salaries and benefits.

LCPS' third largest program, operations and maintenance, includes all activities concerned with keeping LCPS' buildings, grounds, and equipment in effective working condition.

At the close of fiscal year 2012, expenditures totaled \$71.5 million. This program's cost increased by \$5.8 million from the prior year.

Capital outlays for the total governmental funds increased by \$13.3 million. During the current fiscal year, capital outlay expenditures were \$96.1 million, as compared to \$82.8 million during fiscal year 2011. The increase of 16.1 percent from the prior year is due mainly to an increase in projects under construction. Outlays included items such as the continuation of several large school renovation projects from the prior year and the purchase of additional school buses, equipment, classroom computers, and library materials, as well as new school construction.

Other factors accounting for expenditures during fiscal year 2012 include:

- Expenditures for pupil transportation increased \$4.2 million, or 9.6 percent. This increase represents a change in the replacement cycle of buses and more than expected fuel costs.
- Administration expenditures increased \$3.0 million from fiscal year 2011. The increase restored some of the training and travel, supplies and materials, as well as part-time salaries that had been reduced over the past several years.
- From fiscal year 2011, the technology program increased \$.8 million, or 4.1 percent.

The General Fund is the main operating fund of LCPS. At the end of the current fiscal year, the fund balance was \$42.7 million, of which \$1.1 million is unassigned.

The General Fund's revenues increased \$40.5 million, or 5.8 percent, from the previous fiscal year, while expenditures (excluding other financing uses) increased \$51.9 million, or 7.3 percent.

The increase in revenues, the increase in expenditures, and the changes to other financing sources and uses, resulted in a net decrease in fund balance of \$18.9 million from the prior fiscal year. The total fund balance at June 30, 2012, for the General Fund represents 78.0 percent of the total combined fund balance of all governmental funds.



GENERAL FUND BUDGETARY HIGHLIGHTS

The Code of Virginia requires the appointed superintendent of LCPS to submit a budget to the County Board of Supervisors (BOS), with the approval of the School Board.

The Superintendent presents LCPS' proposed budget to the School Board in January. Then, the School Board conducts a series of public hearings and workshop sessions before adopting the advertised budget. The School Board's advertised budget is then forwarded to the County for inclusion in the County Executive's advertised budget. By early April, the BOS holds public hearings regarding the proposed budget and determines the amount of funding to be transferred to LCPS. The School Board then adopts the final budget.

The approved budget governs the financial operations of LCPS beginning on July 1 and is modified on an as needed basis as revenue sources and expenditure priorities change. LCPS' School Board approves all budget modifications.

During fiscal year 2012, the General Fund's final amended budget appropriations exceeded the original budgeted amounts by \$15.2 million, or 2.1 percent of total revenues, and 2.0 percent of total expenditures.

Key factors contributing to these increases in appropriations from the original budgeted amounts include:

- Revenue from the Federal government increased \$7.3 million from the original budget because Federal grant funds, primarily from the Individuals with Disabilities Education Act (IDEA) grant, were unexpended at the prior fiscal year's end and re-appropriated in fiscal year 2012. This was necessary because Federal grants are awarded based on the federal fiscal year, which begins in October, and the award period is often longer than 12 months.
- Expenditures increased \$15.2 million from the original budget due to unexpended funds and funds carried forward from fiscal year 2011 for undelivered order and other commitments. Other expenditure decreases from the original budget were planned to help offset future budgets.

The following table presents a summary comparison of the General Fund's original and final budgets with actual performance for the fiscal year ended June 30, 2012:

GENERAL FUND BUDGET AND ACTUAL COMPARISON				
For the Fiscal Year Ended June 30, 2012				
(Dollars in Millions)				
	Original Budget	Final Budget	Actual	Variance from Final Budget
Total revenues	\$ 749.9	\$ 738.0	\$ 739.4	\$ 1.4
Total expenditures	-765.1	-780.3	-762.7	17.6
Total other financing sources (uses)	5.2	5.2	4.4	-0.8
Net change in fund balances	\$ -10.0	\$ -37.1	\$ -18.9	\$ 18.2

Actual revenues exceeded final budgeted amounts by \$1.4 million, while actual expenditures came in under budget by \$16.8 million, or 2.2 percent.

CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

CAPITAL ASSETS

At June 30, 2012, LCPS' investment in capital asset for governmental activities totaled \$1,679.0 million, net of accumulated depreciation in the amount of \$363.3 million, which resulted in a net increase in capital assets of \$59.3 million, or 4.7 percent, over the prior year.

Major capital asset events during fiscal year 2012 included the following:

- LCPS acquired \$5.0 million in equipment and machinery.
- Total capital asset disposals amounted to \$3.4 million.
- LCPS recorded the completion of four schools. Costs incurred during fiscal year 2012 amounted to \$147.5 million.

- Costs associated with ongoing projects remained in construction in progress at the fiscal year's end. These projects include cumulative construction expenditures of \$102.6 million.
- Management, while reviewing capitalization policies, found that the capitalization of school buildings was not in compliance with Generally Accepted Accounting Principles (GAAP) in prior years. The proper capitalization of school buildings resulted in an increase of accumulated depreciation of \$34,531,174 for prior fiscal years.
- Additional detailed information regarding LCPS' capital assets, including the current year's activity, can be found in notes I.G and III.D in the notes to the financial statements.

The following table summarizes capital assets as of June 30, 2012 and 2011:

NET CAPITAL ASSETS		
As of June 30		
(Dollars in Millions)		
Capital Asset Category	Book Value	
	(net of depreciation)*	
	2012	2011 (1)
Land	\$ 133.1	\$ 127.0
Construction in progress	102.6	165.1
Buildings	1,056.2	970.9
Machinery and equipment	23.4	27.6
Improvements other than buildings	0.3	0.3
Total	<u>\$ 1,315.7</u>	<u>\$ 1,290.9</u>

* Except for land and construction in progress.
(1) 2011 restated

LONG-TERM OBLIGATIONS

LCPS' additions to capital leases primarily included \$7.0 million for computers and vehicles.

As of June 30, 2012, LCPS reported total outstanding debt in the amount of \$151.5 million, compared to \$139.3 million at June 30, 2011. Of this amount, \$18.9 million related to capital leases.

The following is a summary of LCPS' gross outstanding long-term debt for governmental activities:

OUTSTANDING LONG-TERM DEBT		
As of June 30		
(Dollars in Millions)		
	2012	2011
Compensated absences	\$ 18.8	\$ 18.6
Claims liabilities	10.1	9.5
Net OPEB obligations	103.7	90.9
Leases payable	18.9	20.3
Total	<u>\$ 151.5</u>	<u>\$ 139.3</u>

Additional detailed information regarding LCPS' long-term obligations, including the current year's activity, can be found in notes I.H, I.I, III.E, IV.B and IV.C in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

LCPS is challenged with an increasing enrollment. The student growth rate for general education is increasing at a rate of over 6%, but due to the general economic downturn, LCPS faces challenges in meeting the education needs of this increasing student population.

The primary source of revenue for LCPS comes from the County. The County's fiscal outlook for the upcoming year projects that the funding LCPS can expect to receive will be better than the past budget year. Loudoun County has experienced signs of a recovery from the recent recession and therefore, LCPS is restoring operating programs that had been on hold during the recession. LCPS added no new programs in the fiscal year 2013 approved budget. The other major source of LCPS' revenues is driven by student enrollment, particularly in the area of State and Federal aid.

The fiscal year 2013 approved operating budget maintains existing programs that support LCPS' student achievement goals, allocates resources in support of LCPS' beliefs, and conserves fiscal resources. The approved operating budget includes a \$63.1 million, or 8.5 percent, increase in expenditures over the fiscal year 2012 approved budget.

CONTACTING LCPS MANAGEMENT

This summary is designed to provide a general overview of the financial condition of LCPS. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Director of Financial Services, Department of Business and Financial Services, 21000 Education Court, Ashburn, Virginia, 20148, or by calling 571-252-1190.

This CAFR can also be found on LCPS' website at www.lcps.org.



Basic Financial Statements



The **Basic Financial Statements** subsection includes the government-wide statements, which incorporates the governmental activities of Loudoun County Public Schools in order to provide an overview of the financial position and results of operation for the reporting entity. This subsection also includes the fund financial statements and the accompanying notes to the financial statements.

LOUDOUN COUNTY PUBLIC SCHOOLS
Statement of Net Assets

Exhibit I

June 30, 2012

	Governmental Activities
ASSETS	
Cash on deposit with County of Loudoun, VA	\$ 107,920,579
Accounts receivable, net	613,983
Due from other governmental units	15,201,811
Advances to employees	1,050
Inventories	1,401,545
Prepaid items	307,458
Deposits	190,000
Restricted cash on deposit with County of Loudoun, VA	25,689,334
Nondepreciable capital assets:	
Land	133,122,811
Construction in progress	102,625,494
Depreciable capital assets:	
Buildings	1,320,729,683
Machinery and equipment	121,298,390
Improvements other than buildings	1,201,068
Accumulated depreciation	(363,279,699)
 Total assets	 <u><u>\$ 1,467,023,507</u></u>
LIABILITIES	
Accounts payable	\$ 9,675,430
Accrued interest payable	319,923
Accrued liabilities	57,274,587
Contract retainages	4,559,692
Other liabilities	470,084
Deferred revenue	2,532,535
Unearned revenue	695,641
Long-term liabilities:	
Due within one year:	
Compensated absences	2,068,877
Claims liabilities	8,366,328
Leases payable	7,859,836
Due in more than one year:	
Compensated absences	16,762,272
Claims liabilities	1,707,162
Net other post-employment benefits obligation	103,682,000
Leases payable	11,010,668
 Total liabilities	 <u><u>\$ 226,985,035</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 1,296,827,243
Restricted for:	
Capital appropriations	12,531,619
Permanent fund-nonexpendable	34,306
Unrestricted	(69,354,696)
 Total net assets	 <u><u>\$ 1,240,038,472</u></u>

See accompanying notes to the financial statements.

LOUDOUN COUNTY PUBLIC SCHOOLS
Statement of Activities

Exhibit II

For the Fiscal Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction:					
Regular	\$ 498,166,427	\$ 329,664	\$ 13,008,111	\$ -	\$ (484,828,652)
Special	134,924,678	-	11,948,379	-	(122,976,299)
Adult education	787,327	253,098	256,252	-	(277,977)
Other	3,689,350	490,846	-	-	(3,198,504)
Total instruction	637,567,782	1,073,608	25,212,742	-	(611,281,432)
Support Services:					
Administration	18,052,399	1,328,905	10,726	-	(16,712,768)
Attendance and health	10,734,630	-	-	-	(10,734,630)
Pupil transportation	55,331,621	-	-	-	(55,331,621)
Facilities services	3,529,974	-	-	14,393,179	10,863,205
Operation and maintenance	73,877,222	-	-	-	(73,877,222)
Food services	22,892,698	17,197,025	6,952,932	-	1,257,259
Total support services	184,418,544	18,525,930	6,963,658	14,393,179	(144,535,777)
Technology	20,048,569	-	269,916	-	(19,778,653)
Interest on long-term debt	378,606	-	-	-	(378,606)
Total governmental activities	\$ 842,413,501	\$ 19,599,538	\$ 32,446,316	\$ 14,393,179	(775,974,468)
General revenues:					
Grants and contributions not restricted to specific purposes:					
					262,340
					215,824,328
					501,922,225
					2,468,547
					2,746,412
Total general revenues and special items					723,223,852
Change in net assets					(52,750,616)
Net assets, beginning of year					1,327,320,262
Prior period adjustment-see note IV G					(34,531,174)
Net assets, beginning of year, restated					1,292,789,088
Net assets, end of year					\$ 1,240,038,472

See accompanying notes to the financial statements.

LOUDOUN COUNTY PUBLIC SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2012

Exhibit III

	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash on deposit with County of Loudoun, VA	\$ 82,559,295	\$ -	\$ 8,292,156	\$ 90,851,451
Accounts receivable, net	402,460	-	31,907	434,367
Due from other governmental units	15,037,782	-	164,029	15,201,811
Advances to employees	1,050	-	-	1,050
Inventories	-	-	625,415	625,415
Prepaid items	256,428	50,000	1,030	307,458
Restricted cash on deposit with County of Loudoun, VA	-	25,689,334	-	25,689,334
Total assets	\$ 98,257,015	\$ 25,739,334	\$ 9,114,537	\$ 133,110,886
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,308,670	\$ 5,403,421	\$ 302,550	\$ 9,014,641
Accrued liabilities	50,018,026	3,204,602	1,105,344	54,327,972
Contract retainages	-	4,549,692	-	4,549,692
Other liabilities	470,084	-	-	470,084
Deferred revenue	1,770,412	-	-	1,770,412
Unearned revenue	821	-	694,820	695,641
Total liabilities	55,568,013	13,157,715	2,102,714	70,828,442
Fund balances:				
Nonspendable:				
Inventories	-	-	625,415	625,415
Advances and prepaid items	257,478	50,000	1,030	308,508
Permanent fund-nonexpendable	-	-	34,306	34,306
Restricted for:				
Restricted by grantors	139,923	-	164,029	303,952
Restricted by bond covenants	-	12,531,619	-	12,531,619
Committed to:				
Subsequent years appropriations	-	-	6,447	6,447
Capital asset preservation	-	-	1,578,424	1,578,424
Fiscal reserve	24,859,396	-	-	24,859,396
Assigned to:				
General fund contractual obligations	6,381,727	-	-	6,381,727
General fund subsequent year appropriations	10,000,000	-	-	10,000,000
Food services fund	-	-	4,360,719	4,360,719
Capital asset preservation fund	-	-	241,453	241,453
Unassigned	1,050,478	-	-	1,050,478
Total fund balances	42,689,002	12,581,619	7,011,823	62,282,444
Total liabilities and fund balances	\$ 98,257,015	\$ 25,739,334	\$ 9,114,537	\$ 133,110,886

See accompanying notes to the financial statements.

LOUDOUN COUNTY PUBLIC SCHOOLS
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
As of June 30, 2012

Exhibit IV

Fund balances - total governmental funds	\$	62,282,444
Amounts reported for governmental activities in the statement of net assets are different due to:		
Capital assets used in governmental fund activities are not financial resources and, therefore, are not reported in the funds.		
Nondepreciable capital assets	\$	235,748,305
Depreciable capital assets		1,439,331,337
Accumulated depreciation		<u>(362,663,473)</u>
Total		1,312,416,169
Internal service funds are used by management to provide certain goods and services to governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		
Assets:		
Current assets	\$	18,214,874
Capital assets		3,897,804
Accumulated depreciation		(616,226)
Liabilities		<u>(14,453,017)</u>
Total		7,043,435
Long-term liabilities related to governmental fund activities are not due and payable in the current period and, therefore, are not reported in the funds.		
Compensated absences	\$	(18,831,149)
Net other post-employment benefits obligation		(103,682,000)
Leases payable		(18,870,504)
Accrued interest on long-term debt		(319,923)
Total		<u>(141,703,576)</u>
Net assets of governmental activities	\$	<u><u>1,240,038,472</u></u>

See accompanying notes to the financial statements.

LOUDOUN COUNTY PUBLIC SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

Exhibit V

	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Intergovernmental:				
Federal government	\$ 20,745,133	\$ -	\$ 6,637,846	\$ 27,382,979
Commonwealth of Virginia	219,389,530	-	315,085	219,704,615
County of Loudoun, Virginia	490,757,871	14,393,178	11,164,355	516,315,404
Charges for services:				
Tuition and fees	2,402,513	-	-	2,402,513
Food sales	-	-	17,197,010	17,197,010
Revenue from the use of money and property	1,628,008	-	-	1,628,008
Recovered costs	990,753	-	-	990,753
Other	3,438,019	-	15	3,438,034
Total revenues	739,351,827	14,393,178	35,314,311	789,059,316
EXPENDITURES				
Current:				
Instruction:				
Regular	457,388,281	-	-	457,388,281
Special	131,259,110	-	-	131,259,110
Adult education	765,500	-	-	765,500
Other	3,563,981	-	1,400	3,565,381
Support services:				
Administration	17,530,508	-	-	17,530,508
Attendance and health	10,447,490	-	-	10,447,490
Pupil transportation	48,039,136	-	-	48,039,136
Facilities services	2,691,930	477,861	-	3,169,791
Operation and maintenance	67,354,805	-	4,096,689	71,451,494
Food services	359,481	-	22,207,178	22,566,659
Technology	19,093,752	-	-	19,093,752
Capital outlay	4,219,796	91,790,756	77,426	96,087,978
Debt service:				
Principal	-	-	8,420,767	8,420,767
Interest	-	-	500,063	500,063
Total expenditures	762,713,770	92,268,617	35,303,523	890,285,910
Deficiency of revenues under expenditures	(23,361,943)	(77,875,439)	10,788	(101,226,594)
OTHER FINANCING SOURCES (USES)				
Capital leases and installment purchases	7,000,000	-	-	7,000,000
Transfers out	(2,582,000)	-	-	(2,582,000)
Total other financing sources	4,418,000	-	-	4,418,000
Net change in fund balances	(18,943,943)	(77,875,439)	10,788	(96,808,594)
Fund balances at beginning of year	61,632,945	90,457,058	7,001,035	159,091,038
Fund balances at end of year	\$ 42,689,002	\$ 12,581,619	\$ 7,011,823	\$ 62,282,444

See accompanying notes to the financial statements.

LOUDOUN COUNTY PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
Governmental Funds
For Fiscal Year Ended June 30, 2012

Exhibit VI

Net changes in fund balances - total governmental funds	\$ (96,808,594)
Amounts reported for governmental activities in the statement of activities are different due to:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is expensed over their estimated useful lives and reported as depreciation expense.	
Capital outlay	\$ 96,087,978
Depreciation expense	<u>(36,241,404)</u>
Total	59,846,574
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	556,830
Gains and losses on the disposal of capital assets are reported in the statement of activities. However, in governmental funds, the proceeds from sales are reported. The difference is the net depreciated value of the disposed capital assets.	(370,291)
Transfers of real property to the County of Loudoun, VA decreases net assets in the statement of activities, but do not appear in the governmental funds because they are not financial uses	(702,068)
Principal payments on capital leases are reported as expenditures in governmental funds. However, the principal payments reduce the liabilities in the statement of net assets and do not result in expenses in the statement of activities.	8,420,767
Proceeds from the issuance of long-term debt are reported as other financing sources in the governmental funds, increasing fund balance. In the government-wide statements, new debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. This represents principal amounts of new capital leases.	(7,000,000)
In the statement of activities, certain operating expenses (OPEB and compensated absences) are measured by the amounts earned during the current year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.	(13,078,780)
Internal service funds are used by management to charge the costs of certain services to individual funds. Activities of the internal service funds is reported with governmental activities.	(3,736,511)
Interest on capital leases is reported as expenditures in the governmental funds when it is due. However, in the statement of activities, interest is expensed as it accrues. This amount represents the net change in accrued interest on long-term debt.	121,457
Change in net assets of governmental activities	<u>\$ (52,750,616)</u>

See accompanying notes to the financial statements.

LOUDOUN COUNTY PUBLIC SCHOOLS
Statement of Net Assets
Proprietary Funds
June 30, 2012

Exhibit VII

	Internal Service Funds
ASSETS	
Current assets:	
Cash on deposit with County of Loudoun, VA	\$ 17,069,128
Accounts receivable, net	179,616
Inventories	776,130
Deposits	190,000
Total current assets	18,214,874
Noncurrent assets:	
Capital assets:	
Buildings	3,238,924
Machinery and equipment	658,880
Accumulated depreciation	(616,226)
Total noncurrent assets	3,281,578
Total assets	21,496,452
LIABILITIES	
Current liabilities:	
Accounts payable	660,789
Accrued liabilities	2,946,615
Contract retainages	10,000
Deferred revenue	762,123
Claims liabilities	8,366,328
Total current liabilities	12,745,855
Noncurrent liabilities:	
Claims liabilities	1,707,162
Total noncurrent liabilities	1,707,162
Total liabilities	14,453,017
NET ASSETS	
Invested in capital assets	3,281,578
Unrestricted	3,761,857
Total net assets	\$ 7,043,435

See accompanying notes to the financial statements.

LOUDOUN COUNTY PUBLIC SCHOOLS
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

Exhibit VIII

	Internal Service Funds
OPERATING REVENUES	
Charges for services	\$ 125,591,336
Use of property	46,739
	<hr/>
Total operating revenues	125,638,075
	<hr/>
OPERATING EXPENSES	
Claims	104,893,488
Personnel services	4,740,417
Other services and charges	9,836,717
Materials and supplies	12,321,369
Depreciation	164,595
	<hr/>
Total operating expenses	131,956,586
	<hr/>
Net operating income	(6,318,511)
Transfers in	2,582,000
	<hr/>
Change in net assets	(3,736,511)
Net assets at beginning of year	10,779,946
	<hr/>
Net assets at end of year	<u>\$ 7,043,435</u>

See accompanying notes to the financial statements.

LOUDOUN COUNTY PUBLIC SCHOOLS
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

Exhibit IX

	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 125,519,879
Payments to suppliers for goods and services	(20,917,145)
Claims paid	(104,386,300)
Payments to employees	(4,740,417)
	<u>(4,523,983)</u>
Net cash used in operating activities	<u>(4,523,983)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in	2,582,000
Deposits	(190,000)
	<u>2,392,000</u>
Net cash provided by noncapital financing activities	<u>2,392,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions to capital assets	(149,299)
	<u>(149,299)</u>
Net cash used in capital and related financing activities	<u>(149,299)</u>
Net decrease in cash on deposit with the County of Loudoun, VA	(2,281,282)
Cash on deposit with County of Loudoun, VA at beginning of year	19,350,410
Cash on deposit with County of Loudoun, VA at end of year	<u>\$ 17,069,128</u>
Reconciliation of Net Operating Income to Net Cash Used in Operating Activities:	
NET OPERATING INCOME	<u>\$ (6,318,511)</u>
ADJUSTMENTS NOT AFFECTING CASH	
Depreciation	164,595
(INCREASE) DECREASE IN ASSETS AND INCREASE (DECREASE) IN LIABILITIES	
Accounts receivables, net	(118,196)
Inventories	(164,199)
Prepaid items	94,083
Accounts payable	(1,811,687)
Accrued liabilities	2,946,615
Contract retainages	(118,206)
Deferred revenue	294,335
Claims liabilities	507,188
	<u>1,794,528</u>
Total adjustments	<u>1,794,528</u>
Net cash used in operating activities	<u>\$ (4,523,983)</u>

See accompanying notes to the financial statements.

LOUDOUN COUNTY PUBLIC SCHOOLS
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

Exhibit X

	Other Post- Employment Benefits Trust	Agency Funds
ASSETS		
Cash on deposit with County of Loudoun, VA	\$ -	\$ 11,831,927
Cash and temporary investments	-	5,546,893
Cash with fiscal agent	53,926,479	-
Accounts receivable, net	-	17,724
Total assets	<u>\$ 53,926,479</u>	<u>\$ 17,396,544</u>
LIABILITIES		
Accounts payable	\$ -	\$ 11,849,651
Collections held in trust	-	5,546,893
Total liabilities	<u>\$ -</u>	<u>\$ 17,396,544</u>
NET ASSETS		
Held in trust for other post-employment benefits	<u>\$ 53,926,479</u>	

See accompanying notes to the financial statements.

LOUDOUN COUNTY PUBLIC SCHOOLS
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2012

Exhibit XI

	Other Post- Employment Benefits Fund
ADDITIONS	
Contributions:	
Employer	\$ 23,218,531
Total contributions	<u>23,218,531</u>
Investment income:	
Interest	3,826
Net appreciation in investments	1,304,386
Investment management fees	(40,557)
Total investment income	<u>1,267,655</u>
Total additions	<u>24,486,186</u>
DEDUCTIONS	
Benefit payments	3,069,268
Administrative payments	2,649,263
Total deductions	<u>5,718,531</u>
Changes in net assets	18,767,655
Net assets at beginning of year	35,158,824
Net assets at end of year	<u>\$ 53,926,479</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

Loudoun County Public Schools June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Loudoun County Public Schools (LCPS) is a corporate body operating under the constitution of the Commonwealth of Virginia (State) and the Code of Virginia. The nine voting members of the School Board are elected by the citizens of the County of Loudoun, Virginia (County) to serve four-year terms. Each of the County's eight magisterial districts has a member who represents its constituents. There is one at-large member and a non-voting student member selected by a countywide student advisory council to serve a one-year term. The School Board is responsible for setting the educational policies of LCPS and appoints a superintendent to implement them. In addition, the superintendent is responsible for administering the operations, supervising personnel, and advising the School Board on all educational matters for the welfare and benefit of the students.

A. REPORTING ENTITY

A reporting entity is comprised of its primary government and component units, entities for which the primary government is considered to be financially accountable or for which the nature and significance of their relationship with the primary government are such that exclusion would cause a reporting entity's financial statements to be misleading. LCPS' primary government includes all of its departments, boards, and associated agencies that are not legally separate. LCPS has not identified any component units required to be included in its financial statements; however, LCPS is a component unit of the County of Loudoun because it approves the budget for, issues debt on behalf of, and is the primary funding source for LCPS.

B. BASIS OF FINANCIAL STATEMENT PRESENTATION AND FUND ACCOUNTING

LCPS' financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units.

The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles for state and local governments.

The basic financial statements consist of the government-wide statements, including the statement of net assets and the statement of activities; fund financial statements, which provide more detailed financial information; and notes to the financial statements, which provide detailed narrative information.

1. GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements, the statement of net assets, and the statement of activities, present financial information about LCPS as a whole. These statements include the financial activities of LCPS' primary government, except for the fiduciary activities because LCPS cannot use those assets to finance its operations. The activities of the internal service funds are eliminated to avoid duplicate reporting of revenues and expenses. In accordance with GASB reporting requirements, activities are reported in these statements as either governmental or business-type. Primary activities of LCPS are categorized solely as governmental.

The statement of net assets presents the overall financial condition of LCPS at year-end.

The net assets balance is an indication of LCPS' ability to cover its costs and continue to provide services in the future. The statement of activities reports the expenses and revenues of LCPS in a format that focuses on the cost of each of LCPS' major programs/functions.

The net revenue and expense indicates whether the function is self-supporting or relies on general revenue funding sources. The direct expenses are those that are clearly identifiable to particular functions.

LCPS includes centralized expenses, which include an administrative overhead component as program expenses within the functional activities. The allocation of these costs is based on a ratio of a function's expenses to the total expenses.

Program revenues include: (1) charges for services (e.g., tuition and fees), (2) operating grants and contributions, and (3) capital grants and contributions. Revenues that are not directly related to a program are reported as general revenues. These include LCPS' portion of property tax revenues, which are received as payments from the County, as well as certain other unrestricted amounts received from the State and the Federal government.

2. FUND FINANCIAL STATEMENTS

LCPS reports three classifications of funds: governmental, proprietary, and fiduciary. Separate financial statements are provided for each classification. The General Fund is always reported as a major fund. The Capital Improvements Fund is also presented as a major fund since it represents a significant portion of LCPS' financial position and results of operation. All other governmental funds are aggregated in a single column entitled, "Nonmajor Governmental Funds".

The Internal Service Funds are aggregated in a single column entitled, "Internal Service Funds".

LCPS has three fiduciary funds reported as, Other Post-Employment Benefits (OPEB) Trust Fund, Agency Fund-Payroll Liabilities Distribution, and Agency Fund-School Activity in the fiduciary fund statements.

The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts. Each fund reports cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein.

LCPS reports the following major governmental fund types:

- **General Fund**—The General Fund is LCPS' primary operating fund, which accounts for all financial resources, except those required to be accounted for in another fund.
- **Capital Improvements Fund**—The Capital Improvements Fund tracks LCPS' financial transactions used for the acquisition, construction or renovation of school sites, buildings, and other major capital improvements.

LCPS reports the following nonmajor governmental fund types:

- **Special Revenue Fund**—Special revenue funds are used to account for proceeds of specific revenue sources, other than major capital projects, in which expenditures are restricted for a specified purpose.

The Food Service Fund accounts for sales proceeds from the school cafeterias.

- **Capital Asset Preservation Fund**—The Capital Asset Preservation Fund tracks LCPS' financial transactions used for the replacement and maintenance of major systems of LCPS' facilities.
- **Debt Service Fund**—The Debt Service Fund is used to account for the resources accumulated and payments made for principal, interest, and related costs on long-term debt of governmental funds.
- **Permanent Fund**—The Peabody Trust Fund is used to account for monies provided through a private donor, the corpus of which is nonexpendable. The interest earned on fund assets may be used only for school expenses.

LCPS reports the following additional fund types:

- **Internal Service Funds**—Internal Service Funds are proprietary funds, which account for the financing of goods and services provided by one department to other departments within LCPS on a cost reimbursement basis. The Central Service Fund accounts for the financing of goods or services of the fleet management services. The Self Insurance Fund accounts for the transactions associated with the comprehensive health benefits self-insurance program; and the workman's compensation insurance program.
- **OPEB Trust Fund**—The OPEB Trust Fund is a fiduciary fund, which accounts for monies collected and disbursed in connection with other post-employment benefits provided to LCPS' retirees.
- **Agency Funds**—The Payroll Liabilities Distribution Fund is a fiduciary fund, which accounts for monies collected and disbursed in connection with employee payroll liabilities. The Student Activity Fund is a fiduciary fund, which accounts for monies collected and disbursed at schools in connection with student athletics, classes, clubs, various fund raising activities, and private donations. These monies are only available to support student programs at their respective schools and not for LCPS as a whole.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

1. GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities are shown in the statement of net assets; therefore, the non-current assets (i.e., land, buildings, improvements, and other capital assets) as well as the long-term liabilities (i.e., compensated absences, capital lease liabilities, OPEB obligations and actuarial claims payable) are included in this statement.

Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. The statement of activities demonstrates the degree to which expenses are offset by program revenues for a specific program or function of LCPS.

Program revenues include charges for services, operating grants and contributions, and capital grants and contributions. Grants and contributions from the County, the State, and the Federal Government, which are not restricted for specific purposes, are presented as general revenues. In addition, revenue from the use of money is presented as general revenues. The effect of interfund revenue has been eliminated from these statements.

2. FUND FINANCIAL STATEMENTS

Governmental funds are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are included on the balance sheet.

Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in current financial resources. Revenues are recorded in the fiscal year in which the resources are measurable and expected to be collected by fiscal year-end or soon enough thereafter to be used to pay current liabilities. Non-exchange transactions, where LCPS either gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. These revenues are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Expenditures are reported in the fiscal year when the related fund liability is incurred, except that certain general long-term obligations, such as compensated absences, are recognized only to the extent they have matured.

Depreciation expense, which is an allocation of cost, is not recorded in the governmental funds.

Since the governmental fund statements are prepared on a different measurement focus than the government-wide statements, reconciliations are presented which reflects the differences.

Proprietary funds are reported using economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. Proprietary fund equity, net assets, is segregated into unrestricted and invested in capital assets, net of related debt.

The proprietary funds' operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. The operating revenues are charges for services provided to other departments on a cost reimbursement basis; the costs to provide these services are reported as operating expenses. For services which extend over more than one fiscal period, such as insurance, the change in actuarially determined insurance liability from one year to the next is reported as an operating expense. Non-operating revenues in the proprietary funds are generated from the sale of capital assets. The statement of cash flows presents the cash inflows and outflows of the proprietary activities.

In preparing the financial statements of the proprietary funds, LCPS has elected not to apply the option of paragraph 7 of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting.* Therefore, LCPS has applied all Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

The fiduciary funds have no measurement focus and reports only assets and related liabilities.

D. DEFERRED/UNEARNED REVENUE

Deferred revenues are resource inflows that do not yet meet LCPS' criteria for revenue recognition.

The General Fund has deferred revenues for federal and local grants, which were not collected within 60 days after fiscal year-end; hence, they are not considered "available" revenues and were deferred.

Unearned revenue is a specific type of deferred revenue that does not involve the application of the revenue availability criteria, and therefore applies equally to both accrual and modified accrual financial statements. LCPS has several types of unearned revenue. The General Fund has unearned revenue for advance tuition payments. The Food Service Fund has unearned revenues for advance meal payments.

E. CASH AND INVESTMENTS

1. CASH ON DEPOSIT WITH THE COUNTY OF LOUDOUN, VA

Cash on deposit with the County of Loudoun, VA represents the majority of LCPS' available cash. In order to maximize investment returns, these funds are maintained in a fully insured or collateralized investment pool administered by the County or held by the County's various fiscal agents. At June 30, 2012, all of the County's deposits were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act).

The Act established a single body of law applicable to the pledge of security as collateral for public funds on deposit in banking institutions. This ensures that the procedure for securing public deposits is uniform throughout the State. Under the Act, banks holding public deposits must pledge certain levels of collateral and make monthly filings with the State Treasury Board.

County policy only allows interest to be allocated to the Peabody Trust Fund and the OPEB Trust Fund.

The amounts reported as cash on deposit with the County of Loudoun, VA in the statement of cash flows represents amounts maintained in the investment pool administered by the County.

2. CASH AND TEMPORARY INVESTMENTS

Cash and temporary investments in the Student Activity Fund represent available cash in the local school accounts. Deposits including checking and savings accounts, and certificate of deposit, were placed with banks.

3. CASH WITH FISCAL AGENT AND RESTRICTED CASH ON DEPOSIT WITH COUNTY OF LOUDOUN, VA

Cash with fiscal agent in the statement of fiduciary net assets represents cash and investments held by the Virginia Pooled OPEB Trust Fund sponsored by the Virginia Municipal League and the Virginia Association of Counties (VML/VACO).

Restricted cash on deposit with County of Loudoun, VA are liquid assets that have third-party limitations on their use. LCPS reports restricted cash on deposit with County of Loudoun, VA in the Capital Projects Fund, which represents unspent amounts from the County's issuance of general obligation bonds. The County issues general obligation debt to finance the construction of school facilities on behalf of LCPS because the Code of Virginia precludes school divisions issuing debt or levying taxes. When both restricted and unrestricted resources are available for use, LCPS's policy is to use restricted resources first, and then unrestricted resources, as they are needed. As of June 30, 2012 \$25,689,334 is reported in the Capital Projects Fund as restricted cash of which \$13,157,715 has been expended, but unpaid (liabilities), leaving \$12,531,619 as restricted fund balance.

F. INVENTORIES, PREPAID ITEMS AND DEPOSITIS

Inventories are valued at cost, using the first-in/first-out (FIFO) method.

The consumption method of accounting for inventory is used in the government-wide statements as well as in the proprietary fund statements. Under this method, inventory items are comprised of expendable supplies and are expensed as they are consumed.

Certain payments to vendors reflects costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The consumption method of accounting for prepaid items is used in the government-wide statements as well as in the proprietary fund statements. Prepaid items in the governmental funds are recorded as nonspendable fund balance.

Deposits represents funds paid out to demonstrate intent to complete future transactions. LCPS has a \$190,000 deposit to its workman's compensation third party administrator for future claim transactions.

G. CAPITAL ASSETS

Capital assets are reported in the government-wide statement of net assets and include land, construction in progress, buildings, improvements other than buildings, machinery and equipment and infrastructure with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded at acquisition cost or if that is not available, at estimated historical cost. Donated assets, generally, are recorded at their fair market value at the time of receipt.

All LCPS' capital assets, except land and construction in progress, are depreciated or amortized. Accumulated depreciation/amortization is reported as a reduction to the capital assets.

The straight-line depreciation method is used over the following estimated useful lives:

Capital Assets	Useful lives (Years)
Buildings	45
Building Improvements	15-25
Infrastructure	20-60
Vehicles	5
Office Equipment	5-10
Computer Equipment	5

In addition, intangible assets are reported as capital assets in the government-wide statement of net assets and include easements and developed software.

Permanent easements are not amortized and are reported as land assets. Temporary easements are amortized over a 20-year period or the life of the easement, whichever is less and reported as infrastructure. Developed software is amortized over a five-year period.

H. COMPENSATED ABSENCES AND ACCRUED SALARIES AND BENEFITS

LCPS employees, other than teachers, earn vacation pay based on a prescribed formula depending on years of service. Eligible employees are allowed to accumulate a maximum of 480 hours of vacation leave as of the end of each fiscal year. Any excess vacation hours are converted to sick leave. Accumulated vacation leave will be paid-out upon employment separation. Teachers do not accumulate annual leave. As of June 30, 2012, \$10,681,453 of accumulated vacation leave was accrued as compensated absences.

Additionally, all LCPS employees with ten or more years of service are compensated for a portion of earned, but unused sick leave upon employment separation to a maximum amount of \$14,809 per individual.

As of June 30, 2012, \$8,149,696 of unused sick leave was accrued as compensated absences.

LCPS' accrued liabilities include salaries and benefits from employees who retired or resigned during the fiscal year, and have not received payment for their accrued annual leave. In addition, salary and fringe benefits that were incurred during the fiscal year, but not paid, were accrued as a fund liability.

I. PAYABLES, ACCRUED LIABILITIES, AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements as well as in the proprietary fund financial statements.

These obligations are segregated between current and long-term; however, in the government-wide financial statements, the long-term obligations are further divided between those due within one year and those due beyond one year.

Payables and accrued liabilities that will be paid from current financial resources are reported as obligations of the funds. Certain long-term obligations, such as claims and judgments and compensated absences, due for payment in the next fiscal year, are recorded as liabilities of the governmental funds.

Capital lease payments are recorded as they are due in the governmental funds and no liability is reported at fiscal year-end.

J. NET ASSETS

Net assets represent the difference between assets and liabilities. In the government-wide and proprietary fund financial statements, LCPS' net assets fall into three categories: invested in capital assets, net of related debt; restricted net assets, and unrestricted. The first category represents the portion of net assets related to capital assets, net of accumulated depreciation, reduced by the outstanding capital lease obligations to acquire these assets.

The restricted net assets represent the portion of net assets that are legally restricted to be used for construction of specific projects (\$12,531,619) and the nonexpendable portion (\$34,306) of the permanent fund.

The unrestricted category represents the remaining amount of net assets that may be used to meet LCPS' ongoing programs.

K. FUND BALANCE

For governmental funds only, a five-tier fund balance classification hierarchy that depicts the extent to which LCPS is bound by spending constraints imposed on the use of its resources has been adopted in accordance with GASB 54 for the fiscal year ending June 30, 2011. The five classifications, discussed in more detail below, are:

- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned

1. NONSPENDABLE FUND BALANCE

The nonspendable fund balance classification reflects amounts that are not in spendable form. Inventories and prepaid items are included in the nonspendable fund balance, as well as the Peabody Trust Fund's corpus balance.

2. RESTRICTED FUND BALANCE

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

3. COMMITTED FUND BALANCE

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the School Board.

4. ASSIGNED FUND BALANCE

The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the School Board or by the Superintendent, and are subject to neither the restricted nor the committed levels of constraint.

5. UNASSIGNED FUND BALANCE

In the general fund, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the general fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the general fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

6. FLOW ASSUMPTION

For the purpose of fund balance classification, LCPS considers restricted amounts spent first when an expenditure is incurred for which both restricted and unrestricted fund balance is available. Furthermore, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance can be used, then committed amounts are spent first, followed by assigned amounts, and then unassigned amounts.

L. ENCUMBRANCES

LCPS uses encumbrance accounting where purchase orders, contracts, and other commitments for the expenditure of funds are recorded.

Encumbrances represent the estimated amount of expenditures to result if the open purchase orders and unfinished contracts were completed. The appropriations of any funds encumbered at the end of the fiscal year carries over into the next fiscal year.

Following are the encumbrances as of June 30, 2012:

General Fund	\$ 6,381,727
Capital Improvements Fund	50,248,396
Nonmajor Funds (aggregate)	<u>1,820,342</u>

Total Governmental Funds \$58,450,465

M. USE OF ESTIMATES

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

N. TAX STATUS

LCPS, as a local school district, is not subject to federal, state, or local income taxes, and accordingly, no provision for income taxes is recorded.

O. NEW PRONOUNCEMENTS

The GASB adopted Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* in December 2009. This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Provisions related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information on OPEB plan financial statements for periods beginning after June 15, 2011.

Management is in the process of completing their assessment of the impact of this GASB Statement and has not implemented this Statement.

The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* in November 2010. The requirements of the related Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

Management is in the process of completing their assessment of the impact of this GASB Statement and has not implemented this Statement.

The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34* in November 2010. The requirements of the related Statement are effective for financial statements for periods beginning after June 15, 2012.

Management is in the process of completing their assessment of the impact of this GASB Statement and has not implemented this Statement.

The GASB also adopted Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* in December 2010.

The Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements.

The Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989:

1. FASB Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

Management is in the process of completing their assessment of the impact of this GASB Statement and has not implemented this Statement.

The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in June 2011. This Statement amends Statement No. 34 relating to net asset reporting requirements. The requirements of the related Statement are effective for financial statements for periods beginning after December 15, 2011.

Management is in the process of completing their assessment of the impact of this GASB Statement and has not implemented this Statement.

The GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* in June 2011. The requirements of the related Statement are effective for financial statements for periods beginning after June 15, 2011.

Management is in the process of completing their assessment of the impact of this GASB Statement and has not implemented this Statement.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The following reconciliations accompany the governmental fund statements:

- **Reconciliation of the Balance Sheet to the Statement of Net Assets** – This reconciliation explains the differences between total fund balances as reflected on the governmental funds balance sheet and net assets for governmental activities as shown on the government-wide statement of net assets.
- **Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities** – This reconciliation explains the differences between the total net change in fund balances as reflected on the governmental funds statement of revenues, expenditures, and changes in fund balances and the change in net assets for governmental activities as shown on the government-wide statement of activities.

The reconciling differences are a result of the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

III. DETAILED NOTES TO ALL FUNDS

A. BANK DEPOSITS AND INVESTMENTS

1. DEPOSIT AND INVESTMENT POLICY

The County maintains an investment policy, the overall objectives of which are the preservation of capital and the protection of investment principal; maintenance of sufficient liquidity to meet operating requirements; conformance with federal, state, and other legal requirements; diversification to avoid incurring unreasonable risks regarding specific security types or individual financial institutions; and attainment of a market rate or return.

It is the County's policy to pool for investing purposes all available funds of the County and its component units that are not otherwise required to be kept separate. The County's investment policy, therefore, applies to the activities of the County's reporting entity, including LCPS, with regard to investing the financial assets of its pooled investment funds. The investments that are required to be kept separate also adhere to the County's investment policy.

The Code of Virginia (Code) authorizes the purchase of the following types of investments:

- Commercial paper
- U.S. Treasury and agency securities
- U.S. Treasury strips
- Negotiable certificates of deposits and bank notes
- Money market funds
- Bankers acceptances
- Repurchase agreements
- Medium term corporate notes
- Local government investment pool
- Asset-backed securities
- Hedged debt obligations of sovereign governments
- Securities lending programs
- Obligations of the Asian Development Bank
- Obligations of the African Development Bank
- Obligations of the International Bank for Reconstruction and Development
- Obligations of the State and its instrumentalities
- Obligations of counties, cities, towns, and other public bodies located within the State
- Obligations of state and local government units located within other states
- Savings accounts or time deposits in any bank or savings and loan association within the State that complies with the Code

However, the County's investment policy (Policy), as adopted by the County Board of Supervisors, permits prime quality commercial paper, bankers acceptances, repurchase agreements, certificates of deposit (non-negotiable only), mutual funds, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP).

The Policy establishes limitations on the holdings of investments of non-U.S. Treasury obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each security is as follows:

<u>Investment Type</u>	<u>Maximum Diversification</u>
State of Virginia LGIP	75% of Portfolio
U.S. Treasury Obligations	100% of Portfolio
U.S. Government Agencies	50% of Portfolio
Repurchase Agreements	60% of Portfolio
Bankers' Acceptances	40% of Portfolio
Commercial Paper	35% of Portfolio
Certificates of Deposit- Commercial Banks	90% of Portfolio
Certificates of Deposit- Savings and Loans Assoc.	10% of Portfolio
Money Market funds (Open Ended Investment funds)	50% of Portfolio

Within certain investment types, the Policy also places other limitations as follows:

<u>Investment Type</u>	<u>Limits within Investment Type</u>
Repurchase Agreements	60% of total with one institution
Bankers' Acceptances	Highline rating of 30 or better or one of the following: Fitch Individual Bank Rating of B or better, S&P Short Term Local Issuer A-1 or better, or Moody's Short Term P-1 or better.
Commercial Paper	Rating of A-1 P-1 or better. Fitch and Duff and Phelps rating not considered.
Certificates of Deposit- Commercial Banks	All banks must have Highline rating of 30 or better or one of the following: Fitch Individual Bank rating of B or better, S&P Short Term Local Issuer A-1 or better, or Moody's Short Term P-1 or better. All banks must comply with the Virginia Public Deposit. Maximum 50% in any one institution
Certificates of Deposit- Savings and Loans Assoc.	No more than \$100,000 in any one institution.

Although permitted by state code, the County limits its exposure to interest rate risk and credit risk by disallowing investment in derivatives, bank notes, corporate notes, mortgage backed securities, asset backed securities, non-prime commercial paper, or stocks of other political subdivisions. The County also excludes any foreign related investments in its portfolio.

2. INTEREST RATE RISK

The County's policy is to minimize the risk that the market value of securities in its portfolio will fall due to changes in market interest rates. To achieve this minimization of risk, the County structures the pooled investment portfolio so that sufficient securities mature to meet cash requirements for ongoing operations, thereby, avoiding the need to sell securities on the open market prior to maturity.

The County invests using a passive style of management whereby securities are bought with the intention of holding them until maturity and with the assumption that all securities will not be called.

The County may purchase securities whereby the interest rate increases on a periodic basis as detailed in the securities prospectus. The incremental steps are fixed amounts that have increased over time with no direct correlation to a market index. All these securities are callable, yet assumed to be held through maturity.

The County may also purchase callable securities, with limited or extended lock-in provisions ensuring yield for specific time frames as specified in the securities prospectus. Early call provisions may expose the County to current market conditions, which may be less favorable especially in a downward interest rate environment. Yields on callable bonds are typically higher as buyers assume more market rate risk if a call provision is exercised.

3. CREDIT RISK

The County's policy is to minimize the risk of loss due to the failure of an issuer or other counterparty to an investment to fulfill its obligations. The County pre-qualifies financial institutions, broker-dealers, intermediaries, and advisors with which the County does business. In addition, the County limits its pooled investments to the safest types of securities and diversifies its pooled investment portfolio so that potential losses on individual securities will be minimized.

As required by state statute, the Policy requires that commercial paper must have a short-term debt rating of no less than "A-1" (or its equivalent) from Standard & Poor's and no less than "P-1" from Moody's.

Investments made with any banks, including certificates of deposits or bankers acceptances, must be rated 30 or higher on Highline and be a qualified Virginia depository for certificate of deposit. If Highline rating of 30 is not met, Banks are required to have one of the following: Fitch Individual Bank Rating of B or better, Standard & Poor's Short Term Local Issuer A-1 or better, or Moody's Short Term P-1 or better.

Although state statute does not impose credit standards on repurchase agreement counterparties, banker's acceptances or money market mutual funds, the County has established stringent credit standards for these investments to minimize portfolio risk. As of June 30, 2012, the Portfolio was invested as follows:

- 5.2% of the portfolio was invested in "Aaa" or better rated obligations
- 13.8% was invested in "A-1" "P-1" or better short term commercial paper/bankers' acceptances
- 44.6% was invested in "AAAm" rated state run pooled money market fund
- 36.2% was invested in fully collateralized bank certificates of deposit and 100% FDIC insured bank accounts

Credit ratings presented in the above paragraph are from Standard & Poor's, Moody's Investor Services, or Fitch Ratings depending on the investment type.

4. CONCENTRATION OF CREDIT RISK

As of June 30, 2012, the portion of the County's portfolio, excluding the Virginia LGIP and U.S. Government guaranteed obligations, that exceeded 5% of the total portfolio are as follows:

<u>Issuer</u>	<u>% of Portfolio</u>
Capital One Bank	7.06%
TD Bank	6.20%
Cardinal Bank (fully collateralized money market funds and business checking account paper)	5.41%

5. CUSTODIAL CREDIT RISK

For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, the County's reporting entity may not recover its deposits.

In accordance with the Virginia Security for Public Deposits Act (Act), all of the County reporting entity's deposits are covered by federal depository insurance or collateralized in accordance with the Act, which provides for the pooling of collateral pledged by financial institutions with the Treasurer of Virginia to secure public deposits as a class.

No specific collateral can be identified as security for one public depositor, and public depositors are prohibited from holding collateral in their names as security for deposits.

If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral is inadequate to cover a loss, additional amounts are assessed on a pro rata basis to the members of the pool. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by participating financial institutions.

A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance; therefore, funds deposited in accordance with the requirements of the Act are considered to be fully insured.

For investments, custodial credit risk is the risk that, in the event of the failure of a counter-party, the County's reporting entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2012, all of the County's securities, other than bank certificates of deposit, were held in a highly rated bank's safekeeping department in the County's name.

All County deposits are held in Qualified Virginia Depositories, as required by the Act and Policy.

The County also requires stricter guidelines on depositories, requiring a Highline National rating of 30 or higher or one of the following: a Fitch Individual Bank Rating of B or better, Standard & Poor's Short Term Local Issuer A-1 or better, or Moody's Short Term P-1 or better. These ratings are issued and reviewed quarterly.

6. FOREIGN CURRENCY RISK

Per the County's policy, pooled investments are limited to U.S. dollar denominated instruments.

B. DUE FROM INTERGOVERNMENTAL UNITS

Amounts due from the Federal government are attributed primarily to the Individuals with Disabilities Education Act (IDEA) grant and to the Title I, II and III grants in the General Fund.

IDEA is designed to ensure that all school age handicapped children are provided a free, appropriate public education. Title I, II, and III programs enhance the instruction for disadvantaged children.

A significant portion of the receivable from the State in the General Fund was attributed to State sales taxes due to LCPS. The Virginia Retail Sales and Use Tax Act require

one and one-eighth cent of every five cents collected in State sales tax to be distributed to school divisions based on school-age population.

Amounts due from other governments at June 30, 2012 are as follow:

Fund	Federal Government	Commonwealth of Virginia	Total
General fund	\$ 4,662,112	\$10,375,670	\$ 15,037,782
Nonmajor governmental funds	164,029	---	164,029
Total	\$ 4,826,141	\$10,375,670	\$ 15,201,811

C. INTERFUND TRANSFERS

The primary purpose for interfund transfers was to provide funding for LCPS' operations. The breakdown of interfund transfers for the fiscal year ended June 30, 2012 was as follows:

Fund	Transfers In	Transfers Out
General fund	\$ ---	\$ 2,582,000
Internal service funds	2,582,000	---
Total	\$ 2,582,000	\$ 2,582,000

D. CAPITAL ASSETS

A summary of capital asset activity for fiscal year 2012 was as follows:

Governmental Activities	Balance June 30, 2011	Increases	Decreases	Adjustments	Balance June 30, 2012
Non-depreciable capital assets:					
Land	\$ 127,030,175	\$ 6,777,636	\$ (685,000)	\$ 0	\$ 133,122,811
Construction in progress	165,083,331	83,459,558	(145,917,395)	0	102,625,494
Total non-depreciable capital assets	292,113,506	90,237,194	(146,602,395)	0	235,748,305
Depreciable capital assets:					
Buildings	1,173,851,636	147,467,916	(589,869)	0	1,320,729,683
Machinery and equipment	119,098,721	4,979,491	(2,779,822)	0	121,298,390
Improvements other than buildings	1,173,046	26,901	0	0	1,199,947
Infrastructure	1,121	0	0	0	1,121
Total depreciable capital assets	1,294,124,524	152,474,308	(3,369,691)	0	1,443,229,141
Accumulated depreciation:					
Buildings	(203,001,695)	(27,393,799)	410,452	(34,531,174)	(264,516,216)
Machinery and equipment	(91,489,269)	(8,969,592)	2,571,880	0	(97,886,981)
Improvements other than buildings	(833,866)	(42,552)	0	0	(876,418)
Infrastructure	(28)	(56)	0	0	(84)
Total accumulated depreciation	(295,324,858)	(36,405,999)	2,982,332	(34,531,174)	(363,279,699)
Depreciable capital assets, net	998,799,666	116,068,309	(387,359)	(34,531,174)	1,079,949,442
Total capital assets, net	\$ 1,290,913,172	\$ 206,305,503	\$ (146,989,754)	\$ (34,531,174)	\$ 1,315,697,747

Governmental activities capital assets, net of accumulated depreciation, at June 30, 2012 are comprised of the following:

General capital assets, net	\$ 1,312,416,169
Internal service fund capital assets, net	3,281,578
Total capital assets, net	<u>\$ 1,315,697,747</u>

Depreciation was charged to governmental programs/functions as shown:

Governmental Activities	Depreciation Expense
Instruction:	
Regular	\$ 27,193,183
Special education	74,235
Support services:	
Administration	203,058
Attendance and health	501
Pupil transportation	6,325,350
Facilities	287,255
Operation and maintenance	1,361,124
Food services	18,842
Technology	777,856
In addition, depreciation expense on capital assets held by the internal service fund is charged to pupil transportation.	164,595
Total	<u>\$ 36,405,999</u>

E. LONG-TERM OBLIGATIONS

Internal service funds predominantly serve the governmental funds. Accordingly, their long-term liabilities are included as part of governmental activities.

Compensated absences, actuarial claims payable, capital leases, and OPEB obligations are generally liquidated from the General Fund. The following is a summary of changes in the long-term obligations of LCPS for the year ended June 30, 2012:

Governmental Activities	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Compensated absences	\$ 18,609,101	\$ 2,102,845	\$ 1,880,797	\$ 18,831,149	\$ 2,068,876
Claims liabilities	9,566,302	113,183,566	112,676,378	10,073,490	8,366,328
Lease payable	20,291,271	7,000,000	8,420,767	18,870,504	7,859,836
OPEB obligation	90,825,268	36,075,263	23,218,531	103,682,000	---
Total	<u>\$ 139,291,942</u>	<u>\$ 158,361,674</u>	<u>\$ 146,196,473</u>	<u>\$ 151,457,143</u>	<u>\$ 18,295,040</u>

1. CAPITAL LEASES

LCPS entered into capital lease agreements as lessee for school buses, other vehicles, computers and telecommunication equipment. The capital leases for this equipment include the following minimum annual lease payments as of June 30, 2012:

Fiscal Year	Payment
2013	\$ 8,223,296
2014	5,607,127
2015	3,880,288
2016	1,812,119
Total minimum obligation	19,522,830
Portion representing interest	(652,326)
Present value of minimum obligation	<u>\$ 18,870,504</u>

The following schedule lists the capital leases at June 30, 2012 by individual items:

Date Issued	Final Maturity	Interest Rate	Issue Amount	Balance at June 30, 2012	Type of Project Financed (the assets acquired secured the related capital lease)
7/23/2008	7/23/2012	3.36%	\$ 10,000,000	\$ 2,500,000	\$5M for Buses; \$5M for computer equipment
8/26/2009	8/26/2013	2.58%	6,363,000	3,262,504	Buses and vehicles
9/29/2010	9/29/2014	1.58%	8,144,000	6,108,000	Buses and vehicles
7/20/2011	7/20/2015	1.41%	7,000,000	7,000,000	\$1.463M for vehicles; \$5.537M for computers
Total			<u>\$ 31,507,000</u>	<u>\$ 18,870,504</u>	

2. DEBT SERVICE RESPONSIBILITY

The Code of Virginia prohibits LCPS from having, borrowing or taxing authority. The County issues and services general obligation debt to finance the purchase or construction of school facilities. The debt is not secured by the assets purchased or constructed by LCPS, but by the full faith and credit, and taxing authority of the County. Since LCPS is not obligated to repay principal or interest on any general obligation debt incurred on LCPS' behalf, the debt is recorded in the County's government-wide financial statements.

3. CONSTRUCTION COMMITMENTS

At June 30, 2012, LCPS had contractual commitments of \$50,248,396 in the capital improvements fund for construction of various projects.

IV. OTHER INFORMATION

A. RELATED PARTIES

With the exception of the County, which funds a large portion of LCPS' budget, the school system had no other related parties during fiscal year 2012.

B. RISK MANAGEMENT

Prior to fiscal year ending June 30, 2009, the County reported LCPS' risk management activities as part of the County's self- insurance funds. Separate note disclosures for LCPS' risk management activities were presented in prior County CAFRs. Beginning with the fiscal year ending June 30, 2009, LCPS is reporting all risk management activities in the LCPS Self Insurance Fund.

LCPS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; the health of and injuries to employees; and natural disasters. LCPS maintains internal service funds for workers' compensation claims and health insurance benefits. LCPS' property and liability insurance program is provided through membership in the Virginia Association of Counties Group Self-Insurance Pool. Member jurisdictions contribute to the pool based on their risk exposures and past claims experience.

The property coverage program consists of blanket replacement cost business real and personal property insurance, boiler and machinery insurance, comprehensive crime and employee dishonesty insurance, and automobile physical damage insurance.

The business real and personal property insurance carries a \$5,000 deductible per occurrence with the balance of the property coverages carrying a \$2,500 deductible per occurrence.

The liability insurance program consists of first dollar insurance for general liability, school board legal professional liability, automobile liability, and excess liability for a total limit of \$11 million per occurrence (no annual aggregate, deductible or retention applies). Claims that arose from incidents occurring prior to the existence of all the foregoing agreements are covered under LCPS' previous commercial insurance programs.

In 1990, LCPS received a Certificate as a Qualified Self-Insurer from the Virginia Workers Compensation Commission. At that time, LCPS began to self-insure statutory workers' compensation and employer's liability coverage. At the same time, LCPS purchased excess workers' compensation and employer's liability insurance.

This excess insurance limits individual claims against the self-insurance program with a current specific retention level of \$400,000 per occurrence.

Worker's Compensation claims that arose from incidents occurring prior to the self-insured program are covered under LCPS' previous commercial insurance carrier. A reserve for pending claims and incurred but not reported claims has been accrued as a liability within the self-insurance funds as an estimate based on information received from AON Risk Solutions.

LCPS contracts with a third party administrator to adjust workers' compensation claims, provide underwriting services, and recommend reserve levels, including claims reported but not settled. All other property and casualty insurance either has been, or is expected to be renewed as it becomes due. The following table shows the amounts that have been accrued for workers' compensation as a liability within the self-insurance fund. LCPS' administrator is PMA Companies.

Fiscal Year 2012

Unpaid claims beginning of fiscal year	\$ 3,395,419
Incurred claims (including IBNR)	1,797,502
Claim payments	<u>(2,042,411)</u>
Unpaid claims end of fiscal year	<u>\$ 3,150,510</u>

Fiscal Year 2011

Unpaid claims beginning of fiscal year	\$ 2,957,073
Incurred claims (including IBNR)	2,555,552
Claim payments	<u>(2,117,206)</u>
Unpaid claims end of fiscal year	<u>\$ 3,395,419</u>

On October 1, 1984, LCPS began to self-insure health care for all eligible employees and all retirees. Eligible employees are regular staff employees. Eligible retirees include all retirees who immediately begin drawing a retirement annuity from the Virginia Retirement System.

Employer contribution rates for employees vary depending on scheduled hours. Employer contribution rates for retirees vary based on the type of retirement, years of service, and type of coverage. LCPS offers three (2) health plan options, a Point of Service (POS) plan and an Open Access Plus Plan (OAP).

In-network services for the POS are covered with a \$15 co-pay for Primary Care Physician, \$30 for Specialists. Participants have an option to receive services out-of-network, subject to a \$500 deductible and 20% coinsurance. In-network services for the OAP plan are covered with a \$15 co-pay for Primary Care Physicians and a \$30 co-pay for Specialists with a \$200 deductible and a 10% coinsurance for most other in-network services. Participants have an option to receive services out-of-network benefits.

Prescription drugs, dental, and vision services are covered as part of the plan. LCPS has purchased specific stop loss insurance from Connecticut General Life Insurance Company (CIGNA) limiting claims against the self-insurance program to \$300,000 per occurrence for individual claims. The following table shows the amounts that have been accrued as a liability within the self-insurance fund based upon an estimate from LCPS' outside actuary.

Fiscal Year 2012

Unpaid claims beginning of fiscal year	\$ 6,170,883
Incurred claims (including IBNR)	103,095,986
Claim payments	<u>(102,343,889)</u>
Unpaid claims end of fiscal year	<u>\$ 6,922,980</u>

Fiscal Year 2011

Unpaid claims beginning of fiscal year	\$ 5,397,116
Incurred claims (including IBNR)	92,781,568
Claim payments	<u>(92,007,801)</u>
Unpaid claims end of fiscal year	<u>\$ 6,170,883</u>

LCPS' health insurance third party administrator is CIGNA Healthcare. CIGNA is contracted to adjudicate health insurance claims, provide underwriting services, recommend reserve levels, including claims incurred but not yet reported. Delta Dental is the third party administrator for dental benefits and Davis Vision is the third party administrator for vision benefits and MEDCO is the third party administrator for prescription drug benefits.

C. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLANS

1. BACKGROUND

Beginning in fiscal year 2008, LCPS implemented Governmental Accounting Standards Board (GASB) Statement No. 45 for Other Post-Employment Benefits (OPEB) offered to retirees.

This standard addresses how local governments should account for and report their costs related to post-employment health care and other non-pension benefits, such as LCPS' retiree health benefit subsidy. Historically LCPS' subsidy was funded on a pay-as-you-go basis, but GASB 45 requires that LCPS accrue the cost of the retiree health subsidy and other post-employment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on LCPS. This funding methodology mirrors the funding approach used for pension benefits.

2. PLAN DESCRIPTION

The LCPS' OPEB Trust Fund is a single-employer defined benefit healthcare plan ("The Plan"). The Plan provides healthcare insurance for eligible retirees and their spouses through LCPS' group health insurance plan, which covers both active and retired members. Employer contribution rates for retirees vary based on the type of retirement, years of service, and type of coverage. The Plan does not issue a publicly available financial report.

At July 1, 2011, the date of the most recent actuarial valuation, plan membership consisted of:

Retirees and beneficiaries entitled to benefits	825
Spouses	320
Active plan members	<u>7,375</u>
Total	<u>8,520</u>

3. FUNDING POLICY

The contribution requirements of plan members of LCPS are established and may be amended by the School Board. The contributions are based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits. During fiscal year 2012, LCPS contributed \$23,218,531 to the OPEB Trust Fund, which included \$5,718,531 for current costs and an additional \$17,500,000 to prefund benefits.

LCPS is participating in the Virginia Pooled OPEB Trust Fund sponsored by the Virginia Municipal League and the Virginia Association of Counties (VML/VACO) in 2012. The Virginia Pooled OPEB Trust Fund is established as an investment vehicle for participating employers to accumulate assets to fund OPEB.

Plan assets for purposes of GASB Statement No. 45 are usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, in which (a) contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employer or plan administrator, for the payment of benefits in accordance with the terms of the plan.

The Trust Fund issues a separate report, which can be obtained by requesting a copy from the plan administrator, Virginia Municipal League and the Virginia Association of Counties Finance Program, 1108 East Main Street, Richmond, Virginia 23219.

4. ANNUAL OPEB COST AND NET OPEB OBLIGATION

LCPS is required to contribute the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. LCPS' current employer contribution rate is 64.36 percent.

LCPS' annual OPEB cost and the net OPEB obligation based on a blended rate of 5.5% between the unfunded rate of 4.0% and the funded rate of 7.0%, including an inflation component of 2.5%, and amortizing the initial unfunded actuarial liability over thirty years based on a level percent of payroll method for 2012 is as follows:

Discount rate	6.50%
Annual required contribution (ARC)	\$ 32,757,000
Interest on net OPEB obligation	5,904,000
Adjustment to ARC	<u>(2,585,737)</u>
Annual OPEB cost (expense)	36,075,263
Actual contributions	<u>(23,218,531)</u>
Increase in net OPEB obligation	12,856,732
Net OPEB obligation, beginning of year	90,825,268
Net OPEB obligation, end of year	<u>\$103,682,000</u>
Actual contribution rate	70.88%

LCPS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, the net OPEB obligation for FY 2012 and the preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Annual Contribution</u>	<u>Net OPEB Obligation</u>	<u>Annual Shortfall</u>
6/30/2012	\$36,075,263	64.36%	\$23,218,531	\$103,682,000	\$12,856,732
6/30/2011	30,439,222	64.55%	19,647,113	90,825,268	10,792,109
6/30/2010	31,542,472	47.54%	14,994,968	80,033,159	16,547,504
6/30/2009	34,628,926	32.56%	11,275,766	63,485,655	23,353,160

The projection of future benefit payment for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

Amounts determined regarding the funded status of the plan and the annual required 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, also presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

For the year ended June 30, 2012, LCPS' funding progress is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL)(b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered of Payroll (c)</u>	<u>UAAL as a Percentage Covered Payroll ((b-a)/c)</u>
7/1/2011	\$35,159,000	\$313,999,000	\$278,840,000	11.20%	\$365,332,000	76.33%
7/1/2009	7,183,273	341,943,541	334,760,268	2.10%	433,438,915	77.23%
7/1/2007	---	348,055,997	348,055,997	0.00%	363,466,341	95.76%

LCPS implemented GASB 45 in FY2008; therefore six years of data is not available but will be accumulated over time. The most recent actuarial valuation was done on July 1, 2011 and for the financial reporting purposes, the actuarial valuation will be performed at least biennially.

5. ACTUARIAL METHODS AND ASSUMPTIONS

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The ARC for FY 2012 was determined as part of the July 1, 2011 actuarial valuation using the Projected Unit Credit actuarial cost method. Under this method, benefits are projected for life and their present value is determined. The present value is divided into equal parts, which are earned over the period from date of hire to the full eligibility date.

Because LCPS is prefunding its benefits, the actuarial assumptions included a 7.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on program assets and on LCPS' investments.

The valuation also includes an annual healthcare cost trend rate for medical benefits (including prescription drugs) for Pre-Medicare rates of 9 percent initially, reduced by decrements to an ultimate rate of 5 percent after eight years (9%, 8%, 7%, 6%, 5.5%, 5%) and Post Medicare rates of 7 percent initially, reduced by decrements to an ultimate rate of 5 percent after eight years (7%, 6.75%, 6.5%, 6.25%, 6%, 5.75%, 5.5%, 5.25%, 5%) including an inflation component of 2.5 percent.

Both the investment rate of return and the annual healthcare cost trend rate included a 2.5 percent wage inflation assumption. The UAAL is amortized as a level percentage of pay over an open period of 30 years.

D. CONTINGENT LIABILITIES

LCPS is contingently liable with respect to lawsuits and other claims, which arise in the ordinary course of its operations. Management believes that the amount of loss, if any, is not material to LCPS' financial condition.

LCPS receives grant funds, principally from the Federal government, for various educational programs. Certain expenditures of these funds are subject to audit by the grantor. LCPS is contingently liable to refund amounts received in excess of allowable expenditures.

In the opinion of LCPS management, no material refunds will be required as a result of expenditures disallowed by the grantors.

E. RETIREMENT PLANS

1. PLAN DESCRIPTION

Name of Plan:

Virginia Retirement System (VRS)

Identification of Plan:

Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Administering Entity:

Virginia Retirement System (VRS)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010, are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010, are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least five years of service credit, or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees, other than sheriffs and jail superintendents, is 1.70% or 1.85% as elected by the employer. At retirement, members can select the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option (PLOP), or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP, Advance Pension Option, or those retiring with a reduced benefit.

Retirees are eligible for an annual Cost-of-Living Adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.000%. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf>, or by writing to the System's Chief Financial Officer at PO Box 2500, Richmond, VA 23218-2500.

2. FUNDING POLICY

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, Loudoun County Public Schools (LCPS) is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. LCPS contribution rate for the fiscal year ended June 30, 2012 was 8.09% of the annual covered payroll.

3. ANNUAL PENSION COST

For the fiscal year ended June 30, 2012, the annual pension cost of \$6,133,882 for VRS was equal to the required and actual contributions.

Three-Year Trend Information for LCPS

Fiscal Year	Annual Pension	Percentage of APC	Net Pension
Ending	Cost (APC)	Contributed	Obligation
June 30, 2012	\$ 6,133,882	100%	\$ ---
June 30, 2011	\$ 5,936,059	100%	\$ ---
June 30, 2010	\$ 6,324,055	100%	\$ ---

The FY 2012 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and enforcement officers, firefighters, and sheriffs, (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of LCPS assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five year period. LCPS Unfunded Actuarial Accrued Liability (UAAL) is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the UAAL was 20 years.

4. FUNDED STATUS AND FUNDING PROGRESS

As of June 30, 2011, the most recent actuarial valuation date, the plan was 79.42% funded. The actuarial accrued liability for benefits was \$101,879,533, and the actuarial value of assets was \$80,916,644, resulting in an UAAL of \$20,962,889. The covered payroll (annual payroll of active employees covered by the plan) was \$48,578,343 and the ratio of the UAAL to the covered payroll was 43.15%. The schedule of funding progress, presented as Required Supplemental Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the Actuarial Accrued Liability (AAL) for benefits.

F. BUDGETS

Budgets are prepared and adopted on as basis consistent with GAAP. Annual appropriation resolutions and budgets are adopted for the General Fund, Food Service Fund, and Debt Service Fund. The budget also includes a recommended program of capital expenditures to be financed from current operations and a separate six-year capital improvement plan. All annual appropriations lapse at fiscal year-end with the exception of the Capital Improvements Fund and the Capital Asset Preservation Fund, for which project-length budgets are adopted.

Encumbrances represent goods or services that have been contracted and are funded; however, these goods or services have not been received or performed. Encumbrances do not constitute expenditures. The budget of any funds encumbered at the end of the fiscal year carries over into the next fiscal year.

G. PRIOR PERIOD ADJUSTMENTS AND ACCOUNTING CHANGES

The beginning net assets of the Governmental Activities on the government-wide Statement of Activities decreased by \$34,531,174 due to improper timing of the capitalization of school buildings. Management, while reviewing capitalization policies, found that the capitalization of school buildings was not in compliance with Generally Accepted Accounting Policies (GAAP) in prior years. The proper capitalization of school buildings resulted in an increase of accumulated depreciation of \$34,531,174 for prior fiscal years and a change to LCPS' capitalization policy to include all buildings that are "in use and occupied".



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Required Supplementary Information



The **Required Supplementary Information** subsection includes:

A budgetary comparison schedule for the General Fund, which accounts for all revenues and expenditures of Loudoun County Public Schools, not required to be accounted for in other funds.

Trend data, the schedule of funding progress and the schedule of employer contributions, for the Virginia Retirement System and the Other Post-Employment Benefits Trust Fund.

The notes to the required supplementary information are also included.

LOUDOUN COUNTY PUBLIC SCHOOLS
Budgetary Comparison Schedule - Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2012

Exhibit XII

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Intergovernmental:				
Federal government	\$ 13,255,146	\$ 20,593,793	\$ 20,745,133	\$ 151,340
Commonwealth of Virginia	221,554,075	219,693,143	219,389,530	(303,613)
County of Loudoun, Virginia	508,025,867	490,757,871	490,757,871	-
Charges for services:				
Tuition and fees	3,193,590	2,131,446	2,402,513	271,067
Revenue from the use of money and property	1,771,944	1,771,944	1,628,008	(143,936)
Recovered costs	450,000	450,000	990,753	540,753
Other	1,696,255	2,621,291	3,438,019	816,728
Total revenues	749,946,877	738,019,487	739,351,827	1,332,340
EXPENDITURES				
Current:				
Instruction:				
Regular	451,761,657	460,373,113	457,388,281	2,984,832
Special	129,791,913	131,371,699	131,259,110	112,589
Adult education	782,368	847,950	765,500	82,450
Other	3,879,094	4,065,318	3,563,981	501,337
Support services:				
Administration	20,698,028	21,623,551	17,530,508	4,093,043
Attendance and health	10,386,331	10,535,102	10,447,490	87,612
Pupil transportation	50,406,549	50,174,870	48,039,136	2,135,734
Facilities services	2,758,249	3,743,953	2,691,930	1,052,023
Operation and maintenance	71,943,738	71,922,076	67,354,805	4,567,271
Food services	359,481	359,481	359,481	-
Technology	18,828,486	19,505,743	19,093,752	411,991
Capital outlay	3,537,983	5,806,832	4,219,796	1,587,036
Total expenditures	765,133,877	780,329,688	762,713,770	17,615,918
Excess (deficiency) of revenues over (under) expenditures	(15,187,000)	(42,310,201)	(23,361,943)	18,948,258
OTHER FINANCING SOURCES (USES)				
Capital leases and installment purchases	7,000,000	7,000,000	7,000,000	-
Transfers out	(1,813,000)	(1,813,000)	(2,582,000)	(769,000)
Total other financing sources (uses)	5,187,000	5,187,000	4,418,000	(769,000)
Net change in fund balances	(10,000,000)	(37,123,201)	(18,943,943)	18,179,258
Fund balances at beginning of year	61,632,945	61,632,945	61,632,945	-
Fund balances at end of year	\$ 51,632,945	\$ 24,509,744	\$ 42,689,002	\$ 18,179,258

See accompanying notes to the required supplementary information.

LOUDOUN COUNTY PUBLIC SCHOOLS
Schedule of Funding Progress
Public Employee Retirement System
For Fiscal Year Ended June 30, 2012

Exhibit XIII

		(1)	(2)	(3)	(4)	(5)	(6)
	Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UALL) (2) - (1)	Funded Ratio (1) / (2)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll ((2) - (1)) / (5)
Virginia Retirement System	6/30/2011	\$ 80,916,644	\$ 101,879,533	20,962,889	79.42%	\$ 48,578,343	43.15%
	6/30/2010	74,726,828	94,531,489	19,804,661	79.05%	48,480,310	40.85%
	6/30/2009	68,868,858	81,632,764	12,763,906	84.36%	48,957,722	26.07%
	6/30/2008	61,201,052	74,069,781	12,868,728	82.63%	46,124,197	27.90%
	6/30/2007	51,844,053	63,623,595	11,779,542	81.49%	40,851,082	28.84%
	6/30/2006	43,303,297	53,516,255	10,212,958	80.92%	36,143,816	28.26%

All six year-recommended trend information has been calculated using the Entry Age Normal actuarial cost method. Under the Entry Age Normal actuarial cost method, the actuarial present value of future benefits for each member is allocated for the members pensionable compensation on a level basis between the entry age of the member and the estimated exit age. The portion of the present value of future benefits not provided for by the present value of future normal costs is called the actuarial accrued liability.

Analysis of dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading.

*Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of each plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the plan is financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

*Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the plan.

See accompanying notes to the required supplementary information.

LOUDOUN COUNTY PUBLIC SCHOOLS
Schedule of Employer Contributions
Public Employee Retirement System
For Fiscal Year Ended June 30, 2012

Exhibit XIV

	Fiscal Year Ending	Annual Required Contribution	Percentage Contributed
Virginia Retirement System	6/30/2012	\$ 6,133,882	100%
	6/30/2011	5,936,059	100%
	6/30/2010	6,324,055	100%
	6/30/2009	6,378,248	100%
	6/30/2008	5,516,232	100%
	6/30/2007	4,929,999	100%

See accompanying notes to the required supplementary information.

LOUDOUN COUNTY PUBLIC SCHOOLS
Schedule of Funding Progress
Other Post-Employment Benefits
For Fiscal Year Ended June 30, 2012

Exhibit XV

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UALL) (2) - (1)	Funded Ratio (1) / (2)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll ((2) - (1)) / (5)
OPEB Trust						
7/1/2011	\$ 35,159,000	\$ 313,999,000	278,840,000	11.20%	\$ 365,332,000	76.33%
7/1/2009	7,183,273	341,943,541	334,760,268	2.10%	433,438,915	77.23%
7/1/2007	0	348,055,997	348,055,997	0.00%	363,466,341	95.76%

Loudoun County Public Schools implemented GASB 45 in Fiscal Year 2008; therefore, six years of data is not available, but will be accumulated over time. The most recent actuarial valuation was performed on July 1, 2011 and for the financial reporting purposes, the actuarial valuation will be performed at least biennially.

See accompanying notes to the required supplementary information.

LOUDOUN COUNTY PUBLIC SCHOOLS
Schedule of Employer Contributions
Other Post-Employment Benefits
For Fiscal Year Ended June 30, 2012

Exhibit XVI

	<u>Actuarial Valuation Date</u>	<u>Fiscal Year</u>	<u>Employer Annual Contribution</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>
OPEB Trust	7/1/2011	6/30/2012	\$ 23,218,531	\$ 36,075,263	64.36%
	7/1/2009	6/30/2011	19,647,113	30,439,222	64.55%
	7/1/2009	6/30/2010	14,994,968	31,542,472	47.54%
	7/1/2007	6/30/2009	11,275,766	34,628,926	32.56%

Loudoun County Public Schools implemented GASB 45 in Fiscal Year 2008; therefore, six years of data is not available, but will be accumulated over time. LCPS is participating in the Virginia Pooled OPEB Trust Fund sponsored by the Virginia Municipal League and the Virginia Association of Counties (VML/VACO) in fiscal year 2010. The Virginia Pooled OPEB Trust Fund is established as an investment vehicle for participating employers to accumulate assets to fund OPEB.

See accompanying notes to the required supplementary information.

Notes to the Required Supplementary Information

Loudoun County Public Schools
June 30, 2012

I. BUDGETARY COMPARISON SCHEDULE

The Code of Virginia requires the appointed superintendent of Loudoun County Public Schools (LCPS) to submit a budget to the County Board of Supervisors (BOS), with the approval of the School Board.

The preparation of LCPS' budget begins with the Superintendent soliciting input from managers, parents, and community leaders on the School Board's budget priorities. In January, the Superintendent releases the proposed budget to the School Board. The School Board holds budget work sessions and public hearings on the proposed budget during the month of January. The School Board may alter the proposed budget prior to submission to the BOS. Upon approval by the School Board, the budget is submitted to the BOS in January.

The BOS holds budget work sessions and public hearings in conjunction with the School Board. By the first BOS meeting in April, the BOS adopts the final budget. The adopted budget governs the financial operations of the school system beginning on July 1.

Formal budgetary integration is employed at the object level within each program as a management control device during the fiscal year. All budgets are adopted on a basis consistent with Generally Accepted Accounting Principles. All budgetary changes that affect the total fund appropriations or estimated revenues are required to have School Board approval prior to BOS action. All budgetary changes that deviate by \$50,000 or more from the program purpose designated by the School Board but do not revise the original appropriation are submitted for consideration to the Finance and Facilities Committee and final approval by the School Board. Budgetary changes under \$50,000 that do not revise the original appropriation are submitted for approval/disapproval to the Director of Budget along with sufficient justification for the revision to the budget.

II. TREND DATA

A. VIRGINIA RETIREMENT SYSTEM (VRS)

Six-year historical trend information about Virginia Retirement System (VRS) is presented as required supplementary information. This information is intended to help users assess the funding status on a going concern basis, progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems. Information pertaining to the VRS pension plan can be found in note IV.E in the notes to the financial statements.

B. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

LCPS implemented GASB 45 in fiscal year 2008. In fiscal year 2010, LCPS joined the VML/VACO Pooled OPEB Trust for the purpose of investing funds designated for LCPS' other post-employment benefits. Six-year historical trend information about OPEB is required supplementary information that LCPS will accumulate over time. This information is intended to help users assess the funding status on a going concern basis; progress made in accumulating assets to pay benefits when due; and make comparisons with other plans. Information pertaining to the OPEB trust can be found in note IV.C in the notes to the financial statements.

C. TREND ANALYSIS

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability, in isolation, can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the funding status on a going concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system.

Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids in the analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

Other Supplementary Information



The **Other Supplementary Information** subsection includes budgetary, combining, and individual fund statements and schedules for the following:

Budgetary Comparison Schedule for the Capital Improvements Fund

Combining statements for the nonmajor governmental funds

Budgetary comparison schedules for the Food Service, Capital Asset Preservation, and Debt Service Funds

Combining statements for the Internal Service Funds

Statement of changes in assets and liabilities for the Student Activity Fund



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Capital Improvements Fund

The Capital Improvements Fund is used to account for the construction, renovation, and major maintenance projects of schools and buildings. The primary revenue source is bond proceeds from the County of Loudoun, Virginia.

LOUDOUN COUNTY PUBLIC SCHOOLS
Budgetary Comparison Schedule - Budget and Actual
Capital Improvements Fund
For the Fiscal Year Ended June 30, 2012

Schedule 1

	Prior Years	Current Year	Total to Date	Project Authorization
REVENUES				
Intergovernmental:				
County of Loudoun, Virginia	\$ 995,551,260	\$ 14,393,178	\$ 1,009,944,438	\$ 1,064,947,937
Revenue from the use of money and property	3,177	-	3,177	2,411
Other	125,158	-	125,158	58,490
Total revenues	995,679,595	14,393,178	1,010,072,773	1,065,008,838
EXPENDITURES				
Current:				
Support services:				
Facilities services	1,991,031	477,861	2,468,892	9,528,299
Capital outlay	909,215,424	91,790,756	1,001,006,180	1,061,464,457
Total expenditures	911,206,455	92,268,617	1,003,475,072	1,070,992,756
Excess (deficiency) of revenues over (under) expenditures	84,473,140	(77,875,439)	6,597,701	(5,983,918)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,340,059	-	1,340,059	1,340,059
Transfers out	(2,441)	-	(2,441)	(2,441)
Total other financing sources (uses)	1,337,618	-	1,337,618	1,337,618
SPECIAL ITEMS				
Proceeds from sale of real property	4,646,300	-	4,646,300	4,646,300
Net change in fund balance	\$ 90,457,058	(77,875,439)	\$ 12,581,619	\$ -
Fund balances at beginning of year		90,457,058		
Fund balances at end of year		<u>\$ 12,581,619</u>		

Nonmajor Governmental Funds

Food Service Fund – used to account for the procurement, preparation, and serving of student breakfasts, snacks, and lunches. The primary revenue sources are receipts derived from food sales and the Federal school lunch program.

Capital Asset Preservation Fund – used to account for maintenance projects of schools and buildings. The primary revenue source is contributions from the County of Loudoun, Virginia.

Debt Service Fund – used to account for the resources accumulated and payments made for principal, interest, and related costs on long-term debt of governmental funds.

Peabody Trust Fund – used to account for monies provided through a private donor, the corpus of which is nonexpendable. The interest earned on fund assets may be used only for school expenses.

LOUDOUN COUNTY PUBLIC SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

Schedule 2

	<u>Special Revenue</u>	<u>Capital Asset</u>	<u>Debt</u>	<u>Permanent</u>	<u>Total Nonmajor</u>
	<u>Food Services</u>	<u>Preservation</u>	<u>Service</u>	<u>Peabody Trust</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
ASSETS					
Cash on deposit with County of Loudoun, VA	\$ 6,190,258	\$ 2,061,145	\$ 6,447	\$ 34,306	\$ 8,292,156
Accounts receivable, net	31,907	-	-	-	31,907
Due from other governmental units	164,029	-	-	-	164,029
Inventories	625,415	-	-	-	625,415
Prepaid items	1,030	-	-	-	1,030
Total assets	<u>\$ 7,012,639</u>	<u>\$ 2,061,145</u>	<u>\$ 6,447</u>	<u>\$ 34,306</u>	<u>\$ 9,114,537</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 61,282	\$ 241,268	\$ -	\$ -	\$ 302,550
Accrued liabilities	1,105,344	-	-	-	1,105,344
Unearned revenue	694,820	-	-	-	694,820
Total liabilities	<u>1,861,446</u>	<u>241,268</u>	<u>-</u>	<u>-</u>	<u>2,102,714</u>
Fund balances:					
Nonspendable:					
Inventories	625,415	-	-	-	625,415
Advances and prepaid items	1,030	-	-	-	1,030
Permanent fund-nonexpendable	-	-	-	34,306	34,306
Restricted for:					
Restricted by grantors	164,029	-	-	-	164,029
Committed to:					
Subsequent years appropriations	-	-	6,447	-	6,447
Capital asset preservation	-	1,578,424	-	-	1,578,424
Assigned to:					
Food services fund	4,360,719	-	-	-	4,360,719
Capital asset preservation fund	-	241,453	-	-	241,453
Total fund balances	<u>5,151,193</u>	<u>1,819,877</u>	<u>6,447</u>	<u>34,306</u>	<u>7,011,823</u>
Total liabilities and fund balances	<u>\$ 7,012,639</u>	<u>\$ 2,061,145</u>	<u>\$ 6,447</u>	<u>\$ 34,306</u>	<u>\$ 9,114,537</u>

LOUDOUN COUNTY PUBLIC SCHOOLS

Schedule 3

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2012

	<u>Special Revenue</u>	<u>Capital Asset</u>	<u>Debt</u>	<u>Permanent</u>	<u>Total Nonmajor</u>
	<u>Food Services</u>	<u>Preservation</u>	<u>Service</u>	<u>Peabody Trust</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
REVENUES					
Intergovernmental:					
Federal government	\$ 6,637,846	\$ -	\$ -	\$ -	\$ 6,637,846
Commonwealth of Virginia	315,085	-	-	-	315,085
County of Loudoun, Virginia	-	2,285,002	8,879,353	-	11,164,355
Charges for services:					
Food sales	17,197,010	-	-	-	17,197,010
Other	15	-	-	-	15
Total revenues	24,149,956	2,285,002	8,879,353	-	35,314,311
EXPENDITURES					
Current:					
Instruction:					
Other	-	-	-	1,400	1,400
Support services:					
Operation and maintenance	-	4,096,689	-	-	4,096,689
Food services	22,207,178	-	-	-	22,207,178
Capital outlay	-	77,426	-	-	77,426
Debt service:					
Principal	-	-	8,420,767	-	8,420,767
Interest	-	-	500,063	-	500,063
Total expenditures	22,207,178	4,174,115	8,920,830	1,400	35,303,523
Net change in fund balances	1,942,778	(1,889,113)	(41,477)	(1,400)	10,788
Fund balances at beginning of year	3,208,415	3,708,990	47,924	35,706	7,001,035
Fund balances at end of year	\$ 5,151,193	\$ 1,819,877	\$ 6,447	\$ 34,306	\$ 7,011,823

LOUDOUN COUNTY PUBLIC SCHOOLS
Budgetary Comparison Schedule - Budget and Actual
Food Services Fund
For the Fiscal Year Ended June 30, 2012

Schedule 4

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Intergovernmental:				
Federal government	\$ 4,600,000	\$ 4,626,000	\$ 6,637,846	\$ 2,011,846
Commonwealth of Virginia	320,377	320,377	315,085	(5,292)
Charges for services:				
Food sales	20,132,431	20,132,431	17,197,010	(2,935,421)
Other	-	-	15	15
Total revenues	<u>25,052,808</u>	<u>25,078,808</u>	<u>24,149,956</u>	<u>(928,852)</u>
EXPENDITURES				
Current:				
Support services:				
Food services	25,027,808	24,845,808	22,207,178	2,638,630
Capital outlay	25,000	233,000	-	233,000
Total expenditures	<u>25,052,808</u>	<u>25,078,808</u>	<u>22,207,178</u>	<u>2,871,630</u>
Net change in fund balances	-	-	1,942,778	1,942,778
Fund balances at beginning of year	3,208,415	3,208,415	3,208,415	-
Fund balances at end of year	<u>\$ 3,208,415</u>	<u>\$ 3,208,415</u>	<u>\$ 5,151,193</u>	<u>\$ 1,942,778</u>

LOUDOUN COUNTY PUBLIC SCHOOLS
Budgetary Comparison Schedule - Budget and Actual
Capital Asset Preservation Fund
For the Fiscal Year Ended June 30, 2012

Schedule 5

	Prior Years	Current Year	Total to Date	Project Authorization
REVENUES				
Intergovernmental:				
County of Loudoun, Virginia	\$ 59,276,500	\$ 2,285,002	\$ 61,561,502	\$ 61,561,500
Revenue from the use of money and property	412,000	-	412,000	412,000
Recovered costs	28,564	-	28,564	28,564
Total revenues	<u>59,717,064</u>	<u>2,285,002</u>	<u>62,002,066</u>	<u>62,002,064</u>
EXPENDITURES				
Current:				
Support services:				
Operation and maintenance	54,829,785	4,096,689	58,926,474	58,574,705
Capital outlay	1,178,289	77,426	1,255,715	3,427,359
Total expenditures	<u>56,008,074</u>	<u>4,174,115</u>	<u>60,182,189</u>	<u>62,002,064</u>
Net change in fund balances	<u>\$ 3,708,990</u>	(1,889,113)	<u>\$ 1,819,877</u>	\$ -
Fund balances at beginning of year		3,708,990		
Fund balances at end of year		<u>\$ 1,819,877</u>		

LOUDOUN COUNTY PUBLIC SCHOOLS
Budgetary Comparison Schedule - Budget and Actual
Debt Service Fund
For the Fiscal Year Ended June 30, 2012

Schedule 6

	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
Intergovernmental:				
County of Loudoun, Virginia	\$ 8,879,353	\$ 8,879,353	\$ 8,879,353	\$ -
Total revenues	<u>8,879,353</u>	<u>8,879,353</u>	<u>8,879,353</u>	<u>-</u>
EXPENDITURES				
Debt service:				
Principal	8,420,767	8,420,767	8,420,767	-
Interest	506,510	506,510	500,063	6,447
Total expenditures	<u>8,927,277</u>	<u>8,927,277</u>	<u>8,920,830</u>	<u>6,447</u>
Net change in fund balances	(47,924)	(47,924)	(41,477)	6,447
Fund balances at beginning of year	47,924	47,924	47,924	-
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>6,447</u>	<u>\$ 6,447</u>

Proprietary Funds- Internal Service Funds

Internal Service Funds – Internal Service Funds are proprietary funds, which account for the financing of goods and services provided by one department to other departments within LCPS on a cost reimbursement basis.

Central Service Fund – accounts for the financing of goods and services of the fleet management services.

Self Insurance Fund – accounts for the transactions associated with the comprehensive health benefits self-insurance program; and the worker's compensation insurance program.

LOUDOUN COUNTY PUBLIC SCHOOLS
Combining Statement of Net Assets
Proprietary Funds
June 30, 2012

Schedule 7

	Central Service Fund	Self Insurance Fund	Total Internal Service Funds
ASSETS			
Current assets:			
Cash on deposit with County of Loudoun, VA	\$ 1,126,758	\$ 15,942,370	\$ 17,069,128
Accounts receivable, net	-	179,616	179,616
Inventories	776,130	-	776,130
Deposits	-	190,000	190,000
Total current assets	1,902,888	16,311,986	18,214,874
Noncurrent assets:			
Capital assets:			
Buildings	3,238,924	-	3,238,924
Machinery and equipment	658,880	-	658,880
Accumulated depreciation	(616,226)	-	(616,226)
Total noncurrent assets	3,281,578	-	3,281,578
Total assets	5,184,466	16,311,986	21,496,452
LIABILITIES			
Current liabilities:			
Accounts payable	639,887	20,902	660,789
Accrued liabilities	-	2,946,615	2,946,615
Contract retainages	10,000	-	10,000
Deferred revenue	-	762,123	762,123
Claims liabilities	-	8,366,328	8,366,328
Total current liabilities	649,887	12,095,968	12,745,855
Noncurrent liabilities:			
Claims liabilities	-	1,707,162	1,707,162
Total noncurrent liabilities	-	1,707,162	1,707,162
Total liabilities	649,887	13,803,130	14,453,017
NET ASSETS			
Invested in capital assets	3,281,578	-	3,281,578
Unrestricted	1,253,001	2,508,856	3,761,857
Total net assets	\$ 4,534,579	\$ 2,508,856	\$ 7,043,435

LOUDOUN COUNTY PUBLIC SCHOOLS

Schedule 8

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

For the Fiscal Year Ended June 30, 2012

	Central Service Fund	Self Insurance Fund	Total Internal Service Funds
OPERATING REVENUES			
Charges for services	\$ 19,538,102	\$ 106,053,234	\$ 125,591,336
Use of property	46,739	-	46,739
Total operating revenues	<u>19,584,841</u>	<u>106,053,234</u>	<u>125,638,075</u>
OPERATING EXPENSES			
Claims	-	104,893,488	104,893,488
Personnel services	4,701,225	39,192	4,740,417
Other services and charges	2,054,202	7,782,515	9,836,717
Materials and supplies	12,312,885	8,484	12,321,369
Depreciation	164,595	-	164,595
Total operating expenses	<u>19,232,907</u>	<u>112,723,679</u>	<u>131,956,586</u>
Operating Income	351,934	(6,670,445)	(6,318,511)
Transfers in	-	2,582,000	2,582,000
Change in net assets	<u>351,934</u>	<u>(4,088,445)</u>	<u>(3,736,511)</u>
Net assets at beginning of year	4,182,645	6,597,301	10,779,946
Net assets at end of year	<u>\$ 4,534,579</u>	<u>\$ 2,508,856</u>	<u>\$ 7,043,435</u>

LOUDOUN COUNTY PUBLIC SCHOOLS
Combining Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

Schedule 9

	Central Service Fund	Self Insurance Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 19,585,963	\$ 105,933,916	\$ 125,519,879
Payments to suppliers for goods and services	(14,879,423)	(6,037,722)	(20,917,145)
Claims paid	-	(104,386,300)	(104,386,300)
Payments to employees	(4,701,225)	(39,192)	(4,740,417)
Net cash provided by (used in) operating activities	<u>5,315</u>	<u>(4,529,298)</u>	<u>(4,523,983)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	2,582,000	2,582,000
Deposits	-	(190,000)	(190,000)
Net cash provided by noncapital financing activities	<u>-</u>	<u>2,392,000</u>	<u>2,392,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to capital assets	(149,299)	-	(149,299)
Net cash used in capital and related financing activities	<u>(149,299)</u>	<u>-</u>	<u>(149,299)</u>
Net increase in cash on deposit with the County of Loudoun, VA	(143,984)	(2,137,298)	(2,281,282)
Cash on deposit with County of Loudoun, VA at beginning of year	1,270,742	18,079,668	19,350,410
Cash on deposit with County of Loudoun, VA at end of year	<u>\$ 1,126,758</u>	<u>\$ 15,942,370</u>	<u>\$ 17,069,128</u>
Reconciliation of Net Operating Income to Net Cash Provided by (Used in) Operating Activities:			
NET OPERATING INCOME	<u>\$ 351,934</u>	<u>\$ (6,670,445)</u>	<u>\$ (6,318,511)</u>
ADJUSTMENTS NOT AFFECTING CASH			
Depreciation	164,595	-	164,595
(INCREASE) DECREASE IN ASSETS AND INCREASE (DECREASE) IN LIABILITIES			
Accounts receivables, net	1,122	(119,318)	(118,196)
Inventories	(164,199)	-	(164,199)
Prepaid items	-	94,083	94,083
Accounts payable	(229,931)	(1,581,756)	(1,811,687)
Accrued liabilities	-	2,946,615	2,946,615
Contract retainages	(118,206)	-	(118,206)
Deferred revenue	-	294,335	294,335
Claims liabilities	-	507,188	507,188
Total adjustments	<u>(346,619)</u>	<u>2,141,147</u>	<u>1,794,528</u>
Net cash provided by (used in) operating activities	<u>\$ 5,315</u>	<u>\$ (4,529,298)</u>	<u>\$ (4,523,983)</u>

Fiduciary Funds- Agency Funds

Student Activity Fund – accounts for monies collected and disbursed at schools in connection with student athletics, classes, clubs, various fund raising activities, and private donations.

Payroll Liabilities Distribution Fund – accounts for monies collected and disbursed in connection with employee payroll liabilities.

LOUDOUN COUNTY PUBLIC SCHOOLS
Combining Statement of Fiduciary Net Assets
Agency Funds
For Fiscal Year Ended June 30, 2012

Schedule 10

	Payroll Liabilities Distribution Fund	Student Activity Fund	Total Agency Funds
ASSETS			
Cash on deposit with County of Loudoun, VA	\$ 11,831,927	\$ -	\$ 11,831,927
Cash and temporary investments	-	5,546,893	5,546,893
Accounts receivable, net	17,724	-	17,724
Total assets	<u>\$ 11,849,651</u>	<u>\$ 5,546,893</u>	<u>\$ 17,396,544</u>
LIABILITIES			
Accounts payable	\$ 11,849,651	\$ -	\$ 11,849,651
Collections held in trust	-	5,546,893	5,546,893
Total liabilities	<u>\$ 11,849,651</u>	<u>\$ 5,546,893</u>	<u>\$ 17,396,544</u>

LOUDOUN COUNTY PUBLIC SCHOOLS
Statement of Change in Assets and Liabilities
Student Activity Fund
For Fiscal Year Ended June 30, 2012

Schedule 11

	Balance			Balance
	June 30, 2011	Additions	Deductions	June 30, 2012
ASSETS				
Cash and temporary investments	\$ 5,419,921	\$ 16,391,606	\$ 16,264,634	\$ 5,546,893
Total assets	<u>\$ 5,419,921</u>	<u>\$ 16,391,606</u>	<u>\$ 16,264,634</u>	<u>\$ 5,546,893</u>
LIABILITIES				
Collections held in trust	\$ 5,419,921	\$ 16,391,606	\$ 16,264,634	\$ 5,546,893
Total liabilities	<u>\$ 5,419,921</u>	<u>\$ 16,391,606</u>	<u>\$ 16,264,634</u>	<u>\$ 5,546,893</u>

LOUDOUN COUNTY PUBLIC SCHOOLS
Statement of Change in Assets and Liabilities
Payroll Liabilities Distribution Fund
For Fiscal Year Ended June 30, 2012

Schedule 12

	Balance			Balance
	June 30, 2011	Additions	Deductions	June 30, 2012
ASSETS				
Cash on deposit with County of Loudoun, VA	\$ 6,055,347	\$ 216,857,422	\$ 211,080,842	\$ 11,831,927
Accounts receivable, net	17,724	-	-	17,724
Total assets	<u>\$ 6,073,071</u>	<u>\$ 216,857,422</u>	<u>\$ 211,080,842</u>	<u>\$ 11,849,651</u>
LIABILITIES				
Accounts payable	\$ 6,073,071	\$ 216,857,422	\$ 211,080,842	\$ 11,849,651
Total liabilities	<u>\$ 6,073,071</u>	<u>\$ 216,857,422</u>	<u>\$ 211,080,842</u>	<u>\$ 11,849,651</u>

STATISTICAL SECTION

UNAUDITED-SEE ACCOMPANYING ACCOUNTANT'S REPORT



The **Statistical Section** provides financial statement users with additional historical perspective, content, and detail to assist in using the information in the financial statements, including the accompanying notes and required supplementary information, to understand and assess Loudoun County Public Schools' economic condition. This information has not been audited by the independent auditor.



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STATISTICAL SECTION⁽¹⁾

Information is presented in the following five categories:

Financial Trends – trend information to assist in understanding how LCPS’ financial performance has changed over time. (Tables A-D)

Revenue Capacity – information to assist in understanding LCPS’ most significant own-source revenue, charges for services. (Tables E-G)

Debt Capacity – information to assist in understanding LCPS’ debt burden. (Table H)

Demographic Information – demographic and economic indicators to assist in understanding the environment within which LCPS’ financial activities take place. (Tables I-J)

Operating Information – service and infrastructure data to assist in understanding the resources used and services provided in LCPS’ operations. (Tables K-Q)

(1) The current Statistical Section as described in Statement No. 44 of the Governmental Accounting Standards Board was implemented as required, in fiscal year 2006.

LOUDOUN COUNTY PUBLIC SCHOOLS

Net Assets by Component (1)

(accrual basis of accounting)

Governmental Activities	Fiscal Year			
	2012	2011	2010	2009
Invested in capital assets, net of related debt(2)	\$ 1,296,827,243	\$ 1,236,090,727	\$ 1,186,800,468	\$ 1,086,311,784
Restricted	12,565,925	69,473,633	95,452,677	160,218,669
Unrestricted	(69,354,696)	(12,775,272)	8,838,294	25,277,868
Total net assets	\$ 1,240,038,472	\$ 1,292,789,088	\$ 1,291,091,439	\$ 1,271,808,321

(1) Comparative data for fiscal years prior to 2006 is not meaningful since the County of Loudoun, VA did not provide detailed component unit information prior to the implementation of GASB Statement No. 34. LCPS began presenting a CAFR in 2009 and extracted comparative data for fiscal years 2006, 2007, and 2008 from the County of Loudoun, VA CAFRs.

(2) Prior Year Adjustment in FY2012 is reflected in the appropriate year for comparison purposes.

Table A

			(accrual basis of accounting)
Fiscal Year			
2008	2007	2006	Governmental Activities
\$ 1,046,108,896	\$ 925,614,582	\$ 837,272,157	Invested in capital assets, net of related debt
93,074,981	194,986,560	132,512,303	Restricted
57,170,979	71,722,695	77,692,379	Unrestricted
<u>\$ 1,196,354,856</u>	<u>\$ 1,192,323,837</u>	<u>\$ 1,047,476,839</u>	Total net assets

LOUDOUN COUNTY PUBLIC SCHOOLS

Changes in Net Assets(1)

(accrual basis of accounting)

Governmental Activities	Fiscal Year			
	2012	2011	2010	2009
Expenses				
Instruction:				
Regular(2)	\$ 498,166,427	\$ 465,240,531	\$ 464,661,346	\$ 471,240,098
Special	134,924,678	124,011,095	120,605,745	123,261,065
Adult education	787,327	760,810	769,910	770,593
Other	3,689,350	2,917,550	4,002,410	4,883,320
Total instruction	<u>637,567,782</u>	<u>592,929,986</u>	<u>590,039,411</u>	<u>600,155,076</u>
Support Services:				
Administration	18,052,399	15,074,767	15,824,671	18,347,484
Attendance and health	10,734,630	10,064,592	9,314,661	9,434,209
Pupil transportation	55,331,621	51,561,510	50,694,334	54,943,361
Facilities services	3,529,974	3,275,504	3,689,902	3,263,164
Operation and maintenance	73,877,222	68,467,436	67,939,211	66,991,571
Food services	22,892,698	20,986,848	20,000,225	20,643,026
Total support services	<u>184,418,544</u>	<u>169,430,657</u>	<u>167,463,004</u>	<u>173,622,815</u>
Technology	20,048,569	19,278,461	13,359,595	22,981,405
Interest on long-term debt	378,606	504,983	703,699	873,645
Total Expenses	<u>842,413,501</u>	<u>782,144,087</u>	<u>771,565,709</u>	<u>797,632,941</u>
Program Revenues				
Charges for services:				
Regular instruction	329,664	281,123	1,260,283	427,516
All other instruction	2,072,849	1,821,150	923,957	595,899
Food services	17,197,025	15,390,731	14,435,361	14,640,606
Operating grants and contributions	32,446,316	42,960,956	27,462,090	23,065,337
Capital grants and contributions	14,393,179	56,206,737	43,444,555	114,790,866
Total program revenues	<u>66,439,033</u>	<u>116,660,697</u>	<u>87,526,246</u>	<u>153,520,224</u>
Net (expense)/revenue	<u>(775,974,468)</u>	<u>(665,483,390)</u>	<u>(684,039,463)</u>	<u>(644,112,717)</u>
General Revenues and Other Changes in Net Assets				
Grants and contributions not restricted to specific purposes:				
Federal Government	262,340	215,102	17,592,422	187,092
Commonwealth of Virginia	215,824,328	197,840,065	164,606,186	176,955,174
County of Loudoun, Virginia	501,922,225	464,830,655	515,093,801	532,583,195
Revenue from the use of money	2,468,547	1,968,263	2,225,179	1,276,599
Other	2,746,412	2,326,953	3,804,993	3,648,838
Special items	-	-	-	4,915,284
Total general revenues and other changes in net assets	<u>723,223,852</u>	<u>667,181,038</u>	<u>703,322,581</u>	<u>719,566,182</u>
Change in Net Assets	<u>\$ (52,750,616)</u>	<u>\$ 1,697,648</u>	<u>\$ 19,283,118</u>	<u>\$ 75,453,465</u>

(1) Comparative data for fiscal years prior to 2006 is not meaningful since the County of Loudoun, VA did not provide detailed component unit information prior to the implementation of GASB Statement No. 34. LCPS began presenting a CAFR in 2009 and extracted comparative data for fiscal years 2006, 2007, and 2008 from the County of Loudoun, VA CAFRs.

(2) Prior Year Adjustment in FY2012 is reflected in the appropriate year for comparison purposes.

Table B

(accrual basis of accounting)		
Fiscal Year		
2008	2007	2006
\$ 471,197,037	\$ 387,494,679	\$ 349,067,919
113,903,431	88,721,447	81,732,050
592,895	572,309	516,783
4,782,646	3,669,061	3,313,080
<u>590,476,009</u>	<u>480,457,496</u>	<u>434,629,832</u>
18,928,502	17,506,727	16,190,382
8,961,397	8,097,441	7,260,236
54,047,475	46,652,308	41,828,863
4,491,291	3,349,422	3,003,121
62,285,061	57,634,445	51,675,542
19,817,198	15,670,644	13,556,735
<u>168,530,924</u>	<u>148,910,987</u>	<u>133,514,879</u>
23,107,219	17,307,075	18,271,694
905,360	614,692	494,918
<u>783,019,512</u>	<u>647,290,250</u>	<u>586,911,323</u>
452,892	437,955	436,913
829,348	785,157	633,576
14,106,127	11,846,814	10,982,152
21,408,189	10,620,818	16,581,855
16,207,909	167,693,603	138,634,100
<u>53,004,465</u>	<u>191,384,347</u>	<u>167,268,596</u>
(730,015,047)	(455,905,903)	(419,642,727)
172,027	139,245	134,264
154,345,013	144,076,694	110,878,481
523,438,195	448,300,402	412,768,666
1,374,947	6,058,268	1,397,643
2,181,438	2,178,292	1,761,674
52,534,446	-	-
<u>734,046,066</u>	<u>600,752,901</u>	<u>526,940,728</u>
<u>\$ 4,031,019</u>	<u>\$ 144,846,998</u>	<u>\$ 107,298,001</u>

(accrual basis of accounting)

Governmental Activities

Expenses

Instruction:

- Regular
- Special
- Adult education
- Other

Total instruction

Support Services:

- Administration
- Attendance and health
- Pupil transportation
- Facilities services
- Operation and maintenance
- Food services

Total support services

Technology

Interest on long-term debt

Total Expenses

Program Revenues

Charges for services:

- Regular instruction
- All other instruction
- Food services

Operating grants and contributions

Capital grants and contributions

Total program revenues

Net (expense)/revenue

General Revenues and Other Changes

in Net Assets

Grants and contributions not restricted to specific purposes:

- Federal Government
- Commonwealth of Virginia
- County of Loudoun, Virginia

Revenue from the use of money

Other

Special items

Total general revenues and other changes in net assets

Change in Net Assets

LOUDOUN COUNTY PUBLIC SCHOOLS

Fund Balances of Governmental Funds(1)

(modified accrual basis of accounting)

	Fiscal Years			
	2012	2011	2010 (2)	2009
General Fund:				
Reserved			\$ 5,106,821	\$ 7,219,418
Unreserved:				
Designated			21,251,835	21,979,177
Undesignated			40,834,609	27,540,779
Total general fund			\$ 67,193,265	\$ 56,739,374
All other governmental funds:				
Reserved			\$ 49,544,036	\$ 112,941,078
Unreserved:				
Designated:				
Capital improvements fund			59,786,608	76,223,606
Food services fund			1,362,971	1,564,781
Capital asset preservation fund			4,871,213	6,021,973
Debt service fund			2,817,028	2,755,318
Total all other governmental funds			\$ 118,381,856	\$ 199,506,756
Total governmental funds			\$ 185,575,121	\$ 256,246,130
General Fund:				
Nonspendable	\$ 257,478	\$ 373,807	\$ 371,977	
Restricted	139,923	139,733	154,535	
Committed	34,859,396	34,062,781	21,251,835	
Assigned	6,381,727	9,788,628	4,602,384	
Unassigned	1,050,478	17,267,996	40,812,534	
Total general fund	\$ 42,689,002	\$ 61,632,945	\$ 67,193,265	
All other governmental funds:				
Nonspendable	\$ 710,751	\$ 762,265	\$ 440,129	
Restricted	12,695,648	69,771,866	95,771,366	
Committed	1,584,871	10,907,154	3,913,563	
Assigned	4,602,172	16,016,808	18,256,798	
Total all other governmental funds	\$ 19,593,442	\$ 97,458,093	\$ 118,381,856	
Total governmental funds	\$ 62,282,444	\$ 159,091,038	\$ 185,575,121	

(1) Comparative data for fiscal years prior to 2006 is not meaningful since the County of Loudoun, VA did not provide detailed component unit information prior to the implementation of GASB Statement No. 34. LCPS began presenting a CAFR in 2009 and extracted comparative data for fiscal years 2006, 2007, and 2008 from the County of Loudoun, VA CAFRs.

(2) Fiscal year 2010 restated for comparison purposes to reflect retroactive implementation of GASB Statement NO. 54

Table C

(modified accrual basis of accounting)

Fiscal Years			
2008	2007	2006	
\$ 5,453,180	\$ 8,929,476	\$ 10,987,616	General Fund:
			Reserved
			Unreserved:
19,566,122	17,514,148	14,280,656	Designated
18,908,769	9,802,558	8,333,130	Undesignated
<u>\$ 43,928,071</u>	<u>\$ 36,246,182</u>	<u>\$ 33,601,402</u>	Total general fund
\$ 31,715,083	\$ 41,842,889	\$ 60,602,507	All other governmental funds:
			Reserved
			Unreserved:
			Designated:
106,099,604	181,115,521	106,876,776	Capital improvements fund
949,380	253,198	277,889	Food services fund
8,538,869	6,371,630	4,960,762	Capital asset preservation fund
2,741,164	368,015	1,866,837	Debt service fund
<u>\$ 150,044,100</u>	<u>\$ 229,951,253</u>	<u>\$ 174,584,771</u>	Total all other governmental funds
<u>\$ 193,972,171</u>	<u>\$ 266,197,435</u>	<u>\$ 208,186,173</u>	Total governmental funds

LOUDOUN COUNTY PUBLIC SCHOOLS

Changes in Fund Balances of Governmental Funds(1)

(modified accrual basis of accounting)

	Fiscal Years			
	2012	2011	2010	2009
Revenues				
Intergovernmental	\$ 763,402,998	\$ 761,007,710	\$ 768,199,054	\$ 859,924,227
Charges for services	19,599,523	17,493,004	16,619,601	15,664,021
Revenue from the use of money and property	1,628,008	1,731,045	1,826,239	1,171,360
Recovered costs	990,753	777,941	1,643,011	1,687,246
Other	3,438,034	2,705,833	2,161,982	1,961,592
Total revenues	<u>789,059,316</u>	<u>783,715,533</u>	<u>790,449,887</u>	<u>880,408,446</u>
Expenditures				
Current:				
Instruction	593,019,659	548,789,942	553,924,417	557,051,356
Support services	173,163,246	157,287,431	157,707,112	161,757,163
Technology	19,094,197	18,342,289	12,434,855	22,060,892
Capital outlay	96,087,978	82,810,759	129,654,365	68,959,648
Debt service:				
Principal	8,420,767	8,764,638	10,630,454	9,210,454
Interest	500,063	648,557	824,868	836,791
Total expenditures	<u>890,285,910</u>	<u>816,643,616</u>	<u>865,176,071</u>	<u>819,876,304</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(101,226,594)</u>	<u>(32,928,083)</u>	<u>(74,726,184)</u>	<u>60,532,142</u>
Other financing sources (uses)				
Transfers in	-	-	-	1,267,444
Transfers out	(2,582,000)	(1,700,000)	(2,307,825)	(9,525,627)
Capital leases and installment purchases	7,000,000	8,144,000	6,363,000	10,000,000
Total other financing sources (uses)	<u>4,418,000</u>	<u>6,444,000</u>	<u>4,055,175</u>	<u>1,741,817</u>
Net change in fund balances	<u>\$ (96,808,594)</u>	<u>\$ (26,484,083)</u>	<u>\$ (70,671,009)</u>	<u>\$ 62,273,959</u>
Debt service as a percentage of noncapital expenditures	1.14%	1.30%	1.58%	1.36%

(1) Comparative data for fiscal years prior to 2006 is not meaningful since the County of Loudoun, VA did not provide detailed component unit information prior to the implementation of GASB Statement No. 34. LCPS began presenting a CAFR in 2009 and extracted comparative data for fiscal years 2006, 2007, and 2008 from the County of Loudoun, VA CAFRs.

Table D

(modified accrual basis of accounting)

Fiscal Years		
2008	2007	2006
\$ 768,438,098	\$ 770,342,662	\$ 678,997,366
15,388,368	13,069,926	12,052,641
1,535,936	6,058,266	1,397,643
1,176,560	767,119	510,964
1,613,301	1,411,173	1,250,710
<u>788,152,263</u>	<u>791,649,146</u>	<u>694,209,324</u>
526,299,948	466,899,170	414,308,448
154,165,882	141,251,648	126,382,907
22,045,908	16,225,607	17,273,691
157,201,684	108,107,673	74,235,179
8,858,747	6,751,004	5,289,038
703,814	573,528	396,625
<u>869,275,983</u>	<u>739,808,630</u>	<u>637,885,888</u>
<u>(81,123,720)</u>	<u>51,840,516</u>	<u>56,323,436</u>
-	-	-
(1,102,000)	(2,105,254)	(658,815)
<u>9,959,818</u>	<u>8,276,000</u>	<u>9,966,000</u>
<u>8,857,818</u>	<u>6,170,746</u>	<u>9,307,185</u>
<u>\$ (72,265,902)</u>	<u>\$ 58,011,262</u>	<u>\$ 65,630,621</u>

1.36% 1.17% 1.02%

Revenues

Intergovernmental
 Charges for services
 Revenue from the use of money and property
 Recovered costs
 Other
 Total revenues

Expenditures

Current:
 Instruction
 Support services
 Technology
 Capital outlay
 Debt service:
 Principal
 Interest
 Total expenditures

Excess (deficiency) of revenues over
 (under) expenditures

Other financing sources (uses)

Transfers in
 Transfers out
 Capital leases and installment purchases
 Total other financing sources (uses)

Net change in fund balances

Debt service as a percentage of noncapital
 expenditures

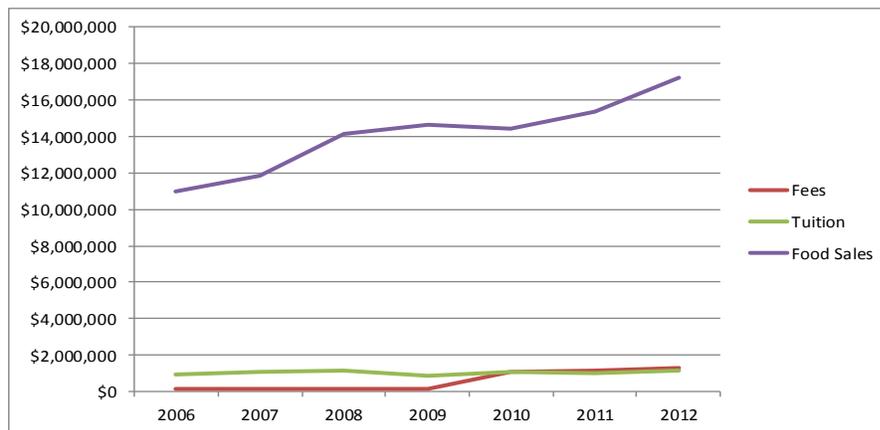
LOUDOUN COUNTY PUBLIC SCHOOLS
Charges for Services Revenue (1)
by Source

Table E

(modified accrual basis of accounting)

Fiscal Year	Food Sales	Tuition	Testing Fees (2)	Driver's ED Fees	Miscellaneous Fees	Total
2012	\$ 17,197,010	\$ 1,138,757	\$ 1,058,137	\$ 188,173	\$ 17,445	19,599,522
2011	15,390,731	981,109	945,699	145,629	29,836	17,493,004
2010	14,435,361	1,081,648	928,704	122,043	51,765	16,619,521
2009	14,640,606	868,075	15,516	124,637	15,187	15,664,021
2008	14,106,127	1,157,468	10,406	85,928	28,439	15,388,368
2007	11,846,813	1,083,766	8,169	85,885	45,293	13,069,926
2006	10,982,153	909,146	9,626	85,180	66,536	12,052,641

Charges for Services Revenue by Source



(1) LCPS' primary own source revenue is charges for services, which consists of food sales, tuition, testing fees, drivers education fees and miscellaneous fees.

(2) LCPS initiated testing fees for AP exams beginning in fiscal year 2010.

(3) Comparative data for fiscal years prior to 2006 is not meaningful since the County of Loudoun, VA did not provide detailed component unit information prior to the implementation of GASB Statement No. 34. LCPS began presenting a CAFR in 2009 and extracted comparative data for fiscal years 2006, 2007, and 2008 from the County of Loudoun, VA CAFRs.

LOUDOUN COUNTY PUBLIC SCHOOLS
Food Services Sales Price Breakdown (1)

Table F

Fiscal Year	Breakfast		Lunch		
	Student	Adult	Student		Adult
			Elementary	Secondary	
2012	\$2.00	\$2.25	\$3.00	\$3.10	\$4.00
2011	\$1.70	\$1.95	\$2.70	\$2.80	\$3.70
2010	\$1.45	\$1.70	\$2.45	\$2.55	\$3.45
2009	\$1.30	\$1.55	\$2.30	\$2.40	\$3.30
2008	\$1.30	\$1.55	\$2.20	\$2.30	\$3.20
2007	\$1.10	\$1.35	\$2.00	\$2.10	\$3.00
2006	\$0.90	\$1.20	\$1.85	\$1.95	\$2.45

(1) Comparative data for fiscal years prior to 2006 is not meaningful since the County of Loudoun, VA did not provide detailed component unit information prior to the implementation of GASB Statement No. 34. LCPS began presenting a CAFR in 2009 and extracted comparative data for fiscal years 2006, 2007, and 2008 from the County of Loudoun, VA CAFRs.

Source: LCPS - Food Services Office

LOUDOUN COUNTY PUBLIC SCHOOLS
Food Sales - Annual Meals Served (1)

Table G

Fiscal Year	Students Served				
	Free & Reduced		Free & Reduced		Adult
	Breakfasts	Breakfasts	Lunches	Lunches	Lunches
2012	207,876	540,122	2,999,644	1,453,241	90,557
2011	208,513	465,932	3,055,697	1,298,501	90,979
2010	190,321	394,550	3,137,934	1,187,122	101,503
2009	192,864	324,246	3,441,144	1,059,420	123,246
2008	196,708	248,202	3,679,578	894,919	137,990
2007	167,242	185,823	3,517,888	765,206	137,903
2006	137,707	153,703	3,468,683	712,138	149,461

(1) Comparative data for fiscal years prior to 2006 is not meaningful since the County of Loudoun, VA did not provide detailed component unit information prior to the implementation of GASB Statement No. 34. LCPS began presenting a CAFR in 2009 and extracted comparative data for fiscal years 2006, 2007, and 2008 from the County of Loudoun, VA CAFRs.

Source: LCPS - Food Services Office

LOUDOUN COUNTY PUBLIC SCHOOLS
Ratios of Outstanding Debt (1)
by Type

Table H

Fiscal Year	Capital Leases	Total Reporting Entity	Percentage of Personal Income	Debt Per Capita
2012	\$ 18,870,504	\$ 18,870,504	0.10%	\$ 57
2011	20,291,271	20,291,271	0.12%	63
2010	20,911,909	20,911,909	0.13%	67
2009	25,179,363	25,179,363	0.16%	83
2008	24,389,818	24,389,818	0.16%	82
2007	23,288,748	23,288,748	0.16%	80
2006	21,763,752	21,763,752	0.17%	79

(1) Comparative data for fiscal years prior to 2006 is not meaningful since the County of Loudoun, VA did not provide detailed component unit information prior to the implementation of GASB Statement No. 34. LCPS began presenting a CAFR in 2009 and extracted comparative data for fiscal years 2006, 2007, and 2008 from the County of Loudoun, VA CAFRs.

Source: LCPS Comprehensive Annual Financial Reports 2009-2012
 County of Loudoun, VA Comprehensive Annual Financial Reports 2006-2008

LOUDOUN COUNTY PUBLIC SCHOOLS
Demographic Statistics

Table I

Year	Population (1)	Personal Income (1)	Per Capita Personal Income (1)	Unemployment Rate (2)	School Enrollment (3)
2012	328,533	\$ 18,223,156,000	\$ 55,468	4.2%	65,668
2011	320,583	\$ 17,369,314,000	\$ 54,180	4.4%	63,220
2010	312,311	\$ 16,579,029,000	\$ 53,085	4.9%	60,096
2009	304,964	\$ 15,458,930,000	\$ 50,691	5.2%	57,009
2008	298,420	\$ 15,450,099,000	\$ 51,773	2.9%	54,047
2007	289,397	\$ 14,356,117,000	\$ 49,607	2.2%	50,478
2006	276,542	\$ 12,828,230,000	\$ 46,388	2.4%	47,361

(1) County of Loudoun Management and Financial Services

(2) Virginia Employment Commission for the month of June

(3) Department of Pupil Services, for the end of September of the given fiscal year

LOUDOUN COUNTY PUBLIC SCHOOLS
Principal Employers in the County of Loudoun, Virginia

Table J

Current Year and Nine Years Ago

Employer	2012			2003		
	Rank	Number of Employees (1)	Percentage of Total County Employment (2)	Rank	Number of Employees (1)	Percentage of Total County Employment (2)
Loudoun County Public Schools	1	9,663	6.95%	1	4,635	4.56%
County of Loudoun	2	3,477	2.50%	4	2,478	2.45%
U.S. Department of Homeland Defense	3	1,000-5,000	2.16%	-	-	-
Orbital Science Corporation	4	1,000-5,000	2.16%	-	-	-
United Air Lines	5	1,000-5,000	2.16%	3	1,000-5,000	2.96%
M.C. Dean, Inc	6	1,000-5,000	2.16%	-	-	-
WorldCom	7	1,000-5,000	2.16%	10	1,000-5,000	2.96%
Loudoun Hospital Center	8	1,000-5,000	2.16%	-	-	-
United States Postal Service	9	1,000-5,000	2.16%	-	-	-
AOL, Inc	10	1,000-5,000	2.16%	2	1,000-5,000	2.96%
Atlantic Coast Airlines United Express	-	-	-	5	1,000-5,000	2.96%
U.S. Department of Transportation	-	-	-	6	1,000-5,000	2.96%
UUNET Payroll Services	-	-	-	7	1,000-5,000	2.96%
United States Postal Service	-	-	-	8	1,000-5,000	2.96%
United Parcel Service, Inc	-	-	-	9	1,000-5,000	2.96%
Totals			<u>26.73%</u>			<u>27.73%</u>

(1) **Source:** Virginia Employment Commission, 4th Quarter 2009 and 2000, Loudoun County Public Schools, and Loudoun County Department of Management and Financial Services

(2) Percentages are based on the midpoint of the employment range and average total Loudoun County employment of prior calendar year according to the Virginia Employment Commission.

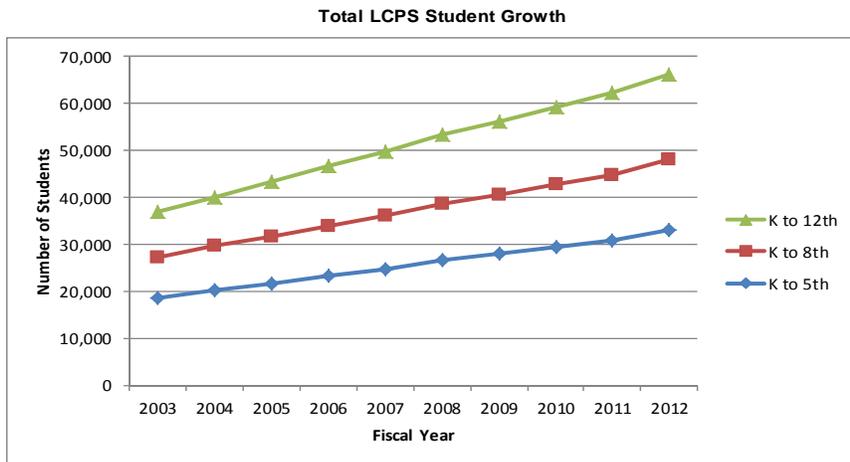
LOUDOUN COUNTY PUBLIC SCHOOLS

Enrollment Trend

Table K

Last Ten Fiscal Years

Fiscal Year	Grades K-5	Grades 6-8	Grades 9-12	Total
2012	33,194	14,904	18,002	66,100
2011	30,895	13,956	17,392	62,243
2010	29,567	13,237	16,401	59,205
2009	28,014	12,634	15,499	56,147
2008	26,570	11,982	14,785	53,337
2007	24,727	11,324	13,757	49,808
2006	23,355	10,585	12,774	46,714
2005	21,652	10,053	11,649	43,354
2004	20,260	9,407	10,490	40,157
2003	18,651	8,619	9,688	36,958



Source: LCPS Department of Planning & Legislative Services

LOUDOUN COUNTY PUBLIC SCHOOLS

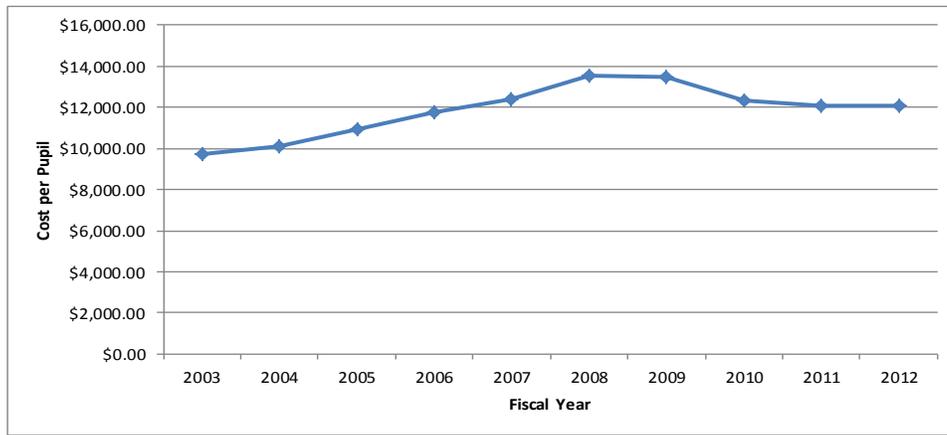
Cost per Pupil

Table L

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Cost per Pupil</u>
2012	\$ 12,105
2011	12,062
2010	12,345
2009	13,449
2008	13,520
2007	12,388
2006	11,759
2005	10,905
2004	10,117
2003	9,699

Cost per Pupil Trend



Source: LCPS Budget Office

LOUDOUN COUNTY PUBLIC SCHOOLS

Table M

Scholastic Assessment Test (SAT) Scores

Comparison of County of Loudoun, VA, Commonwealth of Virginia, and National Averages
Last Ten Fiscal Years

Fiscal Year	Combined SAT Scores - Critical Reading, Math and Writing (1)		
	County of Loudoun	Commonwealth of Virginia	National
2012	1590	1517	1498
2011	1592	1516	1500
2010	1596	1518	1506
2009	1592	1516	1505
2008	1573	1519	1507
2007	1557	1517	1508
2006	1561	1525	1518
2005	1073	1030	1028
2004	1059	1024	1026
2003	1054	1017	1026

(1) The writing section of the SAT started in 2006, for a possible combined score of 2400. For the fiscal years prior to 2006, the maximum possible score was 1600.

Source: LCPS Office of Testing

LOUDOUN COUNTY PUBLIC SCHOOLS
Average Class Size - Students per Classroom Teacher

Table N

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Elementary</u>	<u>Middle/ Intermediate</u>	<u>High</u>
2012	24.0	23.6	27.9
2011	24.0	23.6	27.9
2010	23.0	22.6	26.9
2009	23.0	22.6	26.9
2008	22.0	21.6	25.9
2007	22.0	21.6	25.9
2006	22.5	22.1	26.1
2005	22.5	22.1	26.6
2004	22.0	21.6	26.6
2003	22.0	21.6	26.6

Source: LCPS Budget Office

LOUDOUN COUNTY PUBLIC SCHOOLS
Full-Time Equivalent Employees by Function - All Funds

Last Ten Fiscal Years

Function	Fiscal Year				
	2012	2011	2010	2009	2008
School based:					
Instruction	5,041.3	4,829.5	4,766.6	4,707.6	4,540.9
Bus drivers & attendants	899.5	904.5	876.5	862.5	823.0
Teacher assistants	1,213.3	1,142.7	1,102.8	1,093.7	995.7
Custodians	494.5	485.0	486.0	482.0	468.0
Other school support	382.4	357.8	343.5	339.5	332.5
Administration	277.0	266.0	257.0	249.0	246.0
Instructional support	187.7	154.0	171.5	174.8	170.3
Nurses & health clinic specialists	87.8	86.8	77.8	76.8	73.8
Total school based FTE's	<u>8,583.5</u>	<u>8,226.3</u>	<u>8,081.7</u>	<u>7,985.9</u>	<u>7,650.2</u>
Non-school based:					
Secretarial/clerical	144.5	150.2	148.5	148.5	148.5
Other support staff	324.7	314.3	319.8	319.8	298.8
Administration	124.7	142.7	99.8	99.8	87.3
Total non-school based FTE's	<u>593.9</u>	<u>607.2</u>	<u>568.1</u>	<u>568.1</u>	<u>534.6</u>
Total FTE's	<u>9,177.4</u>	<u>8,833.5</u>	<u>8,649.8</u>	<u>8,554.0</u>	<u>8,184.8</u>

Source: LCPS Budget Office

Table O

Fiscal Year					Function
2007	2006	2005	2004	2003	
4,267.2	3,986.6	3,576.9	3,198.4	2,988.0	School based:
778.0	728.0	655.0	602.0	549.9	Instruction
909.7	848.8	750.1	673.7	584.0	Bus drivers & attendants
435.5	432.5	373.5	343.5	295.5	Teacher assistants
319.5	310.6	286.6	263.6	238.5	Custodians
218.1	214.0	203.0	183.5	169.2	Other school support
154.6	146.2	117.5	101.1	89.2	Administration
68.0	69.0	65.0	65.0	59.0	Instructional support
					Nurses & health clinic specialists
<u>7,150.6</u>	<u>6,735.7</u>	<u>6,027.6</u>	<u>5,430.8</u>	<u>4,973.3</u>	Total school based FTE's
139.0	140.5	115.0	107.5	106.3	Non-school based:
267.6	259.8	229.0	189.0	152.6	Secretarial/clerical
86.5	79.5	79.0	73.0	68.3	Other support staff
					Administration
<u>493.1</u>	<u>479.8</u>	<u>423.0</u>	<u>369.5</u>	<u>327.2</u>	Total non-school based FTE's
<u><u>7,643.7</u></u>	<u><u>7,215.5</u></u>	<u><u>6,450.6</u></u>	<u><u>5,800.3</u></u>	<u><u>5,300.5</u></u>	

LOUDOUN COUNTY PUBLIC SCHOOLS

Miscellaneous Statistics

Last Ten Fiscal Years

Function	Fiscal Year				
	2012	2011	2010	2009	2008
Attendance percentage	96.4%	96.2%	96.0%	96.2%	96.0%
Drop-out rate	0.30%	0.60%	0.85%	0.62%	0.72%
English as a Second Language students served	4,920	4,922	4,880	4,416	4,250
Financial aid received by graduates	\$28,800,000	\$23,490,561	\$27,706,456	\$20,635,763	\$16,593,721
Graduates pursuing further education:					
Number of students	4,222	3,649	3,251	3,434	3,258
Percent of students	90.2%	92.9%	89.5%	89.8%	89.1%
Percent of staff that is school-based	92.9%	93.1%	92.1%	93.5%	93.0%
National Merit Scholarship Committee Semifinalists	28	25	20	18	17
Gifted & talented students served(1)	6,554	6,359	5,959	5,647	5,097

(1) Prior to fiscal year 2004, gifted and talented students included students that are now being served in the regular education programs.

Source: LCPS Public Information Office

Table P

Fiscal Year					Function
2007	2006	2005	2004	2003	
96.0%	96.0%	95.6%	95.8%	95.7%	Attendance percentage
0.89%	0.90%	0.92%	0.90%	0.50%	Drop-out rate
3,728	3,624	2,536	2,022	1,788	English as a Second Language students served
\$12,224,554	\$8,200,200	\$7,797,791	\$6,078,206	\$4,449,230	Financial aid received by graduates
2,798	2,617	2,103	1,858	1,749	Graduates pursuing further education: Number of students
89.0%	92.0%	88.0%	90.0%	88.0%	Percent of students
94.4%	94.4%	93.4%	94.0%	94.0%	Percent of staff that is school-based
7	7	16	6	14	National Merit Scholarship Committee Semifinalists
4,901	3,994	3,971	3,559	9,994	Gifted & talented students served

LOUDOUN COUNTY PUBLIC SCHOOLS
Capital Assets Statistics (1)
by Function

Function	Fiscal Year			
	2012	2011	2010	2009
Elementary Schools:				
Buildings	53	52	51	50
Square footage	3,790,826	3,690,349	3,588,208	3,497,213
Capacity	33,945	33,070	32,318	31,731
Middle Schools:				
Buildings	14	13	13	13
Square footage	2,234,279	2,056,399	2,056,399	2,029,747
Capacity	16,696	15,346	15,476	15,403
High Schools:				
Buildings*	13	12	10	10
Square footage	3,149,764	2,874,190	2,342,849	2,342,849
Capacity	20,523	18,723	15,118	15,206
Alternative Schools:				
Buildings*	2	2	2	2
Square footage	124,862	124,862	124,862	124,862
School Buses	854	840	780	731

(1) Comparative data for fiscal years prior to 2006 is not meaningful since the County of Loudoun, VA did not provide detailed component unit information prior to the implementation of GASB Statement No. 34. LCPS began presenting a CAFR in 2009 and extracted comparative data for fiscal years 2006, 2007, and 2008 from the County of Loudoun, VA CAFRs.

Source: LCPS Construction Division

* CS Monroe Technology Center classification changed from High School to Alternative to better reflect actual function.

Table Q

2008	2007	2006	Function
47	44	44	Elementary Schools:
3,227,060	2,919,888	2,919,888	Buildings
29,299	26,598	26,818	Square footage
			Capacity
13	12	12	Middle Schools:
2,029,747	1,860,987	1,860,987	Buildings
15,300	13,419	13,356	Square footage
			Capacity
10	11	11	High Schools:
2,342,849	2,406,968	2,406,968	Buildings*
15,257	15,161	14,980	Square footage
			Capacity
2	1	1	Alternative Schools:
124,862	47,022	47,022	Buildings*
			Square footage
742	744	675	School Buses



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LOUDOUN COUNTY PUBLIC SCHOOLS – 2012 COMPREHENSIVE ANNUAL REPORT

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