

Fairfax County Public Schools, Virginia

A component unit of the County of Fairfax, Virginia

Comprehensive Annual Financial Report

For the
fiscal year
ended
June 30

2012



www.fcps.edu





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A component unit of the County of Fairfax, Virginia

Prepared by the Department of Financial Services

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Susan S. Quinn, Chief Financial Officer

Shakeel Yusuf, Comptroller

**Comprehensive
Annual Financial
Report**
For the
fiscal year
ended
June 30 **2012**



This Comprehensive Annual Financial Report (CAFR) was prepared by:

DEPARTMENT OF FINANCIAL SERVICES

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Introductory Section (unaudited)

The Introductory Section contains the letter of transmittal, which provides a profile of Fairfax County Public Schools (FCPS) and an overview of its school membership, accomplishments, major initiatives, financial policies, long-term financial planning, awards, and acknowledgements.

Also included in this section are the following:

- Listing of FCPS' School Board members and administration
- FCPS' organizational chart
- Awards for excellence in financial reporting





FAIRFAX COUNTY
PUBLIC SCHOOLS

Office of the Superintendent

8115 Gatehouse Road
Falls Church, Virginia 22042

November 9, 2012

The Board of Supervisors
County of Fairfax, Virginia:

The Members of the School Board
County of Fairfax, Virginia:

We hereby submit the Comprehensive Annual Financial Report (CAFR) of Fairfax County Public Schools (FCPS) for the fiscal year ended June 30, 2012. The financial statements included in this report are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. This report consists of management's representations concerning the finances of FCPS. Consequently, responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with FCPS' management. To provide a reasonable basis for making these representations, FCPS' management has established a comprehensive internal control system designed to protect FCPS' assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of FCPS' financial statements.

All the financial activities of FCPS are included within this report. To the best of our knowledge and belief, the information included in this report is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the various activities and funds of FCPS.

FCPS' financial statements were audited by the accounting firm of KPMG LLP. The independent audit involved examining, on a test basis, documents supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. KPMG LLP issued an unqualified opinion on FCPS' financial statements for the fiscal year ended June 30, 2012. The independent auditors' report is included as the first item in the financial section of this report.

GAAP requires that management of FCPS provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

Profile of the School System

OVERVIEW

The Virginia Department of Education (VDOE) 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, Section 2, of the Code of Virginia (Code). FCPS, the school division for the County of Fairfax, Virginia (County), is located in the northeastern corner of the State and encompasses an area of nearly 400 square miles, including land and water. The County is part of the Washington, D.C. metropolitan area, which includes part of Maryland, Northern Virginia, and the District of Columbia. FCPS is the largest educational system in the State, and, according to the National Center for Education Statistics, FCPS is the 11th largest school division in the nation based on enrollment. There are in excess of 15,000 school divisions in the United States.

The function of the FCPS School Board is to set general school policy and, within the framework of the Virginia Department of Education regulations, establish guidelines and rules that will ensure the proper administration of the school system. Each of the twelve-member School Board is elected by citizens of the County and serves a four-year term. There is one member from each of the County's nine magisterial districts and three at-large members. A nonvoting student representative is selected by a countywide student advisory council for a one-year term. The School Board is entrusted with the responsibility of hiring the school division's superintendent. The superintendent along with the deputy superintendent, 13 assistant superintendents, chief operating officer, chief financial officer, and chief information officer manage the day-to-day operations of the school system.

During fiscal year 2012 FCPS focused on meeting the needs of 177,918 students from preschool through twelfth grade, while managing 194 schools and centers. The schools and centers are divided into eight regional clusters and are supported by eight departments that provide a broad range of services including curriculum development, building maintenance, computer services, ordering and delivery of instructional materials, recruitment, hiring, and payment of personnel. In fiscal year 2012, FCPS employed over 23,000 full-time employees, of which 91.9 percent were school-based.

Over 85 percent of the school system's approved operating budget (\$2.2 billion for fiscal year 2012), was spent on instructional programs. In addition to offering core instructional programs that are designed to meet the varied needs of the student body and to enhance academic achievement, FCPS offers a variety of unique instructional programs starting in preschool and continuing beyond high school graduation. These include programs such as Head Start, Foreign Language Immersion, International Baccalaureate (IB), Advanced Placement (AP), and Advanced Academics. Thomas Jefferson High School for Science and Technology, a Governor's magnet school, attracts students from around the Washington Metropolitan area.

FCPS has an extensive program for students pursuing opportunities in technical careers in five professional technical academies, offering courses in business, health occupations, industrial technology, marketing, engineering, international studies, human services, communications, and work and family studies. In addition, FCPS provides an extensive adult education program offering basic education courses along with vocational and enrichment programs to adults in the community.

The operating costs of FCPS are funded primarily by the County. For fiscal year 2012, the County provided funding for 71.2 percent of the school division's operating revenue with the State providing 20.9 percent and the Federal government 2.8 percent. Capital funding for public school facilities is provided primarily by the sale of general obligation bonds issued by the County. Consequently, FCPS is a component unit of the County and is included as an integral part of the County's financial statements.

Schools and Centers

Fiscal Year 2012

Elementary (K–6)	138
Middle (7–8).....	19
Middle (6–8)	3
High (9–12)	21
Secondary (7–12)	4
Alternative High.....	2
Special Education Centers	7
Total	194

COST PER PUPIL

Cost per pupil calculations provides an overall view of the cost of instructional programs that can be used to compare how school systems spend their funds. It includes both the direct as well as the indirect costs of programs. A unified cost per pupil, which includes general and special education, and excludes Adult and Community Education, is computed using guidelines developed by ten neighboring local jurisdictions collectively called the Washington Area Boards of Education (WABE).

The table to the right compares the fiscal year 2012 cost per pupil for the local jurisdictions. FCPS maintained its ranking in the middle compared to other school districts in the metropolitan area, with a cost per pupil of \$12,820. Fiscal year 2012 was the first time in four years that per-pupil spending increased.

The cost per pupil is computed by identifying all FCPS' operating costs directly associated with an instructional program. Transportation costs are distributed to each program according to the actual costs of providing the services. Calculating costs separately identifies the relationship between elementary, middle, and high school cost per pupil. The cost per pupil for special education students is higher than for other programs, primarily as a result of lower pupil-teacher ratios.

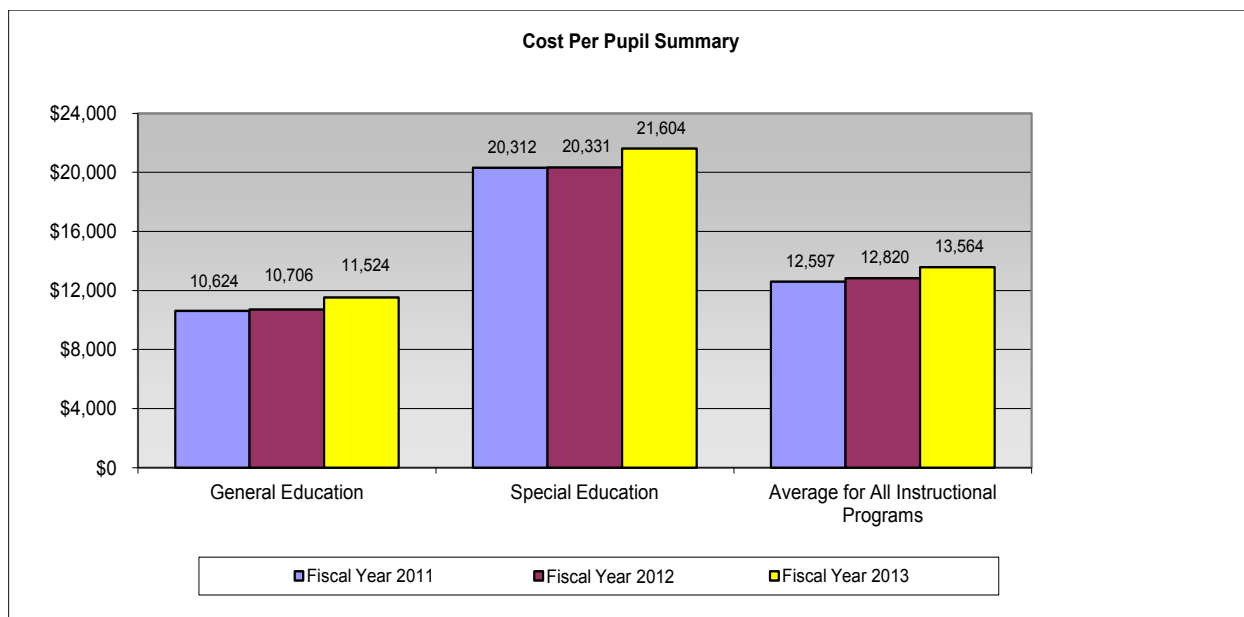
Cost per Pupil

Comparison of Local Jurisdictions Fiscal Year 2012

Arlington County	\$ 18,047
Alexandria City	\$ 17,618
Falls Church City	\$ 16,309
Montgomery County	\$ 14,776
Fairfax County	\$ 12,820
Prince George's County	\$ 11,753
Manassas City	\$ 11,478
Loudon County	\$ 11,014
Manassas Park City	\$ 9,888
Prince William County	\$ 9,852

Source: 2012 Washington Area Boards of Education Guide

The following graph shows a detailed trend of the average cost per pupil for fiscal years 2011 through projected 2013:



Source: FCPS Fiscal Year 2013 Approved Budget

School Membership

PROJECTED ENROLLMENT

Developing FCPS enrollment projections begins by estimating each successive year's entering kindergarten class according to the historical trends between kindergarten memberships and live births to County residents. Each class is then progressed through successive grade levels according to historical school level ratios of prior to current year enrollment. Individual grade-level estimates, including incoming kindergartners, are modified as necessary to take into account such local influences as new dwelling completions and other factors. For new dwellings expected to be occupied during the next five-year period, student generation ratios are used to estimate the number of future students likely to enter FCPS.

The FCPS student enrollment projected for fiscal year 2013 is 181,536 in 196 schools and centers. This represents an increase of 3,618 students from fiscal year 2012. The cumulative cost of membership adjustments exceeded



\$150.0 million over the past five years. Since fiscal year 2008, FCPS has opened four new school buildings to accommodate student membership adjustments and population shifts.

The following table represents FCPS' fiscal years 2008 through 2012 actual student membership and projections for the next five fiscal years:

FCPS Membership History and Projections					
Fiscal Year ¹	General Education			Special Education Level 2 ³	Total
	Grades FECEP-6	Grades 7-8	Grades 9-12 ²		
Membership History:					
2008	81,341	22,744	48,723	13,499	166,307
2009	83,114	22,931	49,422	14,071	169,538
2010	84,919	23,416	49,899	14,157	172,391
2011	86,796	23,384	50,153	14,600	174,933
2012	89,049	23,508	50,583	14,778	177,918
Membership Projections:					
2013	91,331	23,795	51,202	15,208	181,536
2014	93,311	23,960	51,775	15,531	184,577
2015	95,164	24,249	52,186	15,870	187,469
2016	96,754	24,882	52,628	16,213	190,477
2017	97,603	25,768	53,258	16,563	193,192

¹ General education membership history and projections are as of September 30; alternative education programs and Family and Early Childhood Education Program (FECEP) use other dates. Special education membership history and projections are as of December 30.

² Includes membership in grades 9 through 12, including alternative education programs

³ Includes school-age services and preschool services

Source: FCPS Fiscal Year 2013 Approved Budget

SPECIAL EDUCATION

In the table on the previous page, the membership reported for special education represents only the Level 2 students (those who receive special education services 50 percent or more of the day) and students receiving preschool services. The Level 1 students (those who receive special education services less than 50 percent of the day) are reflected in the general education membership.

In the graph below, the unduplicated special education membership count refers to the total number of students receiving special education services for which FCPS is responsible, including students receiving Level 2 services, general education students receiving Level 1 resource services, private school students, and FCPS students placed in contract schools. Special education students require specialized instruction and additional resources. The average cost per pupil for the special education program is projected to be \$21,604 in fiscal year 2013, compared to \$11,524 per pupil for general education.

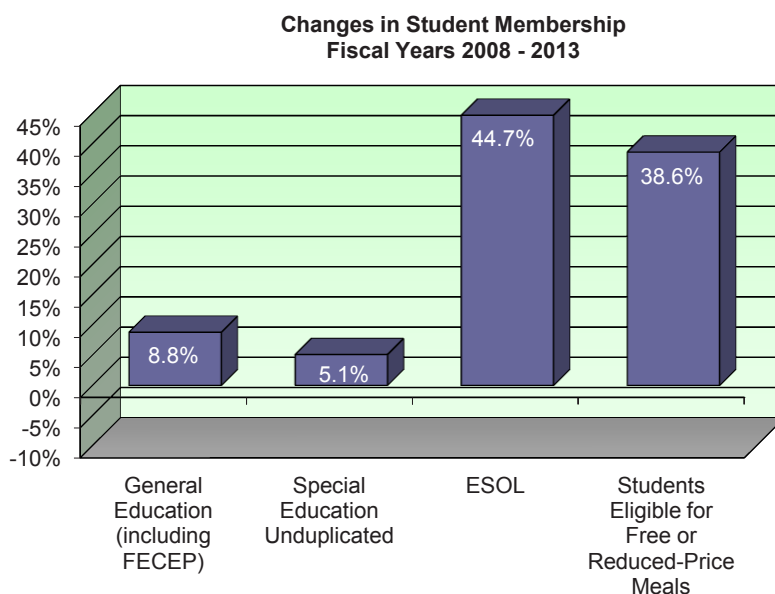
ENGLISH FOR SPEAKERS OF OTHER LANGUAGES (ESOL)

The FCPS fiscal year 2013 Approved Budget indicates that over 100 different languages are spoken in Fairfax County. ESOL services are projected to be provided to 31,480 students, an increase of 3,536 students from the fiscal 2012 school year. On average, a student for whom English is a secondary language costs \$3,324 more to educate than a general education student.

FREE AND REDUCED-PRICE MEALS

The Federal Free and Reduced-price Meals program is the second fastest growing program for students with additional needs in the school system. Families qualifying for free and reduced-price meals must meet established federal guidelines of income and household size. The projected number of students eligible for free and reduced-price meal services is projected to be 47,188 in fiscal year 2013, or 26.0 percent, of all students. Between fiscal year 2008 and fiscal year 2013, as projected, eligibility increased by 38.6%.

The chart below represents changes in FCPS membership from fiscal year 2008 through fiscal year 2013 projected student enrollment for the following student population:



Source: FCPS Fiscal Year 2013 Approved Budget

Accomplishments



STUDENT ACHIEVEMENT

Individual students and groups annually earn honors and awards in all academic, extracurricular, and athletic areas in regional, state, and national competitions. The National Merit Scholarship Corporation announced that 229 FCPS seniors, from 19 high schools, have been named semifinalists in the 2013 National Merit Scholarship program. Thomas Jefferson High School for Science and Technology, a Governor's magnet school from Northern Virginia, had 146 semifinalists.

More than 1.5 million students from across the nation entered the 2013 National Merit program by taking the Preliminary SAT/National Merit Scholarship Qualifying test. The SAT is a three-part test, which combines scores on critical reading, math, and writing for a possible score of 2400. Members of FCPS' class of 2012 have outperformed their counterparts in the State (1510) and across the nation (1477) on the SAT with an average score of 1659. The nationwide pool of 16,000 semifinalists, which represents less than one percent of high school seniors, includes the highest scoring entrants in each state. The students are eligible to compete for 8,300 National Merit Scholarships worth \$32 million to be awarded in the spring of 2013. During the spring of 2012, 41 FCPS students were named winners of the Merit Scholarship awards and each received a \$2,500 scholarship.

The VDOE utilizes a statistic based on individual student data, tracked over time, and accounts for student mobility and retention patterns to determine an on-time graduation rate. The rate is modeled on a formula endorsed by the

National Governors Association. A Virginia on-time graduate is a student who graduates from high school in four years or less and earns one of five types of diplomas: standard, advanced studies (including IB), modified standard, general achievement, or special. The class of 2012 is the fifth graduating class with five years of longitudinal data utilizing this statistic. According to the VDOE, 88.0 percent of Virginia's class of 2012 graduated on time; FCPS reported an on-time graduation rate of 91.3 percent for the same time period.

Nearly 94.0 percent of FCPS graduates in the class of 2012 had plans to continue on to some form of postsecondary education.

Based on the most recent comparative data for school year 2011-2012, FCPS students scored high when compared with neighboring jurisdictions as detailed in the table below:

Combined SAT Scores

Comparison of Local Jurisdictions
School Year 2011-2012

SCHOOL DIVISION	SAT SCORE	TOTAL ENROLLMENT
Falls Church City	1734	2,178
Fairfax County	1659	177,918
Montgomery County	1651	146,497
Arlington County	1641	21,878
Loudoun County	1590	65,668
Prince William County	1490	81,944
Manassas Park City	1482	3,071
Manassas City	1454	7,156
Alexandria City	1436	12,395
Prince George's County	1283	123,833

Source: 2013 Washington Area Boards of Education Guide



STANDARDS OF LEARNING AND ACCREDITATION

The VDOE utilizes curricular requirements called the Standards of Learning (SOL). Under the State's requirements, Virginia SOL tests are given in reading and mathematics to all students in grades 3 through 8. Science tests are given to students in grades 3, 5, and 8; and writing tests are given in grades 5 and 8. History SOL tests are administered in grades 3, 4, and 6 through 8. In high school, SOL tests in English, mathematics, science, and history are administered when students complete specific courses. School districts are required to offer remediation activities to students who have failed the SOL tests.

In addition to being a graduation requirement, the SOL tests are tied to the accreditation process for each school through the Standards of Accreditation. These requirements mandate that an adjusted passing rate of at least 70 percent in all four core subjects (English, mathematics, science, and history) is required in middle and high schools for full accreditation. In elementary

schools, a combined accreditation passing rate of at least 75 percent on English tests in grades 3, 4, and 5 is required for full accreditation. Elementary schools must also achieve accreditation passing rates of at least 70 percent in mathematics, grade 6 English, grade 5 science, and combined grade 4 and 6 history, and passing rates of at least 50 percent in grade 3 science and grade 3 history. Most FCPS schools achieved the passing rates needed to earn accreditation in the core content areas.

According to data released by the VDOE for the 2011-2012 school year, students in FCPS continue to show improvement on the SOL tests and are passing in greater numbers. The majority of FCPS' schools have earned full accreditation from the VDOE based on the 2011-2012 SOL tests.

FCPS has developed strong accountability systems to ensure that every child receives a quality education as required by the Federal No Child Left Behind Act (NCLB). FCPS has invested in enhancements such as the electronic curriculum Assessment Resource Tool, which is a source for curriculum, resources and assessments through a single web-based point of entry via FCPS 24-7 learning. With this assessment tool, data is used to tailor remediation efforts to each child's needs.

FCPS MAKES LIST OF TOP 100 U.S. SCHOOLS

In the 2012 *U.S. News and World Report* ranking of America's Best High Schools, Thomas Jefferson High School for Science and Technology is ranked as the number two gold medal school in the nation. In total, FCPS received 13 gold medal awards, one silver award, and one bronze award. Four additional FCPS schools, George C Marshall, McLean, James W Robinson, and Langley were ranked in the top 100 of America's Best High Schools. Based on the 2012 *Washington Post* rankings, FCPS schools are in the top nine percent of all American high schools as measured by their participation in AP or IB exams. Every eligible FCPS high school made the list.

Major Initiatives

RESOURCE ALLOCATION

The school board's strategic governance initiative provides a focus on student achievement. Together with the student achievement goals a framework is established to provide the school systems' operation and resource allocation.

The combined pressures of limited revenue and increased student membership over the past four fiscal years have severely constrained the FCPS' School Board. County funding was held flat from fiscal year 2009 to fiscal year 2010 and declined by 1.0 percent, or \$16.3 million, for fiscal year 2011. For fiscal year 2012, County funding was held flat to the fiscal year 2011 level. During this period of time, student membership increased by over 9,000 students. Beyond the \$465.0 million in reductions, cost avoidances and fees, including the elimination of over 1,400 positions between fiscal year 2009 and 2011, additional reductions and cost savings initiatives were initiated in fiscal year 2012 to meet School Board objectives.

The development of the fiscal year 2012 budget was challenging, as a result of existing economic conditions. To meet the increase in student membership and demographic changes, an additional \$28.4 million to include 426.8 positions was required. In addition, funds were allocated to the following:

- Full day kindergarten (net of transportation savings) \$7.8 million and 152.2 positions
- Online Standards of Learning Testing \$4.3 million and 47.8 positions
- High School Needs-Based Staffing \$1.0 million and 29.1 positions
- Student Achievement Projects \$1.0 million
- Discipline Support \$0.5 million and 2.5 positions
- Safety Inspection Liaison \$0.1 million and 1.0 position
- Employee Salary increases (net of lapse savings) \$29.7 million

- Retirement Adjustments \$42.9 million
- Employee Recognition \$0.5 million

Cost Saving Initiatives

Fiscal Year 2012

Closing of an elementary school resulting in a reduction of \$1.2 million

One time initiatives totaling \$3.9 million have been eliminated as a result of the conclusion of funding from the American Recovery and Reinvestment Act

Contract length reductions in the amount of \$0.8 million were identified affecting teachers, counselors, librarians, assessment coaches, and attendance officers.

Funding reduction of \$5.0 million as a result of the most recent actuarial valuation for Other Post-Employment Benefits

Decreased funding of \$0.6 million in year four of the five-year Schools Administrative Student Information Replacement initiative.

Improvement efforts and efficiencies in the division's transportation program resulting in \$4.6 million in savings.

Funding of \$57.3 million was set aside from fiscal year 2010 and fiscal year 2011 for the beginning balance of fiscal year 2012

Source: FCPS Fiscal Year 2012 Approved Budget

UNFUNDED MANDATES

The following government programs have a financial impact on FCPS' operations:

STATE

A 2002 Joint Legislative Audit and Review Commission's (JLARC) Report on Funding the Standards of Quality concluded that the State significantly underfunds education. Based on the JLARC recommendations, FCPS

would have received an additional \$187.0 million in the 2002-2004 biennium. A 2005 analysis of the JLARC report found that while progress has been made, the State continued to underfund education, in part by using salary and staffing data that did not reflect prevailing practices.

Further, the General Assembly continues to study the cost trends and drivers to identify options for greater funding flexibility, efficiencies, and cost savings for the State “rebenchmarking”. Rebenchmarking is a process whereby State basic aid formulas “catch up” to more current costs of doing business as they already exist in school divisions (e.g. teacher salary levels, health care costs, costs of bus fuel, etc.).

During the 2010 General Assembly session, the State’s adopted 2010-2012 biennial budget resulted in a net decrease of \$997.5 million from state general funds to support public education. The decrease included a funding cap on support positions, the elimination of several rebenchmarking formula components that included inflation on certain categories; terminated employees annual and sick leave payments; travel; leases; extended school bus replacement cycle; textbook funding; and other miscellaneous categories. In addition, the rebenchmarking formula component that determines health care premium value funding changed to utilize overall participation versus actual participation rates in health care plans, further reducing state support for education.

During the 2011 General Assembly session, amendments resulted in a net increase of \$22.7 million from state general funds. This increase included one-time supplemental support for school operating costs, revised sales tax estimates, Virginia Retirement System (VRS) employer contribution rate increases, and Governor’s School funding cap. These were offset by a reduction in textbook funding, savings realized from updated membership projections and lower participation rates in lottery-funded programs.

Localities will face increasingly tight budgets in future years as VRS employer contribution rates increase and the impact of onetime funding policies utilized by the State to temporarily mitigate funding reductions for public education disappear. In the future, structural change will be needed to the funding formula to mitigate the budget

challenges of local school divisions.

FEDERAL

The following Federal programs have a direct impact on FCPS’ operational costs:

The No Child Left Behind Act (NCLB)—a major expansion of Federal authority over state and local educational programs, places significant administrative and fiscal burdens on local school divisions. Based on the most recent statewide data available, in fiscal year 2008, more than \$16.3 million of required funding which was needed to comply with the law remained unfunded. In addition, for fiscal years 2003 through 2008, FCPS spent \$517.7 million on prevention strategies to ensure that schools achieve Adequate Yearly Progress.

Individuals with Disabilities Education Act (IDEA)—in 1975, the Federal government made a commitment to fund 40 percent of the excess costs of special education. However, federal funding currently covers 13.7 percent of FCPS’ costs, a shortfall of more than \$69.0 million.

Impact Aid—a Federal program designed to minimize the fiscal inequities caused by both the presence of tax-exempt Federal property and the increased burden of providing education to large numbers of children whose parents reside and/or work on Federal property. The Federal government has not fully funded this program for decades. If the program was fully funded, based on current funding formulas, FCPS would have been eligible for an additional \$20.0 million in fiscal year 2012.

TECHNOLOGY

FCPS is a leader in the use of technology in its instructional and administrative programs. Since achieving high academic standards increasingly involves integrating technology into the classroom, the fiscal year 2012 Approved Budget dedicated \$13.6 million toward the Technology Plan budget. This reflects a decrease of \$0.2 million compared to the funding in fiscal year 2011 as a result of the Developmental Reading Assessment (DRA) Online initiative, which was funded through IDEA American Recovery and Reinvestment Act (ARRA) in fiscal year 2010 and 2011. In fiscal year 2012, IDEA ARRA funding was no longer available.

The Technology Plan, which aligns with the Educational Technology Plan for Virginia 2010-2015, supports the overall mission and vision of FCPS and the objectives and priorities of the School Board. The plan supports the strategic technology mission to provide information technology leadership, products, and services for FCPS while managing division wide information resources and ensuring information security and integrity.

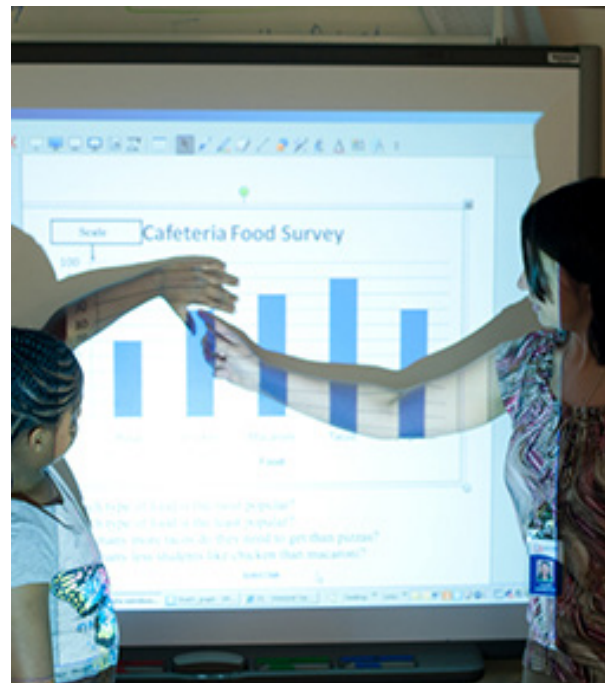
Major initiatives contained in the fiscal year 2012 Technology Plan are:

- Enterprise Application Integration (\$1.7 million) — provides an applications infrastructure to enable applications to share information, functions, and makes application functions accessible via the web.
- Enterprise Desktop Management (\$1.4 million)— provides a centrally managed system to facilitate the deployment of all necessary operating system images and instructional and administrative applications to FCPS desktop and laptop computers.
- Computer Lease Costs (\$3.4 million)— provides funds for annual lease costs for over 13,300 laptop computers and 850 network switches.
- Microsoft School Agreement - Software Licensing (\$2.9 million)— provides for the renewal of the Microsoft School Agreement that provides standardized software for use within FCPS.

FCPS has been moving forward with a multiyear initiative to replace the outdated student information system (SAS).

The new student information system allows teachers and principals to measure, document, and track performance criteria over time, provide secure anytime/anywhere access for an expanded set of users including students and parents, and respond to changing business needs including local, state, and federal mandates.

During the fall of 2011, the County and FCPS jointly implemented the Fairfax County Unified System (FOCUS), an integrated enterprise resource planning (ERP) system. For FCPS, FOCUS replaced aging, self-contained systems supporting finance, budget and procurement operations. FOCUS provides numerous improvements to include operational efficiencies, integrated business processes and enhanced reporting capabilities.



ENVIRONMENTAL STEWARDSHIP

FCPS places a high priority on protecting the environment and proactively supports responsible environmental stewardship in all aspects of school operations. The School Board, through an adopted policy, supports FCPS' best practices: carbon reduction; classroom environment; indoor and outdoor air quality; water use and management; recycling, ground and landscaping practices; purchasing; and performance measures to monitor and reduce greenhouse gas emissions.

Financial Policies

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

INTERNAL CONTROLS

The internal control system is designed to provide reasonable, but not absolute, assurance about the achievement of FCPS' objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with the applicable laws and regulations.

The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management. A sound internal control system should ensure that if any material error or fraud occurs, they would be detected in a timely manner by employees in the normal course of performing their duties.

RISK MANAGEMENT

The risk management program endeavors to minimize or eliminate, when possible, risks that endanger the safety and environmental health of the students, staff, property, and financial resources of FCPS. These objectives are met by identifying risk exposures, measuring and analyzing them, and implementing appropriate procedures to correct them. The results are evaluated for effectiveness and revised, as needed.

Risk exposure is managed through a combination of commercial policies and self-insurance. FCPS' procurement of commercial insurance policies and bonds include: property and liability insurance, surety bonds, fiduciary insurance, and catastrophic medical insurance for participants in the Virginia High School League. The self-insurance programs provide coverage for comprehensive general liability, workers' compensation, vehicle liability, legal liability, property losses, health insurance benefits, and volunteer injuries.



CASH MANAGEMENT

The County is the custodian of all cash and investments of FCPS except certain cash on hand, funds held in local student activity accounts, and certain investments of the pension and other post-employment benefit funds. FCPS' respective share of the County's pooled cash and temporary investments is reported in the financial statements as cash on deposit with County of Fairfax, VA.

Funds held in trust by the pension and other post-employment benefit funds are invested in accordance with the Code. Investment decisions for these assets are made by the respective trust fund's Board of Trustees (Board). All investments in the pension trust fund, except for mutual funds, are held by an unaffiliated custodian in the name of the pension trust fund. Investments in the other post-employment benefit funds are invested in an external investment pool held by an unaffiliated custodian in the name of the investment pool.

BUDGETARY PROCESS AND CONTROLS

BUDGET PROCESS AND DEVELOPMENT

The annual budget process is designed to encourage community involvement while providing a structured process reflecting the School Board's priorities and adherence to the student achievement goals. Throughout the budget process, there are many opportunities for citizens to participate. The following are some of the reasons why the budget is published each year and why it is revised often before final adoption:

- The most important objective of the budget is to reflect the School Board's strategic governance initiative, which includes mission, vision, and beliefs statements. These documents, along with the student achievement goals, provide a framework for the school system's operation and for the School Board's future work.
- The Code requires that each superintendent prepare a budget that estimates the amount of funding needed during the next fiscal year to support the public schools.
- The budget process enables FCPS staff, community members, and organizations to bring their ideas to

the School Board and influence how funding will be allocated. In many cases, changes are made in how programs will be implemented based on input presented to the School Board during budget development.

- Once approved, the budget provides a framework for monitoring expenditures. Throughout the year spending is compared to the budget for each program. Comparisons provide a measure of a program manager's effectiveness in managing funds and ensures funds are used for their intended purpose.

Annually, each summer, the Office of Budget Services (OBS) publishes and distributes to department staff a budget calendar and a budget manual that provide detailed information and critical dates for budget submissions. In the fall, principals and program managers at schools and central offices review their achievement of objectives and identify needs with the assistance of staff, community members, and students, as appropriate. The result of the reviews serves as the basis for development of budget requests for each school or office.

The following calendar of events explains the activities that contribute to the budget development and approval process:



¹ Fairfax County Board of Supervisors

BUDGET POLICIES

The School Board's policies and practices highlight significant assumptions used to develop the budget and are divided into the following five broad categories:

- Reserve Policies—eight reserves are maintained to enable FCPS to address unanticipated needs in a timely manner. These are the flexibility, staffing, strategic, superintendent's, school materials, grants, restricted, and VRS reserves.
- Salary Increase Policies—three types of salary scales are maintained: the teacher scale, the instructional assistant scale, and the unified scale. Salary adjustments are subject to School Board approval.
- Position Growth Policy—schools are staffed based on formulas approved by the School Board and adjustments can be made for expansions or modifications to established programs or for new requirements, but are subject to School Board approval.
- Position Reallocation Policy - FCPS Regulation 5135 establishes procedures and guidelines for principals and program managers for the reallocation of funds regarding vacant positions. Program managers have the flexibility to reallocate funds to meet unanticipated needs provided they maintain certain standards and justification. Requests must be reviewed annually.
- Other Budget Issues—included in this category are technology funding, beginning balance, carryover funding, vehicle services, vehicle and bus replacement, building renovation, building maintenance, utilities, and equipment funds transfer.

BUDGETARY CONTROLS

The FCPS budget document serves as a means to formulate planning and resource allocation alternatives by the School Board and administration. It also serves as the primary vehicle to inform County citizens and business community about the mission, priorities, and objectives of the school division. After the budget is adopted in May, it becomes the primary financial management tool for administering and monitoring expenditures.

The budget is controlled at certain legal as well as administrative levels. The legal level is placed at the



individual fund level and the administrative controls are placed at lower levels for each office and school within a fund.

FCPS maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Expenditure commitments, including purchase orders and contracts, are encumbered to ensure funds have been reserved and will be available when payment is due. Appropriations for all encumbrances, except for major capital projects, lapse at the end of each fiscal year and require reappropriation in the following fiscal year.

FCPS ensures that all orders are in compliance with legal purchasing regulations and approves all bid awards and contracts. FCPS carefully monitors comparisons between budget and actual expenditures to maintain cost control and to ensure against overspending.

Long-Term Financial Planning

The annual budget reflects FCPS' varied plans by allocating resources to carry out the goals defined through the division wide planning processes. The major planning activities are:

- FCPS' Approved Budget—adopted annually by the School Board and reflects ongoing programs as well as initiatives for the next fiscal year.
- Environmental Scans—conducted periodically to identify local, state, and national factors that influence planning.
- Capital Improvement Program—adopted by the School Board and contains a five-year capital improvement plan, student membership projections, and building use analysis.
- Integrated Technology Plan—outlines the multiyear strategic goals and demonstrates the effective use of technology throughout the school system. The technology plan supports the vision and mission for FCPS to provide a gifted, quality education to every child in an instructional setting appropriate for his or her needs, to educate all students to meet high academic standards, and to prepare all students to be responsible citizens in the twenty-first century. The technology plan is aligned with the VDOE's Educational Technology Plan for 2010-2015.
- School Improvement Plans—required by FCPS and the VDOE. Aligned within the school implementation plan are the Adequate Yearly Progress Report and Standards of Accreditation requirements. Schools are required to review their progress related to student achievement goals and describe how the school will accomplish its objectives.

In addition to division wide plans, there are several plans that focus on a segment of the student population or FCPS' operations, such as the Special Education Operating Plan. The results of these plans are evaluated regularly. End-of-year reports indicate progress made in meeting each objective in the Division Plan.

FINANCIAL FORECASTS

FCPS is required by state law to operate within a balanced budget. Since FCPS does not have taxing authority, the School Board must adjust expenditures to eliminate any projected deficit, making every effort to minimize the impact of budget reductions on instruction. In light of the challenges expected in fiscal year 2013 and beyond, FCPS will continue to utilize the program budget to review expenditures by program and to gather staff and community input to ensure that program and service priorities will sustain high quality educational services, while meeting the School Board's student achievement goals, community expectations, and Federal and State mandates. A program review process has been used in prior fiscal years and will be used in future years to target possible cost savings and avoidances and includes exploring alternative service delivery models and identification of opportunities for reorganization, consolidation, reduction, and elimination. The review process also captures the priorities of the community through a structured, comprehensive community engagement process.

CAPITAL IMPROVEMENT

Using a five-year planning horizon (fiscal years 2013-2017), FCPS identifies capacity shortages that cannot be met by school boundary changes, program relocations, temporary facilities, or other more modest measures. Such shortages, because they are large and likely to persist over time, become candidates for new construction projects.

The fiscal year 2013-2017 Capital Improvement Plan totals \$848.5 million, or roughly \$169.6 million per year. Funding approved in the 2011 School Bond Referendum and previous referenda will address approximately \$317.3 million of the five-year requirement, leaving an unfunded balance of \$531.2 million.

RENOVATIONS

Renovations are aimed to assure that all schools provide the facilities necessary to support current educational programs regardless of the age of the buildings. Additionally, this program is used to restore capacity lost to low-ratio special program instruction and other

new instructional support needs. Depending on need, a renovated school may acquire a new heating plant, air conditioning, upgraded electrical and plumbing systems, and space required to support the educational programs.

Approximately four out of five Capital Improvement Program dollars are dedicated to renovation of existing school facilities. This significant expenditure reflects the age of FCPS facilities and the School Board's commitment to ensure that all schools provide the facilities necessary to support current educational programs. Renovations also protect FCPS' capital investment. The renovation program is funded and executed according to a published priority list established by recommendations of independent architectural and engineering firms. These firms review the condition of schools that are approximately 25 years old or have not received some form of renovation for a 25 year period.

Both the useful lives of school facilities and School Board policy require renovation of buildings on 20-25 year cycles. Given the number of schools in operation, this requires renovation of an average of six elementary schools, one middle school, and one high school per year. The fiscal year 2013-2017 Capital Improvement Plan proposes the renovation of twenty-six elementary schools, four middle schools, and seven high schools. The five-year costs of renovations is projected to be \$715.0 million, of which \$448.6 million is unfunded.

NEW FACILITIES

Studies are performed for each of the eight regional clusters and present summary data on student memberships and facility capacities for selected groupings of elementary, middle, and high schools. Included in the summaries are the impacts of funded projects now scheduled for construction and increases in instructional and support space required to accommodate projected growth in general education, special education, and other programs. The five-year projected cost of new facilities is \$29.8 million, all of which is unfunded.

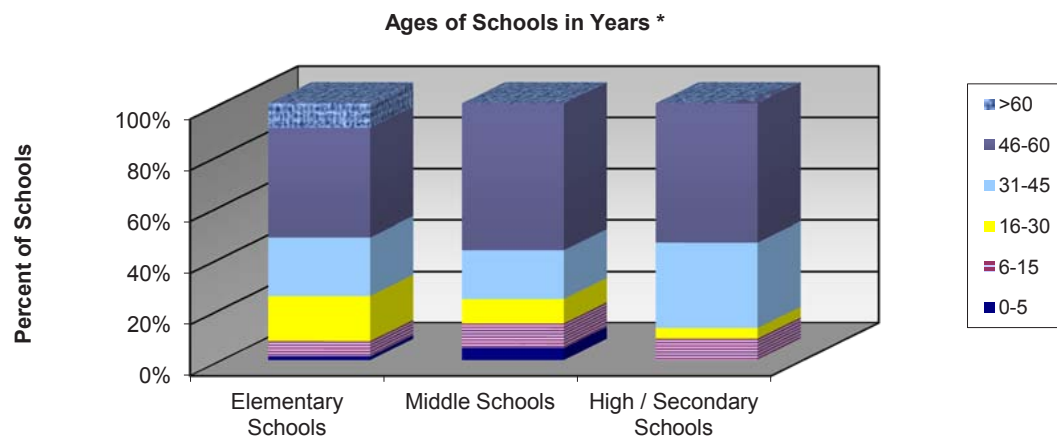
CAPACITY ENHANCEMENTS

To accommodate the projected increases in student enrollment, the Capital Improvement Plan includes capacity enhancement at twelve elementary and one middle school. The total five-year requirement for capacity enhancements is \$36.2 million, out of which \$1.7 million is unfunded.

INFRASTRUCTURE MANAGEMENT

To protect FCPS' investment in facilities, \$67.6 million is included in the Capital Improvement Plan to fund preventative maintenance programs in order to avoid costly building system failure in the future. Among the programs funded are technology infrastructure, asphalt paving, and athletic infrastructure.

The graph below reflects the ages of FCPS' elementary, middle, and high schools as of June 30, 2012:



* From the year that each school opened through June 30, 2012

Source: FCPS - Office of Design and Construction Services

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to FCPS for its CAFR for the fiscal year ended June 30, 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.

In addition, the Association of School Business Officials International (ASBO) sponsors a Certificate of Excellence in Financial Reporting program to foster 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. FCPS was awarded the ASBO Certificate of Excellence for the fiscal year 2011 CAFR.

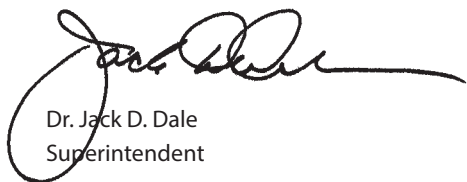
Fiscal year 2011 was the eighteenth consecutive year that FCPS received prestigious awards from both GFOA and ASBO. We believe that the current CAFR also conforms to the GFOA and ASBO Certificate program requirements; and we are therefore submitting it to them to confirm our compliance and to obtain another GFOA and ASBO certificate.

FCPS has won several awards for its budgeting reports, forecasting reports, and a separately issued CAFR for the Educational Employees' Supplementary Retirement System of Fairfax County pension plan. In addition, ASBO and GFOA awarded FCPS with the Meritorious Budget Award and the Distinguished Budget Presentation Award, respectively, for the fiscal year 2012 Approved Budget.

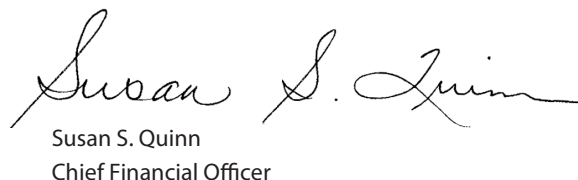
Acknowledgements

We would like to express our sincere gratitude to the personnel in the Department of Financial Services who participated in the preparation of this CAFR and to our independent auditors, KPMG LLP. Appreciation is also extended to the School Board and the administration, whose continuing support is vital to the financial health of the school system.

Respectfully submitted,



Dr. Jack D. Dale
Superintendent



Susan S. Quinn
Chief Financial Officer

School Board Members and Administration

As of June 30, 2012

SCHOOL BOARD

Jane K. Strauss
Chairman
Dranesville District

Ilryong Moon
Vice Chairman
Member-at-Large

Tamara Derenak Kaufax
Lee District

Sandra S. Evans
Mason District

Patricia M. Hynes
Hunter Mill District

Ryan L. McElveen
Member-at-Large

Megan D. McLaughlin
Braddock District

Patricia S. Reed
Providence District

Elizabeth L. Schultz
Springfield District

Kathy L. Smith
Sully District

Dan Storck
Mount Vernon District

Theodore J. Velkoff
Member-at-Large

Eugene Coleman
Student Representative

ADMINISTRATION

Jack D. Dale
Superintendent

Richard Moniuszko
Deputy Superintendent

Barbara Hunter
Assistant Superintendent
Communications and Community Outreach

Phyllis Pajardo
Assistant Superintendent
Human Resources

Peter Noonan
Assistant Superintendent
Instructional Services

Terri L. Breeden
Assistant Superintendent
Professional Learning and Accountability

Kim P. Dockery
Assistant Superintendent
Special Services

Susan S. Quinn
Chief Financial Officer
Financial Services

Maribeth Luftglass
Chief Information Officer
Information Technology

Dean A. Tistadt
Chief Operating Officer
Facilities and Transportation Services

Anne Murphy
Division Counsel

Marty Smith
Assistant Superintendent
Cluster I

Jim Kacur
Assistant Superintendent
Cluster II

Dan Parris
Assistant Superintendent
Cluster III

Deborah Tyler
Interim Assistant Superintendent
Cluster IV

Frances Ivey
Assistant Superintendent
Cluster V

Leslie Butz
Assistant Superintendent
Cluster VI

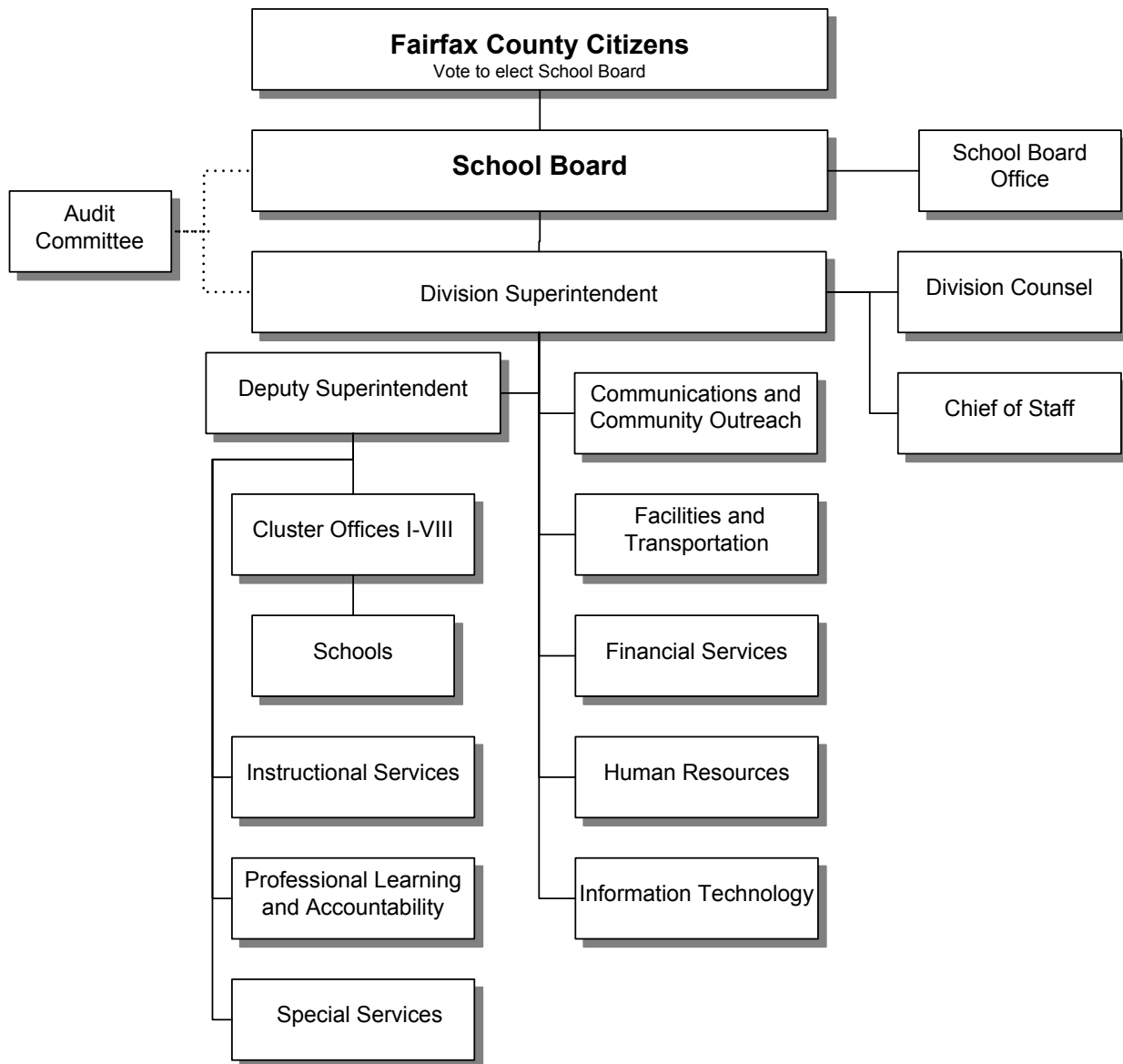
Linda Burke
Assistant Superintendent
Cluster VII

Fabio Zuluaga
Assistant Superintendent
Cluster VIII

Christine Donohue
Chief of Staff

Organizational Chart

As of June 30, 2012

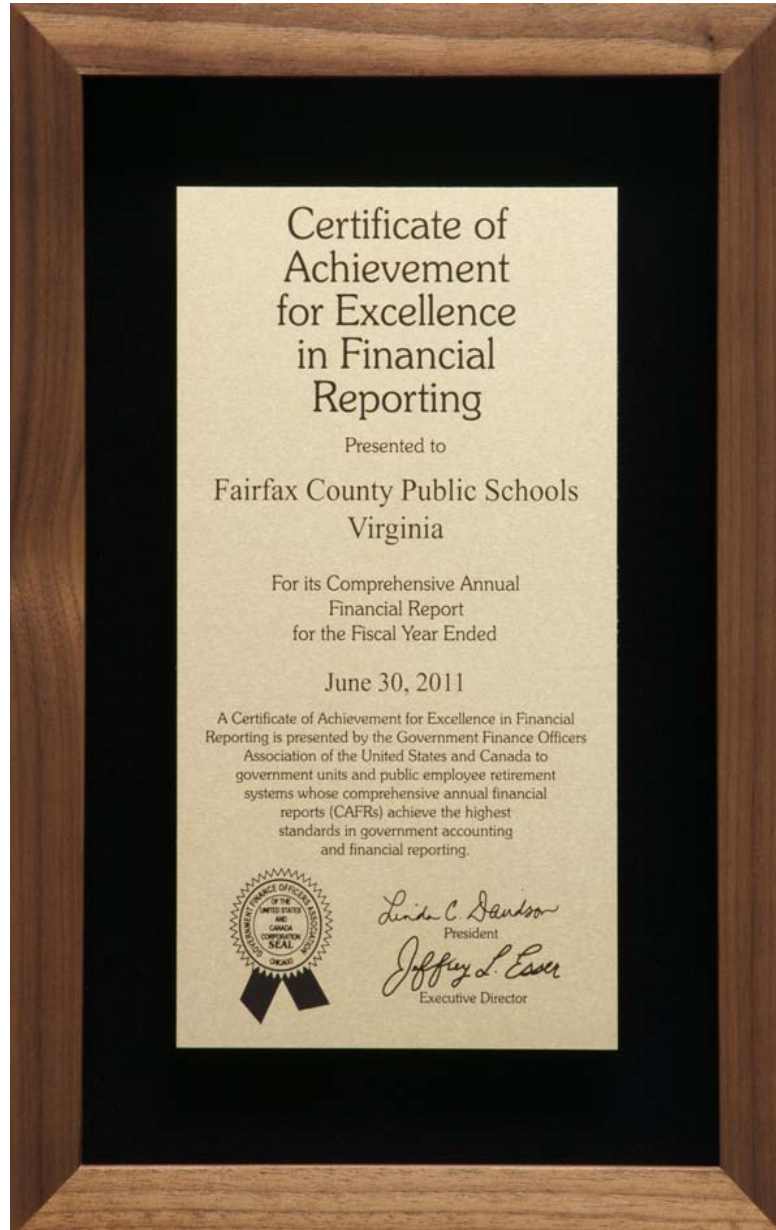


Awards for Excellence in Financial Reporting

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 Fairfax County Public Schools (FCPS) for its Comprehensive Annual Financial Report (CAFR) for the fiscal 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. FCPS has received the Certificate of Achievement for Excellence in Financial Reporting for 18 consecutive years.



ASSOCIATION OF SCHOOL BUSINESS OFFICIALS AWARD

The Association of School Business Officials International (ASBO) awarded a Certificate of Excellence in Financial Reporting to FCPS, for the eighteenth consecutive year, for its CAFR for the fiscal 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. More than 400 school systems and educational institutions submit applications each year.

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





Financial Section

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





KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

The School Board
County of Fairfax, Virginia:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairfax County Public Schools (FCPS), a component unit of the County of Fairfax, Virginia, as of and for the year ended June 30, 2012, which collectively comprise FCPS' basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of FCPS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FCPS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

U.S. generally accepted accounting principles require that Management Discussion and Analysis on pages 7 through 24, the budgetary comparison schedule on page 67, schedule of funding progress and schedule of employer contributions on page 68, as listed in the accompanying table of contents, to 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 regarding 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.

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.



Fairfax County Public Schools
November 9, 2012
Page 2 of 2

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 FCPS' basic financial statements. The supplementary information on pages 75 through 93 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied by us 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information included in the introductory and statistical sections are presented for purposes of additional analysis and are not required part of the basic financial statements and 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.

KPMG LLP

November 9, 2012



Management's Discussion and Analysis (unaudited)

The Management's Discussion and Analysis 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 an analysis of Fairfax County Public Schools' financial position and results of operations.



Management's Discussion and Analysis

This discussion and analysis, a section of the Fairfax County Public Schools' (FCPS) Comprehensive Annual Financial Report (CAFR), provides a narrative overview and analysis of the financial activities of FCPS for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which is also contained in this CAFR.

FINANCIAL HIGHLIGHTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements provide information about the activities of FCPS as a whole and present both a long-term and short-term view of FCPS' property and debt obligations and other financial matters.

- FCPS' assets exceeded liabilities (net assets) by \$2,398.0 million at June 30, 2012. Of this amount, \$411.3 million was available to meet FCPS' ongoing operational needs.
- Total revenues of \$2,505.1 million were generated in fiscal year 2012. Expenditures incurred were \$2,446.2 million, resulting in an increase in net assets of \$58.9 million.
- General revenues, including the funds transferred from the County of Fairfax, Virginia, (County) totaled \$2,002.0 million and are available for all purposes. Such revenues were sufficient to fund the excess of total operating costs over program-specific revenues. For the fiscal year ended June 30, 2012, program-specific revenues amounted to \$503.1 million.

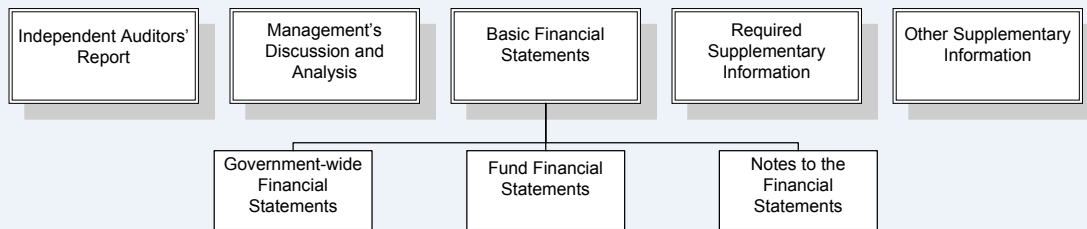


FUND FINANCIAL STATEMENTS

Fund financial statements report FCPS' operations in more detail than government-wide financial statements by providing information about FCPS' most significant funds. These statements tell how services were financed in the short-term as well as resources remaining for future spending.

- FCPS' governmental funds reported a combined fund balance of \$376.0 million, an increase of \$6.6 million over the prior fiscal year-end.
- On June 30, 2012, the General Fund, which accounts for the main operating activities of FCPS, reported an ending fund balance of \$259.1 million, a decrease of \$1.6 million from June 30, 2011. The unassigned portion of the General Fund's fund balance was \$22.5 million, which is available for future spending at FCPS' discretion.
- The Capital Projects Fund ended fiscal year 2012 with a fund balance of \$86.1 million. This is all restricted for construction projects in progress or starting in the near future.

Components of the Financial Section



OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this CAFR consists of the 1) independent auditors' report, 2) management's discussion and analysis (presented here), 3) basic financial statements, 4) required supplementary information, and 5) other supplementary information.

FCPS' basic financial statements consist of two types of statements, each with a different perspective on FCPS' financial condition. The government-wide financial statements provide both long-term and short-term information about FCPS' overall finances. The fund financial statements focus on the individual components of FCPS' 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 in the financial statements.

The financial statements and notes are followed by required supplementary information, which consists of the budget and actual comparison schedule for the General Fund and trend data pertaining to the pension and other post-employment benefit funds. In addition to these required elements, FCPS provides other supplementary information that includes combining fund statements for the nonmajor governmental funds, budget and actual comparison schedules for the special revenue funds, combining fund statements for the internal service funds, combining fund statements for the pension and other post-employment benefit funds, and the statement of changes in assets and liabilities for the agency fund.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The first government-wide statement, the statement of net assets, presents information on all of FCPS' 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 FCPS' ability to cover costs and continue to provide services in the future.

The second statement, the statement of activities, presents information on the change in FCPS' net assets, providing the results of operations during the fiscal year. This statement highlights the extent to which specific programs are able to cover their costs with user fees and grants and contributions, 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 FCPS' financial position, as a whole, is improving or diminishing.

All of FCPS' basic services are reported as governmental activities. These activities are financed primarily by charges for services and intergovernmental grants and contributions. The governmental funds and the internal service funds are included in governmental activities because these services only benefit FCPS.

FUND FINANCIAL STATEMENTS

Fund financial statements provide an additional level of detail about FCPS' most significant funds. A fund is a grouping of related accounts that is used to maintain control over resources for specific activities or objectives. FCPS uses fund accounting to track transactions in individual funds, as well as to ensure and demonstrate compliance with finance-related legal requirements. FCPS' 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, which can readily be converted to cash, flow in and out of the system and 2) the balances of spendable resources available at the end of the fiscal year.

The governmental funds provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources available for spending in the near future to finance FCPS' 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.

The General Fund accounts for the main operating activities of FCPS and, consequently, is the largest of the governmental funds. Information on the General Fund and the Capital Projects Fund, both of which are considered to be major funds, is presented separately in the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances. All other governmental funds, which include the Food and Nutrition Services, Grants and Self-Supporting Programs, and Adult and Community Education special revenue funds, are collectively referred to as nonmajor governmental funds. Data for the three 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 FCPS' internal service funds, are used to account for activities 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 FCPS' central procurement, health benefits, and insurance activities on a cost reimbursement basis. All three 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 FCPS for the benefit of outside parties. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support FCPS' programs. FCPS' fiduciary fund types consist of pension and other post-employment benefit funds, as well as an agency fund. The pension and other post-employment benefit funds are combined into a single, aggregated presentation in the fiduciary fund financial statements and are used to account for assets held in trust by FCPS for the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) pension plan and to accumulate and invest funds for FCPS' post-employment health benefit subsidies for eligible retirees and their surviving spouses. Individual fund data for each of these pension and other post-employment benefit funds is provided in combining statements elsewhere in the CAFR.

The agency fund is reported separately in the fiduciary fund financial statements and is used to account for monies collected and disbursed in connection with student activities. These monies are only available to support student programs at their respective schools and not for FCPS 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 FCPS as a whole.

STATEMENT OF NET ASSETS

As noted earlier, net assets over time may serve as a useful indicator of FCPS' financial position. FCPS' assets exceeded liabilities by \$2,398.0 million on June 30, 2012, representing an increase of \$58.9 million, or 2.5 percent, over net assets at June 30, 2011.

By far, the largest portion of FCPS' net assets (82.8 percent) reflects its investment in capital assets (land, construction in progress, equipment, buildings, and intangible assets) less any outstanding debt used to acquire those assets. FCPS uses these capital assets to provide services; consequently, they are not available for future spending.

Although FCPS' investment in its capital assets is reported net of related debt, 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 (Code) precludes school districts from issuing general obligation debt. As a result, the County issues general obligation debt for FCPS and reports in its financial statements the general obligation debt related to FCPS' capital assets. However, FCPS is responsible for the outstanding debt obligations of its own capital leases in the amount of \$87.5 million at June 30, 2012.

The unrestricted net assets balance of \$411.3 million, or 17.2 percent of total net assets, represents the amount of net assets that can be used to operate FCPS' ongoing programs.

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

SUMMARY OF NET ASSETS				
As of June 30				
(Dollars in Millions)				
	Governmental Activities			Percent
	2012	2011	Variance	Variance
ASSETS				
Current and other assets	\$ 730.2	\$ 669.5	\$ 60.7	9.1 %
Capital assets, net	2,073.4	2,022.0	51.4	2.5
Total assets	2,803.6	2,691.5	112.1	4.2
LIABILITIES				
Current liabilities	231.7	189.5	42.2	22.3
Long-term liabilities	173.9	162.9	11.0	6.8
Total liabilities	405.6	352.4	53.2	15.1
NET ASSETS				
Invested in capital assets, net of related debt	1,986.7	1,941.9	44.8	2.3
Restricted	-	9.0	(9.0)	(100.0)
Unrestricted	411.3	388.2	23.1	6.0
Total net assets	\$ 2,398.0	\$ 2,339.1	\$ 58.9	2.5

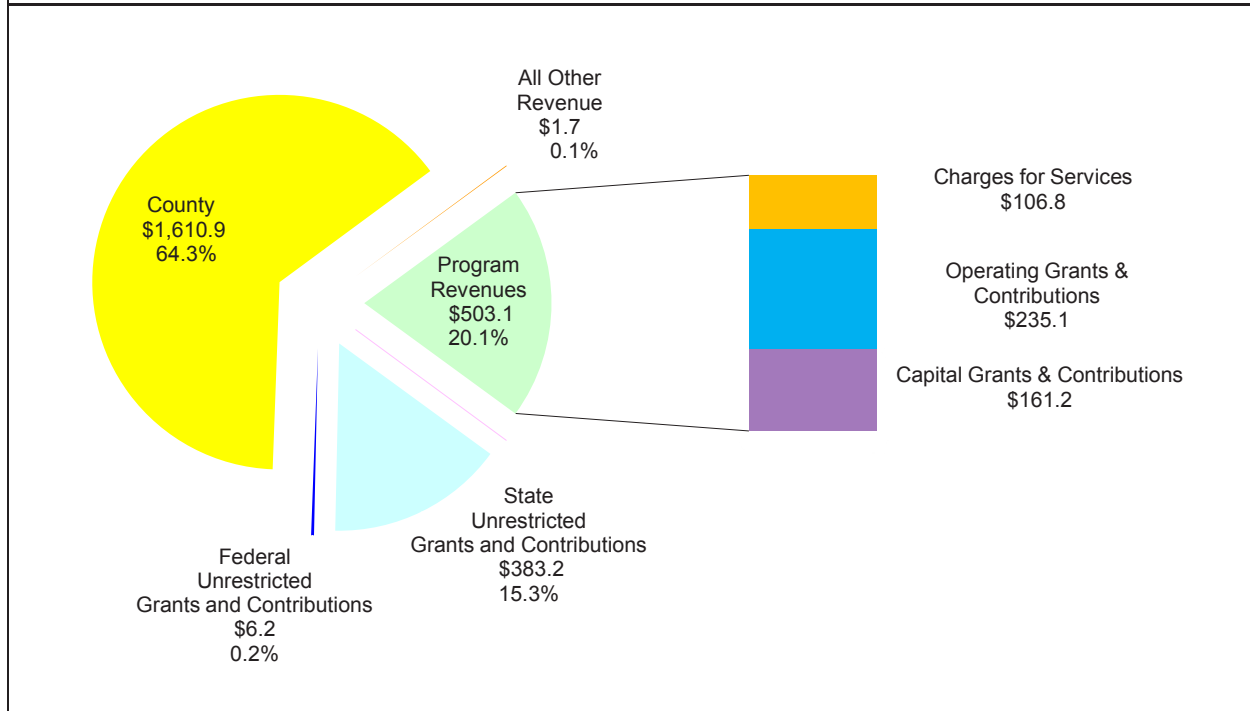
STATEMENT OF ACTIVITIES

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

SUMMARY OF CHANGES IN NET ASSETS				
For the Fiscal Years Ended June 30				
(Dollars in Millions)				
	Governmental Activities			
	2012	2011	Variance	Percent Variance
REVENUES				
Program revenues:				
Charges for services	\$ 106.8	\$ 101.8	\$ 5.0	4.9 %
Operating grants and contributions	235.1	229.6	5.5	2.4
Capital grants and contributions	161.2	141.2	20.0	14.2
General revenues:				
Grants and contributions not restricted to specific purposes	2,000.3	1,985.1	15.2	0.8
Revenue from the use of money	0.1	0.7	(0.6)	(85.7)
Other	1.6	0.1	1.5	1,500.0
Total revenues	<u>2,505.1</u>	<u>2,458.5</u>	<u>46.6</u>	1.9
EXPENSES				
Instruction	2,034.8	1,902.8	132.0	6.9
Support programs	328.7	332.9	(4.2)	(1.3)
Food service	79.3	73.8	5.5	7.5
Interest on long-term debt	3.4	4.1	(0.7)	(17.1)
Total expenses	<u>2,446.2</u>	<u>2,313.6</u>	<u>132.6</u>	5.7
Increase in net assets	58.9	144.9	(86.0)	(59.4)
Net assets - July 1	<u>2,339.1</u>	<u>2,194.2</u>	<u>144.9</u>	6.6
Net assets - June 30	<u>\$ 2,398.0</u>	<u>\$ 2,339.1</u>	<u>\$ 58.9</u>	2.5

Total revenues for FCPS' governmental activities totaled \$2,505.1 million during fiscal year 2012, representing an increase of \$46.6 million over fiscal year 2011. The following chart presents revenues by source for the fiscal year ended June 30, 2012:

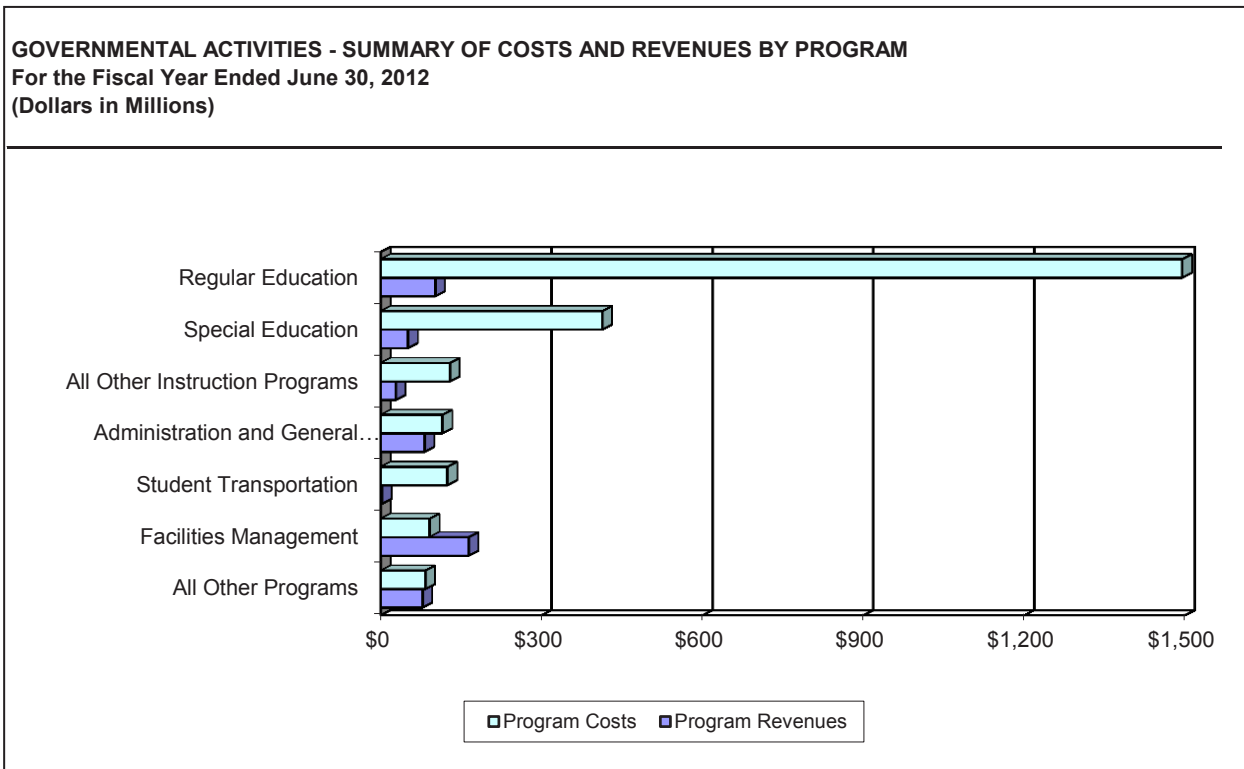
GOVERNMENTAL ACTIVITIES - REVENUES BY SOURCE
For the Fiscal Year Ended June 30, 2012
(Dollars in Millions)



Key events contributing to the change in revenues during fiscal year 2012 were:

- General revenues - grants and contributions not restricted to specific purposes increased \$15.2 million over fiscal year 2011 mainly due to an increase in state revenues of \$6.1 million in state sales tax and an increase of \$11.1 million in Basic Aid. This was offset by a \$0.9 million decrease in Federal Impact Aid and \$0.8 million in FEMA reimbursements received in fiscal year 2011 for expenses incurred during the winter of 2010.
- Capital grants and contributions increased by \$20.0 million principally from the proceeds of general obligation bonds. The fiscal year 2012 bond proceeds of \$155.0 million were an increase from the fiscal year 2011 sales of \$130.0 million as FCPS completed construction on two new schools.
- Revenue from the use of money decreased by \$0.6 million as a result of low yields earned on investments in pooled cash.

The following table compares the total costs and revenues of each of FCPS' programs for the fiscal year ended June 30, 2012:



The total costs of FCPS' programs for fiscal year 2012 were \$2,446.2 million, representing an increase of \$132.6 million over fiscal year 2011. Revenues received from individuals utilizing the programs totaled \$106.8 million. In addition, grants and contributions provided \$396.3 million in funding.

As the table indicates, regular education is FCPS' largest program. Regular education includes those activities and programs that are conducted during the regular instructional day for students in kindergarten through twelfth grade. FCPS' second largest program, special education, includes those activities for students with special needs such as programs specifically designed to overcome disabilities, as well as alternative education, Head Start, and preschool programs.

Compensation comprises the majority of regular and special education expenses. The combined regular and special education expenses increased by \$119.7 million, or 6.7 percent, from the prior fiscal year as a result of student membership increases of 2,985 students. In addition, in fiscal year 2012, the compensation freeze was

lifted and employees received a 1.0 percent market scale adjustment, and eligible employees received an average step increment of 2.6 percent.

The majority of FCPS' program areas required general revenues to cover their operational costs. In fiscal year 2012, the facilities management program was self-supporting with program revenues exceeding program costs by \$72.8 million. The primary revenue source for the facilities management program was capital grants and contributions used for the construction, acquisition, or renovation of major capital assets. The capital construction projects take multiple years to complete, so it is not unusual for current funding inflows to exceed current expenditures. The food service program is normally self-supporting, but in fiscal year 2012 the program expenditures exceeded the revenues by \$1.9 million or 2.5 percent of the program revenue. Food sales account for \$47.6 million, or 61.4 percent, of the program revenue. In addition, the food service program received \$29.8 million in funding from the federal government through the National School Lunch Program and USDA commodities.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

ALL GOVERNMENTAL FUNDS

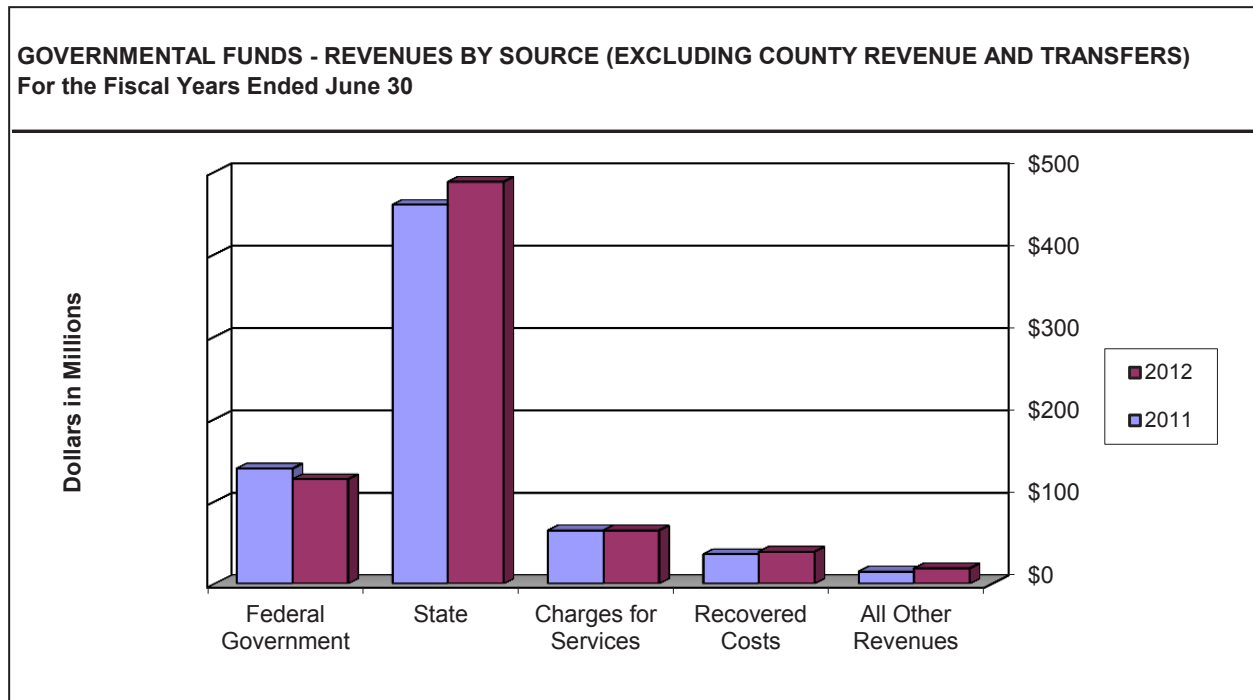
As noted earlier, FCPS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of FCPS' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing FCPS'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

As of June 30, 2012, FCPS' governmental funds reported a combined fund balance of \$376.0 million, an increase of \$6.6 million from June 30, 2011. The fund balance is comprised of nonspendable fund balance in the amount of \$30.5 million for prepaid expenditures and inventories; \$114.3 million restricted for Capital Projects, Grants, and the Food Services program; \$126.1 million committed to primarily fund Virginia Retirement System (VRS) deferred contributions and Fiscal Year 2013 budget; \$83.6 million assigned to fund existing purchase orders and school material and supplies; and \$21.5 million unassigned to meet school operations future funding requirements.

The following table presents a summary of fund balances of governmental funds as of June 30, 2012 and 2011:

FUND BALANCES OF GOVERNMENTAL FUNDS				
As of June 30				
(Dollars in Millions)				
	2012	2011	Variance	Percent Variance
General Fund				
Nonspendable	\$ 26.9	\$ 23.2	\$ 3.7	15.9 %
Committed	126.1	48.0	78.1	162.7
Assigned	83.6	140.9	(57.3)	(40.7)
Unassigned	22.5	48.6	(26.1)	(53.7)
Total General Fund	<u>259.1</u>	<u>260.7</u>	<u>(1.6)</u>	(0.6)
Capital Projects Fund				
Restricted	86.1	-	86.1	100.0
Assigned	-	75.0	(75.0)	(100.0)
Total Capital Projects Fund	<u>86.1</u>	<u>75.0</u>	<u>11.1</u>	14.8
Nonmajor governmental funds				
Nonspendable	3.6	2.2	1.4	63.6
Restricted	28.2	31.5	(3.3)	(10.5)
Unassigned	(1.0)	-	(1.0)	(100.0)
Total nonmajor governmental funds	<u>30.8</u>	<u>33.7</u>	<u>(2.9)</u>	(8.6)
All governmental funds				
Nonspendable	30.5	25.4	5.1	20.1
Restricted	114.3	31.5	82.8	262.9
Committed	126.1	48.0	78.1	162.7
Assigned	83.6	215.9	(132.3)	(61.3)
Unassigned	21.5	48.6	(27.1)	(55.8)
Total governmental funds	<u>\$ 376.0</u>	<u>\$ 369.4</u>	<u>\$ 6.6</u>	1.8

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



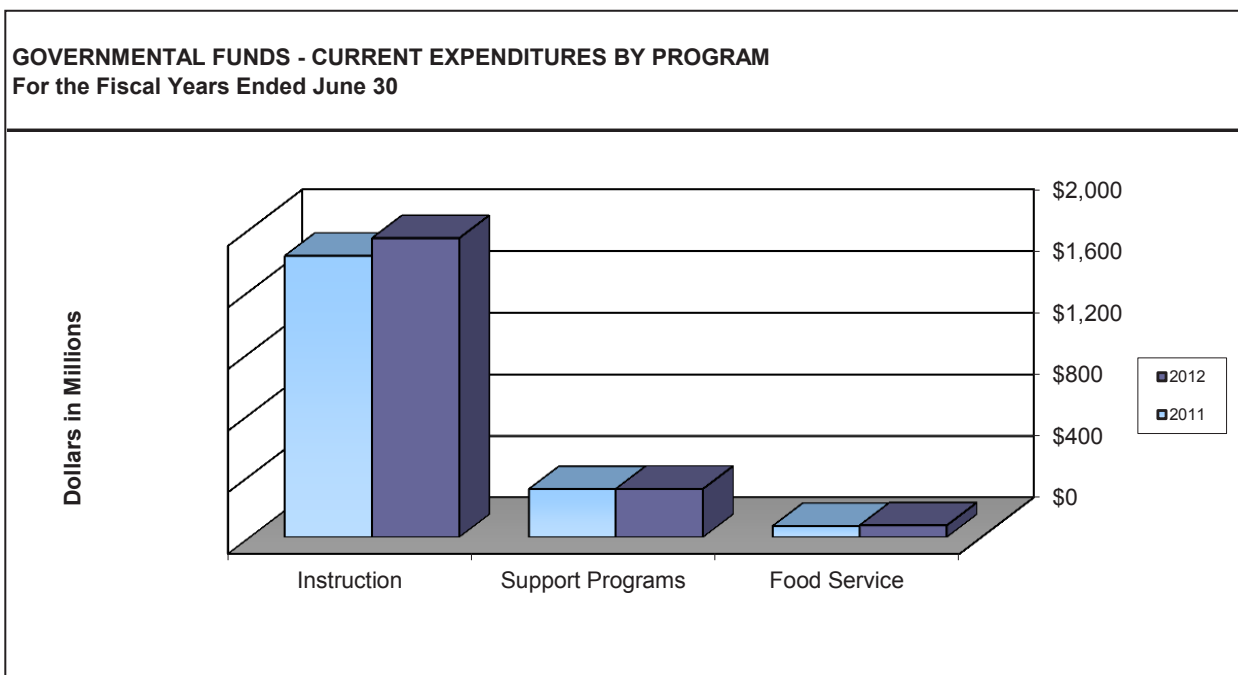
Excluding transfers, the total revenues for governmental funds in fiscal year 2012 totaled \$2,507.7 million, a \$48.8 million, or 2.0 percent, increase from fiscal year 2011.

FCPS' primary source of revenue was intergovernmental from the Federal government (\$127.2 million), State (\$488.2 million), and the County (\$1,769.6 million) and amounted to \$2,385.0 million in fiscal year 2012, a \$41.4 million, or 1.8 percent, increase from fiscal year 2011. All other revenue sources (e.g., charges for services and recovered costs) totaled \$122.7 million, representing an increase of \$7.4 million or 6.4 percent over the previous fiscal year.

Several factors contributing to the change in total revenues during fiscal year 2012 are as follows:

- Funding from the County increased to \$1,769.6 million from \$1,744.1 million in fiscal year 2011, an increase of \$25.5 million, or 1.5 percent, to address capital improvement needs as well as to assist with the completion of the implementation of full-day kindergarten.
- The State provides two types of revenue: sales tax and state aid. The State dedicates one and one-quarter of the five percent State sales tax to school age children directly. Of the one and one-quarter allocation, one and one-eighth percent is returned to school districts as sales tax revenue. In fiscal year 2012, sales tax revenue distributed by the State increased by \$6.1 million. State aid increased by \$22.2 million primarily due to a onetime supplemental payment to support operational costs of the school division and the State's share of the increase in the VRS contribution rate.
- Revenue from the Federal government decreased \$12.4 million, or 8.9 percent from fiscal year 2011. This was due primarily to the cessation of funding from the 2009 American Recovery and Reinvestment Act (ARRA) of approximately \$41.6 million. The loss of ARRA funding was offset, in part, by a onetime funding from the Education Jobs grant in the amount of \$22.0 million and the utilization of prior year funding of \$8.3 million from the Individuals with Disabilities Education Act (IDEA) Part B Section 611 grant.

The following chart compares the expenditures for each of FCPS' programs for the fiscal years ended June 30, 2012 and 2011:



Current expenditures (net of capital outlay and debt services) for governmental funds, for fiscal year ended June 30, 2012, were \$2,329.7 million.

Compensation accounts for approximately 81.0 percent of the total governmental funds expenditures, excluding transfers out. For fiscal year 2012, compensation totaled \$2,042.3 million, an increase of 5.3 percent from the previous fiscal year. There was a market scale adjustment of 1.0 percent for all employees and annual compensation adjustments for eligible employees. In addition, the employer contribution rate for the VRS increased from 3.9 percent in fiscal year 2011 to 6.3 percent in the current year.

Instruction is FCPS' largest program. For the fiscal year ended June 30, 2012, regular education instruction expenditures were \$1,424.7 million compared to \$1,342.2 million in fiscal year 2011. This represents an increase of \$82.5 million, or 6.1 percent. In fiscal year 2012, 629.9 new positions were created to accommodate the continuing student membership growth, which is inclusive of 152.2 new positions created with the onset of full-day kindergarten. Additionally, special education instruction expenditures amounted to \$393.3 million, representing an increase of \$20.3 million, or 5.4 percent, from the prior year, primarily due to the aforementioned compensation increases.

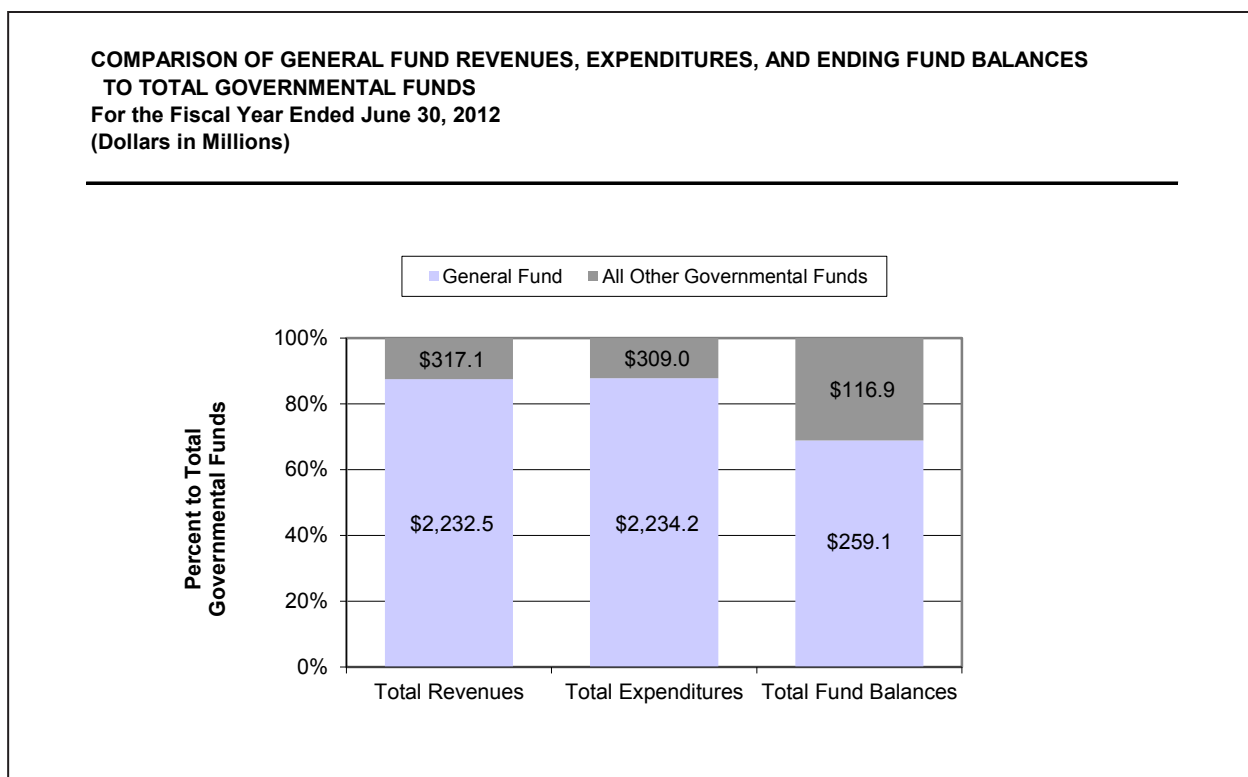
MAJOR GOVERNMENTAL FUNDS

The General Fund is the main operating fund of FCPS. For fiscal year 2012, general fund revenues, inclusive of other financing sources, totaled \$2,232.5 million, which represents an increase of \$31.7 million, or 1.4 percent, over the previous year. Expenditures for the General Fund, inclusive of other financing uses, increased by \$104.4 million, or 4.9 percent, over fiscal year 2011, and totaled \$2,234.2 million. This resulted in a slight decrease in fund balance of \$1.6 million.

During fiscal year 2012, student membership increased by 2,985 students. The per pupil funding increased by \$223 from \$12,597 in fiscal year 2011 to \$12,820 in fiscal year 2012, primarily due to compensation adjustments.

FCPS implemented the final phase of full-day kindergarten for all elementary schools and expanded needs-based staffing to the high school level. To meet a state mandate to have all Standards of Learning tests administered online by spring 2013, funding was included to implement this at the elementary level. In prior years, this was implemented at the middle and high schools.

As the graph below indicates, for fiscal year 2012, the General Fund represented 87.6 and 87.8 percent of the total combined revenues and expenditures, respectively, of all governmental funds. In addition, on June 30, 2012, the General Fund's ending fund balance totaled \$259.1 million, which represents 68.9 percent of the total combined fund balances of all governmental funds.



At the end of the current fiscal year, the Capital Projects Fund reported a total fund balance of \$86.1 million, an increase of \$11.1 million, or 14.8 percent, from fiscal year 2011. Other revenues in this fund for fiscal year 2012 totaled \$6.4 million, an increase of \$3.9 million, or 156.0 percent over last fiscal year, due primarily to contributions received for the installation of various high school turf fields. Expenditures decreased by \$3.4 million, or 2.1 percent from fiscal year 2011 due to the cyclical nature of construction projects and the timing of completion.

During fiscal year 2012, FCPS received \$155.0 million of bond proceeds from the County to fund capital projects. As of June 30, 2012, the unspent portion of this funding totaled \$103.8 million, which is represented as restricted cash and investments on the balance sheet.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Code requires the appointed superintendent of the school division to submit a budget annually to the governing body, following approval of the advertised budget by the School Board.

The Superintendent presents FCPS' proposed budget to the School Board in early January. The School Board then conducts a series of public hearings and work 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. In early April, the County Board of Supervisors (BOS) holds public hearings regarding the advertised budget and determines the amount of

funding to be transferred to FCPS. The School Board then holds additional public hearings before approving the final budget in late May.

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

During fiscal year 2012, the General Fund's final amended budget revenues exceeded the original budgeted amounts by \$13.8 million; final appropriations were \$112.0 million, or 5.0 percent, higher than the original budgeted expenditures; and budgeted total other financing sources exceeded the original approved budget by \$0.3 million.

Key factors contributing to the changes in revenues/appropriations from the original budgeted amounts include:

- Revenue from the Federal government increased \$13.0 million over the original budget primarily due to unspent Federal grant funds that were reappropriated in fiscal year 2012 from fiscal year 2011. The reappropriation of grant funds 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.

- Transfers to the school construction fund decreased by \$0.3 million, as a result of a budget reallocation between the General Fund and the Capital Projects Fund.
- The expenditure budget of \$2,331.5 million increased by \$112.0 million over the original budget as a result of unexpended funds and funds for undelivered orders and other commitments carried forward from fiscal year 2011.
- Final budget revenues exceeded actual revenues by \$2.0 million, while actual expenditures came in under the final budget by \$143.0 million, or 6.1 percent, primarily due to the following:
 - \$52.8 million unspent as a result of undelivered orders and other commitments.
 - Actual salaries of \$34.3 million under budget due to savings from higher turnover than projected.
 - In anticipation of challenging budgets for fiscal years 2013 and 2014, program managers and schools were directed to conserve spending and plan on a multi-year approach. The savings generated will be incorporated in the budget development of future years.

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)				
	Budget - Original	Budget - Final	Actual - Budget Basis	Variance from Final Budget
Total revenues	\$ 589.6	\$ 603.4	\$ 601.4	(2.0)
Total expenditures	2,219.5	2,331.5	2,188.5	(143.0)
Excess of expenditures over revenues	(1,629.9)	(1,728.1)	(1,587.1)	141.0
Total other financing sources, net of uses	1,585.2	1,585.5	1,585.5	-
Net change in fund balances	\$ (44.7)	\$ (142.6)	\$ (1.6)	\$ 141.0

CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

CAPITAL ASSETS

At June 30, 2012, FCPS' investment in capital assets for governmental activities totaled \$2,073.4 million, net of accumulated depreciation of \$1,364.3 million, and amortization of \$1.6 million. This represents a net increase in capital assets of \$51.4 million, or 2.5 percent, over the prior year. 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 and amortization)	
	2012	2011
Land	\$ 44.9	\$ 44.9
Construction in progress	194.7	193.2
Equipment	86.2	82.9
Equipment under construction	-	0.5
Intangible Assets-Software/Licenses	2.6	3.0
Intangible Assets-Software in Development	4.8	1.7
Library collections	8.7	11.3
Buildings	699.1	673.3
Building improvements	1,010.3	987.4
Land improvements	22.1	23.8
Total	\$ 2,073.4	\$ 2,022.0

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

- FCPS acquired 67 school buses and 14 classroom trailers totaling \$7.6 million and \$1.0 million, respectively.
- FCPS acquired 229 copiers totaling \$5.9 million.
- FCPS acquired an additional \$10.3 million in other equipment and vehicles.
- Capital equipment disposals amounted to \$7.5 million.
- Expenditures for library collections amounted to \$3.3 million from the purchase of additional resource materials for schools and centers throughout FCPS.

- Multi-year construction of two new schools was completed in fiscal year 2012. South County Middle School and Mason Crest Elementary were completed with cumulative construction values of \$30.6 million and \$17.8 million, respectively.
- Major renovations of Longfellow Middle School, Westlawn Elementary School, and Graham Road Elementary School, with cumulative expenditures of \$28.0 million, \$15.9 million, and \$14.0 million, respectively, were completed in fiscal year 2012.
- Expenditures related to major renovations in progress at Marshall High School and Edison High School amounted to \$26.6 million and 13.9 million, respectively for fiscal year 2012.

Additional detailed information regarding FCPS' capital assets, including the current year's activity, can be found in notes I.H and III.E in the notes to the financial statements.

LONG-TERM OBLIGATIONS

Long-term obligations totaled \$173.0 million, an increase of \$10.1 million. The portion of the current year long-term obligations relating to capital leases was \$87.5 million, an increase of \$6.2 million, or 7.6 percent over 2011. This increase is due to purchases of school buses, laptop computers, and copiers amounting to \$19.7 million, with offsetting principal payments of \$13.5 million.

Additional detailed information regarding FCPS' long-term obligations, including the current year's activity, can be found in notes I.I, I.J, and III.F in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

COUNTY FUNDING

The County provides roughly 68.8 percent of the funds necessary to support school operations. In turn, the County derives the bulk of its revenue from real property taxes. The decline in housing values and economic activity experienced over the past few years during the "great recession" and recent trends toward an inconsistent recovery has reduced the stability of the County and school division's revenue stream. The Fiscal Year 2013 FCPS Approved Budget includes an increase in County funding of \$72.5 million, or 4.5 percent from the previous fiscal year. Looking forward, local economic indicators for the first six months of calendar year 2012 point to a much slower recovery in the County's largest revenue categories and as a result, fiscal year 2014 revenue growth will be less than the fiscal year 2013 projected level.

SALES TAXES

The State dedicates one and one-quarter of the five percent State sales tax to school age children directly. Of the one and one-quarter allocation, one and one-eighth percent is returned to school districts as sales tax revenue. The July 2012 County "Economic Indicators Report" asserted that sales tax receipts distributed to the County in July increased by 6.7 percent from July 2011. The fiscal year 2012 sales tax receipt level exceeded the previous peak set in 2008 by 1.2 percent.

UNEMPLOYMENT

The July 2012 "Economic Indicators Report" noted that unemployment rates in the County had risen slightly from 3.9 percent in May 2012 to 4.3 percent in June 2012. The unemployment rate in Virginia increased from 5.5 percent in May 2012 to 6.0 percent in June 2012. The U.S. unemployment rate was 8.2 percent. Due to its location near the heart of the Federal government, the County's economy is partially insulated from the impact of recessionary trends that prompt downsizing efforts among major employers in other regions of the country.

INFLUENCE OF THE STATE AND FEDERAL GOVERNMENTS

The State and Federal governments initiated responsive actions to the economic downturn impacting FCPS. The State General Assembly passed legislation to defer retirement rate increases requested by the Board of Trustees of the VRS, a pension plan covering most FCPS employees. An increase in the FCPS share of pension contributions was similarly deferred resulting in cost reductions for fiscal years 2011 and 2012 with a commitment to replenish the contribution shortfall over a period of ten years. To mitigate near term rate increases the School Board established a reserve in fiscal years 2011 and 2012.

During the 2012 General Assembly, legislation passed requiring persons employed by local government or school board employers to pay the 5.0 percent employee contribution to the VRS beginning July 1, 2012. Newly hired employees will contribute the 5.0 percent immediately. For employees hired prior to July 1, 2012, Virginia school districts may phase in the cost over a maximum of five years beginning July 1, 2012 with a change of at least 1.0 percent each year. In addition, the legislation requires school boards to provide employees with an equivalent increase in creditable compensation to offset the increased employee contributions.

In August 2010, the Federal Education Jobs Fund legislation provided \$10.0 billion nationwide in federal funding to recall or rehire former employees, and hire new employees to provide early childhood, elementary, or secondary educational related services. FCPS received one-time funding totaling \$22.0 million. The funding had to be obligated by September 2012. To mitigate the loss of prior years' funding provided under ARRA, FCPS utilized the one-time Federal Education Jobs funding in fiscal year 2012. In fiscal year 2013, federal aid will decrease by \$21.8 million primarily as a result of the loss from the funding provided by the Education Jobs Fund.

The inability of the congressional super committee to reach agreement to reduce the federal deficit will trigger \$1.2 trillion in automatic budget cuts over ten years

beginning in 2013. The impact of sequestration will be felt throughout the State if not averted. Approximately half of the spending reductions are in defense and will impact the economies of the State and County as a result of the concentration of the defense industry in the area. In addition, the County and FCPS would be disproportionately impacted by the potential cuts in federal aid, specifically Title I programs, as well as reduced tax revenue from the potential decrease in the County's real estate tax base.

FISCAL YEAR 2013 BUDGET

One of the major challenges addressed by the budget is the continuing change in the composition of the student population. An increase in student enrollment coupled with state mandates and limited revenue have made the development and eventual adoption of the fiscal year 2013 budget challenging. Projected enrollment for fiscal 2013 is 181,536 students across 196 schools and centers.

Today, students come from more than 200 countries and speak over 100 different languages, and FCPS teaches approximately 39 percent of the limited English proficient students in the State. Furthermore, one in four students is economically disadvantaged, as evidenced by eligibility for free or reduced-price meals. It is estimated that 47,188, or 26.0 percent, of all students are eligible for the federal free and reduced meals program. Students eligible for the federal meals program and receiving special education and/or English for Speakers of Other Languages (ESOL) services have a higher cost per pupil as these schools receive additional staffing.

The number of students who receive ESOL services will increase by 12.7 percent compared to fiscal year 2012. In fiscal year 2013, it is projected that 31,480 students, or 17.3 percent, of student membership will receive ESOL services in grades K through 12. The additional cost of providing services in fiscal year 2013 for each ESOL student is \$3,324.

The fiscal year 2013 Approved Budget totals \$2.4 billion, an increase of \$184.8 million, or 8.2 percent, from the fiscal year 2012 Approved Budget. Two new schools will open in the fall of 2012, an elementary and a middle school. Student membership is expected to grow by 3,907 students. A continued shift in special education toward greater levels of service is expected. To meet the demands of increased enrollment and demographic shifts, 700.2 positions at a cost of \$48.0 million is included in the 2013 budget.

The following are some of the highlights of the fiscal year 2013 expenditure budget:

- \$74.4 million increase in costs due to higher employer contribution rates for retirement plans.
- \$47.1 million additional cost from State mandated salary increases to offset employee's additional 2.0 percent contributions to VRS, a 1.25 percent market scale adjustment and a 1.0 percent shift in ERFC.
- \$13.8 million cost increase for health and life insurance rate changes.
- \$2.0 million to provide employee benefits to parent liaisons and multilingual interpreters working 20 or more hours a week.
- \$7.5 million in expenditures to provide extended learning opportunities to elementary and middle school students over the summer and during the school year.
- \$4.0 million for replacement equipment for the network infrastructure and increasing instructional demands.
- \$2.5 million in increased positions in the staffing reserve to address large class sizes. The staffing reserve includes teacher and instructional assistant positions as a contingency for changes in enrollment and/or special education services required.
- \$1.9 million for costs of outfitting two new schools, including library materials, technology support, utilities, and transportation.

CONTACTING FCPS MANAGEMENT

This summary is designed to provide a general overview of the financial condition of FCPS. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Chief Financial Officer, Department of Financial Services, 8115 Gatehouse Road, Falls Church, Virginia 22042 or by calling (571) 423-3750.

This CAFR can also be found on FCPS' website at:

<http://www.fcps.edu/fs/comptroller/reports.shtml>





Basic Financial Statements

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



FAIRFAX COUNTY PUBLIC SCHOOLS
Statement of Net Assets
June 30, 2012

EXHIBIT A

	Governmental Activities
ASSETS	
Cash on deposit with County of Fairfax, VA	\$ 518,348,053
Receivables:	
Accounts	3,706,076
Accrued interest	100,827
Due from intergovernmental units:	
Federal government	42,663,705
Commonwealth of Virginia	18,717,232
County of Fairfax, VA	277,227
Other	380,053
Inventories	3,104,761
Prepaid items	29,034,266
Restricted cash and investments	103,827,544
Net OPEB asset	10,054,877
Nondepreciable capital assets:	
Land	44,869,395
Construction in progress	194,676,267
Depreciable capital assets:	
Equipment	254,773,604
Library collections	33,477,414
Buildings and improvements	2,902,505,715
Accumulated depreciation	(1,364,327,182)
Intangible capital assets:	
Software and licenses	4,187,036
Software under development	4,843,645
Accumulated amortization	(1,629,917)
Total assets	<u>2,803,590,598</u>
LIABILITIES	
Accounts payable	39,045,002
Accrued salaries and withholdings	142,998,905
Contract retainages	4,367,800
Deposits	1,811,063
Unearned revenue	43,441,371
Long-term liabilities:	
Due within one year:	
Accrued interest payable	797,822
Compensated absences	22,962,524
Capital leases	12,332,298
Actuarial claims payable	28,202,024
Due beyond one year:	
Deferred rent	1,333,296
Compensated absences	9,841,082
Capital leases	75,200,358
Actuarial claims payable	23,208,055
Total liabilities	<u>405,541,600</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,986,757,990
Restricted for:	
Grant programs	-
Unrestricted	411,291,008
Total net assets	<u>\$ 2,398,048,998</u>

See accompanying notes to the financial statements.

FAIRFAX COUNTY PUBLIC SCHOOLS
Statement of Activities
For the Fiscal Year Ended June 30, 2012

EXHIBIT B

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 education:					
Elementary school	\$ 790,901,201	\$ 13,498,313	\$ 42,969,523	\$ -	\$ (734,433,365)
Middle school	217,274,225	4,072,834	6,105,869	-	(207,095,522)
High school	485,667,550	15,814,746	16,791,333	2,021,424	(451,040,047)
Special education	412,396,800	6,997,610	43,281,574	-	(362,117,616)
Adult and community education	10,334,210	6,773,818	1,289,769	-	(2,270,623)
Instructional support	118,206,191	2,760,510	16,756,016		(98,689,665)
Total instruction	2,034,780,177	49,917,831	127,194,084	2,021,424	(1,855,646,838)
Support programs:					
Administration and general support	114,425,791	3,143,331	78,039,629	-	(33,242,831)
Student transportation	123,722,339	1,988,575	-	-	(121,733,764)
Facilities management	90,588,418	4,190,442	550	159,246,913	72,849,487
Total support programs	328,736,548	9,322,348	78,040,179	159,246,913	(82,127,108)
Food service	79,302,948	47,546,353	29,838,882	-	(1,917,713)
Interest on long-term debt	3,389,927	-	-	-	(3,389,927)
Total governmental activities	\$ 2,446,209,600	\$ 106,786,532	\$ 235,073,145	\$ 161,268,337	(1,943,081,586)
General revenues:					
Grants and contributions not restricted to specific purposes:					
Federal government					6,223,708
Commonwealth of Virginia					383,205,410
County of Fairfax, VA					1,610,834,722
Revenue from the use of money					60,504
Other					1,684,971
Total general revenues					2,002,009,315
Change in net assets					58,927,729
Net assets - July 1, 2011					2,339,121,269
Net assets - June 30, 2012					\$ 2,398,048,998

See accompanying notes to the financial statements.

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

EXHIBIT C

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash on deposit with County of Fairfax, VA	\$ 344,767,463	\$ 7,178,416	\$ 16,324,232	\$ 368,270,111
Receivables:				
Accounts	7,795	-	134,238	142,033
Accrued interest	7	-	21,895	21,902
Due from intergovernmental units:				
Federal government	23,343,707	-	19,319,998	42,663,705
Commonwealth of Virginia	13,062,360	-	5,654,872	18,717,232
County of Fairfax, VA	-	-	277,227	277,227
Other	380,053	-	-	380,053
Inventories	-	-	1,534,996	1,534,996
Prepaid items	26,936,816	-	2,097,450	29,034,266
Interfund receivables	9,989,000	-	-	9,989,000
Restricted cash and investments	-	103,827,544	-	103,827,544
Total assets	\$ 418,487,201	\$ 111,005,960	\$ 45,364,908	\$ 574,858,069
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 16,468,131	\$ 16,824,286	\$ 576,748	\$ 33,869,165
Accrued salaries and withholdings	142,633,858	-	365,047	142,998,905
Contract retainages	-	4,367,800	-	4,367,800
Deposits	-	1,811,063	-	1,811,063
Interfund payables	-	-	8,831,000	8,831,000
Unearned revenue	297,926	1,941,925	4,703,148	6,942,999
Total liabilities	159,399,915	24,945,074	14,475,943	198,820,932
Fund balances:				
Nonspendable	26,936,816	-	3,632,446	30,569,262
Restricted	-	86,060,886	28,231,197	114,292,083
Committed	126,091,613	-	-	126,091,613
Assigned	83,565,389	-	-	83,565,389
Unassigned	22,493,468	-	(974,678)	21,518,790
Total fund balances	259,087,286	86,060,886	30,888,965	376,037,137
Total liabilities and fund balances	\$ 418,487,201	\$ 111,005,960	\$ 45,364,908	\$ 574,858,069

See accompanying notes to the financial statements.

FAIRFAX COUNTY PUBLIC SCHOOLS

EXHIBIT C-1

Reconciliation of the Balance Sheet to the Statement of Net Assets

Governmental Funds

June 30, 2012

Fund balances - total governmental funds	\$	376,037,137
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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	\$	239,545,662	
Depreciable capital assets		3,190,616,651	
Accumulated depreciation		<u>(1,364,199,591)</u>	
Total			2,065,962,722

The net OPEB asset, resulting from contributions for other post-employment benefits in excess of the annual required contribution, is not considered a financial asset and, therefore, is not reported in the governmental funds.

10,054,877

Intangible assets used in governmental fund activities are not financial resources and, therefore, are not reported in the funds.

Software and licenses	\$	4,187,036	
Software under development		4,843,645	
Accumulated amortization		<u>(1,629,917)</u>	
Total			7,400,764

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	\$	155,252,675	
Capital assets		140,082	
Accumulated depreciation		(127,591)	
Liabilities		<u>(94,330,368)</u>	
Total			60,934,798

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	\$	(32,677,526)	
Capital leases		(87,532,656)	
Accrued interest on long-term debt		(797,822)	
Deferred rent		<u>(1,333,296)</u>	
Total			(122,341,300)

Net assets of governmental activities	\$	<u><u>2,398,048,998</u></u>
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See accompanying notes to the financial statements.

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

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Intergovernmental:				
Federal government	\$ 64,388,133	\$ -	\$ 62,814,288	\$ 127,202,421
Commonwealth of Virginia	478,390,364	-	9,813,064	488,203,428
County of Fairfax, VA	1,611,434,722	155,000,000	3,126,203	1,769,560,925
Charges for services:				
Tuition and fees	9,925,715	-	8,483,163	18,408,878
Food sales	-	-	46,262,751	46,262,751
Revenue from the use of money and property	3,159,102	-	72,771	3,231,873
Recovered costs	37,951,980	1,309,674	-	39,261,654
Other	7,587,347	6,361,562	1,651,330	15,600,239
Total revenues	<u>2,212,837,363</u>	<u>162,671,236</u>	<u>132,223,570</u>	<u>2,507,732,169</u>
EXPENDITURES				
Current:				
Instruction:				
Regular education:				
Elementary school	719,116,264	-	35,200,763	754,317,027
Middle school	205,993,313	-	1,230,605	207,223,918
High school	455,973,213	-	7,229,145	463,202,358
Special education	389,206,661	-	4,114,182	393,320,843
Adult and community education	10,615	-	9,845,572	9,856,187
Instructional support	99,085,671	-	13,652,738	112,738,409
Support programs:				
Administration and general support	108,794,023	-	338,853	109,132,876
Student transportation	116,378,081	-	1,621,319	117,999,400
Facilities management	62,508,893	23,652,270	-	86,161,163
Food service	-	-	75,782,335	75,782,335
Capital outlay	38,029,434	135,405,416	955,615	174,390,465
Debt service:				
Principal	13,473,926	-	-	13,473,926
Interest	3,389,839	-	-	3,389,839
Total expenditures	<u>2,211,959,933</u>	<u>159,057,686</u>	<u>149,971,127</u>	<u>2,520,988,746</u>
Excess (deficiency) of revenues over (under) expenditures	<u>877,430</u>	<u>3,613,550</u>	<u>(17,747,557)</u>	<u>(13,256,577)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	7,438,659	14,767,709	22,206,368
Transfers out	(22,206,368)	-	-	(22,206,368)
Capital leases	19,680,064	-	-	19,680,064
Total other financing sources (uses)	<u>(2,526,304)</u>	<u>7,438,659</u>	<u>14,767,709</u>	<u>19,680,064</u>
Net change in fund balances	(1,648,874)	11,052,209	(2,979,848)	6,423,487
Fund balances - July 1, 2011	260,736,160	75,008,677	33,714,002	369,458,839
Increase in reserve for inventories	-	-	154,811	154,811
Fund balances - June 30, 2012	<u>\$ 259,087,286</u>	<u>\$ 86,060,886</u>	<u>\$ 30,888,965</u>	<u>\$ 376,037,137</u>

See accompanying notes to the financial statements.

FAIRFAX COUNTY PUBLIC SCHOOLS
EXHIBIT D-1
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities**
Governmental Funds
For the Fiscal Year Ended June 30, 2012

Net change in fund balances - total governmental funds	\$	6,423,487
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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	\$	174,390,465	
Depreciation expense		(113,036,010)	
Total			61,354,455

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.	(228,616)
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Gains or 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.	(9,128,878)
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Principal payments on capital leases and installment purchases 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.	13,473,926
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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 amount represents principal amounts of new capital leases.	(19,680,064)
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In the government-wide statements, rent abatement charges impact deferred rent. In the governmental funds, this is not considered a current year expenditure.	(248,460)
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In the government-wide statements, inventory changes impact net assets. Inventory is recorded as an expenditure in the governmental fund statements as purchased. These expenditures are not adjusted for the net change in inventory.	154,811
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In the statement of activities, compensated absences are measured by the amounts earned during the current fiscal year. In the governmental funds, expenditures for these items are measured by the amount of financial resources used. This amount represents the net change in compensated absences.	(2,832,386)
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Internal service funds are used by management to provide certain goods and services to governmental funds. The change in net assets of these funds is reported within governmental activities in the statement of activities.	(2,124,329)
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Interest on capital leases and installment purchases 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.	(88)
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Contributions for other post-employment benefits are reported as expenditures in the governmental funds. However, contributions made in amounts greater or less than the annual required contribution result in an increase or decrease to the net OPEB asset or obligation on the statement of net assets and do not result in an expense in the statement of activities.	11,763,871
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Change in net assets of governmental activities	\$	<u>58,927,729</u>
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See accompanying notes to the financial statements.

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

EXHIBIT E

	Governmental Activities - Internal Service Funds
ASSETS	
Current assets:	
Cash on deposit with County of Fairfax, VA	\$ 150,077,942
Receivables:	
Accounts	3,526,043
Accrued interest	78,925
Inventories	1,569,765
Interfund receivables	-
Total current assets	<u>155,252,675</u>
Noncurrent assets:	
Capital assets:	
Equipment	140,082
Accumulated depreciation	<u>(127,591)</u>
Total noncurrent assets	<u>12,491</u>
Total assets	<u>155,265,166</u>
LIABILITIES	
Current liabilities:	
Accounts payable	5,175,837
Interfund payables	1,120,000
Unearned revenue	36,498,372
Compensated absences	88,256
Actuarial claims payable	<u>28,202,024</u>
Total current liabilities	<u>71,084,489</u>
Noncurrent liabilities:	
Compensated absences	37,824
Actuarial claims payable	<u>23,208,055</u>
Total noncurrent liabilities	<u>23,245,879</u>
Total liabilities	<u>94,330,368</u>
NET ASSETS	
Invested in capital assets, net of related debt	12,491
Unrestricted	<u>60,922,307</u>
Total net assets	<u>\$ 60,934,798</u>

See accompanying notes to the financial statements.

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

EXHIBIT F

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Charges for services	\$ 319,759,209
OPERATING EXPENSES	
Salaries and wages	2,691,434
Cost of goods sold	6,972,519
Claims and benefits	302,053,487
Professional consultant services	9,892,694
Other operating expenses	487,302
Depreciation	5,038
Total operating expenses	322,102,474
Operating loss	(2,343,265)
NONOPERATING REVENUES	
Interest revenue	218,936
Loss before transfers	(2,124,329)
Change in net assets	(2,124,329)
Total net assets - July 1, 2011	63,059,127
Total net assets - June 30, 2012	\$ 60,934,798

See accompanying notes to the financial statements.

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

EXHIBIT G

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from interfund services provided	\$ 326,413,364
Payments to employees	(2,691,435)
Payments to vendors for inventory	(6,847,439)
Payments for claims and health benefits	(299,251,479)
Payments for professional services	(10,246,389)
Payments for other operating expenses	(485,538)
Net cash provided by operating activities	<u>6,891,084</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net advances from other fund	(680,000)
Net cash used in noncapital financing activities	<u>(680,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	279,852
Net cash provided by investing activities	<u>279,852</u>
Net increase in cash and cash equivalents	6,490,936
Cash and cash equivalents - July 1, 2011	143,587,006
Cash and cash equivalents - June 30, 2012	<u><u>\$ 150,077,942</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (2,343,265)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	5,038
(Increase) in accounts receivable	(1,495,250)
Decrease in inventories	284,823
Decrease in interfund receivables	332,485
(Decrease) in accounts payable	(802,472)
(Decrease) in accrued salaries and withholdings	-
Increase in unearned revenue	7,816,920
(Decrease) in compensated absences	(44,534)
Increase in actuarial claims payable	3,137,339
Total adjustments to operating income	<u>9,234,349</u>
Net cash provided by operating activities	<u><u>\$ 6,891,084</u></u>

See accompanying notes to the financial statements.

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

EXHIBIT H

	Pension and Other Post-Employment Benefit Trust Funds	Agency Fund - Student Activity
ASSETS		
Cash and cash equivalents	\$ 1,934,936	\$ -
Cash with fiscal agent	1,725,636	19,442,588
Cash collateral for securities on loan	24,034,973	-
Short-term investments	37,910,067	-
Receivables:		
Accounts	-	688,666
Accrued interest	3,320,820	-
Securities sold	58,024,815	-
Other	926,632	-
Investments, at fair value:		
Mortgage-backed securities	1,523,586	-
Bonds	143,632,489	-
Stocks	524,324,151	-
Real estate	150,085,750	-
Global asset allocation	184,473,015	-
Better beta derivatives	103,425,441	-
Hedge funds	143,334,796	-
Private equity limited partnership	15,537,604	-
Mutual funds	574,524,135	-
Inventories	-	345,198
Prepaid items	24,792	-
Capital assets:		
Equipment	113,820	-
Accumulated depreciation	(96,191)	-
Total assets	<u>1,968,781,267</u>	<u>\$ 20,476,452</u>
LIABILITIES		
Accounts payable	2,795,421	\$ 442,992
Interfund payables	38,000	-
Payable for purchase of investments	64,495,593	-
Liability for collateral received under securities lending agreements	24,034,973	-
Due to student groups	-	20,033,460
Total liabilities	<u>91,363,987</u>	<u>\$ 20,476,452</u>
NET ASSETS		
Held in trust for pension and other post-employment benefits	<u>\$ 1,877,417,280</u>	

See accompanying notes to the financial statements.

FAIRFAX COUNTY PUBLIC SCHOOLS
Statement of Changes in Fiduciary Net Assets
Pension and Other Post-Employment Benefit Trust Funds
For the Fiscal Year Ended June 30, 2012

EXHIBIT I

	Pension and Other Post-Employment Benefit Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 95,361,116
Plan members	49,142,379
Total contributions	<u>144,503,495</u>
Investment earnings:	
From investing activities:	
Net depreciation in fair value of investments	(35,746,557)
Interest and dividends	43,723,971
Real estate income	3,057,654
Other	90,589
Gain from investing activities	<u>11,125,657</u>
Less Investment expenses:	
Investment management fees	9,419,980
Investment consulting fees	377,403
Investment custodial fees	239,322
Investment salaries	196,586
Total investment expenses	<u>10,233,291</u>
Net gain from investing activities	<u>892,366</u>
From securities lending activities:	
Securities lending income	94,365
Securities lending borrower rebates	360,176
Securities lending management fees	(113,599)
Net income from securities lending activities	<u>340,942</u>
Net investment income	<u>43,660,179</u>
Total additions	<u>145,736,803</u>
DEDUCTIONS	
Benefit payments	187,468,633
Refund of contributions	4,295,171
Administrative expenses	3,574,923
Total deductions	<u>195,338,727</u>
Change in net assets	(49,601,924)
Net assets - July 1, 2011	<u>1,927,019,204</u>
Net assets - June 30, 2012	<u>\$ 1,877,417,280</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

Fairfax County Public Schools
June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fairfax County Public Schools (FCPS) is a corporate body operating under the constitution of the Commonwealth of Virginia (State) and the Code of Virginia (Code). The twelve voting members of the School Board are elected by the citizens of the County of Fairfax, Virginia (County) to serve four-year terms. Each of the County's nine magisterial districts has a member who represents its constituents. There are three at-large members and a non-voting student member selected by a countywide student advisory council to serve a one-year term. The School Board sets the educational policies of FCPS and appoints the Superintendent to implement them. In addition, the Superintendent administers operations, supervises personnel, and advises the School Board on all educational matters with a view toward enhancing students' learning, safety, and well-being.

A. REPORTING ENTITY

The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable (component units), and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Blended component units, although legally separate entities are so intertwined with the primary government that they are, in substance, the same as the primary government and therefore reported as part of the primary government.

Discretely presented component units entails reporting financial data in one or more columns separate from the financial data of the primary government.

FCPS' primary government includes all of its departments, boards, and associated agencies that are not legally separate. In accordance with standards established by the Governmental Accounting Standards Board

(GASB) Statement No. 39, "Determining Whether Certain Organizations Are Component Units", FCPS has identified one component unit required to be included in its financial statements. The Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) is a legally separate entity that provides pension benefits exclusively for former employees of FCPS. The School Board appoints the majority of the trustees, and has ultimate ability to impose its will. The School Board in conjunction with its employees provides all the funding for ERFC. Therefore, ERFC is considered to be a blended component unit and the results of its operations are reported within a single fund and combined with data from the primary government for financial presentation purposes.

ERFC issues a public annual financial report that includes financial statements and required supplementary information (RSI). This report may be obtained by writing to the Educational Employees' Supplementary Retirement System, 8001 Forbes Place, Suite 300, Springfield, Virginia 22151.

FCPS is a component unit of the County since the County approves its budget, issues debt to finance school division capital projects, and is FCPS' primary funding source.

B. BASIS OF FINANCIAL STATEMENT PRESENTATION AND FUND ACCOUNTING

FCPS' financial statements are prepared in conformity with generally accepted accounting principals accepted in the United States of America (GAAP), as applicable to governmental units. GASB is the standard setting body for establishing governmental accounting and financial reporting principles.

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 explanations of the accounting policies used by FCPS). They serve to enhance user understanding of the data presented in the financial statements.

1. GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements, the statement of net assets and the statement of activities, present financial information about FCPS as a whole. These statements include the financial activities of FCPS' primary government, except for the fiduciary activities because FCPS cannot use these assets to finance its operations. Furthermore, 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 FCPS are categorized solely as governmental.

The statement of net assets presents the overall financial condition of FCPS at June 30, 2012. The net assets balance provides evidence of FCPS' ability to cover its costs and continue to provide services in the future.

The statement of activities clarifies the extent to which FCPS program revenues are sufficient to cover direct program expenses. Direct expenses are those that are associated with specific programs and, therefore, can be classified by activity. FCPS also reports certain administrative expenses that cannot be specifically associated with a given program. These indirect expenses are allocated to the programs based on a ratio of expenditures by program reported in the governmental fund statements. The net revenue or expense figure demonstrates whether the program is self-supporting or depends on general revenue sources. For the year ended June 30, 2012, most programs were heavily dependent on general revenues. Facilities management was the only program where the revenue sources exceeded program expenses.

Program revenues include: 1) charges for services (such as 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 funding provided by the County, as well as certain other unrestricted amounts received from the State and the Federal government.

2. FUND FINANCIAL STATEMENTS

FCPS reports classify funds as governmental, proprietary, and fiduciary. Separate financial statements are produced for each classification. Major governmental funds are reported in separate columns in the governmental fund financial statements. All other governmental funds

are aggregated in a single column entitled, "Nonmajor Governmental Funds". Internal service funds are aggregated in a single column entitled, "Governmental Activities – Internal Service Funds", in the proprietary fund statements. FCPS' fiduciary funds are reported by type (pension and other post-employment benefit funds and agency fund) in the fiduciary fund statements.

Each fund is considered an independent fiscal activity that operates 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.

FCPS reports the following major governmental fund types:

- General Fund—the primary operating fund, which accounts for all financial resources, except those which are accounted for in another fund.
- Capital Projects Fund—the fund used to track financial transactions involved with acquisition, construction, or renovation of school sites, buildings, and other major capital improvements.

FCPS reports the following nonmajor governmental fund type:

- Special Revenue Funds—used to account for proceeds of specific revenue sources, other than for capital projects, in which expenditures are restricted for a specified purpose. The Food and Nutrition Services Fund accounts for sales proceeds from the school cafeterias. The Grants and Self-Supporting Programs Fund accounts for transactions related to grants and self-supporting programs, including the summer school program, that are not specifically reported in another fund. The Adult and Community Education Fund accounts for transactions arising from the programs and activities provided by the Office of Adult and Community Education.

FCPS reports the following additional fund types:

- Internal Service Funds— these are proprietary funds which account for the financial transactions associated with the provision of goods and services by one department in FCPS to another on a cost reimbursement basis. The Central Procurement Fund accounts for the acquisition of textbooks, supplies, and equipment and their utilization by FCPS. The Health Benefits Fund presents the results of transactions associated with the

comprehensive health benefits self-insurance program. The Insurance Fund reports activities connected with FCPS' casualty liability obligations, including workers' compensation.

- Pension and Other Post-employment Benefit Funds—these are fiduciary funds used to account for assets held in a trustee capacity for the members and beneficiaries of ERFC, a single-employer defined benefit pension plan, and for the School Other Post-employment Benefits (OPEB) Trust Fund, a single-employer defined benefit plan to account for nonpension post employment benefit commitments made by FCPS to its employees.
- Agency Fund—this is the Student Activity fund, which accounts for money collected and disbursed at individual schools in connection with student athletic programs, classes, clubs, fund raisers, and private donations. Use of these funds is restricted to the support of student programs at the specific schools and is not available for FCPS 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, including non-current assets (such as land, buildings, improvements, and other capital assets) and long-term liabilities (such as obligations for compensated absences, capital lease commitments, and actuarial claims payable).

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 program expenses are offset by associated revenues. Program revenues include charges for services, operating grants and contributions, and capital grants and contributions. County, State and Federal grants and contributions,

which are not restricted for specific uses, are classified as general revenues. Revenue generated from the use of money is classified as general. The effect of interfund revenue was 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 in the balance sheet. Revenue is recorded when susceptible to accrual, that is, when measurable and available for funding of current appropriations. In applying the susceptible to accrual concept, revenue is considered available if it is received within 60 days after fiscal year-end.

Operating statements for these funds present increases and decreases in current financial resources. Increases result from the receipt of revenues and other financing sources, while decreases result from expenditures and other financing uses. Non-exchange revenues, where FCPS receives value without directly giving equal value in exchange, include grants and donations. These revenues are recognized in the fiscal year when all eligibility requirements have been satisfied and the resources are available. Expenditures are reported in the fiscal year when the related fund liability is incurred, except that certain long-term obligations, such as expenditures related to compensated absences or capital leases, are recorded when payment is due. 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 government-wide statements, reconciliations are provided to aid the reader in understanding the differences.

Proprietary funds and pension and other post-employment benefit funds are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operation of these funds are included on the statement of net assets.

The agency fund has no measurement focus, so it does not present an operating statement to report changes in equity. It uses the accrual basis of accounting to report assets and related liabilities.

The proprietary funds' operating statement presents increases (revenues) and decreases (expenses) in net assets. The operating revenues are charges for services provided to other departments on a cost reimbursement basis, while the costs incurred to deliver these services are reported as operating expenses. Since insurance services typically pertain to multiple fiscal years, the change in the actuarially determined insurance liability from one year to the next is reported as an operating expense. Nonoperating revenues in the proprietary funds are generated from investing activities. The statement of cash flows presents the cash inflows and outflows of the proprietary activities.

For the pension trust fund, both member and employer contributions to the plan are recognized in the period when contributions are due. For the employee benefit trust fund, employer contributions are recognized in the period in which the contributions are paid. For the pension and other post-employment benefit funds, benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

In preparing the financial statements of the proprietary funds, FCPS has elected not to apply the option granted in paragraph 7 of GASB Statement Number 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting." Therefore, FCPS 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.

D. DEFERRED/UNEARNED REVENUE

Deferred revenues are resource inflows that do not yet meet FCPS' criteria for revenue recognition. These represent reimbursements, which are not collected within 60 days after fiscal year-end. Thus, these revenues are not classified as "available" and are presented as 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. FCPS has several types of unearned revenue. Advance tuition and community use payments constitute two sources. These unearned revenues are reported in the General Fund. In the Food and Nutrition Services Fund, the unearned revenue reported represents balances in student accounts for prepaid purchases of school lunches, breakfasts, and snacks as of June 30, 2012, which will be used to purchase meals in the subsequent school year. Unearned revenue reported in the Grants and Self-Supporting Programs Fund, is primarily attributable to advance tuition payments for summer school. The unearned revenue in the Adult and Community Education Fund stems from tuition payments to be applied to classes offered in fiscal year 2013. Unearned revenue in the Health Benefits Fund represents coverage for the months of July and August withheld in advance from the pay checks of teachers who opt to receive their entire contract pay in 10 months from September through June.

E. CASH AND CASH EQUIVALENTS

Cash on deposit with the County of Fairfax, VA represents the majority of FCPS' available cash. Placing these funds in a fully insured or collateralized investment pool administered by the County enhances investment returns. At June 30, 2012, all of the County's deposits were covered by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). The Act establishes 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.

On a monthly basis, the County allocates interest, less an administrative charge, to the Food and Nutrition Services, Adult and Community Education, Health Benefits, and ERFC Funds based on their respective average balances in pooled cash and investments. In accordance with the County's legally adopted operating budget, interest earned on FCPS' remaining funds is assigned directly to the

County's General Fund. For the fiscal year ended June 30, 2012, interest earned by these funds and assigned directly to the County's General Fund totaled \$2,207,162.

Cash and cash equivalents in the statement of cash flows and the statement of fiduciary net assets represent amounts in the investment pool administered by the County, as such they are considered to be demand deposits for the purpose of complying with GASB Statement Number 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting."

The figure reported for Cash with fiscal agent in the statement of fiduciary net assets stems from two sources:

- Receipts from ERFC pension investment sales occurring on the last day of the fiscal year, which could not be invested in the pooled cash fund until July 1, 2012; and
- Available cash in the Local School Activity Fund accounts, all of which are fully insured through the FDIC or are fully collateralized in accordance with the Act.

F. INVESTMENTS

Cash on deposit with the County of Fairfax, VA is maintained in an investment pool administered by the County. Money market investments that have a remaining maturity of one year or less at the time of purchase are reported at amortized cost, which approximates fair value. Other investments are reported at fair value or estimated fair value.

Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued based on future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investment purchases and sales are recorded as of the trade date. These transactions are not finalized until the settlement date, which is usually the trade date, but could be up to seven business days after the trade date.

G. INVENTORIES AND PREPAID ITEMS

Inventories in the Central Procurement Fund are valued and carried on a weighted average unit cost basis. Inventories in the Food and Nutrition Services Fund are valued at cost. 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. The purchase method of accounting for inventory is used in the governmental funds. Under this method, inventory items are expensed when purchased. The inventory of the Food and Nutrition Services Fund, which consists of food products, are classified as nonspendable in the fund balance.

Certain payments to vendors reflect costs applicable to future accounting periods. These transactions are recorded as prepaid assets in both the government-wide and fund financial statements using the consumption method. Prepaid items in the governmental funds are classified as nonspendable in the fund balance.

H. CAPITAL ASSETS

Capital assets are reported in the government-wide financial statements and include land, equipment under construction, construction in progress, equipment, library collections, buildings, improvements, and intangible assets. An asset must have a useful life of more than a year to be capitalized. Equipment, buildings, and improvements with a value of \$5,000 or more are capitalized. Land, construction in progress, and library collections are generally capitalized regardless of value. The costs of routine maintenance and repairs that do not add to asset values or materially extend asset lives are not capitalized.

Capital assets are recorded at acquisition cost, or at estimated historical cost, if acquisition cost is not available. Donated assets are recorded at their fair market value at the time of receipt. Assets acquired through capital lease and installment purchase agreements are recorded at the present value of the minimum lease payments, as stated in the agreements' amortization schedules.

Certain assets acquired through capital lease agreements are not capitalized because their unit value fails to meet the capitalization threshold. Typically, it is computer hardware that fits this description. At June 30, 2012, these assets accounted for \$914,580 of principal relating to outstanding capital leases.

No depreciation is taken in the year of acquisition for library collections. Depreciation on other capital assets commences when the assets are purchased or

are substantially complete and ready to be placed into operation.

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

Capital Assets	Useful Lives (Years)
Equipment:	
Buses and other vehicles	5-10
Office and other	4-20
Library collections	5
Buildings	20-50
Improvements	10-25
Software and licenses	5-12

Intangible assets lack physical substance, are nonfinancial in nature, and have an initial useful life greater than one year. The intangible assets recognized by FCPS are software products and licenses. Intangible assets are assigned useful lives in the range 5 to 14 years, depending on the nature of the intangible asset. The intangibles were valued at historic cost. No indirect costs were incorporated into the valuations for internally generated software. The cost threshold for individual asset recognition is \$100,000. The intangible assets are amortized on a straight-line basis over the useful life to reflect the expiration of useful value.

Preliminary cost of software development (Stage 1) are expensed. Software in the application development stage (Stage 2) amounted to \$4,843,645 at June 30, 2012. Amortization on software under development commences when software is operational. Any subsequent expenses and training costs are expensed (Stage 3).

In fiscal year 2012, FCPS transferred to Fairfax County intangible assets in the amount of \$2,594,840 related to the Fairfax County Unified System (FOCUS). This transaction is reported in other general revenue in the statement of activities.

I. COMPENSATED ABSENCES AND ACCRUED WAGES AND BENEFITS

FCPS employees earn annual leave pay based on a prescribed formula tied to years of service. Employees with less than 10 years of service are allowed to accumulate a maximum of 240 hours as of fiscal year-end

and employees with more than 10 years of service may accumulate 320 hours. Any excess hours are converted to the unused sick leave balance.

The accrued wages and benefits liability stems from employees who retired, resigned, or were terminated during the fiscal year, and, as of June 30, had not received payment for their accrued annual leave or severance pay. In addition, a number of FCPS employees are paid on a biweekly schedule that does not align precisely with the fiscal year. Any salaries and fringe benefits that were incurred during the fiscal year, but not paid as of June 30, are accrued as current liabilities in the applicable funds.

J. LONG-TERM OBLIGATIONS

Long-term obligations are reported in the government-wide financial statements and the proprietary fund financial statements. These obligations are segregated between current and long-term components. In the government-wide financial statements, the long-term obligations are further divided between those due within one year and those due beyond a year.

Certain long-term obligations, such as claims and judgments and compensated absences that will be paid from current financial resources, 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.

K. FUND EQUITY

Fund equity (net assets or fund balance) represents the difference between assets and liabilities. In the government-wide and proprietary fund financial statements, FCPS' net assets are categorized as follows:

- Invested in capital assets, net of related debt, which represents the portion of capital-related assets, net of accumulated depreciation, reduced by the outstanding capital lease and installment purchase obligations to acquire these assets
- Restricted, which represents the amount of net assets that are externally restricted for grant programs and major capital projects

- Unrestricted, which represents net assets, which are neither restricted nor capital-related that may be used to meet FCPS' ongoing programs.

In the fiduciary fund financial statements, FCPS' net assets are categorized as held in trust for pension and other post-employment benefits, which represent the amount of assets accumulated for the payment of benefits to the members and beneficiaries of the ERFC pension and School OPEB plans.

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" (GASB 54) was implemented in the prior fiscal year's financial statements. The statement establishes fund balance classifications, provides for hierarchy of spending constraints for spendable resources and requires disclosure of nonspendable and spendable resources.

L. ENCUMBRANCES

FCPS uses encumbrance accounting, which represents the estimated amount of future expenditures if all open purchase orders, unfinished contracts, or other commitments were completed. Encumbrances in the Capital Projects Fund do not lapse until the projects are completed and are classified as assigned in fund balance at year-end. Funding for all other encumbrances lapses at year-end and requires reappropriation by the School Board. These amounts are classified as assigned in fund balances to indicate that they are not anticipated to become available for other financing purposes.

M. RECOVERED COSTS

Reimbursements from the City of Fairfax, Virginia (City) for operating City owned schools and providing educational services to City students are recorded as recovered costs in the governmental fund financial statements. During fiscal year 2012, reimbursements totaled \$37,951,980 for educational services, in addition to \$1,309,674 for construction projects performed on the City's behalf through the FCPS Capital Projects Fund.

N. USE OF ESTIMATES

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

O. TAX STATUS

FCPS, as a local school division, and political subdivision of the State, is not subject to Federal, State, or local income taxes. Accordingly, no provision for income taxes was recorded.

P. RESTRICTED ASSETS

Restricted assets are liquid assets that have third-party limitations on their use. FCPS reports restricted cash and investments 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 FCPS because the Code precludes school divisions issuing debt or levying taxes. When both restricted and unrestricted resources are available for use, FCPS' policy is to use restricted resources first, and then unrestricted resources, as they are needed. As of June 30, 2012, restricted cash and investments reported in the Capital Projects Fund totaled \$103,827,544.

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 Balances 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. NONFIDUCIARY DEPOSITS AND INVESTMENTS

1. DEPOSIT AND INVESTMENT POLICIES

The County maintains an investment policy to pursue the following objectives:

- Preserve capital
- Protect investment principal
- Maintain sufficient liquidity to meet operating requirements
- Conform with Federal, State, and other legal requirements
- Diversify as a means to avoid incurring unreasonable risks connected to specific security types or individual financial institutions

- Achieve a rate of return consistent with relevant market benchmarks

Oversight of investment activity is the responsibility of the County's Investment Committee, which is comprised of the County's chief financial officer and certain key County management and investment staff.

The County's policy calls for pooling for investment purposes all funds available to it 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 FCPS, for both pooled and separate funds.

The 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 deposit and bank notes;
- Money market funds;
- Banker's acceptances;
- Repurchase agreements;
- Medium term corporate notes;
- Local government investment pools;
- 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 for time deposits in any bank or savings and loan association within the State that complies with the Code.

The County's investment policy prohibits the investment of pooled funds in derivative securities, reverse repurchase agreements, security lending programs, asset-backed securities, hedged debt, obligations of sovereign governments, obligations of the State and its instrumentalities, obligations of counties, cities, towns, and other public bodies located within the State and obligations of state and local government units located within other states.

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. Pooled investments that are purchased to meet liquidity needs shall have a target weighted average maturity of 90 days. All other pooled funds are invested primarily in short-term securities, with a maximum maturity of one year.

FCPS' pooled investments administered by the County as of June 30, 2012, are summarized at fair value below:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Commercial paper	\$ 205,597,985	28.94
Money market funds	57,261,472	0.19
Corporate notes	22,115,555	5.59
Negotiable certificates of deposit	221,160,975	45.59
Agency discount notes	67,570,185	5.43
Total fair value	<u>\$ 573,706,172</u>	
Portfolio weighted average maturity		85.74

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 relies on extensive diversification within the portfolio in order to hold potential losses to a minimum. In addition, new investments are not placed in securities that have been assigned a negative rating by Moody's Investors Service, Inc. (Moody's) Watch list or Standard and Poor's, Inc. (S&P) Credit Watch. County policy specifies the following acceptable credit ratings for specific types of investments in the pooled portfolio:

- U.S. government sponsored enterprise instruments shall be rated by both Moody's and S&P, with a minimum rating of Prime 1 and A-1, respectively.
- Prime quality commercial paper shall be rated by at least two of the following:
 - Moody's, with a minimum rating of P-1;

- S&P, with a minimum rating of A-1;
- Fitch Investor's Services, Inc. (Fitch), with a minimum rating of F-1; or
- Duff and Phelps, Inc., with a minimum rating of D-1.
- Mutual funds shall have a rating of AAA or better by S&P, Moody's, or another nationally recognized rating agency.
- Bank deposit notes shall be rated by at least two of the following:
 - Moody's, with a minimum rating of P-1;
 - S&P, with a minimum rating of A-1;
 - Fitch Investor's Services, Inc. (Fitch), with a minimum rating of F-1; or
 - Duff and Phelps, Inc., with a minimum rating of D-1.
- Banker's acceptances shall be related by at least two of the following: Moody's, with a rating of P-1; S&P, A-1; Fitch Investor's Services, Inc. (Fitch), F-1; or by Duff and Phelps, Inc., D-1.
- Corporate notes shall have a rating of at least Aa by Moody's and a rating of at least AA by S&P.

As of June 30, 2012, the County had investments in the following issuers with credit quality ratings as a percent of total investments in debt securities:

Investment Type	Credit Quality Rating *			
	AAA	AA	A	Unrated
Pooled Investments				
Commercial paper	- %	4.9 %	12.0 %	17.2 % **
Money market funds	-	-	-	9.5 **
Corporate notes	-	3.5	-	0.2
Certificates of Deposit:	-			
Negotiable	-	5.1	31.5	-
Non-negotiable	-	-	-	- **
Insured	-	-	-	4.8 **
Agency discount notes	-	11.3	-	-
* Credit quality ratings are determined using S&P's long-term rating schema, which approximates the greatest degree of risk as of June 30, 2012.				
** Insured CD's are not rated by rating agencies. Non-negotiable CD's are rated A-1 by Moody's long term schema.				
Though not rated on S&P long-term, the 15.5% of Commercial Paper and 10.8% of the Money Market Funds held in pooled investments are rated A-1 and AAAM, respectively, on S&P short-term schema.				

4. CONCENTRATION OF CREDIT RISK

The County's investment policy sets the following allocation percentage limits for the types of securities held in its pooled investment portfolio:

Repurchase agreements and money market funds	30% maximum
Bank notes, banker's acceptances, and negotiable certificates of deposit	40% maximum
Commercial paper	35% maximum
Corporate notes	25% maximum
U.S. Treasury and agency securities	100% maximum
Non-negotiable certificates of deposit	40% maximum

In addition, not more than five percent of the total pooled funds available for investment at the time of purchase may be invested in any one issuing or guaranteeing corporation for commercial paper, banker's acceptances, corporate notes, and bank notes. The County seeks to maintain five percent of the investment portfolio in a combination of mutual funds or open repurchase agreements to meet liquidity requirements.

5. CUSTODIAL CREDIT RISK

For deposits, custodial credit risk is the prospect that in the event that a depository financial institution fails, the County's reporting entity may not recover its deposits. In accordance with the Act, all of the County reporting entity's deposits are covered by the FDIC 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, so 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. Per County policy, all of the investments purchased with pooled funds are insured or registered or are securities held by the County or its agent in the County's name.

6. FOREIGN CURRENCY RISK

There is no foreign currency risk, since County policy restricts pooled investments to U.S. dollar-denominated instruments.

B. FIDUCIARY INVESTMENTS

1. ERFC

Deposit and Investment Policies

The authority to establish pension funds is set forth in sections 51.1-800 of the Code, which provides that the County may purchase investments for pension funds, including common and preferred stocks and corporate bonds, that meet the standard of judgment and care set forth in Section 51.1-124 of the Code. Investment decisions for ERFC are made by the Board of Trustees (Board), which are based on information and/or recommendations provided by the investment advisors selected by the Board or ERFC staff.

ERFC does not have investments (other than U.S. government and U.S. government guaranteed obligations) in any one organization that represents five percent or more of net assets held in trust for pension benefits.

As permitted by the Code, ERFC invests in derivative instruments on a limited basis in accordance with the Board's investment policy. Derivatives provide a means for ERFC to increase earnings and/or hedge against potential losses. There are a number of risks associated with derivative instruments, including:

- Market risk, resulting from fluctuations in interest and currency rates;
- Credit worthiness of counter parties to any contracts consummated;
- Credit worthiness of mortgages related to collateralized mortgage obligations (CMOs).

Investment managers must obtain specific authorization from the Board prior to purchasing securities on margin or leverage.

During the fiscal year, consistent with standard accounting principle guidelines, the ERFC invested in currency forward derivatives that were not reported on the financial statements as of June 30, 2012. These derivatives are used for hedging non-USD denominated physical instruments back to the base currency. As of June 30, 2012 exposure to the currency forward contracts was \$(43,286).

In addition, the ERFC had indirect investments in derivatives through its ownership interest in EB DV Large Capital Stock Fund and Emerging Markets Debt Fund, plus with two of the Private Real Estate managers. These portfolios are commingled funds in which ERFC has a percentage ownership. Derivatives in these portfolios consisted of interest rate swaps which reduce the effect of interest rate fluctuations by converting floating rate financing into fixed rate loans for real estate investments. Futures, because they are more liquid than over the counter derivatives, have among the lowest transaction costs available, carry minimal counterparty risk and are de facto currency hedged. Non Deliverable Forward's (NDF's) obtain exposure to a currency and its interest rate where the actual purchase of onshore debt is difficult. The interest rate exposure comes through the difference between the spot F/X rate and the forward F/X rate, and through investing the USD cash used as collateral in short dated US bonds. At June 30, 2012, exposure to interest rate swaps was \$2,824,811, exposure to futures contracts was \$22,741 and exposure to NDF's was \$3,083,788.

The Board's policy permits the fund to participate in a securities lending program. This program is administered by ERFC's custodian. Certain securities are loaned to approved broker/dealers who borrow the securities and provide collateral in the form of cash, U.S. Treasury or government agency securities, letters of credit issued by approved banks, and other securities as specified in the securities lending agreement. Collateral must be provided in the amount of 102 percent of the market value for domestic securities and 105 percent for international securities. ERFC did not impose any restrictions during the period on the amount of loans the custodian made on its behalf. The custodian provides for full indemnification to ERFC for any losses that might occur in the program due to the failure of a broker/dealer to return the borrowed security or a failure to pay ERFC for income earned by loaned securities. The market value of collateral is monitored daily by the custodian.

Cash collateral is invested in a fund maintained by the custodian or its affiliate. The custodian's stated policy is to maintain a weighted average maturity not to exceed 90 days. Investment income from the securities lending program is shared 75/25 by ERFC and the custodian, respectively. On June 30, 2012, ERFC had no overall credit risk exposure to borrowers because the amounts ERFC owed the borrowers exceeded the amounts the borrowers owed ERFC. However, ERFC could experience a loss of as much as \$831,258 due to the default of an investment instrument that was held in the collateral pool. The actual loss will be determined at the time this investment is liquidated.

Cash received as collateral for securities on loan is shown on the statement of fiduciary net assets. On June 30, 2012, cash received as collateral and the related liability was \$24,034,973. The market value of securities on loan was \$22,732,671. Securities received as collateral are not reported as assets since ERFC does not have the ability to pledge or sell the collateral securities absent borrower default.

On June 30, 2012, the array of securities ERFC had on loan for cash and non-cash collateral took this form:

Securities Lent	Cash Market Value	Cash Collateral
Lent for cash and non cash collateral:		
Domestic corporate bonds	\$ 2,673,223	\$ 2,739,526
International stock	4,073,374	4,926,333
Common stocks	15,986,074	16,369,114
Total	<u>\$ 22,732,671</u>	<u>\$ 24,034,973</u>

Interest Rate Risk

All three of ERFC's fixed income managers use the modified duration method to control interest rate risk. Regarding maturity, ERFC does not place limits on the managers, but expects the average duration to fall within 30 percent of the portfolio's benchmark.

As of June 30, 2012, ERFC had the following fixed income investments, none of which are highly sensitive to changes in interest rates:

Investment Type	Amount	Modified Duration (Years)
U.S. treasuries	\$ 96,213,074	3.32
Agencies	13,401,442	1.62
Corporate bonds	152,590,020	6.10
Municipals	8,567,425	4.77
Mortgages	111,933,703	1.08
Asset-backed securities	2,954,164	7.45
CMBS	2,767,018	3.43
Emerging market	49,369,406	4.45
Foreign bonds	54,314,347	2.07
Convertible and preferred	12,226,409	7.21
Cash and cash equivalents	700,857	(1.93)
Other positive	22,927,786	0.92
Total	<u>\$ 527,965,650</u>	
Portfolio modified duration		3.62*
*Duration in years		

Credit Risk

ERFC's investment policy on credit quality requires that the average credit quality of the fixed income portfolio be at least AA. The policy allows for up to 10 percent of the portfolio to be invested in below investment grade securities, such as those with ratings of Baa from Moody's or BBB from S&P. If a security has a split rate, the lower rating is considered in meeting the minimum quality standard.

The percentage mix of credit quality ratings in ERFC's portfolio as of June 30, 2012, is portrayed below:

Investment Type	Credit Quality Rating										Withdrawn Rating
	AAA	AA	A	BAA	BA	BBB	BB	B	Below B	Unrated	
Mortgage-backed securities	0.9 %	16.0 %	0.0 %	- %	- %	0.0 %	0.0 %	- %	- %	0.3 %	0.1 %
Domestic corporate bonds	5.6	0.7	9.6	2.2	0.7	8.5	1.9	3.3	0.5	1.6	0.1
Domestic municipal bonds	-	0.4	-	-	-	-	-	-	-	-	-
Convertible bonds	-	-	0.0	-	-	0.5	0.7	-	-	1.0	-
International bonds	2.8	0.9	11.7	0.1	-	2.3	2.2	-	0.7	2.9	0.1
U.S. government obligations	14.4	3.2	-	-	-	-	-	-	-	-	-
Preferred stocks	-	-	-	-	-	0.0	-	-	-	0.0	-
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	4.1	-

0.0% indicates percentage of less than .1 % of total

Concentration of Credit Risk

ERFC's policy limits the securities of any one issuer with the exception of the U.S. government and its agencies are limited to 10 percent at cost and 15 percent at market for each fixed income portfolio.

On June 30, 2012, ERFC had three active fixed income managers and one passive mixed income manager. The active managers controlled portfolios valued at \$154.1 million, \$204.9 million, and \$53.2 million. The market value of the largest issue in the portfolios other than the U.S. government was 4.2 percent of the total actively managed assets. Since the passive manager's portfolio is an index mutual fund, it is excluded from the Concentration of Credit Risk measurement.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, ERFC's funds will be lost. ERFC's investments and deposits are not exposed to this form of risk since they are insured and held by the agent in ERFC's name. Other investments, such as mutual funds, a short-term investment pool, and a cash collateral investment pool, which invests cash collateral for securities on loan, are not exposed to custodial risk since they have a non-physical form. Due to the absence of exposure, ERFC has elected not to formulate a custodial credit risk policy.

The mix of investments held by the custodian on June 30, 2012, was as follows:

Investment Type	Market Value
Mortgage-backed securities	\$ 1,523,586
Domestic corporate bonds	90,424,608
Convertible bonds	11,457,800
International bonds	41,750,081
Common stocks	498,632,867
Real estate	150,085,750
Preferred stock	6,877,879
Global asset allocation	184,473,015
Better beta derivatives	103,425,441
Hedge funds	139,115,563
Private equity limited partnership	15,537,604
Mutual funds	548,915,719
Total investments	1,792,219,913
Cash collateral for securities on loan	24,034,973
Total	\$ 1,816,254,886

Foreign Currency Risk

ERFC's investment guidelines restrict active fixed income holdings to debt instruments of U.S. entities denominated in U.S. dollars, which include U.S. denominated sovereign bonds. However, with Board approval, ERFC's two US active fixed income managers have been granted exceptions to invest in non-U.S. bonds, one at a maximum of 25 percent of the portfolio and the other at 20 percent.

The Board has not established any foreign currency guidelines for equities, although the equity managers are measured against specific benchmarks and expected to adhere to the performance standards and risk guidelines identified in ERFC's investment policy.

The following chart provides a summary of ERFC's foreign currency risk as of June 30, 2012:

Currency	Cash and Cash Equivalents	Equity	Convertible and Fixed Income	Preferred Stocks	Total U.S. Dollars
Australian dollar	\$ (2,514,798)	\$ 5,888,686	\$ 3,925,748	\$ -	\$ 7,299,636
Brazil real	8,835	1,816,790	12,034,965	-	13,860,590
Brithish pound sterling	3,276,966	40,358,440	288,593	-	43,923,999
Canadian dollar	3,172,085	10,145,811	6,687,668	-	20,005,564
Chinese yuan renminbi	2,236,522	-	-	-	2,236,522
Czechoslovakia koruna	3,938	-	-	-	3,938
Danish krone	30,266	2,174,350	-	-	2,204,616
Euro currency unit	(15,838,074)	49,807,849	800,273	2,094,915	36,864,963
Hong Kong dollar	141,361	8,213,209	-	-	8,354,570
Hungarian forint	118,173	-	7,882,029	-	8,000,202
Indian rupee	3,001,225	-	-	-	3,001,225
Indonesian rupiah	11,387	238,609	1,024,788	-	1,274,784
Israeli shekel	-	34,955	3,025,077	-	3,060,032
Italian lira	-	-	3,572,257	-	3,572,257
Japanese yen	(3,737,079)	41,969,315	-	-	38,232,236
Malaysian ringgit	44,894	1,745,038	-	-	1,789,932
Mexican new peso	910,075	608,287	811,827	-	2,330,189
New Taiwan dollar	651	2,770,308	-	-	2,770,959
New Turkish lira	4,374	320,620	-	-	324,994
New Zealand dollar	202,344	-	8,938,057	-	9,140,401
Norwegian krone	2,885,248	3,716,876	2,897,498	-	9,499,622
Philippines peso	258,704	339,700	9,495,472	-	10,093,876
Polish zloty	32,832	1,046,919	8,590,684	-	9,670,435
Romanian leu	9,509	-	-	-	9,509
S. African common rand	1,521,758	47,204	5,225,162	-	6,794,124
Singapore dollar	59,699	4,940,456	4,405,310	-	9,405,465
South Korea won	52,362	9,148,583	-	-	9,200,945
Swedish krona	5,482,010	2,864,280	-	-	8,346,290
Swiss franc	(2,334,187)	8,456,705	-	-	6,122,518
Thailand baht	-	2,975,401	-	-	2,975,401
Total fair value	<u>\$ (958,920)</u>	<u>\$ 199,628,391</u>	<u>\$ 79,605,408</u>	<u>\$ 2,094,915</u>	<u>\$ 280,369,794</u>

2. SCHOOL OPEB TRUST FUND

Deposit and Investment Policies

The authority to establish a trust fund for the purpose of accumulating and investing other post-employment benefits is set forth in Section 15.2-1544 of the Code, which provides for the purchase of investments that meet the standard of judgment and care set forth in Section 51.1-803 of the Code.

FCPS invests the School OPEB Trust Fund's assets with the Virginia Pooled OPEB Trust Fund (Pooled Trust) sponsored by the Virginia Association of Counties and the Virginia Municipal League (VACo/VML). The Pooled Trust is an investment pooling vehicle created to allow participating local governments, school divisions, and authorities in the State to accumulate and invest assets to fund other post-employment benefits. Funds of participating jurisdictions are pooled and invested in the name of the Pooled Trust. FCPS' respective shares in the Pooled Trust are reported in the School OPEB Trust Fund's financial statements. Investment decisions are made by the Board of Trustees (Board) of the Pooled Trust.

The Board adopted an investment policy to establish investment objectives, risk tolerance levels, and asset allocation parameters. The investment objective is to maximize the total long-term rate of return consistent with reasonable risk by seeking capital appreciation, and, secondarily, principal protection in a prudent manner. The investment policy authorizes such instruments as certificates of deposit, repurchase agreements, banker's acceptances, money market funds, commercial paper, common and preferred stocks, U.S. Treasury and agency securities, structured notes, and derivatives.

The investment policy restricts the purchase of:

- Short sales instruments;
- Options (puts, calls or straddles);
- Unbundled stock units;
- Margin purchases or other use of lending or borrowed funds;
- Letter stock;
- Private or direct placements;
- Commodities;
- Venture capital;
- Private equity;
- Management buyouts;
- Short-term securities of the custodian banks, investment managers, or affiliated companies;
- Securities lending; and
- Purchase or other direct interest in gas, oil, or other mineral exploration or development programs.

Through its investment policy, the Board manages exposure to fair value losses that can occur when market interest rates rise. The investment managers of the Pooled Trust are expected to adhere to the performance standards and risk guidelines identified in the investment policy. On a quarterly basis, the investment managers review their performance on a rolling three-year basis and over other relevant time periods and compare it to a composite benchmark comprised of the various asset classes' assigned market indexes, weighted by the Pooled Trust's long-term policy allocations. The comparison is also made to a peer group comprised of funds of similar size. The Board monitors the Pooled Trust on a continual basis for consistency in returns, net of fees, relative to objectives and investment risk, factoring in the effects of extreme economic fluctuations and market volatility.

On June 30, 2012, the School OPEB Trust Fund had the following investments in the Pooled Trust:

Investment Type	Fair Value
Short term investments	\$ 534
Mutual funds	25,608,416
Stocks	18,813,405
Hedge funds	4,219,233
Receivable from sale of investment	1,064,695
Total Investment	\$ 49,706,283

More extensive information about the Pooled Trust, including the classification of individual investments and related risks, can be obtained by writing to VACo/VML Finance Program, 1108 East Main Street, Richmond, Virginia 23219.

C. DUE FROM INTERGOVERNMENTAL UNITS

Amounts due from the Federal government are attributed primarily to the Individuals with Disabilities Education Act (IDEA) grant in the General Fund and to the Title I and II grants and federal reimbursement for the National School Lunch Program in the nonmajor governmental funds. IDEA is designed to ensure that all school-age handicapped children are provided a free, appropriate public education. Title I and II programs enhance the instruction for disadvantaged children. The National School Lunch Program makes lunch available to school children and encourages the consumption of domestic nutritious agricultural commodities.

A significant portion of the receivable from the State in the General Fund is attributed to State sales taxes due to FCPS. The Virginia Retail Sales and Use Tax Act requires 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. The receivable from the State in the nonmajor governmental funds represents FCPS' allocation of the Virginia Public School Authority Educational Technology Note proceeds for qualified technology expenditures and the Virginia Department of Education grant for the Juvenile Detention Center.

FCPS provides special education services for eligible students, including those who reside outside of FCPS' school boundaries. These services are provided on a fee-based system. The receivables from other jurisdictions are related to outstanding invoices for services provided to other localities within the Washington Metropolitan area as well as those from out-of-state public school systems. The receivable from the County represents reimbursements for the School Age Child Care (SACC) program and lunches served at certain County senior citizen centers.

Amounts due from other governments as of June 30, 2012, were as follows:

Fund	Federal Government	State	County	Other Jurisdictions	Total
General Fund	\$ 23,343,707	\$ 13,062,360	\$ -	\$ 380,053	\$ 36,786,120
Nonmajor governmental	19,319,998	5,654,872	277,227	-	25,252,097
Total	<u>\$ 42,663,705</u>	<u>\$ 18,717,232</u>	<u>\$ 277,227</u>	<u>\$ 380,053</u>	<u>\$ 62,038,217</u>

D. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund transactions occur only at year-end for financial statement presentations. FCPS' General Fund advances money to other funds as needed to offset year-end cash deficits. The deficits occur due to timing differences between payments for expenditures and the receipt of cash to cover them. A \$1,120,000 advance to the Central Procurement Fund resulted from an inventory buildup

in anticipation of the start of the 2012-2013 school year. The \$8,310,000 advance to the Grants and Self-Supporting Programs Fund, results primarily from grant expenditures incurred for which reimbursement has not been requested. The \$521,000 advance to the Adult and Community Education Fund results primarily from lower than anticipated income from tuition. The \$38,000 advance to the fiduciary funds, specifically the OPEB Fund, results from temporary cash shortages in the fund. This balance is expected to be repaid by June 30, 2013.

The composition of interfund receivables and payables balances as of June 30, 2012, was as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 9,989,000	\$ -
Fiduciary funds	-	38,000
Nonmajor governmental funds	-	8,831,000
Internal service funds	-	1,120,000
Total	<u>\$ 9,989,000</u>	<u>\$ 9,989,000</u>

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

Fund	Transfers In	Transfers Out
General Fund	\$ -	\$ 22,206,368
Capital Projects Fund	7,438,659	-
Nonmajor governmental funds	14,767,709	-
Total	<u>\$ 22,206,368</u>	<u>\$ 22,206,368</u>

E. CAPITAL ASSETS

A summary of capital asset activity for fiscal year 2012 is shown below:

Governmental Activities	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Non-depreciable/non-amortizable capital assets:				
Land	\$ 44,869,395	\$ -	\$ -	\$ 44,869,395
Construction in progress	193,161,346	93,915,419	(92,400,498)	194,676,267
Equipment under construction	462,929	-	(462,929)	-
Software in development	1,761,436	6,017,408	(2,935,199)	4,843,645
Total non-depreciable/non-amortizable capital	<u>240,255,106</u>	<u>99,932,827</u>	<u>(95,798,626)</u>	<u>244,389,307</u>
Depreciable/amortizable capital assets:				
Equipment	233,078,061	29,197,220	(7,501,677)	254,773,604
Library materials/collections	32,090,354	3,335,481	(1,948,421)	33,477,414
Buildings	1,129,845,981	48,524,974	-	1,178,370,955
Building improvements	1,603,507,343	84,751,584	-	1,688,258,927
Land improvements	35,875,833	-	-	35,875,833
Software/licenses	3,876,221	310,815	-	4,187,036
Total depreciable/amortizable capital assets	<u>3,038,273,793</u>	<u>166,120,074</u>	<u>(9,450,098)</u>	<u>3,194,943,769</u>
Accumulated depreciation/amortization:				
Equipment	(150,203,911)	(22,017,680)	3,590,496	(168,631,095)
Library collections	(20,738,941)	(4,014,486)	-	(24,753,427)
Buildings	(456,519,844)	(22,722,475)	-	(479,242,319)
Building improvements	(616,111,959)	(61,842,144)	-	(677,954,103)
Land improvements	(12,085,568)	(1,660,670)	-	(13,746,238)
Software/licenses	(846,324)	(783,593)	-	(1,629,917)
Total accumulated depreciation/amortization	<u>(1,256,506,547)</u>	<u>(113,041,048)</u>	<u>3,590,496</u>	<u>(1,365,957,099)</u>
Depreciable/amortizable capital assets, net	<u>1,781,767,246</u>	<u>53,079,026</u>	<u>(5,859,602)</u>	<u>1,828,986,670</u>
Total capital assets, net	<u>\$ 2,022,022,352</u>	<u>\$153,011,853</u>	<u>\$ (101,658,228)</u>	<u>\$ 2,073,375,977</u>

Depreciation was charged to governmental programs during fiscal year 2012 as shown:

Governmental Activities	Depreciation Expense
Instruction:	
Regular education:	
Elementary school	\$ 36,598,584
Middle school	10,054,264
High school	22,474,040
Special education	19,083,470
Adult and community education	478,211
Instructional support	5,469,937
Support programs:	
Administration and general support	5,295,000
Student transportation	5,725,194
Facilities management	4,180,439
Food service	3,676,871
In addition, depreciation expense on capital assets held by the internal service funds is charged to the various programs based on a ratio of total governmental fund expenditures.	5,038
Total	<u>\$ 113,041,048</u>

F. LONG-TERM OBLIGATIONS

Internal service funds long-term obligations are included as part of government activities because these funds generally serve the governmental funds. Deferred rent, compensated absences, capital leases, installment purchases, and the net OPEB obligation are generally liquidated from the General Fund. Actuarial claims payable are liquidated in the internal service funds.

The County issues general obligation debt for FCPS and carries this debt on their books. However, FCPS is responsible for the outstanding debt obligations which is indicated below.

The table below summarizes the changes in the long-term obligations of FCPS for the year ended June 30, 2012:

Governmental Activities	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due within One Year
Deferred rent	\$ 1,581,756	\$ -	\$ (248,460)	\$ 1,333,296	\$ -
Compensated absences	30,015,753	23,798,880	(21,011,027)	32,803,606	22,962,524
Capital leases	81,326,518	19,680,064	(13,473,926)	87,532,656	12,332,298
Actuarial claims payable	48,272,740	29,156,624	(26,019,285)	51,410,079	28,202,024
Net OPEB obligation	1,708,994	-	(11,763,871)	(10,054,877)	-
Total	\$ 162,905,761	\$ 72,635,568	\$ (72,516,569)	\$ 163,024,760	\$ 63,496,846

1. CAPITAL LEASES

FCPS entered into noncancelable capital lease agreements as lessee for school buses, maintenance vehicles, trailers, computers, copiers, and an administrative building. These capital leases are recorded at the present value of their future minimum lease payments as of the inception date and expire at various times through fiscal year 2016, with the exception of the administrative building lease, which extends until fiscal year 2035.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

Fiscal Year	Total
2013	\$ 15,635,996
2014	14,771,647
2015	12,239,672
2016	7,036,936
2017	5,880,227
2018-2022	18,881,112
2023-2027	18,876,858
2028-2032	18,873,700
2033-2035	11,327,925
Total minimum obligations	123,524,073
Portion representing interest	(35,991,417)
Present value of minimum obligations	<u>\$ 87,532,656</u>

The following schedule lists the capital assets that were acquired under the capital leases that remained outstanding on June 30, 2012:

Asset Class	Acquisition Cost	Accumulated Depreciation	Net
Capital assets:			
Land	\$ 6,000,000	\$ -	\$ 6,000,000
Equipment:			
Buses	18,450,099	(6,975,584)	11,474,515
Computers	12,075,695	(4,284,384)	7,791,311
Copiers	21,338,816	(10,694,463)	10,644,354
Other vehicles	664,312	(427,246)	237,066
Buildings	56,910,185	(7,613,673)	49,296,512
Total	<u>\$ 115,439,107</u>	<u>\$ (29,995,350)</u>	<u>\$ 85,443,758</u>

On June 30, 2012, the future minimum operating lease commitments were as follows:

2. DEBT SERVICE RESPONSIBILITY

The Code prohibits FCPS 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 FCPS, but by the full faith and credit and taxing authority of the County. Since FCPS is not obligated to repay principal or interest on any general obligation debt incurred on FCPS' behalf, the debt is recorded in the County's government-wide financial statements.

Fiscal Year	Real Estate	Equipment	Total
2013	\$ 3,668,354	\$ 34,105	\$ 3,702,459
2014	4,005,360	9,044	4,014,404
2015	4,112,915	2,667	4,115,582
2016	3,399,712		3,399,712
2017	1,538,847		1,538,847
2018-2022	2,515,048		2,515,048
Total	<u>\$ 19,240,236</u>	<u>\$ 45,816</u>	<u>\$ 19,286,052</u>

G. OPERATING LEASES

FCPS has obligations under several long-term, noncancelable lease agreements in connection with real estate and equipment. Most of the real estate leases contain a provision for an annual increase ranging from three to five percent. A new long-term operating lease agreement was entered into in fiscal year 2010 that provided for an abatement of the rent for the first 18 months. In accordance with the provisions of GASB Statement 13, "Accounting for Operating Leases with Scheduled Rent Increases", the operating lease rent expense recognition is spread on a straight-line basis over the 78 full-time equivalent month lease term. As a result, for fiscal year 2012, \$248,460 was recognized as rent reduction with respect to this lease. During fiscal year 2012, the total expenditures for real estate operating leases amounted to \$3,455,195. In addition, FCPS has equipment leases for copiers. The expenditures on these leases totaled \$859,193.

H. CONSTRUCTION COMMITMENTS

On June 30, 2012, FCPS had contractual commitments of \$87,166,365 in the Capital Projects Fund for the construction of various projects.

I. FUND BALANCE

FCPS has adopted GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", as required for fiscal years beginning after June 15, 2010. The intention of GASB 54 is to provide a structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of FCPS' financial statements.

Governmental fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the FCPS School Board is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The two major types of fund balances are nonspendable and spendable. Non-spendable fund balances are balances that cannot be spent as they are not expected to be converted to cash or, they are legally or contractually required to remain intact. This classification includes prepaid items and inventories.

In addition to nonspendable fund balance, FCPS classifies spendable fund balances based on the following hierarchy of spending constraints:

- Restricted: Fund balances that are constrained by external parties, constitutional provisions or enabling legislation.
- Committed: Fund balances that contain self-imposed constraints by the School Board.
- Assigned: Fund balances that contain self-imposed constraints by the School Board to be used for specific purposes, but are neither restricted nor committed.
- Unassigned: Fund balance of the general fund that is not constrained for any particular purpose.

FCPS has classified fund balances based on the following hierarchy:

Nonspendable: Included in this classification are prepaid items and inventories totaling \$29,034,266 and \$1,534,996, respectively, among all governmental funds.

Restricted: Included in this classification are funds from Food Service and Grant Programs, Summer School and Remediation and Capital Projects.

Committed: In 2012 the School Board committed \$8.0 million from fund balance to address revenue shortages in the next fiscal year as part of the Flexibility Reserve. Additionally, the School Board committed \$60,600,000 to repay deferred employer contributions with interest over a ten-year period beginning in fiscal year 2013 to VRS. For fiscal year 2013, \$57,491,613 was appropriated for operations.

Assigned: The School Board set aside certain spendable fund balance for school operations. The assigned fund balance of \$83,565,389 for school operations includes \$7,723,500 for the Centralized Textbook Fund; \$442,335 for clinical support for students; \$2,036,537 for teacher evaluations; \$1,000,000 transfer to Adult and Community Education; and \$72,363,017 for outstanding encumbrances and other fiscal year balance carryovers for materials and supplies, additional equipment, staff training, field trips, facility modifications, and police security for schools and centers.

Unassigned: The unassigned fund balance totals \$21,518,790. This balance comprises of \$22,493,468 from the General Fund, which will be utilized by the School Board during future budget development; and includes a deficit fund balance of (\$974,678) from the Adult and Community Education program.

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
FUND BALANCES:				
Nonspendable:				
Prepaid Items	\$ 26,936,816	\$ -	\$ 2,097,450	\$ 29,034,266
Inventories	-	-	1,534,996	1,534,996
Restricted:				
Capital Projects	-	86,060,886	-	86,060,886
Food Service	-	-	15,705,229	15,705,229
Grant Programs, Summer Fund and Remediation	-	-	12,525,968	12,525,968
Committed:				
Flexibility Reserve	8,000,000	-	-	8,000,000
Subsequent Fiscal Year's Budget	57,491,613	-	-	57,491,613
VRS Reserve	60,600,000	-	-	60,600,000
Assigned:				
Centralized Textbook Fund	7,723,500	-	-	7,723,500
Clinical Support for Students	442,335	-	-	442,335
Teacher Evaluation	2,036,537	-	-	2,036,537
Transfer to Adult and Community Education	1,000,000	-	-	1,000,000
Other Schools Operations	72,363,017	-	-	72,363,017
Unassigned	22,493,468	-	(974,678)	21,518,790
Total Fund Balance	<u>\$ 259,087,286</u>	<u>\$ 86,060,886</u>	<u>\$ 30,888,965</u>	<u>\$ 376,037,137</u>

IV. OTHER INFORMATION

A. RELATED PARTIES

With the exception of the County, which funds a large portion of FCPS' budget, and ERFC, a blended component unit of FCPS which the School Board created and oversees, the school division did not conduct business with any other related parties in fiscal year 2012.

B. RISK MANAGEMENT

FCPS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee illnesses and injuries; and natural disasters.

FCPS maintains internal service funds for workers' compensation claims, certain property and casualty risks, and health insurance benefits. The School Board believes it is cost effective to manage risks by a combination of self-insurance programs and the purchase of commercial policies. Liabilities are reported in the internal service

funds when it is probable that losses have occurred and the amounts of the losses can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported to date. Since actual liability claims depend on complex factors such as inflation, changes in governing laws and standards, and court awards, the process used in computing liability claims is reevaluated periodically to take into consideration the history, frequency, severity of recent claims, and other economic and social factors. These liabilities are computed using a combination of actual claims experience and actuarially determined amounts.

In addition to the self-insurance program, FCPS purchases commercial property and liability insurance, surety bonds, fiduciary insurance, and catastrophic medical insurance for Virginia High School League Student participants. In the past three fiscal years, there have been no instances where claims settlements exceeded commercial coverage limits.

Changes in the balances of liability claims during fiscal years 2011 and 2012 are as follows:

	Health Benefits	Insurance	Total
July 1, 2010 - liability balance	\$ 17,325,000	\$ 22,749,849	\$ 40,074,849
Claims and changes in estimates	264,685,432	14,675,042	279,360,474
Claims Payments	(263,632,432)	(7,530,151)	(271,162,583)
June 30, 2011 - liability balance	18,378,000	29,894,740	48,272,740
Claims and changes in estimates	291,142,914	11,245,905	302,388,819
Claims Payments	(289,860,914)	(9,390,566)	(299,251,480)
June 30, 2012 - liability balance	\$ 19,660,000	\$ 31,750,079	\$ 51,410,079

C. CONTINGENT LIABILITIES

FCPS 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 FCPS' financial condition.

FCPS receives grant funds, principally from the Federal government, for various educational programs. Certain expenditures of these funds are subject to audit by the grantor. FCPS is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of FCPS management, no material refunds will be required as a result of expenditures disallowed by the grantors, with the exception of one grant. FCPS reached a negotiated settlement with the Federal government to resolve claims relating to this grant in the amount of \$1.0 million in fiscal year 2012. The settlement is not material to FCPS financial statements for fiscal year 2012.

D. RETIREMENT PLANS

FCPS employees participate in ERFC, the Fairfax County Employees' Retirement System (FCERS), and the Virginia Retirement System (VRS). Information about these plans is provided as follows.

1. ERFC

Plan Description

ERFC is a legally separate, single-employer pension plan established under the Code to provide pension benefits to all full-time educational and administrative support employees who are employed by FCPS and who are not covered by another plan. The plan contains two primary defined benefit structures, ERFC and ERFC 2001. The original structure, ERFC, became effective July 1, 1973, and is coordinated with the benefits that members expect to receive from VRS and Social Security. It remains in effect; however, it is closed to new members. Effective July 1, 2001, all new-hire full-time educational and administrative support employees are enrolled in ERFC 2001. This new component incorporates a streamlined stand-alone retirement benefit structure.

Benefit provisions for ERFC and ERFC 2001 are established and may be amended by ERFC's Board of Trustees (Board) subject to approval by the School Board. All members are vested for benefits after five years of service. The ERFC benefit formula was revised effective July 1, 1988, following changes to VRS, which ERFC has historically supplemented. The benefit structure is designed to supplement VRS and Social Security benefits to provide a level retirement benefit throughout retirement. Member contributions for ERFC and ERFC 2001 are made through an arrangement that results in a deferral of taxes on the contributions. Further details of member contributions may be found in Article III of the ERFC and ERFC 2001 Plan Documents.

ERFC and ERFC 2001 offer a variety of choices concerning the benefit payment stream. ERFC's payment types include Service Retirement, Reduced Service, Disability, Death-in-Service, and Deferred Retirement. ERFC 2001's payment types include Service Retirement, Death-in-Service, and Deferred Retirement. ERFC's minimum eligibility requirements for receipt of full benefits range from members attaining the age of 55 with 25 years of service to completing five years of service prior to age 65. The minimum eligibility requirements for full benefits for ERFC 2001 members are age 60 with five years of service or any age with 30 years of service. Additional details regarding benefit payment types can be found in the actuarial valuation and the Plan Documents.

At December 31, 2011, the date of the most recent actuarial valuation, ERFC's membership was composed of:

Retirees and beneficiaries currently receiving benefits	9,467
Terminated employees entitled to benefits but not yet receiving them	2,861
Active plan members	<u>20,976</u>
Total	<u><u>33,304</u></u>

Funding Policy

The contribution requirements of FCPS and of ERFC and ERFC 2001 plan members are established and may be amended by the Board with the approval of the School Board. The requirements are based upon a fundamental financial objective of having rates of contribution that remain relatively level from generation to generation of employees. Plan members are required to contribute four percent of their annual salary. For fiscal year 2012, FCPS' actuarially determined contribution rate was 4.34 percent of annual covered payroll. There is no legal maximum requirement applicable to the employer contribution rate. Annual actuarial valuations are prepared to assess progress toward meeting the plan's financial objectives and to determine the appropriate contribution rates. The actuarial valuation prepared in an odd-numbered year is used to set the employer contribution rate for the two-year period beginning 18 months after the valuation date.

Annual Pension Cost

For each of the years ended June 30, 2012, 2011, and 2010, FCPS' annual pension cost was equal to its annual required contribution (ARC).

The following table summarizes the recent history of FCPS' annual pension costs, percentage of actual contributions, and net pension obligation:

Fiscal Year Ended June 30	Annual Pension Cost	Percentage Contributed	Net Pension Obligation
2010	\$ 35,146,816	108 %	\$ -
2011	47,118,111	100	-
2012	52,934,245	100	-

Funded Status and Funding Progress

As of the December 31, 2011 actuarial valuation, the plan was 75.56 percent funded. The actuarial accrued liabilities (AAL) for benefits was \$2.5 billion and the actuarial value of assets (AVA) was \$1.9 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.6 billion. The covered payroll (annual payroll of active participating employees on which contributions are based) was \$1.2 billion and the ratio of the UAAL to covered payroll was 48.44 percent.

The required schedule of funding progress, found in the RSI section immediately following the notes to the financial statements, presents multi-year trend information about whether the AVA is increasing or decreasing over time relative to the AAL for benefits.

Actuarial Methods and Assumptions

In preparing the December 31, 2011 actuarial valuation, the individual entry age actuarial cost method was used to determine the AAL and the ARC. ERFC's AVA is determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period, which recognizes asset values should be between 75 percent and 125 percent of the market value. ERFC's UAAL is amortized as a level percentage of closed payrolls over a future period, which has never exceeded 30 years. The remaining amortization period, 27 years, closed at December 31, 2011.

Significant actuarial assumptions used in the valuation include:

- A rate of return on the investment of present and future assets of 7.5 percent per year compounded annually, including an inflation component of 3.75 percent;
- Projected salary increases of 3.75 to 9.05 percent, including an inflation component of 3.75 percent; and
- Post retirement benefit increases of 3.0 percent annually.

Basis of Accounting

The ERFC Fund is accounted for using the accrual basis of accounting in accordance with GAAP. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The costs of administering the plan are paid for by ERFC through the use of investment income and employer and employee contributions.

Investment Valuation

Short-term investments are reported at cost, which approximates fair value. All other investments are reported at fair value or estimated fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. ERFC records investment purchases and sales as of the trade date. These transactions are not finalized until the settlement date, which occurs approximately three business days after the trade date for domestic trades and approximately five to seven days after the trade date for international trades. Until finalized, these investment purchases and sales are recorded as payables and receivables, respectively.

Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Concentrations

ERFC's investment guidelines limit the securities of any one issue to 10 percent at cost and 15 percent at market of each fixed income portfolio. These guidelines allow an exception for U.S. government securities and its agencies.

2. FCERS

Plan Description

FCERS is a cost-sharing, multiple-employer defined benefit pension plan, which covers only employees of the County reporting entity. The plan covers full-time and certain part-time FCPS employees who are not covered by ERFC or VRS. Benefit provisions are established and may be amended by County ordinances. All benefits vest at five years of service. To be eligible for normal retirement, a member must attain the age of 65 with five years of creditable service, or attain the age of 50 with age plus years of creditable service being greater than or equal to 80. The normal retirement benefit is calculated using average final compensation (i.e., the highest 78 consecutive two-week pay periods or the highest 36 consecutive monthly pay periods) and years (or partial years) of creditable service at date of termination. In addition, if normal retirement occurs before Social Security benefits are scheduled to begin, an additional monthly benefit is paid to retirees. Annual cost of living adjustments are provided to retirees or beneficiaries equal to the lesser of four percent or the percentage increase in the Consumer Price Index for the Washington Consumer Metropolitan Service Area. The plan provides that unused sick leave credit may be used in the calculation of average final compensation by projecting the final salary during the unused sick leave period. The benefit for early retirement is actuarially reduced and payable at early termination.

Effective July 1, 2005, a Deferred Retirement Option Program (DROP) was established for eligible members of FCERS. Members who are eligible for normal service retirement are eligible to participate in this program. DROP provides the ability for an employee to retire and continue to work and receive a salary for a maximum period of three years. In lieu of continuing to earn service credit, DROP members accrue a lump sum benefit. During the DROP period, the pension plan accumulates the accrued monthly benefit into an account belonging to the member. The account is credited with interest in the amount of 5.0 percent per annum, compounded monthly. The monthly benefit is calculated using service and final compensation as of the date of entry in DROP, with increases equal to the annual cost of living adjustment provided for retirees.

FCERS issues a publicly available annual financial report that includes financial statements and RSI. This report may be obtained by writing to the Fairfax County Employees' Retirement System, 10680 Main Street, Suite 280, Fairfax, Virginia 22030 or by calling (703) 279-8200.

Funding Policy

The contribution requirements of FCERS members are established and may be amended by County ordinances. Members may elect to join Plan A or Plan B. Plan A requires member contributions of four percent of compensation up to the Social Security wage base and 5.33 percent of compensation in excess of the wage base. Plan B requires member contributions of 5.33 percent of compensation.

FCPS is required to contribute at an actuarially determined rate. The rate for fiscal year 2012 was 17.2 percent of annual covered payroll. This rate is established by the County Board of Supervisors to cover the actuarially determined normal cost plus administrative expenses of FCERS. In the event FCERS' funded ratio, the ratio of the AVA to the AAL, exceeds 120 percent or falls below 90 percent, the contribution rate will be adjusted to bring the funded ratio back within these parameters. FCPS' contributions to FCERS for fiscal years 2012, 2011, and 2010 were \$32,262,215, \$26,849,706, and \$18,121,150 respectively, equal to the statutorily required contribution for each year.

3. VRS

Plan Description

VRS is a cost-sharing, multiple-employer retirement plan administered by the State that provides defined benefit coverage for State employees, public school board employees, employees of participating political subdivisions, and other qualifying employees. All full-time, salaried, permanent employees of VRS-participating employers are automatically covered under VRS. Contributions made by members and participating VRS employers are invested to provide future retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. FCPS contributes to VRS on behalf of its covered professional employees.

Benefit provisions are established and governed by Section 51.1 of the Code. Changes to the Code can be made only by an act of the General Assembly. Benefits vest after five years of service. Members are eligible for an unreduced retirement benefit at age 65 if they have five years of

service credit or at age 50 with at least 30 years of service credit if elected by the employer. Members may retire with a reduced benefit at age 50 if they have at least 10 years of service credit or at age 55 if they have at least five years of service credit. Annual retirement benefits are payable monthly for life in an amount equal to 1.7 percent of eligible members' average final compensation for each year of credited service. Benefits are actuarially reduced for members who retire prior to becoming eligible for unreduced retirement benefits.

The health insurance credit provides retirees, who have 15 or more years of creditable service, with reimbursement to assist with the cost of health insurance premiums. The credit is a dollar amount set by the General Assembly for each year of service.

VRS issues a publicly available annual financial report that includes financial statements and RSI. This report may be obtained by writing to the Virginia Retirement System, P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

Active plan members are required by the Code to contribute five percent of their annual covered payroll to VRS. Employers may assume the five percent member assessment under the provisions of the Code. If a plan member leaves covered employment, the accumulated contributions, plus earned interest, may be refunded to the member.

Each participating employer is required by the Code to contribute the remaining amounts necessary to fund the retirement plan at a rate recommended by the VRS actuary and/or approved by the General Assembly.

During the spring of 2010, the Virginia Assembly adopted, and the General Assembly approved, a substantially lower VRS employer contribution rate (3.93 percent) compared to the actuarially determined rate of 12.91 percent. In fiscal year 2012, the employer rate increased from 3.93 to 6.33 percent. By doing so, Virginia school districts are essentially deferring a portion of the recommended employer contributions in FY 2011 and FY 2012. FCPS will have to repay these deferred contributions beginning in FY 2013. FCPS School Board committed \$60,600,000 of the fund balance as of June 30, 2012 to repay VRS deferred contributions.

In addition, the General Assembly approved an employer rate reduction from 1.04 percent in fiscal year 2010 to

0.60 percent in fiscal year 2011 for the VRS Retiree Health Insurance Credit.

The combined FCPS employer and member contributions to VRS, including the Retiree Health Insurance Credit, for the fiscal years ended 2012, 2011, and 2010 were \$146,454,888, \$112,157,560, and \$144,109,311, respectively, equal to the statutorily required contribution for each year.

E. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

1. PLAN DESCRIPTION

The School OPEB Trust Fund is a single-employer defined benefit plan administered by FCPS. The plan provides health benefits and life insurance to eligible retirees and their spouses. FCPS records plan net assets and reports funding progress and employer contributions for post-employment benefit plans. Contributions and payments of other post-employment benefit plans for currently active participants in the health care plans occur on a current basis, therefore, FCPS does not record these plan assets and is not required to report their funding progress and employer contributions.

In order to participate, retirees must have reached the age of 55 or be on service-connected disability retirement and must have benefit coverage in a health insurance plan administered by FCPS. In addition, if the retirement date was on or after July 1, 2007, the retiree must 1) have terminated FCPS employment at a time when eligible for normal or early retirement, 2) have elected immediate commencement of pension benefits and health/dental coverage, and 3) have participated in the same health coverage as an active employee for at least 60 consecutive months prior to termination of FCPS employment. A retiree and/or spouse who is at least 55 of years of age and participates in an FCPS-administered health insurance plan will receive an explicit subsidy ranging from \$15 to \$175 per month, based on years of service and the retirement plan in which the retiree is covered. In addition, FCPS provides an implicit subsidy by allowing retirees to participate in the health insurance plans at the group premium rates calculated on the entire universe of active and retired employees. This subsidy occurs because, on an actuarial basis, the current and future claims of the retiree participants are expected to result in higher per person costs to the insurance plans than will be the experience for

active employees. The subsidies are accounted for in the School OPEB Trust Fund.

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

Retirees and beneficiaries currently receiving benefits	8,636
Active plan members	<u>18,396</u>
Total	<u><u>27,032</u></u>

2. FUNDING POLICY

Contributions to the School OPEB Trust Fund are determined and may be amended by the School Board. The contributions are set at a minimum to satisfy the current year's projected pay-as-you-go benefits costs. The School Board may provide additional amounts to prefund future costs. During fiscal year 2012, FCPS contributed \$42,426,871 to the School OPEB Trust Fund, which included \$32,426,871 for current fiscal year costs and an additional \$10,000,000 to prefund benefits. The costs of administering the plan are paid for by the School OPEB Trust Fund through the use of investment income and employer contributions.

3. ANNUAL OPEB COST

FCPS' annual OPEB cost is calculated based on the ARC, an amount actuarially determined in accordance with the provisions of GASB Statement Number 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 30 years. GASB Statement Number 45 requires recognition of the current expense of the program based on the ARC, but it does not require funding of the related liability.

FCPS' annual OPEB cost for the School OPEB Trust, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the two preceding fiscal years are below:

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation (Asset)
2010	\$ 35,955,000	75.5 %	\$ 8,866,393
2011	38,335,000	118.7	1,708,994
2012	30,663,000	107.09	(10,054,877)

The changes in the net OPEB obligation during the year ended June 30, 2012, were as follows:

	School OPEB Trust Fund
Annual required contribution	\$ 30,630,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	33,000
Annual OPEB cost	30,663,000
Contributions made	(42,426,871)
Decrease in net OPEB obligation	(11,763,871)
Net OPEB obligation - July 1, 2011	1,708,994
Net OPEB asset - June 30, 2012	<u>\$ (10,054,877)</u>

4. FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2011, the most recent actuarial valuation date, the AAL for benefits was \$431.3 million and the AVA was \$40.0 million, resulting in an UAAL of \$391.3 million. The covered payroll of active participating employees was \$1,005.0 million and the ratio of the UAAL to covered payroll was 38.9 percent.

Actuarial valuations of an ongoing plan involve 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 health care cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, Exhibit K, presents multi-year trend information that shows whether the AVA is increasing or decreasing over time relative to the AAL for benefits.

5. ACTUARIAL METHODS AND ASSUMPTIONS

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

In the July 1, 2011, actuarial valuation, the entry age normal actuarial cost method was used to estimate the UAAL as of June 30, 2012, as well as the fiscal year 2012 ARC. The actuarial assumptions included a 7.5 percent investment rate of return (net of administrative expenses) and an annual health care cost trend rate of 8.0 percent, reduced by decrements of 0.5 percent for the next three years. These rates incorporate a 4.0 percent payroll inflation assumption. The AVA was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The plan's UAAL is being amortized as a level percentage of projected pay over an open period of 30 years.

6. FINANCIAL REPORTS

The School OPEB Trust Fund does not issue a stand-alone financial report and is not included in the report of another entity.

The following is a summary of fiduciary net assets of the School OPEB Trust Fund as of June 30, 2012:

Summary of Fiduciary Net Assets June 30, 2012	
	School OPEB Trust Fund
ASSETS	
Investments	\$ 49,706,283
Other assets	800
Total assets	<u>49,707,083</u>
LIABILITIES	
Accounts payable	58,125
Total liabilities	<u>58,125</u>
NET ASSETS	
Held in trust for other post-employment benefits	<u>\$ 49,648,958</u>

The following is a summary of changes in fiduciary net assets of the School OPEB Trust Fund for the fiscal year ended June 30, 2012:

Summary of Changes in Fiduciary Net Assets For the Fiscal Year Ended June 30, 2012	
	School OPEB Trust Fund
ADDITIONS	
Employer contributions	\$ 42,426,871
Net investment loss	(402,127)
Total additions	<u>42,024,744</u>
DEDUCTIONS	
Benefit payments	32,426,871
Total deductions	<u>32,426,871</u>
Change in net assets	9,597,873
Net assets - July 1, 2011	40,051,085
Net assets - June 30, 2012	<u>\$ 49,648,958</u>

7. BASIS OF ACCOUNTING

The School OPEB Trust Fund is accounted for using the accrual basis of accounting in accordance with GAAP. Employer contributions are recognized in the period in which the contributions were paid to the School OPEB Trust Fund. Benefits payments are recognized when due and payable in accordance with the terms of the plan.

8. INVESTMENT VALUATION

Short-term investments are reported at cost, which approximates fair value. All other investments are reported at fair value. Investment purchases and sales are recorded as of the trade date. These transactions are not finalized until the settlement date. Until finalized, these investment purchases and sales are recorded as payables and receivables, respectively.

FCPS is a participant in the Virginia Pooled OPEB Trust Fund sponsored by the Virginia Municipal League (VML) and the Virginia Association of Counties (VACo). The Virginia Pooled OPEB Trust Fund was established as an investment vehicle to accumulate assets to fund OPEB. Plan assets are usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, in which 1) contributions to the plan are irrevocable, 2) assets are dedicated to providing benefits to retirees and beneficiaries, and 3) assets are legally protected from creditors of the employer or plan administrator. The assets are dedicated to the payment of benefits in accordance with the terms of the plan. Further information, including financial statements, can be obtained by writing to VML/ VACo Finance Program, 1108 East Main Street, Richmond, VA 23219.

9. CONCENTRATIONS

The Schools OPEB Trust Fund does not have investments (other than U.S. government, agency, and guaranteed obligations) in any one organization that represent five percent or more at market value of net assets held in trust for OPEB benefits. The fund does not have investments assigned to any single investment manager that represent 25 percent or more at market value of net assets, or more than 20 percent of the fund at market value invested in one industry.

F. TERMINATION BENEFITS

1. COBRA

FCPS provides health care benefits as required by Federal law under the Public Health Service Act (PHSA). This benefit was previously required by the Consolidated Omnibus Budget Reconciliation Act COBRA. PHSA requires employers that sponsor group health plans to provide a continuation of group coverage to terminated employees and their dependents in qualifying circumstances where coverage would normally end. FCPS provides 18 to 36 months of optional post-employment healthcare to employees and their dependents that elect to continue healthcare coverage. The election to be covered is at the request of the employees. The employees are required to pay 102 percent of the premium costs for themselves and their dependents, which include a two percent administrative fee. The premium costs to the employees and their dependents are the established premium equivalent rates for each respective plan year; accordingly, no liability is recorded for PHAS benefits. On June 30, 2012, there were 86 participants receiving benefits under PHSA.



Required Supplementary Information (unaudited)

The Required Supplementary Information subsection includes:

- Budgetary comparison schedule for the General Fund, which accounts for all revenues and expenditures of Fairfax County Public Schools that are not required to be accounted for in other funds
- Trend data, the schedule of funding progress and the schedule of employer contributions, for the Educational Employees' Supplementary Retirement System of Fairfax County and the School Other Post-Employment Benefits Trust Fund
- The notes to the required supplementary information



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

EXHIBIT J

	Budget - Original	Budget - Final	Actual - Budget Basis	Variance from Final Budget
REVENUES				
Intergovernmental:				
Federal government	\$ 63,197,897	\$ 76,163,572	\$ 64,388,133	\$ (11,775,439)
Commonwealth of Virginia	472,067,232	472,067,232	478,390,365	6,323,133
Charges for services:				
Tuition and fees	9,380,732	9,380,732	9,925,715	544,983
Revenue from the use of money and property	2,773,923	2,773,923	3,159,101	385,178
Recovered costs	37,044,258	37,951,980	37,951,980	-
Other	5,114,641	5,114,641	7,587,347	2,472,706
Total revenues	<u>589,578,683</u>	<u>603,452,080</u>	<u>601,402,641</u>	<u>(2,049,439)</u>
EXPENDITURES				
Current:				
Instruction:				
Regular education:				
Elementary school	733,763,738	758,360,764	727,637,597	(30,723,167)
Middle school	214,459,778	220,099,779	206,913,138	(13,186,641)
High school	474,227,346	488,527,527	459,037,050	(29,490,477)
Special education	393,290,191	411,473,998	389,363,988	(22,110,010)
Adult and community education	85,000	85,000	10,615	(74,385)
Instructional support	110,016,731	123,751,816	105,121,005	(18,630,811)
Support programs:				
Administration and general support	105,984,455	123,585,762	115,371,998	(8,213,764)
Student transportation	122,730,726	126,684,882	122,024,166	(4,660,716)
Facilities management	64,922,586	78,973,851	63,026,789	(15,947,062)
Total expenditures	<u>2,219,480,551</u>	<u>2,331,543,379</u>	<u>2,188,506,346</u>	<u>(143,037,033)</u>
Deficiency of revenues under expenditures	<u>(1,629,901,868)</u>	<u>(1,728,091,299)</u>	<u>(1,587,103,705)</u>	<u>140,987,594</u>
OTHER FINANCING SOURCES (USES)				
Transfers in from County of Fairfax, VA	1,611,434,722	1,611,434,722	1,611,434,722	-
Transfers out to other governmental funds	(22,466,420)	(22,206,368)	(22,206,368)	-
Transfers out to County of Fairfax, VA	(3,773,523)	(3,773,523)	(3,773,523)	-
Total other financing sources (uses)	<u>1,585,194,779</u>	<u>1,585,454,831</u>	<u>1,585,454,831</u>	<u>-</u>
Net change in fund balances	<u>\$ (44,707,089)</u>	<u>\$ (142,636,468)</u>	<u>\$ (1,648,874)</u>	<u>\$ 140,987,594</u>

See accompanying notes to the required supplementary information.

FAIRFAX COUNTY PUBLIC SCHOOLS
Schedule of Funding Progress
Pension and Other Post-Employment Benefit Trust Funds
For the Fiscal Year Ended June 30, 2012
(Dollars in Thousands)

EXHIBIT K

Actuarial Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrued Liability (AAL) - Entry Age {b}	(Excess of Assets) Unfunded AAL (UAAL) {b-a}	Funded Ratio {a/b}	Covered Payroll {c}	(Excess of Assets) UAAL as a Percentage of Covered Payroll {b-a}/c
Educational Employees' Supplementary Retirement System of Fairfax County (ERFC)						
12/31/2004	\$ 1,643,020 *	\$ 1,935,582	\$ 292,562	84.89 %	\$ 977,817	29.92 %
12/31/2005	1,718,399	2,022,962	304,563	84.94	1,050,217	29.00
12/31/2006	1,818,930	2,105,552	286,622	86.39	1,111,828	25.78
12/31/2007	1,924,886	2,186,801	261,915	88.02	1,161,432	22.55
12/31/2008	1,733,946	2,255,298	521,352	76.88	1,211,140	43.05
12/31/2009	1,769,540	2,339,869	570,329	75.63	1,208,093	47.21
12/31/2010	1,822,603	2,384,061	561,458	76.45	1,191,290	47.13
12/31/2011	1,866,952	2,470,964	604,012	75.56	1,246,973	48.44
School Other Post-Employment Benefits Trust **						
7/1/2007	\$ -	\$ 299,668	\$ 299,668	- %	\$ 1,302,665	23.00 %
7/1/2008	7,996	458,067	450,071	1.75	1,352,321	33.28
7/1/2009	17,520	466,324	448,804	3.76	1,377,000	32.59
7/1/2010	19,563	491,180	471,617	3.98	1,432,000	32.93
7/1/2011	40,051	431,303	391,252	9.27	1,005,000	38.93

* At the recommendation of ERFC's actuary and due to the fact that these values were very similar, the actuarial value of assets was reset to the market value of assets for this valuation period only.

** School Other Post-Employment Benefits Trust Fund was established during fiscal year 2008.

FAIRFAX COUNTY PUBLIC SCHOOLS
Schedule of Employer Contributions
Pension and Other Post-Employment Benefit Trust Funds
For the Fiscal Year Ended June 30, 2012

EXHIBIT L

Fiscal Year Ended June 30	Educational Employees' Supplementary Retirement System of Fairfax County		School Other Post-Employment Benefits Trust *	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2005	\$ 32,198,596	100.00 %	\$ -	- %
2006	34,648,918	100.00	-	-
2007	36,644,001	100.00	-	-
2008	38,334,140	100.00	25,302,000	103.22
2009	37,281,658	107.33	37,503,054	97.71
2010	35,146,816	107.75	35,955,000	75.48
2011	47,118,111	100.00	38,335,000	118.67
2012	52,934,245	100.00	30,663,000	107.09

* School Other Post-Employment Benefits Trust Fund was established during fiscal year 2008.

See accompanying notes to the required supplementary information.

Notes to the Required Supplementary Information

Fairfax County Public Schools
June 30, 2012

I. BUDGETARY COMPARISON SCHEDULE

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

The preparation of FCPS' budget begins with the Superintendent soliciting input from parents and community leaders on the School Board's budget priorities. In January, the Superintendent releases the proposed budget and meets with the community, County, and employee groups to discuss it.

In February, the School Board reviews the proposed budget by holding public hearings and work sessions before adopting the advertised budget. The School Board then forwards the FCPS advertised budget to the County for inclusion in the County Executive's advertised budget.

In early April, the BOS holds public hearings regarding the proposed budget. After the BOS adopts the County's budget and determines the amount of funding to be transferred to FCPS, the School Board holds public hearings before approving FCPS' final budget in late May.

The approved budget governs the financial operations of the school system beginning on July 1.

Annual budgets are adopted for all the funds except for the Capital Projects Fund, which is budgeted on a project-by-project basis. The modified accrual basis is used in budgeting for governmental funds and the budgets are consistent with accounting principles generally accepted in the United States of America (GAAP), with the following exceptions:

- Transactions for capital leases, when initiated, are not budgeted as offsetting expenditures and other financing sources; and
- Transactions between FCPS and the County are budgeted as other financing sources (uses).

All annual appropriations lapse at fiscal year-end. The current budget is re-evaluated three times during the year based on current projections and amended accordingly by the School Board and the BOS.

The budget is controlled at certain legal and administrative levels. The legal controls are placed at the individual fund level and the administrative controls are placed at the object level, which is at the expenditure category for each office and school within a fund. Management may amend the approved budget at the administrative level within the same fund. Amendments, changes, or transfers at the legal level require the specific approval of the School Board.

The following schedule reconciles the General Fund amounts on the statement of revenues, expenditures, and changes in fund balances, Exhibit D, to the amounts on the budgetary comparison schedule—budget and actual, Exhibit J for the fiscal year ended June 30, 2012:

General Fund	Actual - GAAP Basis (Exhibit D)	Basis Differences		Actual - Budget Basis (Exhibit J)
		Capital Leases	Transactions between FCPS and the County	
Total revenues	\$ 2,212,837,363	\$ -	\$ (1,611,434,722)	\$ 601,402,641
Total expenditures	(2,211,959,933)	19,680,064	3,773,523	(2,188,506,346)
Total other financing sources (uses)	(2,526,304)	(19,680,064)	1,607,661,199	1,585,454,831
Net change in fund balances	<u>\$ (1,648,874)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,648,874)</u>

II. PENSION AND OTHER EMPLOYEE BENEFITS TREND DATA

Eight year historical trend information about the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) is presented as required supplementary information. Five years of trend information is presented about the School Other Post-Employee Benefits (OPEB) Trust Fund (fiscal year 2008 was the first year of implementation). 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 or OPEB plans.

Analysis of the dollar amounts of plan net assets, actuarial accrued liability (AAL), and unfunded actuarial accrued liability (UAAL), in isolation, can be misleading. Expressing plan net assets as a percentage of the AAL provides one indication of the funding status. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in the UAAL and annual covered payroll are both affected by inflation. Expressing the UAAL as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids in the analysis of the plans' progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

Information pertaining to the ERFC pension plan and the School OPEB Trust Fund can be found in notes IV.D.I and IV.E, respectively, in the notes to the financial statements.





Other Supplementary Information

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

- Combining statements for the nonmajor governmental funds
- Budgetary comparison schedules for the special revenue funds
- Combining statements for the internal service funds
- Combining statements for the pension and other post-employment benefit funds
- Statement of changes in assets and liabilities for the Student Activity Fund



Nonmajor Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (except for major capital projects) that are restricted to expenditures for specific purposes.

- Food and Nutrition Services 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.
- Grants and Self-Supporting Programs Fund—used to account for Federal, State, non-profit, and private industry grants that support instructional programs. This fund is also used to account for the summer school program.
- Adult and Community Education Fund—used to account for activities resulting from programs provided by the Office of Adult and Community Education. These programs include basic skills education, high school completion, English for Speakers of Other Languages, apprenticeship and occupational skills instruction, and various consumer education and special interest courses. The main revenue source is tuition charged to the participants.



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

EXHIBIT M

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Food and Nutrition Services	Grants and Self-Supporting Programs	Adult and Community Education	
ASSETS				
Cash on deposit with County of Fairfax, VA	\$ 16,252,151	\$ 71,968	\$ 113	\$ 16,324,232
Receivables:				
Accounts	134,238	-	-	134,238
Accrued interest	20,873	-	1,022	21,895
Due from intergovernmental units:				
Federal government	1,358,068	17,844,101	117,829	19,319,998
Commonwealth of Virginia	-	5,654,872	-	5,654,872
County of Fairfax, VA	277,227	-	-	277,227
Inventories	1,534,996	-	-	1,534,996
Prepaid items	1,590,330	507,120	-	2,097,450
Total assets	<u>\$ 21,167,883</u>	<u>\$ 24,078,061</u>	<u>\$ 118,964</u>	<u>\$ 45,364,908</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 40,123	\$ 468,495	\$ 68,130	\$ 576,748
Accrued salaries and withholdings	327,067	3,814	34,166	365,047
Interfund payables	-	8,310,000	521,000	8,831,000
Unearned revenue	1,970,138	2,262,664	470,346	4,703,148
Total liabilities	<u>2,337,328</u>	<u>11,044,973</u>	<u>1,093,642</u>	<u>14,475,943</u>
Fund balances:				
Nonspendable	3,125,326	507,120	-	3,632,446
Restricted	15,705,229	12,525,968	-	28,231,197
Unassigned	-	-	(974,678)	(974,678)
Total fund balances	<u>18,830,555</u>	<u>13,033,088</u>	<u>(974,678)</u>	<u>30,888,965</u>
Total liabilities and fund balances	<u>\$ 21,167,883</u>	<u>\$ 24,078,061</u>	<u>\$ 118,964</u>	<u>\$ 45,364,908</u>

FAIRFAX COUNTY PUBLIC SCHOOLS
EXHIBIT N
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2012

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Food and Nutrition Services	Grants and Self-Supporting Programs	Adult and Community Education	
REVENUES				
Intergovernmental:				
Federal government	\$ 29,040,205	\$ 32,969,206	\$ 804,877	\$ 62,814,288
Commonwealth of Virginia	883,163	8,295,287	634,614	9,813,064
County of Fairfax, VA	-	3,126,203	-	3,126,203
Charges for services:				
Tuition and fees	-	1,870,169	6,612,994	8,483,163
Food sales	46,262,751	-	-	46,262,751
Revenue from the use of money and property	53,604	10,682	8,485	72,771
Other	6,250	1,296,547	348,533	1,651,330
Total revenues	76,245,973	47,568,094	8,409,503	132,223,570
EXPENDITURES				
Current:				
Instruction:				
Regular education:				
Elementary school	-	35,200,763	-	35,200,763
Middle school	-	1,230,605	-	1,230,605
High school	-	7,229,145	-	7,229,145
Special education	-	4,114,182	-	4,114,182
Adult and community education	-	313,098	9,532,474	9,845,572
Instructional support	-	13,235,070	417,668	13,652,738
Support programs:				-
Administration and general support	-	338,853	-	338,853
Student transportation	-	1,621,319	-	1,621,319
Facilities management	-	-	-	-
Food service	75,782,335	-	-	75,782,335
Capital outlay	448,805	475,023	31,787	955,615
Total expenditures	76,231,140	63,758,058	9,981,929	149,971,127
Excess (deficiency) of revenues over (under) expenditures	14,833	(16,189,964)	(1,572,426)	(17,747,557)
OTHER FINANCING SOURCES				
Transfers in	-	14,367,709	400,000	14,767,709
Net change in fund balances	14,833	(1,822,255)	(1,172,426)	(2,979,848)
Fund balances - July 1, 2011	18,660,911	14,855,343	197,748	33,714,002
Increase in reserve for inventories	154,811	-	-	154,811
Fund balances - June 30, 2012	\$ 18,830,555	\$ 13,033,088	\$ (974,678)	\$ 30,888,965

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

EXHIBIT O

	Budget - Original	Budget - Final	Actual - Budget Basis	Variance from Final Budget
REVENUES				
Intergovernmental:				
Federal government	\$ 25,979,065	\$ 25,979,065	\$ 29,040,205	\$ 3,061,140
Commonwealth of Virginia	791,612	791,612	883,163	91,551
Charges for services:				
Food sales	47,422,168	47,422,168	46,262,751	(1,159,417)
Revenue from the use of money and property	61,741	61,741	53,604	(8,137)
Other	-	-	6,250	6,250
Total revenues	<u>74,254,586</u>	<u>74,254,586</u>	<u>76,245,973</u>	<u>1,991,387</u>
EXPENDITURES				
Current:				
Food service	<u>87,846,533</u>	<u>92,915,497</u>	<u>76,231,140</u>	<u>(16,684,357)</u>
Total expenditures	<u>87,846,533</u>	<u>92,915,497</u>	<u>76,231,140</u>	<u>(16,684,357)</u>
Net change in fund balances	<u>\$ (13,591,947)</u>	<u>\$ (18,660,911)</u>	<u>\$ 14,833</u>	<u>\$ 18,675,744</u>

FAIRFAX COUNTY PUBLIC SCHOOLS
Budgetary Comparison Schedule - Budget and Actual
Grants and Self-Supporting Programs Fund
For the Fiscal Year Ended June 30, 2012

EXHIBIT P

	Budget - Original	Budget - Final	Actual - Budget Basis	Variance from Final Budget
REVENUES				
Intergovernmental:				
Federal government	\$ 33,615,897	\$ 48,380,423	\$ 32,969,206	\$ (15,411,217)
Commonwealth of Virginia	9,739,355	9,700,687	8,295,287	(1,405,400)
County of Fairfax, VA	-	-	-	-
Charges for services:				
Tuition and fees	2,117,471	2,117,471	1,870,169	(247,302)
Revenue from the use of money and property	-	-	10,682	10,682
Other	26,421	1,064,893	1,296,547	231,654
Total revenues	<u>45,499,144</u>	<u>61,263,474</u>	<u>44,441,891</u>	<u>(16,821,583)</u>
EXPENDITURES				
Current:				
Instruction:				
Regular education:				
Elementary school	30,454,242	45,373,389	35,260,309	(10,113,080)
Middle school	660,110	1,261,266	1,230,604	(30,662)
High school	7,287,452	9,761,992	7,285,382	(2,476,610)
Special education	4,437,242	4,667,061	4,114,182	(552,879)
Adult and community education	209,402	355,180	313,098	(42,082)
Instructional support	13,339,008	22,274,625	13,594,311	(8,680,314)
Support programs:				-
Administration and general support	6,562,366	8,167,119	338,853	(7,828,266)
Student transportation	1,626,803	1,752,097	1,621,319	(130,778)
Total expenditures	<u>64,576,625</u>	<u>93,612,729</u>	<u>63,758,058</u>	<u>(29,854,671)</u>
Deficiency of revenues under expenditures	<u>(19,077,481)</u>	<u>(32,349,255)</u>	<u>(19,316,167)</u>	<u>13,033,088</u>
OTHER FINANCING SOURCES				
Transfers in from other governmental funds	14,367,709	14,367,709	14,367,709	-
Transfers in from County of Fairfax, VA	3,126,203	3,126,203	3,126,203	-
Total other financing sources	<u>17,493,912</u>	<u>17,493,912</u>	<u>17,493,912</u>	<u>-</u>
Net change in fund balances	<u>\$ (1,583,569)</u>	<u>\$ (14,855,343)</u>	<u>\$ (1,822,255)</u>	<u>\$ 13,033,088</u>

FAIRFAX COUNTY PUBLIC SCHOOLS
Budgetary Comparison Schedule - Budget and Actual
Adult and Community Education Fund
For the Fiscal Year Ended June 30, 2012

EXHIBIT Q

	Budget - Original	Budget - Final	Actual - Budget Basis	Variance from Final Budget
REVENUES				
Intergovernmental:				
Federal government	\$ 662,139	\$ 878,125	\$ 804,877	\$ (73,248)
Commonwealth of Virginia	685,243	685,243	634,614	(50,629)
Charges for services:				
Tuition and fees	8,628,087	8,628,087	6,612,994	(2,015,093)
Revenue from the use of money and property	48,850	48,850	8,485	(40,365)
Other	330,119	395,119	348,533	(46,586)
Total revenues	<u>10,354,438</u>	<u>10,635,424</u>	<u>8,409,503</u>	<u>(2,225,921)</u>
EXPENDITURES				
Current:				
Instruction:				
Regular education:				
Adult and community education	10,397,582	10,737,986	9,564,261	(1,173,725)
Instructional support	443,127	495,186	417,668	(77,518)
Total expenditures	<u>10,840,709</u>	<u>11,233,172</u>	<u>9,981,929</u>	<u>(1,251,243)</u>
Deficiency of revenues under expenditures	<u>(486,271)</u>	<u>(597,748)</u>	<u>(1,572,426)</u>	<u>(974,678)</u>
OTHER FINANCING SOURCES				
Transfers in from other governmental funds	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>	<u>-</u>
Net change in fund balances	<u>\$ (86,271)</u>	<u>\$ (197,748)</u>	<u>\$ (1,172,426)</u>	<u>\$ (974,678)</u>



Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by a department to another department on a cost reimbursement basis.

- Central Procurement Fund—used to account for the centrally procured orders of textbooks, supplies, and equipment and their issuance to individual schools and offices.
- Health Benefits Fund—a self-insurance fund used to account for the transactions associated with the comprehensive health benefits self-insurance program. This fund also provides for payment of eligible health care and dependent care expenses for employees participating in the flexible spending account program.
- Insurance Fund—a self-insurance fund used to account for Fairfax County Public Schools' casualty liability obligations, including workers' compensation.



FAIRFAX COUNTY PUBLIC SCHOOLS
Combining Statement of Net Assets
Internal Service Funds
June 30, 2012

EXHIBIT R

	Central Procurement	Health Benefits	Insurance	Total Internal Service Funds
ASSETS				
Current assets:				
Cash on deposit with County of Fairfax, VA	\$ 935	\$ 106,181,666	\$ 43,895,341	\$ 150,077,942
Receivables:				
Accounts	-	3,526,043	-	3,526,043
Accrued interest	-	78,925	-	78,925
Inventories	1,569,765	-	-	1,569,765
Interfund receivables	-	-	-	-
Total current assets	<u>1,570,700</u>	<u>109,786,634</u>	<u>43,895,341</u>	<u>155,252,675</u>
Noncurrent assets:				
Capital assets:				
Equipment	100,053	-	40,029	140,082
Accumulated depreciation	(92,070)	-	(35,521)	(127,591)
Total noncurrent assets	<u>7,983</u>	<u>-</u>	<u>4,508</u>	<u>12,491</u>
Total assets	<u>1,578,683</u>	<u>109,786,634</u>	<u>43,899,849</u>	<u>155,265,166</u>
LIABILITIES				
Current liabilities:				
Accounts payable	147,855	4,891,783	136,199	5,175,837
Interfund payables	1,120,000	-	-	1,120,000
Unearned revenue	-	36,498,372	-	36,498,372
Compensated absences	-	58,957	29,299	88,256
Actuarial claims payable	-	18,677,000	9,525,024	28,202,024
Total current liabilities	<u>1,267,855</u>	<u>60,126,112</u>	<u>9,690,522</u>	<u>71,084,489</u>
Noncurrent liabilities:				
Compensated absences	-	25,267	12,557	37,824
Actuarial claims payable	-	983,000	22,225,055	23,208,055
Total noncurrent liabilities	<u>-</u>	<u>1,008,267</u>	<u>22,237,612</u>	<u>23,245,879</u>
Total liabilities	<u>1,267,855</u>	<u>61,134,379</u>	<u>31,928,134</u>	<u>94,330,368</u>
NET ASSETS				
Invested in capital assets, net of related debt	7,983	-	4,508	12,491
Unrestricted	302,845	48,652,255	11,967,207	60,922,307
Total net assets	<u>\$ 310,828</u>	<u>\$ 48,652,255</u>	<u>\$ 11,971,715</u>	<u>\$ 60,934,798</u>

FAIRFAX COUNTY PUBLIC SCHOOLS

EXHIBIT S

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

Internal Service Funds

For the Fiscal Year Ended June 30, 2012

	Central Procurement	Health Benefits	Insurance	Total Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ 7,187,412	\$ 297,926,602	\$ 14,645,195	\$ 319,759,209
OPERATING EXPENSES				
Salaries and wages	65,912	1,692,264	933,258	2,691,434
Cost of goods sold	6,972,519	-	-	6,972,519
Claims and benefits	-	290,787,632	11,265,855	302,053,487
Professional consultant services	-	8,876,129	1,016,565	9,892,694
Other operating expenses	39,248	31,974	416,080	487,302
Depreciation	1,980	-	3,058	5,038
Total operating expenses	7,079,659	301,387,999	13,634,816	322,102,474
Operating income (loss)	107,753	(3,461,397)	1,010,379	(2,343,265)
NONOPERATING REVENUES				
Interest revenue	-	218,936	-	218,936
Change in net assets	107,753	(3,242,461)	1,010,379	(2,124,329)
Total net assets - July 1, 2011	203,075	51,894,716	10,961,336	63,059,127
Total net assets - June 30, 2012	\$ 310,828	\$ 48,652,255	\$ 11,971,715	\$ 60,934,798

FAIRFAX COUNTY PUBLIC SCHOOLS
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2012

EXHIBIT T

	Central Procurement	Health Benefits	Insurance	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from interfund services provided	\$ 7,519,897	\$ 304,248,272	\$ 14,645,195	\$ 326,413,364
Payments to employees	(65,913)	(1,692,264)	(933,258)	(2,691,435)
Payments to vendors for inventory	(6,847,439)	-	-	(6,847,439)
Payments for claims and health benefits	-	(289,860,914)	(9,390,565)	(299,251,479)
Payments for professional services	-	(9,225,674)	(1,020,715)	(10,246,389)
Payments for other operating expenses	(38,556)	(30,902)	(416,080)	(485,538)
Net cash provided by operating activities	<u>567,989</u>	<u>3,438,518</u>	<u>2,884,577</u>	<u>6,891,084</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Net advances from other funds	(680,000)	-	-	(680,000)
Net cash provided by noncapital financing activities	<u>(680,000)</u>	<u>-</u>	<u>-</u>	<u>(680,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	-	279,852	-	279,852
Net cash (used in) investing activities	<u>-</u>	<u>279,852</u>	<u>-</u>	<u>279,852</u>
Net (decrease) increase in cash and cash equivalents	(112,011)	3,718,370	2,884,577	6,490,936
Cash and cash equivalents - July 1, 2011	112,946	102,463,296	41,010,764	143,587,006
Cash and cash equivalents - June 30, 2012	<u>\$ 935</u>	<u>\$ 106,181,666</u>	<u>\$ 43,895,341</u>	<u>\$ 150,077,942</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 107,753	\$ (3,461,397)	\$ 1,010,379	\$ (2,343,265)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	1,980	-	3,058	5,038
(Increase) in accounts receivable	-	(1,495,250)	-	(1,495,250)
Decrease in inventories	284,823	-	-	284,823
Decrease in interfund receivables	332,485	-	-	332,485
(Decrease) Increase in accounts payable	(159,052)	(669,807)	26,387	(802,472)
Increase in unearned revenue	-	7,816,920	-	7,816,920
(Decrease) in compensated absences	-	(33,948)	(10,586)	(44,534)
Increase in actuarial claims payable	-	1,282,000	1,855,339	3,137,339
Total adjustments to operating income (loss)	<u>460,236</u>	<u>6,899,915</u>	<u>1,874,198</u>	<u>9,234,349</u>
Net cash provided by operating activities	<u>\$ 567,989</u>	<u>\$ 3,438,518</u>	<u>\$ 2,884,577</u>	<u>\$ 6,891,084</u>



Fiduciary Funds

Pension and Other Post-Employment Benefit Funds are used to account for assets held by Fairfax County Public Schools (FCPS) in a trustee capacity under terms of a formal trust agreement.

- Educational Employees' Supplementary Retirement System of Fairfax County (ERFC)—used to account for assets held for the members and beneficiaries of ERFC, a single-employer defined benefit pension plan.
- School Other Post-Employment Benefit (OPEB) Funds—used to account for accumulating and investing assets for FCPS' post-employment health benefit subsidies for eligible retirees and their surviving spouses. The School OPEB Trust Fund is a single-employer other post-employment defined benefit plan.

The Student Activity Fund is used to account for monies collected and disbursed at the 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 FCPS as a whole.



FAIRFAX COUNTY PUBLIC SCHOOLS
Combining Statement of Fiduciary Net Assets
Pension and Other Post-Employment Benefit Trust Funds
June 30, 2012

EXHIBIT U

	Educational Employees' Supplementary Retirement System	School Other Post- Employment Benefits Trust	Total Pension and Other Post- Employment Benefit Trust Funds
ASSETS			
Cash and cash equivalents	\$ 1,934,136	\$ 800	\$ 1,934,936
Cash with fiscal agent	1,725,636	-	1,725,636
Cash collateral for securities on loan	24,034,973	-	24,034,973
Short-term investments	37,909,533	534	37,910,067
Receivables:			
Accrued interest	3,320,820	-	3,320,820
Securities sold	56,960,120	1,064,695	58,024,815
Other	926,632	-	926,632
Investments, at fair value:			
Mortgage-backed securities	1,523,586	-	1,523,586
Bonds	143,632,489	-	143,632,489
Stocks	505,510,746	18,813,405	524,324,151
Real estate	150,085,750	-	150,085,750
Global asset allocation	184,473,015	-	184,473,015
Better beta derivatives	103,425,441	-	103,425,441
Hedge funds	139,115,563	4,219,233	143,334,796
Private equity mutual partnership	15,537,604	-	15,537,604
Mutual funds	548,915,719	25,608,416	574,524,135
Prepaid items	24,792	-	24,792
Capital assets:			
Equipment	113,820	-	113,820
Accumulated depreciation	(96,191)	-	(96,191)
Total assets	<u>1,919,074,184</u>	<u>49,707,083</u>	<u>1,968,781,267</u>
LIABILITIES			
Accounts payable	2,775,296	20,125	2,795,421
Interfund payables	-	38,000	38,000
Payable for purchase of investments	64,495,593	-	64,495,593
Liability for collateral received under securities lending agreements	24,034,973	-	24,034,973
Total liabilities	<u>91,305,862</u>	<u>58,125</u>	<u>91,363,987</u>
NET ASSETS			
Held in trust for pension and other post-employment benefits	<u>\$ 1,827,768,322</u>	<u>\$ 49,648,958</u>	<u>\$ 1,877,417,280</u>

FAIRFAX COUNTY PUBLIC SCHOOLS
Combining Statement of Changes in Fiduciary Net Assets
Pension and Other Post-Employment Benefit Trust Funds
For the Fiscal Year Ended June 30, 2012

EXHIBIT V

	Educational Employees' Supplementary Retirement System	School Other Post- Employment Benefits Trust	Total Pension and Other Post- Employment Benefit Trust Funds
ADDITIONS			
Contributions:			
Employer	\$ 52,934,245	\$ 42,426,871	\$ 95,361,116
Plan members	49,142,379	-	49,142,379
Total contributions	102,076,624	42,426,871	144,503,495
Investment earnings:			
From investing activities:			
Net depreciation in fair value of investments	(35,410,525)	(336,032)	(35,746,557)
Interest and dividends	43,723,935	36	43,723,971
Real estate income	3,057,654	-	3,057,654
Other	90,589	-	90,589
Gain from investing activities	11,461,653	(335,996)	11,125,657
Less investment expenses:			
Investment management fees	9,354,349	65,631	9,419,980
Investment consulting fees	377,403	-	377,403
Investment custodial fees	238,822	500	239,322
Investment salaries	196,586	-	196,586
Total investment expenses	10,167,160	66,131	10,233,291
Net gain (loss) from investing activities	1,294,493	(402,127)	892,366
From securities lending activities:			
Securities lending	94,365	-	94,365
Securities lending borrower rebates	360,176	-	360,176
Securities lending management fees	(113,599)	-	(113,599)
Net income from securities lending activities	340,942	-	340,942
Net investment gain	1,635,435	42,024,744	43,660,179
Total additions	103,712,059	42,024,744	145,736,803
DEDUCTIONS			
Benefit payments	155,041,762	32,426,871	187,468,633
Refund of contributions	4,295,171	-	4,295,171
Administrative expenses	3,574,923	-	3,574,923
Total deductions	162,911,856	32,426,871	195,338,727
Change in net assets	(59,199,797)	9,597,873	(49,601,924)
Net assets - July 1, 2011	1,886,968,119	40,051,085	1,927,019,204
Net assets - June 30, 2012	\$ 1,827,768,322	\$ 49,648,958	\$ 1,877,417,280

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

EXHIBIT W

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash with fiscal agent	\$ 19,781,668	\$ 78,407,985	\$ (78,747,065)	\$ 19,442,588
Accounts receivable	652,823	362,569	(326,726)	688,666
Inventories	368,053	74,988	(97,843)	345,198
Total assets	<u>\$ 20,802,544</u>	<u>\$ 78,845,542</u>	<u>\$ (79,171,634)</u>	<u>\$ 20,476,452</u>
LIABILITIES				
Accounts payable	\$ 557,010	\$ 239,745	\$ (353,763)	\$ 442,992
Due to student groups	20,245,534	1,427,035	(1,639,109)	20,033,460
Total liabilities	<u>\$ 20,802,544</u>	<u>\$ 1,666,780</u>	<u>\$ (1,992,872)</u>	<u>\$ 20,476,452</u>





Statistical Section (unaudited)

The Statistical Section provides financial statement readers with additional historical perspective, content, and detail to assist readers in using the information in the financial statements, including the accompanying notes and the required supplementary information, to understand and assess Fairfax County Public Schools' (FCPS) economic condition. Information is presented in the following five categories:

- Financial Trends—trend information to assist in understanding how FCPS' financial performance has changed over time. (Tables 1-4)
- Revenue Capacity—information to assist in understanding FCPS' most significant own-source revenue, charges for services. (Tables 5-8)
- Debt Capacity—information to assist in understanding FCPS' debt burden. (Table 9)
- Demographic Information—demographic and economic indicators to assist in understanding the environment within which FCPS' financial activities take place. (Tables 10-13)
- Operating Information—service and infrastructure data to assist in understanding the resources used and services provided in FCPS' operations. (Tables 14-19)

FAIRFAX COUNTY PUBLIC SCHOOLS
Net Assets by Component
Last Ten Fiscal Years
(Dollars in Thousands)

	Fiscal Year				
Governmental Activities	2012	2011	2010	2009	2008
Invested in capital assets, net of related debt	\$ 1,986,758	\$ 1,941,947	\$ 1,866,973	\$ 1,851,436	\$ 1,788,593
Restricted (1)	-	8,940	71,568	28,520	21,647
Unrestricted	411,291	388,234	255,695	172,741	149,557
Total net assets	<u>\$ 2,398,049</u>	<u>\$ 2,339,121</u>	<u>\$ 2,194,236</u>	<u>\$ 2,052,697</u>	<u>\$ 1,959,797</u>

(1) Starting in fiscal year 2008, net assets were restricted for grant programs and unspent bond proceeds restricted for major capital projects.

Source: FCPS Comprehensive Annual Financial Reports 2003-2012

TABLE 1

Fiscal Year					Governmental Activities
2007	2006	2005	2004	2003	
\$ 1,736,800	\$ 1,695,698	\$ 1,630,224	\$ 1,510,528	\$ 1,447,692	Invested in capital assets, net of related debt
-	-	-	-	-	Restricted (1)
166,902	117,930	147,736	121,510	102,992	Unrestricted
<u>\$ 1,903,702</u>	<u>\$ 1,813,628</u>	<u>\$ 1,777,960</u>	<u>\$ 1,632,038</u>	<u>\$ 1,550,684</u>	Total net assets

FAIRFAX COUNTY PUBLIC SCHOOLS
Changes in Net Assets
Last Ten Fiscal Years
(Dollars in Thousands)

Governmental Activities	Fiscal Year				
	2012	2011	2010	2009	2008
Expenses (6)					
Instruction	\$ 2,034,780	\$ 1,902,838	\$ 1,884,182	\$ 1,962,020	\$ 1,925,025
Support programs	328,736	332,906	322,682	333,639	347,875
Food service	79,303	73,756	68,957	71,118	67,872
Technology (6)	-	-	-	-	-
Interest on long-term debt (8)	3,390	4,088	3,942	4,238	4,611
Total expenses	<u>2,446,209</u>	<u>2,313,588</u>	<u>2,279,763</u>	<u>2,371,015</u>	<u>2,345,383</u>
Program Revenues					
Charges for services:					
Instruction	49,918	43,188	21,413	46,984	48,122
Support programs (6)	9,322	11,106	7,698	8,175	6,535
Food service (6)	47,547	47,458	47,207	49,280	45,794
Operating grants and contributions	235,073	229,644	225,774	179,396	167,889
Capital grants and contributions (1)	161,268	141,171	162,727	170,736	165,578
Total program revenues	<u>503,128</u>	<u>472,567</u>	<u>464,819</u>	<u>454,571</u>	<u>433,918</u>
Total net (expense) revenue	<u>(1,943,081)</u>	<u>(1,841,021)</u>	<u>(1,814,944)</u>	<u>(1,916,444)</u>	<u>(1,911,465)</u>
General Revenues and Other Changes in Net Assets					
Grants and contributions not restricted to specific purposes:					
Federal government (7)	6,224	7,574	6,506	8,828	7,099
Commonwealth of Virginia	383,205	365,912	319,350	365,932	364,021
County of Fairfax, VA	1,610,835	1,611,591	1,626,601	1,626,601	1,586,601
Other (2)	-	-	-	-	-
Revenue for the use of money (3)	60	692	957	1,839	4,404
Other	1,685	137	3,069	6,144	5,435
Insurance recoveries (4)	-	-	-	-	-
Special items (5)	-	-	-	-	-
Total general revenues and other changes in net assets	<u>2,002,009</u>	<u>1,985,906</u>	<u>1,956,483</u>	<u>2,009,344</u>	<u>1,967,560</u>
Change in Net Assets	<u>\$ 58,928</u>	<u>\$ 144,885</u>	<u>\$ 141,539</u>	<u>\$ 92,900</u>	<u>\$ 56,095</u>

- (1) In fiscal year 2003, restricted grants and contributions were reported as a separate item of general revenues instead of capital grants and contributions. Amounts were reclassified in this table. In fiscal year 2005, the notable increase from fiscal year 2004 was due to the donation of South County Secondary from the County to FCPS.
- (2) In fiscal year 2003, this amount represents a donation of a piece of property to FCPS.
- (3) Revenue from the use of money varies from year to year primarily due to fluctuations in interest rates.
- (4) The large insurance recoveries in fiscal year 2004 related to two school incidents, a fire and a flood. Beginning in fiscal year 2006, insurance recoveries were reported as a part of program revenues.
- (5) In fiscal year 2005, FCPS sold a parcel of land for \$11,700,000, which was purchased in 1989 for \$2,137,500, resulting in a gain. In fiscal year 2007, FCPS sold the Eleven Oaks Administrative Center, originally purchased for \$789,200 in 1952, for \$4,000,000, which resulted in a gain. Also, in fiscal year 2007, FCPS transferred land and associated property to the County, which had a net book value of \$10,874,069.

TABLE 2

Fiscal Year					
2007	2006	2005	2004	2003	Governmental Activities
					Expenses (6)
\$ 1,627,142	\$ 1,529,004	\$ 1,479,824	\$ 1,350,038	\$ 1,264,740	Instruction
469,971	443,187	460,612	435,721	392,559	Support programs
-	-	-	-	-	Food service
125,341	118,127	-	-	-	Technology (6)
6,030	1,974	1,240	1,049	1,221	Interest on long-term debt (8)
2,228,484	2,092,292	1,941,676	1,786,808	1,658,520	Total expenses
					Program Revenues
					Charges for services:
52,114	49,159	45,114	43,255	42,309	Instruction
45,166	43,578	40,234	39,109	35,201	Support programs (6)
-	-	-	-	-	Food service (6)
165,195	152,119	144,150	116,533	102,398	Operating grants and contributions
145,185	121,934	201,405	137,948	149,263	Capital grants and contributions (1)
407,660	366,790	430,903	336,845	329,171	Total program revenues
(1,820,824)	(1,725,502)	(1,510,773)	(1,449,963)	(1,329,349)	Total net (expense) revenue
					General Revenues and Other Changes in Net Assets
					Grants and contributions not restricted to specific purposes:
10,343	4,343	4,303	3,824	3,388	Federal government (7)
364,978	318,843	316,510	282,525	265,900	Commonwealth of Virginia
1,533,218	1,429,717	1,321,225	1,239,229	1,167,254	County of Fairfax, VA
-	-	-	-	5,651	Other (2)
4,586	3,594	1,272	429	467	Revenue for the use of money (3)
5,436	4,673	3,523	2,965	3,733	Other
-	-	300	2,345	-	Insurance recoveries (4)
(7,663)	-	9,562	-	-	Special items (5)
1,910,898	1,761,170	1,656,695	1,531,317	1,446,393	Total general revenues and other changes in net assets
\$ 90,074	\$ 35,668	\$ 145,922	\$ 81,354	\$ 117,044	Change in Net Assets

(6) In fiscal year 2006, technology was created as a new program. In fiscal year 2008, FCPS revised its program categories and as part of this change, food service expenses were reported separately from support programs. In addition, technology was no longer a program and the related expenses were reported primarily as part of the instruction program beginning in fiscal year 2008.

(7) The fiscal year 2006 impact aid payment was not received until fiscal year 2007 causing a small spike in Federal revenue.

(8) Fluctuations in interest on long-term debt between fiscal years 2006 and 2008 are a result of 1) increased interest in fiscal year 2006 due to the central administrative building acquired by capital lease in fiscal year 2005 (net of the \$3.2 million in capitalized interest reclassified on the government-wide financial statements); and 2) FCPS began accounting for accrued interest on its outstanding capital leases and installment purchases beginning in fiscal year 2007.

Source: FCPS Comprehensive Annual Financial Reports 2003-2012

FAIRFAX COUNTY PUBLIC SCHOOLS
Fund Balances of Governmental Funds (1)
Last Ten Fiscal Years
(Dollars in Thousands)

	Fiscal Year				
	2012	2011	2010	2009	2008
General Fund:					
Nonspendable	\$ 26,937	\$ 23,246	\$ 19,652	\$ 18,128	\$ 17,507
Restricted	-	-	-	-	-
Committed	126,092	47,993	-	-	-
Assigned	83,565	140,890	136,247	75,569	63,528
Unassigned	22,493	48,607	33,858	24,447	27,776
Total General Fund	<u>\$ 259,087</u>	<u>\$ 260,736</u>	<u>\$ 189,757</u>	<u>\$ 118,144</u>	<u>\$ 108,811</u>
All other governmental funds:					
Nonspendable	\$ 3,633	\$ 2,253	\$ 2,459	\$ 2,248	\$ 2,191
Restricted	114,292	31,461	27,598	15,365	13,957
Committed	-	-	-	-	-
Assigned	-	75,009	94,276	36,466	12,922
Unassigned (2)	(975)	-	-	-	-
Total all other governmental funds	<u>\$ 116,950</u>	<u>\$ 108,723</u>	<u>\$ 124,333</u>	<u>\$ 54,079</u>	<u>\$ 29,070</u>

(1) FCPS implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" in fiscal year 2011. Previous years were reclassified in order to be consistent with the new standard.

(2) The unassigned amount in the other governmental funds fund balance represents the balance for the Adult and Community Education fund.

Source: FCPS Comprehensive Annual Financial Reports from 2003-2012 and FCPS Final Budget Review Reports from 2003-2012.

TABLE 3

Fiscal Year					
2007	2006	2005	2004	2003	
\$ 298	\$ -	\$ -	\$ -	\$ -	General Fund:
-	-	-	-	-	Nonspendable
-	-	-	-	-	Restricted
76,505	86,659	87,596	116,521	84,402	Committed
52,099	15,540	27,427	(6,354)	21,504	Assigned
\$ 128,902	\$ 102,199	\$ 115,023	\$ 110,167	\$ 105,906	Unassigned
					Total General Fund
\$ 1,160	\$ 1,545	\$ 1,745	\$ 1,696	\$ 1,341	All other governmental funds:
11,789	4,812	33,569	17,344	9,357	Nonspendable
-	-	-	-	-	Restricted
-	-	10,951	1,971	-	Committed
-	-	-	-	-	Assigned
\$ 12,949	\$ 6,357	\$ 46,265	\$ 21,011	\$ 10,698	Unassigned (2)
					Total all other governmental funds

FAIRFAX COUNTY PUBLIC SCHOOLS
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Dollars in Thousands)

	Fiscal Year				
	2012	2011	2010	2009	2008
Revenues					
Intergovernmental	\$ 2,384,966	\$ 2,343,575	\$ 2,349,368	\$ 2,336,434	\$ 2,277,965
Charges for services	64,672	64,862	63,733	65,021	62,077
Revenue from the use of money and property (8)	3,232	3,518	3,614	3,371	3,365
Recovered costs (1)	39,262	35,795	34,852	37,344	36,472
Other	15,600	11,136	12,919	12,776	17,021
Total revenues	<u>2,507,732</u>	<u>2,458,886</u>	<u>2,464,486</u>	<u>2,454,946</u>	<u>2,396,900</u>
Expenditures					
Current (6):					
Instruction	1,940,659	1,826,700	1,820,542	1,882,672	1,854,380
Support programs	313,294	311,628	311,695	313,837	334,251
Food service (6)	75,782	70,522	66,917	68,282	65,704
Technology (6)	-	-	-	-	-
Capital outlay (3), (7)	174,390	174,358	127,979	148,604	138,534
Debt service: (3)					
Principal (5)	13,474	22,759	13,210	15,487	20,119
Interest (7)	3,390	4,317	3,950	4,448	4,620
Total expenditures	<u>2,520,989</u>	<u>2,410,284</u>	<u>2,344,293</u>	<u>2,433,330</u>	<u>2,417,608</u>
Excess (deficiency) of revenues over (under) expenditures	(13,257)	48,602	120,193	21,616	(20,708)
Other financing sources (uses)					
Transfers in	22,206	24,684	30,445	45,227	38,998
Transfers out	(22,206)	(24,684)	(30,445)	(34,527)	(38,998)
Capital leases and installment purchases (2)	19,680	7,058	21,496	1,996	16,404
Total other financing sources (uses)	<u>19,680</u>	<u>7,058</u>	<u>21,496</u>	<u>12,696</u>	<u>16,404</u>
Special items (4)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances (9)	<u>\$ 6,423</u>	<u>\$ 55,660</u>	<u>\$ 141,689</u>	<u>\$ 34,312</u>	<u>\$ (4,304)</u>
Debt service as a percentage of noncapital expenditures (3)	0.7%	1.2%	0.8%	0.9%	1.1%

(1) FCPS provides educational services to the City of Fairfax's schools on a cost reimbursement basis. These revenues are reported as recovered costs.

(2) The items acquired by capital leases and installment purchases include computers, vehicles, buses, and energy saving packages. The amount of funding available for these purchases may vary dramatically over time depending on needs. The large spike in fiscal year 2005 was related to the acquisition of the central administrative building. The substantial increase in fiscal year 2010 was due to the fact fiscal year 2009 leases were postponed because the master lease agreement expired in fiscal year 2009.

(3) Prior to fiscal year 2007, capital outlays relating to capital leases and installment purchases were reported separately in expenditures. Annual debt service payments on capital leases and installment purchases were included in various functions in current expenditures. In fiscal year 2007, FCPS began reporting these outlays as part of capital outlay and separately reporting debt service payments. Amounts for capital outlays and debt service as a percentage of noncapital expenditures were restated in prior years.

(4) In fiscal year 2005, FCPS sold a parcel of land for \$11,700,000, which was purchased in 1989 for \$2,137,500, resulting in a gain. In fiscal year 2007, FCPS sold the Eleven Oaks Administrative Center, originally purchased in 1952 for \$789,200, for \$4,000,000, which resulted in a gain. Also, in fiscal year 2007, FCPS transferred land and associated property, which had a net book value of \$10,874,069, to the County.

TABLE 4

Fiscal Year					
2007	2006	2005	2004	2003	
\$ 2,206,411	\$ 2,024,051	\$ 1,917,509	\$ 1,776,235	\$ 1,683,015	Revenues
58,742	56,138	54,511	51,933	47,607	Intergovernmental
					Charges for services
3,326	3,859	232	2,625	2,216	Revenue from the use of money and property (8)
33,946	32,129	29,059	27,322	27,231	Recovered costs (1)
15,707	10,704	7,624	9,132	7,412	Other
2,318,132	2,126,881	2,008,935	1,867,247	1,767,481	Total revenues
					Expenditures
					Current (6):
1,568,179	1,463,219	1,428,744	1,307,520	1,218,815	Instruction
451,946	433,847	435,013	403,051	375,437	Support programs
-	-	-	-	-	Food service (6)
120,840	110,777	-	-	-	Technology (6)
138,588	161,774	205,055	149,338	142,395	Capital outlay (3), (7)
					Debt service: (3)
19,739	20,624	15,369	14,500	9,629	Principal (5)
4,776	5,149	1,241	1,049	1,221	Interest (7)
2,304,068	2,195,390	2,085,422	1,875,458	1,747,497	Total expenditures
					Excess (deficiency) of revenues over (under) expenditures
14,064	(68,509)	(76,487)	(8,211)	19,984	
					Other financing sources (uses)
43,807	38,992	30,412	31,424	28,860	Transfers in
(43,807)	(38,992)	(30,778)	(31,764)	(29,153)	Transfers out
15,618	15,960	95,211	22,818	9,927	Capital leases and installment purchases (2)
15,618	15,960	94,845	22,478	9,634	Total other financing sources (uses)
4,000	-	11,700	-	-	Special items (4)
\$ 33,682	\$ (52,549)	\$ 30,058	\$ 14,267	\$ 29,618	Net change in fund balances (9)
1.1%	1.3%	0.9%	0.9%	0.7%	Debt service as a percentage of noncapital expenditures (3)

(5) The jump in principal payments in fiscal year 2004 from fiscal year 2003 was due to an increase of approximately \$8 million in capital leases, resulting in the increase of initial principal payments.

(6) In fiscal year 2006, technology was created as a new program. In fiscal year 2008, FCPS revised its program categories and as part of this change, food service expenditures were reported separately from support programs. In addition, technology was no longer a program and the related expenditures were reported primarily as part of the instruction program beginning in fiscal year 2008.

(7) The increase in interest in fiscal year 2006 related to the interest on the central administrative building acquired by capital lease in fiscal year 2005.

(8) In fiscal year 2005, this line item only included revenue from the use of money; revenue from the use of property was inadvertently excluded.

(9) The significant increase in fund balance in fiscal year 2010 was a result of the implementation of major cost saving measures due to the uncertain economy.

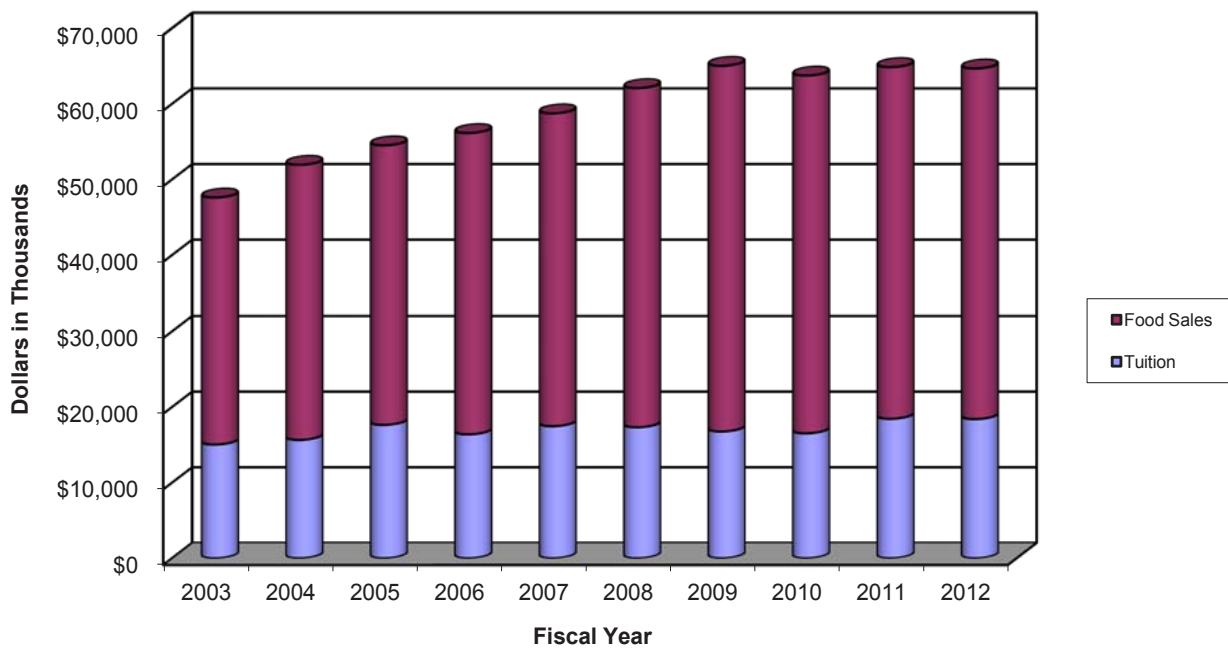
Source: FCPS Comprehensive Annual Financial Reports 2003-2012

FAIRFAX COUNTY PUBLIC SCHOOLS
Charges for Services Revenue by Source (1)
Last Ten Fiscal Years
(Dollars in Thousands)

TABLE 5

<u>Fiscal Year</u>	<u>Tuition</u>	<u>Percentage</u>	<u>Food Sales</u>	<u>Percentage</u>	<u>Total</u>
2012	\$ 18,409	28.5 %	\$ 46,263	71.5 %	\$ 64,672
2011	18,451	28.4	46,411	71.6	64,862
2010	16,526	25.9	47,207	74.1	63,733
2009	16,773	25.8	48,248	74.2	65,021
2008	17,325	27.9	44,752	72.1	62,077
2007	17,472	29.7	41,270	70.3	58,742
2006	16,391	29.2	39,747	70.8	56,138
2005	17,645	32.4	36,866	67.6	54,511
2004	15,660	30.2	36,273	69.8	51,933
2003	15,044	31.6	32,563	68.4	47,607

Charges for Services Revenue by Source



(1) FCPS' primary own source revenue is charges for services, which consists of tuition fees and food sales.

Source: FCPS Comprehensive Annual Financial Reports 2003-2012

FAIRFAX COUNTY PUBLIC SCHOOLS
Food Service Sales Price Breakdown (1)
Last Ten Fiscal Years

TABLE 6

Fiscal Year		Student Breakfast	Student Lunch			Adult Lunch
			Elementary	Middle	High	
2012		\$ 1.50	\$ 2.65	\$ 2.75	\$ 2.75	\$ 3.65
2011		1.50	2.65	2.75	2.75	3.65
2010	(2)	1.50	2.65	2.75	2.75	3.65
2009	(2)	1.50	2.40	2.50	2.50	3.40
2008	(2)	1.25	2.15	2.25	2.25	3.15
2007	(2)	1.10	2.00	2.10	2.10	3.00
2006	(2)	1.00	1.90	2.00	2.00	2.75
2005		1.00	1.70	1.80	1.80	2.50
2004		1.00	1.70	1.80	1.80	2.50
2003		1.00	1.60	1.70	1.70	2.30

(1) These prices are based on the normal costs of the meals and do not include the costs charged to students who qualify for reduced-price meals.

(2) The sales price increases, starting in fiscal year 2006, are a result of increased food cost, primarily from transportation cost increases passed on by vendors.

Source: FCPS - Office of Food and Nutrition Services

FAIRFAX COUNTY PUBLIC SCHOOLS
Principal Food Service Sales by Client
Current Fiscal Year and Nine Years Ago
(Dollars in Thousands)

TABLE 7

Client	Fiscal Year 2012			Fiscal Year 2003 (1)		
	Sales	Rank	Percentage of Total Sales	Sales	Rank	Percentage of Total Sales
Student	\$ 32,144	1	69.48 %	\$ 20,531	1	60.66 %
Catering/other	4,205	2	9.09	4,783	2	14.35
Vending	3,180	3	6.87	4,496	3	11.80
School-age child care (SACC)	2,685	4	5.80	1,366	5	3.40
Adult	1,662	5	3.59	2,078	4	6.46
Daycare	1,524	6	3.29	675	6	2.03
Senior nutrition	863	7	1.88	565	7	1.30
Total:	<u>\$ 46,263</u>		<u>100.00 %</u>	<u>\$ 34,494</u>		<u>100.00 %</u>

(1) Sales for fiscal year 2003 includes sales from SACC and Senior Nutrition. These sales are between the County and FCPS and were reported as intergovernmental revenue in the fiscal year 2003 CAFR.

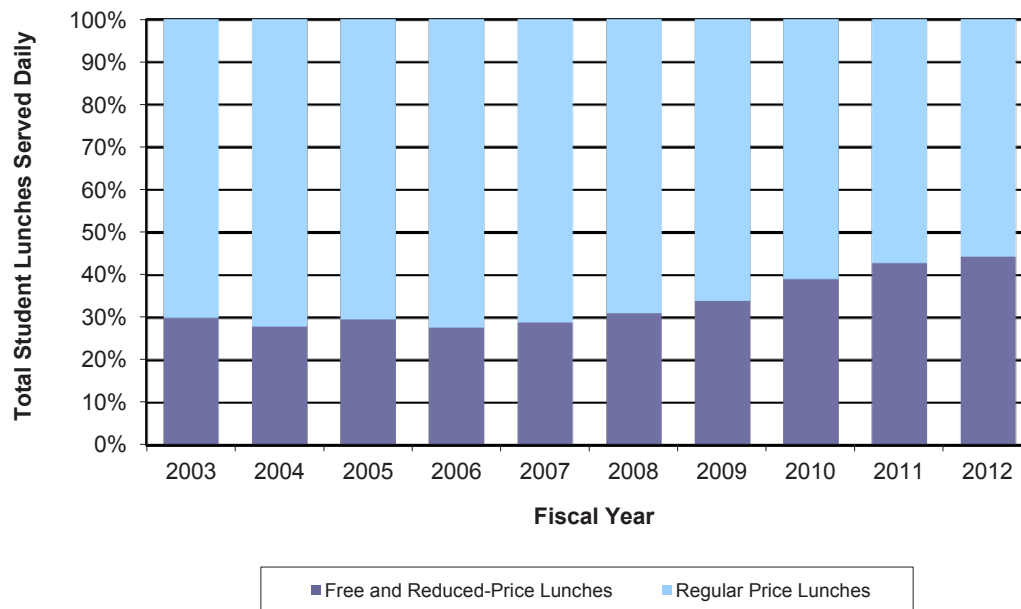
Source: FCPS - Office of Food and Nutrition Services

FAIRFAX COUNTY PUBLIC SCHOOLS
Food Sales - Meals Served Daily
Last Ten Fiscal Years

TABLE 8

Fiscal Year	Students Served Daily			Adult Lunches Served Daily
	Breakfasts	Lunches (1)	Free and Reduced-Price Lunches	
2012	15,400	86,703	38,365	2,981
2011	12,825	85,154	36,414	3,000
2010	11,911	83,514	32,661	3,138
2009	10,456	83,385	28,302	3,421
2008	10,555	81,432	25,292	3,603
2007	10,889	82,273	23,726	3,975
2006	10,202	82,169	22,759	4,474
2005	10,830	81,672	24,134	4,476
2004	11,410	81,166	22,668	4,262
2003	10,665	79,012	23,661	4,216

**Percentage of Free and Reduced-Price Lunches to
Total Student Lunches Served Daily**



(1) Includes free and reduced-price lunches served daily.

Source: FCPS - Food and Nutrition Services

FAIRFAX COUNTY PUBLIC SCHOOLS
Ratios of Debt Outstanding (1)
Last Ten Fiscal Years
(Dollars in Thousands)

TABLE 9

Fiscal Year	Governmental Activities (2)			Percent of Personal Income (3)	Debt Per Capita (3)
	Capital Leases	Installment Purchases	Total		
2012	\$ 87,533	\$ -	\$ 87,533	0.12 %	\$ 80
2011	81,327	-	81,327	0.11	75
2010	87,232	9,795	97,027	0.13	90
2009	77,232	11,509	88,741	0.12	84
2008	89,078	13,153	102,231	0.15	98
2007	91,216	14,730	105,946	0.16	102
2006	96,750	13,630	110,380	0.17	107
2005 (4)	100,079	14,965	115,044	0.20	113
2004	36,297	-	36,297	0.07	36
2003	27,979	-	27,979	0.05	28

(1) See Note III.F in the notes to the financial statements for additional details on FCPS' outstanding debt.

(2) The Code of Virginia (Code) prohibits FCPS from issuing general obligation debt. As a result, the County issues general obligation bonds for FCPS and reports in its financial statements, the general obligation debt related to FCPS. The Code does not impose a legal limit on the amount of long-term indebtedness that the County can incur or have outstanding; however, the County's Board of Supervisors has imposed limits. FCPS' capital leases and installment purchases are not applicable to the County's self-imposed debt limits.

(3) See Table 12 for personal income and population totals. The calculations are based on calendar year figures that fall within the fiscal year.

(4) In fiscal year 2005, the major increase in capital leases resulted from the acquisition of the central administrative building. The addition of installment purchases related to the procurement of energy savings performance contracts.

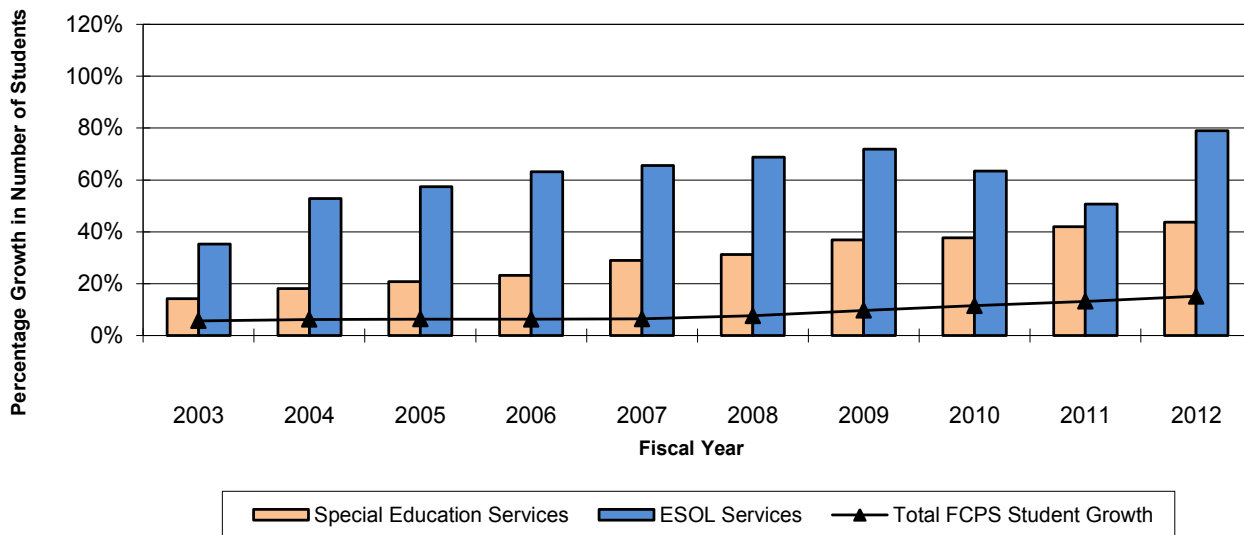
Source: FCPS Comprehensive Annual Financial Reports 2003-2012

FAIRFAX COUNTY PUBLIC SCHOOLS
Enrollment Trend
Last Ten Fiscal Years

TABLE 10

Fiscal Year	Grades K-6 (1)	Grades 7-8	Grades 9-12 (2)	Special Education (3)	Total
2012	89,049	23,508	50,583	14,778	177,918
2011	86,796	23,384	50,153	14,600	174,933
2010	84,012	24,250	49,972	14,157	172,391
2009	83,114	22,931	49,422	14,071	169,538
2008	81,341	22,744	48,723	13,499	166,307
2007	80,134	22,375	48,712	13,265	164,486
2006	80,389	22,600	48,630	12,665	164,284
2005	80,736	23,087	48,165	12,420	164,408
2004	81,195	23,387	47,465	12,148	164,195
2003	81,729	23,258	46,648	11,751	163,386

Total FCPS Student Growth from Fiscal Year 2003 Compared to Increased Services for Special Education and English for Speakers of Other Languages (ESOL)



- (1) Includes Family and Early Childhood Education Program (FECEP), kindergarten, and grades 1 to 6 membership.
 (2) Includes membership in grades 9 through 12, including alternative programs.
 (3) Includes school-age services and preschool services.

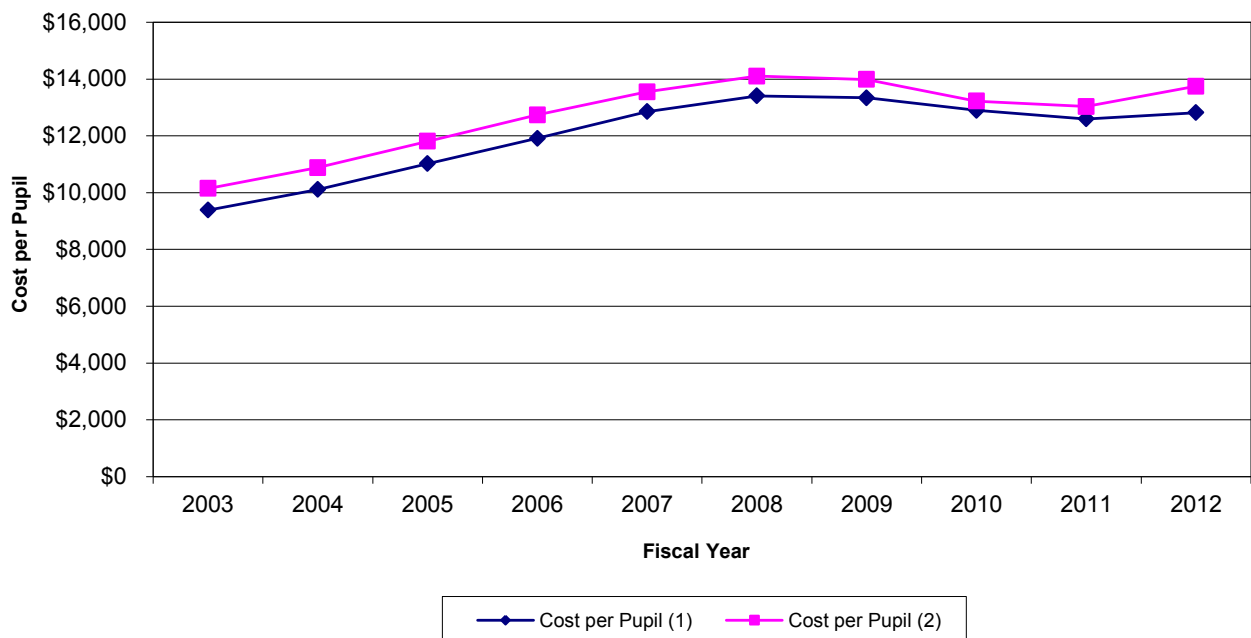
Source: FCPS Approved Budgets 2003-2012

FAIRFAX COUNTY PUBLIC SCHOOLS
Cost per Pupil
Last Ten Fiscal Years

TABLE 11

Fiscal Year	Cost per Pupil (1)	Cost per Pupil (2)
2012	\$ 12,820	\$ 13,749
2011	12,597	13,032
2010	12,898	13,224
2009	13,340	13,985
2008	13,407	14,103
2007	12,853	13,548
2006	11,915	12,736
2005	11,022	11,810
2004	10,113	10,882
2003	9,388	10,151

Cost per Pupil Trend



- (1) The regional formula for calculating the cost per pupil is based on General Fund expenditures rather than the government-wide expenses. The computation includes all costs directly associated with an instructional program. Transportation costs are allocated to each program according to the actual costs of providing services.
- (2) Calculation is based on the total government-wide expenses divided by the number of students enrolled.

Source: Metropolitan/Washington Area Boards of Education Guides 2004-2013
 FCPS Comprehensive Annual Financial Reports 2003-2012

FAIRFAX COUNTY PUBLIC SCHOOLS
Demographic and Economic Statistics of the County of Fairfax, Virginia
Last Ten Calendar Years

TABLE 12

Calendar Year	Population (1)	Personal Income (000s) (2)	Per Capita Personal Income (2)	Median Age (years) (3)	Percent of People \geq 25 Years Old with a Bachelor's Degree (3)	Public School Enrollment (4)	Unemployment Rate (5)
2011	1,100,692	\$ 71,145,429	\$ 64,637	37.6	58.0 %	174,933	4.2 %
2010	1,081,726	72,577,324	67,094	37.5	56.1	172,391	4.9
2009	1,074,227	74,380,758	69,241	37.3	58.1	169,538	4.8
2008	1,050,315	74,385,409	70,822	39.4	58.5	166,307	3.4
2007	1,041,507	70,500,650	67,691	39.1	59.0	164,486	2.2
2006	1,037,311	67,111,947	64,698	38.4	58.7	164,284	2.2
2005	1,033,646	63,917,568	61,837	38.1	58.5	164,408	2.5
2004	1,022,298	58,830,183	57,547	37.6	57.4	164,195	2.7
2003	1,012,090	54,771,275	54,117	37.9	56.3	163,386	3.1
2002	1,004,435	52,744,891	52,512	37.3	55.9	161,385	3.4

Source:

- (1) Population data includes the Cities of Fairfax and Falls Church and is obtained from U.S. Census Bureau's American Fact Finder.
- (2) Personal income data is obtained from the Bureau of Economic Analysis, U.S. Department of Commerce and includes the Cities of Fairfax and Falls Church. Data for only the County is not available, however, it is believed that the inclusion of these Cities does not significantly affect the County's data. Fairfax County data for 2010 has been updated to reflect actual reported figure, while 2011 has been estimated using percentage change in per capita personal income from 2009 to 2010.
- (3) Median age and educational attainment information are obtained from the U.S. Census Bureau's American Community Survey.
- (4) Public school enrollment is obtained from FCPS Approved Budgets 2003-2012.
- (5) Unemployment rates are obtained from the Virginia Employment Commission, Annual Unemployment Statistics for the calendar year, not seasonally adjusted.

FAIRFAX COUNTY PUBLIC SCHOOLS
Principal Employers in the County of Fairfax, Virginia
Current Fiscal Year and Nine Years Ago

TABLE 13

Employer	Fiscal Year 2012 (1)			Fiscal Year 2003 (1)		
	Number of Employees (2)	Rank	Percent of Total County Employment (3)	Number of Employees (2)	Rank	Percent of Total County Employment (3)
Fairfax County Public Schools	23,534	1	4.05 %	20,712	1	3.95 %
Federal Government	23,361	2	4.02	10,136	3	1.93
Fairfax County Government	12,070	3	2.08	11,506	2	2.19
Booz-Allen Hamilton	7,000-10,000	4	1.46	5000-6,000	7	0.86
Inova Health System	7,000-10,000	5	1.46	9,000-10,000	4	1.81
Science Applications International Corporation	4,000-6,999	6	0.95	5,000-6,000	6	1.05
George Mason University	4,000-6,999	7	0.95	-	-	-
Federal Home Loan Mortgage	4,000-6,999	8	0.95	3,000-4,000	10	0.67
Northrop Grumman	4,000-6,999	9	0.95	6,000-7,000	5	1.24
The Mitre Group	1,000-3,999	10	0.43	2,000-3,000	-	-
Computer Science Corporation	1,000-3,999	-	0.43	4,000-5,000	9	0.86
Lockheed Martin Corporation	1,000-3,999	-	0.43	2,000-3,000	-	0.48
Raytheon				4,000-5,000	8	0.86
Totals			18.16 %			15.90 %

- (1) Employment information for fiscal year 2012, excluding data for Fairfax County Government and FCPS, is from the first quarter of calendar year 2012 VEC. Employment information for fiscal year 2003 is from the Fiscal Year 2003 County of Fairfax CAFR.
- (2) Employment estimates for separate facilities of the same firm have been combined to create company totals. Employment ranges for the private sector are given to ensure confidentiality.
- (3) Percentages are based on the midpoint of the employment range. The average total number of people employed in the County in fiscal years 2012 is estimated at 581,547, based on VEC's report for first quarter 2012. Average total County employment for fiscal year 2003 was estimated at 524,697.

Source: County - Economic Development Authority (using Virginia Employment Commission (VEC) data); FCPS - Office of the Comptroller; County - Department of Management and Budget

FAIRFAX COUNTY PUBLIC SCHOOLS
Full-Time Employees by Function - All Funds
Last Ten Fiscal Years

Function	Fiscal Year				
	2012	2011	2010	2009	2008
School Based:					
Principals	195.0	194.0	195.0	196.0	195.0
Assistant principals	439.0	437.0	438.0	444.0	439.0
Teachers	14,574.2	14,230.4	13,979.5	13,945.1	13,941.7
Instructional assistants	2,537.6	2,419.2	2,334.9	2,228.0	2,243.2
Custodian	1,267.0	1,251.5	1,327.5	1,432.0	1,410.5
Other school based personnel	2,609.5	2,536.1	2,569.4	2,711.9	2,687.4
Non-School Based:					
Administration	1,044.2	1,014.7	1,054.7	1,092.0	1,094.1
Teachers (1)	40.0	30.0	54.5	27.5	28.0
Office assistants	282.9	279.9	311.1	343.8	358.3
Trades personnel	545.0	546.0	587.0	594.0	597.0
Total	<u>23,534.4</u>	<u>22,938.8</u>	<u>22,851.6</u>	<u>23,014.3</u>	<u>22,994.2</u>

(1) These employees were teachers who performed administrative-type functions such as curriculum development.

Source: FCPS - Office of Budget Services

TABLE 14

Fiscal Year					Function
2007	2006	2005	2004	2003	
					School Based:
196.0	197.0	198.0	201.0	204.0	Principals
436.0	427.0	412.0	388.0	387.0	Assistant principals
13,821.3	13,796.2	13,728.1	13,540.3	13,227.3	Teachers
2,154.9	2,121.3	2,097.5	1,924.5	1,847.0	Instructional assistants
1,396.5	1,384.0	1,364.5	1,346.5	1,330.5	Custodian
2,674.4	2,618.2	2,425.7	2,395.4	2,337.7	Other school based personnel
					Non-School Based:
1,076.6	1,064.4	1,027.3	966.0	945.0	Administration
37.7	36.6	30.5	33.0	34.9	Teachers (1)
355.2	369.2	376.9	380.4	382.3	Office assistants
595.0	586.6	586.0	595.0	596.0	Trades personnel
<u>22,743.6</u>	<u>22,600.5</u>	<u>22,246.5</u>	<u>21,770.1</u>	<u>21,291.7</u>	Total

FAIRFAX COUNTY PUBLIC SCHOOLS
TABLE 15
SAT Scores
**Comparison of County of Fairfax, Virginia, Commonwealth of Virginia, and National Averages
Last Ten Fiscal Years**

Fiscal Year	Combined SAT Scores - Critical Reading, Math and Writing (1)		
	County of Fairfax, VA	Commonwealth of Virginia	National
2012	1659	1510	1477
2011	1654	1516	1500
2010	1664	1521	1509
2009	1664	1521	1509
2008	1654	1522	1511
2007	1639	1520	1511
2006	1643	1525	1518
2005	1114	1030	1028
2004	1105	1024	1026
2003	1110	1024	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: FCPS - Office of Student Testing

FAIRFAX COUNTY PUBLIC SCHOOLS
TABLE 16
**Average Class Size - Students per Classroom Teacher
Last Ten Fiscal Years**

Fiscal Year	Elementary	Middle	Secondary/ High
2012	21.5	24.4	25.1
2011	21.7	24.3	25.3
2010	21.2	24.1	24.9
2009	20.9	23.7	24.5
2008	20.7	23.0	24.1
2007	20.7	23.1	23.9
2006	20.7	23.3	23.8
2005	20.8	23.9	24.0
2004	21.1	24.2	24.5
2003	21.8	24.7	24.6

Source: Metropolitan/Washington Area Boards of Education Guides 2003-2012

FAIRFAX COUNTY PUBLIC SCHOOLS
Teacher Salary
Last Ten Fiscal Years

TABLE 17

Fiscal Year	Contract Length	Salary		
		Beginning Teacher	Maximum Teacher	Average Teacher
2012	193 days	\$ 44,440	\$ 93,015	\$ 63,980
2011	194 days	44,000	92,094	64,249
2010	194 days	44,389	92,094	64,653
2009	194 days	44,789	92,094	66,237
2008	194 days	43,911	90,289	64,219
2007	194 days	42,400	88,394	62,638
2006	194 days	40,000	85,793	60,201
2005	194 days	36,887	83,276	57,258
2004	195 days	35,813	80,851	55,265
2003	193 days	34,750	78,453	53,206

Source: Metropolitan/Washington Area Boards of Education Guides 2003-2012

FAIRFAX COUNTY PUBLIC SCHOOLS
Capital Assets Statistics
Last Ten Fiscal Years

TABLE 18

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Elementary schools	138	139	139	137	137	137	136	136	136	132
Middle schools	22	22	22	22	22	22	22	22	22	22
High/Secondary schools	25	25	25	25	25	25	25	24	24	24
Special education centers (1)	7	8	8	9	10	11	13	15	20	21
Alternative high schools	2	2	3	3	3	3	3	3	3	3
Central administrative centers	22	21	21	23	23	24	28	27	27	26
Buses (2)	1,588	1,534	1,633	1,658	1,691	1,664	1,667	1,677	1,554	1,375

(1) The decreases for fiscal years 2005 through 2010 are a result of a decision by FCPS to make certain centers part of their respective school rather than a separate unit within the school.

(2) The bus count for fiscal year 2006 and 2011 has been corrected to reflect the disposal of buses.

Source: FCPS - Office of the Comptroller

FAIRFAX COUNTY PUBLIC SCHOOLS
School Building Statistics (1)
As of June 30, 2012

TABLE 19
(Page 1 of 4)

	Year Opened	Site Acreage	Building Size (2)	Student Population (2)	Square Foot Per Population
Elementary Schools:					
ALDRIN ES	1994	14	97,436	680	143
ANNANDALE TERRACE ES	1964	12	75,252	918	82
ARMSTRONG ES	1986	14	80,000	480	167
BAILEYS ES	1952	10	119,968	1232	97
BEECH TREE ES	1968	10	70,408	476	148
BELLE VIEW ES	1952	11	75,779	530	143
BELVEDERE ES	1954	11	76,611	626	122
BONNIE BRAE ES	1988	13	88,778	738	120
BRADDOCK ES	1959	12	83,358	694	120
BREN MAR PARK ES	1957	10	62,999	485	130
BROOKFIELD ES	1967	13	107,827	824	131
BUCKNELL ES	1954	10	65,470	252	260
BULL RUN ES	1999	41	98,590	866	114
BUSH HILL ES	1954	11	70,939	463	153
CAMELOT ES	1969	10	89,938	599	150
CAMERON ES	1952	8	92,473	561	165
CANTERBURY WOODS ES	1965	12	74,380	662	112
CARDINAL FOREST ES	1966	13	80,214	605	133
CENTRE RIDGE ES	1990	14	93,981	829	113
CENTREVILLE ES	1994	13	98,625	982	100
CHERRY RUN ES	1983	11	69,604	502	139
CHESTERBROOK ES	1926	14	76,713	662	116
CHURCHILL ROAD ES	1958	10	79,538	835	95
CLEARVIEW ES	1979	14	85,609	653	131
CLERMONT ES	1968	13	50,800	477	106
COATES ES	2009	14	89,439	725	123
COLIN L. POWELL ES	2003	17	110,220	1167	94
COLUMBIA ES	1967	10	54,993	450	122
COLVIN RUN ES	2003	13	98,590	869	113
CRESTWOOD ES	1955	11	74,346	586	127
CROSSFIELD ES	1988	14	89,134	776	115
CUB RUN ES	1986	16	77,850	625	125
CUNNINGHAM PARK ES	1967	10	55,470	487	114
DEER PARK ES	1995	10	98,740	721	137
DOGWOOD ES	2001	14	98,900	780	127
DRANESVILLE ES	1988	13	88,778	680	131
EAGLE VIEW ES	2006	13	98,590	884	112
FAIRFAX VILLA ES	1965	12	57,974	432	134
FAIRHILL ES	1965	10	73,174	618	118
FAIRVIEW ES	1938	14	80,415	722	111
FLINT HILL ES	1954	10	73,532	690	107
FLORIS ES	1955	10	83,560	725	115
FOREST EDGE ES	1971	13	96,624	810	119
FORESTDALE ES	1964	10	69,535	617	113
FORESTVILLE ES	1980	8	82,972	707	117
FORT BELVOIR ES	1994	20	134,939	1194	113
FORT HUNT ES	1969	13	87,481	575	152
FOX MILL ES	1979	14	75,784	631	120
FRANCONIA ES	1931	7	64,045	545	118
FRANKLIN SHERMAN ES	1952	11	51,765	390	133
FREEDOM HILL ES	1949	12	81,500	709	115

FAIRFAX COUNTY PUBLIC SCHOOLS
School Building Statistics (1)
As of June 30, 2012

TABLE 19
(Page 2 of 4)

	Year Opened	Site Acreage	Building Size (2)	Student Population (3)	Square Foot Per Population
Elementary Schools (Cont'd):					
GARFIELD ES	1952	8	60,776	370	164
GLEN FOREST ES	1957	10	106,919	963	111
GRAHAM ROAD ES	1950	4	68,500	438	156
GREAT FALLS ES	1952	10	69,042	582	119
GREENBRIAR EAST ES	1968	10	80,000	828	97
GREENBRIAR WEST ES	1971	10	93,203	938	99
GROVETON ES	1972	13	103,281	717	144
GUNSTON ES	1954	10	80,736	540	150
HALLEY ES	1995	20	98,900	752	132
HAYCOCK ES	1954	10	72,853	855	85
HAYFIELD ES	1966	13	80,149	658	122
HERNDON ES	1961	14	97,146	831	117
HOLLIN MEADOWS ES	1965	10	73,353	639	115
HUNT VALLEY ES	1968	13	90,187	619	146
HUNTERS WOODS ES	1969	11	99,787	1051	95
HUTCHISON ES	1975	39	106,408	802	133
HYBLA VALLEY ES	1964	10	76,819	834	92
ISLAND CREEK ES	2003	19	98,590	811	122
KEENE MILL ES	1961	11	66,087	620	107
KENT GARDENS ES	1957	11	77,900	886	88
KINGS GLEN ES	1969	8	72,702	472	154
KINGS PARK ES	1964	10	70,662	655	105
LAKE ANNE ES	1967	10	77,400	670	116
LANE ES	1995	20	98,625	817	121
LAUREL HILL ES	2009	15	98,950	879	113
LAUREL RIDGE ES	1970	13	112,320	826	136
LEES CORNER ES	1987	11	81,843	736	111
LEMON ROAD ES	1955	12	54,325	250	217
LITTLE RUN ES	1963	10	55,085	370	149
LONDON TOWNE ES	1969	13	104,620	913	115
LORTON STATION ES	2003	13	98,900	966	102
LOUISE ARCHER ES	1939	8	65,434	788	83
LYNBROOK ES	1956	11	72,453	530	137
MANTUA ES	1961	12	97,631	938	104
MARSHALL ROAD ES	1961	11	76,597	645	119
MCNAIR ES	2001	15	112,450	835	135
MOSBY WOODS ES	1963	12	102,129	842	121
MOUNT EAGLE ES	1949	6	58,749	334	176
MOUNT VERNON WOODS ES	1965	10	79,490	599	133
NAVY ES	1955	10	91,013	802	113
NEWINGTON FOREST ES	1983	13	77,850	651	120
NORTH SPRINGFIELD ES	1956	12	83,256	577	144
OAK HILL ES	1983	12	86,000	845	105
FOX MILL ES	1979	14	75,784	631	120
FRANCONIA ES	1931	7	64,045	545	118
FRANKLIN SHERMAN ES	1952	11	51,765	390	133
FREEDOM HILL ES	1949	12	81,500	709	115
OAK VIEW ES	1968	10	88,815	758	117
OAKTON ES	1945	9	70,881	748	95
OLDE CREEK ES	1966	11	69,330	442	157

FAIRFAX COUNTY PUBLIC SCHOOLS
School Building Statistics (1)
As of June 30, 2012

TABLE 19
(Page 3 of 4)

	Year Opened	Site Acreage	Building Size (2)	Student Population (3)	Square Foot Per Population
Elementary Schools (Cont'd):					
ORANGE HUNT ES	1974	14	92,049	792	116
PARKLAWN ES	1958	10	92,330	738	125
PINE SPRING ES	1955	11	65,941	567	116
POPLAR TREE ES	1990	11	94,664	675	140
RAVENSWORTH ES	1963	10	62,061	559	111
RIVERSIDE ES	1968	11	81,025	683	119
ROLLING VALLEY ES	1967	10	77,801	578	135
ROSE HILL ES	1957	11	100,132	712	141
SANGSTER ES	1988	14	88,552	866	102
SARATOGA ES	1989	14	103,570	788	131
SHREVEWOOD ES	1966	13	71,610	626	114
SILVERBROOK ES	1988	14	94,425	741	127
SLEEPY HOLLOW ES	1954	10	70,174	466	151
SPRING HILL ES	1965	13	91,252	976	93
SPRINGFIELD ESTATES ES	1957	11	66,620	698	95
STENWOOD ES	1963	10	46,920	512	92
STRATFORD LANDING ES	1963	10	71,785	845	85
SUNRISE VALLEY ES	1979	15	71,123	618	115
TERRA CENTRE ES	1980	12	69,000	554	125
TERRASET ES	1977	14	70,200	462	152
TIMBER LANE ES	1955	10	80,591	562	143
UNION MILL ES	1986	13	80,087	814	98
VIENNA ES	1921	15	51,494	389	132
VIRGINIA RUN ES	1990	21	90,800	756	120
WAKEFIELD FOREST ES	1955	14	65,062	491	133
WAPLES MILL ES	1991	14	92,470	902	103
WASHINGTON MILL ES	1963	12	73,331	611	120
WAYNEWOOD ES	1959	10	69,051	705	98
WEST SPRINGFIELD ES	1964	10	55,885	471	119
WESTBRIAR ES	1965	10	59,192	528	112
WESTGATE ES	1968	10	49,740	585	85
WESTLAWN ES	1951	9	95,743	727	132
WEYANOKE ES	1949	10	80,633	583	138
WHITE OAKS ES	1980	16	87,534	738	119
WILLOW SPRINGS ES	1990	21	90,014	875	103
WOLFTRAP ES	1968	10	70,670	575	123
WOODBURN ES	1952	10	64,735	536	121
WOODLAWN ES	1937	11	66,793	690	97
WOODLEY HILLS ES	1951	10	77,851	683	114
Middle Schools:					
CARSON MS	1998	33	178,723	1345	133
COOPER MS	1962	20	125,310	827	152
FRANKLIN MS	1984	35	150,481	865	174
FROST MS	1964	21	127,981	1024	125
GLASGOW MS	2008	22	197,000	1387	142
HERNDON MS	1955	27	200,388	946	212
HOLMES MS	1966	28	158,849	780	204
HUGHES MS	1980	25	130,400	919	142
IRVING MS	1960	21	156,838	994	158
KEY MS	1971	21	174,232	779	224

FAIRFAX COUNTY PUBLIC SCHOOLS
School Building Statistics (1)
As of June 30, 2012

TABLE 19
(Page 4 of 4)

	Year Opened	Site Acreage	Building Size (2)	Student Population (3)	Square Foot Per Population
Middle Schools (Cont'd):					
KILMER MS	1967	23	165,000	1134	146
LIBERTY MS	2002	80	178,723	1125	159
LONGFELLOW MS	1960	18	122,650	1332	92
LUTHER JACKSON MS	1954	20	154,818	1147	135
POE MS	1960	26	176,089	1116	159
ROCKY RUN MS	1980	25	130,400	1000	130
SANDBURG MS	1963	35	263,940	1213	217
STONE MS	1991	25	157,263	865	182
THOREAU MS	1960	20	115,702	787	147
TWAIN MS	1961	24	156,225	871	179
WHITMAN MS	1965	20	156,872	1009	155
High and Secondary Schools (3):					
ANNANDALE HS	1954	28	345,994	2394	145
CENTREVILLE HS	1988	36	337,003	2311	146
CHANTILLY HS	1972	35	402,996	2617	154
EDISON HS	1962	43	303,001	1627	186
FALLS CHURCH HS	1967	40	306,487	1567	196
HAYFIELD SEC	1968	58	344,640	1934	178
HERNDON HS	1967	40	304,921	2170	141
JEFFERSON TECH HS	1964	39	264,506	1841	144
LAKE BRADDOCK SEC	1971	60	430,000	2545	169
LANGLEY HS	1965	43	261,365	2002	131
LEE HS	1959	25	336,068	1787	188
MADISON HS	1959	31	314,342	1972	159
MARSHALL HS	1962	47	241,559	1597	151
MCLEAN HS	1955	31	282,767	1953	145
MOUNT VERNON HS	1960	41	458,517	1803	254
OAKTON HS	1967	59	304,777	2201	138
ROBINSON SEC	1971	78	380,000	2689	141
SOUTH COUNTY SEC	2005	69	265,000	1968	135
SOUTH LAKES HS	1978	60	345,000	2244	154
STUART HS	1959	21	300,491	1690	178
WEST POTOMAC HS	1960	45	389,012	2229	175
WEST SPRINGFIELD HS	1966	39	302,795	2281	133
WESTFIELD HS	2000	76	422,298	2798	151
WOODSON HS	1962	95	354,000	2070	171

(1) This table does not include the four City of Fairfax, VA schools because these buildings are not owned by FCPS.

(2) Size measured in square feet and population taken from FY 2012 Approved Budget.

(3) Does not include Bryant and Mountain View Alternative High Schools.

Source: FCPS - Office of Design and Construction Services





Fairfax County Public Schools
2012 Comprehensive Annual Financial Report

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www.fcps.edu