



**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**

**FINANCIAL STATEMENTS**  
**AND SUPPLEMENTAL INFORMATION**

**For the Year Ended June 30, 2013**

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**FINANCIAL STATEMENTS**  
**AND SUPPLEMENTAL INFORMATION**  
  
**For the Fiscal Year Ended June 30, 2013**

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
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**For the Fiscal Year Ended June 30, 2013**

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## **SECTION I**

### **INTRODUCTORY SECTION**

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
DIRECTORY OF PRINCIPAL OFFICIALS**

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**SCHOOL BOARD MEMBERS**

Tyrone Foster  
Beth Rhinehart  
Randall J. White  
Randy Alvis  
Ronald Cameron

Chair  
Vice-Chair

**SCHOOL OFFICIALS**

Dr. Mark Lineburg  
Tammy M. Jones, CPA  
Cathy Moss

Superintendent of Schools  
Clerk of the School Board  
Deputy Clerk of the School Board

## **SECTION II**

### **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

Superintendent and  
School Board Members  
City of Bristol, Virginia School Board  
Bristol, Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bristol, Virginia School Board, (the School Board), a component unit of the City of Bristol, Virginia, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements. We did not audit the discretely presented component unit. These financial statements collectively comprise the School Board's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the combined financial statements of the Bristol Virginia Public School Education Foundation (the Foundation), the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.



City of Bristol, Virginia School Board  
Independent Auditors' Report

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Bristol, Virginia School Board, a component unit of the City of Bristol, Virginia as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparisons for the Operating and School Construction Capital Projects Funds for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-12 and the analysis of funding progress for defined benefit pension plan and other post-employment benefits on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bristol, Virginia School Board's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.



City of Bristol, Virginia School Board  
Independent Auditors' Report

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has 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 it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2013, on our consideration of the School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Board's internal control over financial reporting and compliance.

  
BLACKBURN, CHILDERS & STEAGALL, PLLC  
Johnson City, Tennessee

November 11, 2013

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2013**

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As management of the City of Bristol, Virginia School Board (the "School Board"), we offer readers of the School Board's financial statements this overview and analysis of the financial activities of the School Board for the fiscal year ended June 30, 2013.

**Financial Highlights**

- The assets of the School Board exceeded its liabilities at the close of the most recent fiscal year by \$16,596,778 (net position). Of this amount, (\$232,798) represents unrestricted net position. Unrestricted net position shows a negative balance due primarily to liabilities recorded in the statement of net position that will not be paid with immediate funds. Additionally, any unexpended funds which are not specifically restricted by state regulation must be returned to the primary government. Therefore, there is no build up of fund balances to accommodate liabilities that will not be paid with current resources.
- The School Board's total net position increased by \$415,960. This increase is attributable to the increase in current year funding, primarily related to major insurance recoveries received during the year.
- As of the close of the current fiscal year, the School Board's governmental funds reported combined ending fund balances of \$1,146,411, an increase of \$119,410 in comparison with the prior year. All fund balances are nonspendable, restricted or assigned for particular purposes, with the exception of the Operating Fund and the Central Office Renovation Fund, which do not have a fund balance at year end.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the School Board's basic financial statements, which are the government-wide financial statements, the fund financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Bristol Virginia Public Schools Education Foundation is reported as a discretely presented component unit in these financial statements. The information below does not include the Foundation financial data.

Government-Wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the School Board's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the School Board's assets and liabilities, with the difference between the two as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School Board is improving or deteriorating.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2013**

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**Overview of the Financial Statements (Continued)**

The statement of activities presents information showing how the School Board's net position changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The School Board does not have any business-type activities and reports only governmental activities. Governmental activities include the School Board's basic services including instruction, administration, attendance and health, transportation, operations and maintenance, and food services. City appropriations and state aid finance the majority of these activities.

The government-wide financial statements can be found on pages 13 and 14 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Board are governmental funds.

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 the short-term view of the Board's operations with info on impending inflows and outflows of spendable resources. These statements also highlight the balances of spendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School Board maintains seven individual governmental funds. Five of these funds are classified as non-major and are summarized under the heading "Other Governmental Funds" in the governmental fund presentation. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the operating fund, school construction fund, and non-major funds, all of which are combined into a single, aggregate presentation. Individual fund data for the non-major funds (special revenue cafeteria fund, special revenue school textbook fund, special revenue non-recurring lottery fund, special revenue local capital projects fund and central office renovation fund) is provided in the form of combining statements elsewhere in this report.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2013**

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**Overview of the Financial Statements (Continued)**

The Board adopts an annual appropriated budget for its operating and special revenue funds. Budgetary comparison statements have been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 15 - 19 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 39 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School Board, assets exceeded liabilities by \$16,596,778 at the close of the most recent fiscal year.

The largest portion of the School Board's net position (96%) reflects its investment in capital assets (e.g., land, buildings, vehicles, buses, furniture, books, and equipment). The School Board uses these capital assets to provide services to students; consequently, these assets are not available for future spending. The remaining balance consists of restricted net position which may be used for expenditures specified by the grantor and unrestricted net position which may be used to meet the government's ongoing obligations to citizens and creditors.

The School Board's Net Position

	2013	2012
Current and Other Assets	\$ 3,108,350	3,384,177
Capital Assets	15,964,721	15,977,240
Total Assets	<u>19,073,071</u>	<u>19,361,417</u>
Long-Term Liabilities	391,454	413,743
Other Liabilities	2,084,839	2,415,751
Total Liabilities	<u>2,476,293</u>	<u>2,829,494</u>
Net Position		
Invested in Capital Assets	15,964,721	15,977,240
Restricted	864,855	1,126,919
Unrestricted	(232,798)	(572,236)
Total Net Position	<u>\$ 16,596,778</u>	<u>16,531,923</u>

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2013**

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**Government-Wide Financial Analysis (Continued)**

At the end of the current fiscal year, the School Board is able to report positive balances in two categories of net position for the government as a whole.

The government's net position increased by \$415,960, or 2.6%, during the current fiscal year. The key element of this increase is general revenue as seen below:

The School Board's Changes in Net Position

	2013	2012
<b>Revenues</b>		
Program Revenues		
Charges for Services	\$ 423,462	459,919
Operating Grants and Contributions	10,487,886	9,407,659
Capital Grants and Contributions	129,128	57,375
General Revenues		
Intergovernmental Revenue	15,694,297	15,376,725
Unrestricted Investment Earnings	6,728	11,675
Other	769,747	848,576
Gain (Loss) on Sale of Assets	(36,434)	(14,534)
Total Revenues	<u>27,474,814</u>	<u>26,147,395</u>
<b>Expenses</b>		
Administration	1,078,676	959,844
Instructional Costs	20,742,873	20,206,572
Attendance and Health Services	596,525	539,096
Transportation	848,154	768,458
Food Services	1,361,158	1,317,446
Operations and Maintenance	2,296,468	2,173,800
Interest on Long-term Debt	135,000	57,375
Total Expenses	<u>27,058,854</u>	<u>26,022,591</u>
Increase in Net Position	415,960	124,804
Prior Period Adjustment - Capital Assets	(351,105)	(101,800)
Beginning Net Position	16,531,923	16,508,919
Ending Net Position	<u><u>\$ 16,596,778</u></u>	<u><u>16,531,923</u></u>

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2013**

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**Financial Analysis of the Government's Funds**

As noted earlier, the School Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental Funds* - The focus of the School Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School Board's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the School Board's governmental funds reported combined ending fund balances of \$1,146,411, an increase of \$119,410 in comparison with the prior year. The entire fund balance is not available for new spending because \$24,802 is considered nonspendable for inventories, \$864,855 is restricted for capital outlay use only, including the purchase of textbooks, and \$256,754 is assigned for use in food service. A net of \$0 shows in the category of unassigned.

- The operating fund is the chief operating fund of the School Board. At the end of the current fiscal year, the unassigned fund balance of the operating fund was \$0. Any unexpended funds which are not specifically restricted by state regulation must be returned to the primary government. Therefore, there is no buildup of fund balances.
- The school construction fund is used to capture unexpended school construction grant proceeds. These funds must be used solely for capital related expenditures as set forth by the Code of Virginia. At the end of the current fiscal year, restricted fund balance was \$300,952. The fund balance decreased, \$73,959, mainly due to funding being utilized for capital projects.

The special revenue – cafeteria fund is used to report the School Board's food services transactions. At the end of the current fiscal year, assigned fund balance of the cafeteria fund was \$256,754 while total fund balance reached \$281,556. State regulation encourages school food service funds to maintain fund balance equal to three months operating expenses. Assigned fund balance represents 19% of total cafeteria fund expenditures, while total fund balance represents 21% of that same amount.

The special revenue – non-recurring lottery fund is used to capture non-recurring lottery proceeds unexpended at June 30 of each year. These funds must be used solely for capital related expenditures as set forth by the Code of Virginia. At the end of the current fiscal year, restricted fund balance of the non-recurring lottery fund was \$180,528. The fund balance decreased slightly, \$3,624. The decrease relates to limited interest earned during the year offset by a small expenditure.

The special revenue – school textbook fund is used to account for textbook revenue and purchases for all schools in the division. These funds must be used solely for textbook related expenditures. At the end of the current fiscal year, restricted fund balance was \$244,423. The fund balance increased, \$58,599, due to less textbook expenditures required this year.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2013**

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**Financial Analysis of the Government's Funds (Continued)**

The special revenue – central office renovation fund is used to account for money preserved to assist the School Board in its relocation of central office. These funds must be used solely for the central office relocation project. At the end of the current fiscal year, restricted fund balance was \$0. The fund balance decrease of \$596,352 is due to the project completion and dissolution of the fund.

The special revenue – local capital projects fund is used to account for funds the City has allowed to be carried over for future capital projects. These funds must be used solely for capital related expenditures. At the end of the current fiscal year, restricted fund balance was \$138,952, an increase of \$31,515. This increase is due to additional transfers from the General Fund.

**Operating Fund Budgetary Highlights**

The following table provides a comparison of original budget, final budget and actual revenues and expenditures in the operating fund:

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues			
Intergovernmental	\$ 24,343,575	25,500,886	25,042,772
Charges for Services	23,250	23,250	15,925
Other	280,828	914,677	315,047
Total Revenues	<u>24,647,653</u>	<u>26,438,813</u>	<u>25,373,744</u>
Expenditures			
Expenditures	<u>24,445,760</u>	<u>26,434,810</u>	<u>25,819,415</u>
Other Financing Sources (Uses)	<u>(201,893)</u>	<u>(4,003)</u>	<u>(30,542)</u>
Change in Fund Balance	<u>\$ 0</u>	<u>0</u>	<u>(476,213)</u>

The final amended budget revenues and appropriations exceeded the original budget by \$1,791,160. This variance is due primarily to an increase in instructional costs and capital costs from original projections, along with the offsetting grant revenue.



**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2013**

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**Operating Fund Budgetary Highlights (Continued)**

Actual revenues were less than final budget amounts by \$1,065,069 or 4.2%, while actual expenditures were \$615,395 or 2.0% less than final budget amounts. Highlights of comparison of final budget to actual figures for the fiscal year ended June 30, 2013, include the following:

- Actual intergovernmental revenues were less than budgeted amounts primarily due to federal and state grant and program revenues that were not utilized in the current fiscal year. These grant and program revenues will carry-over to be used in the next fiscal year.
- Actual expenditures were less than appropriations primarily due to federal and state grants and awards that were not expended during the current fiscal year. These grants and awards carry-over to be used in the next fiscal year.

During the year, actual expenditures and other financing sources equaled actual revenues, resulting in a net increase in fund balance of \$0.

**Capital Asset Administration**

Capital Assets – The School Board's investment in capital assets for its governmental activities as of June 30, 2013, amounts to \$15,964,721 (net of accumulated depreciation). The investment in capital assets includes land, buildings and system improvements, vehicles, buses, furniture, books and equipment. The total decrease in the School Board's investment in capital assets for the current fiscal year was 0.07%. School Capital Assets financed with debt incurred by the City have been reported in the City's financial statements.

Major capital asset events during the current fiscal year included computer and technology updates, the purchase of one school bus, and completion of the new School Board Office.

**The School Board's Capital Assets**

	<u>2013</u>	<u>2012</u>
Land	\$ 273,242	273,242
Buildings and Improvements	24,677,295	23,806,469
Vehicles and Buses	2,187,196	2,085,645
Furniture, Books and Equipment	9,416,986	9,006,140
Construction in Progress	-	118,897
Less Accumulated Depreciation	<u>(20,589,998)</u>	<u>(19,313,153)</u>
Total	<u><u>\$ 15,964,721</u></u>	<u><u>15,977,240</u></u>

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2013**

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**Capital Asset Administration (Continued)**

Additional information on the School Board's capital assets can be found in Note 7 on page 30 of this report.

**Economic Factors and Next Year's Budget**

In setting the budgets for FY 2014, the Board considered a number of issues with Board wide impact, among them:

- Regional cost of living increases, projected student enrollment and other related economic factors were considered in preparing the School Board's budget for the 2014 fiscal year.
- The proposed fiscal year 13-14 budget is \$25,494,010. This budget reflects a required salary increase for Board employees, which is offset by an increase in the employee-paid retirement deduction. An additional step increase will be provided to employees mid-year. Student enrollment is expected to decrease slightly. Most capital project improvements and deferred maintenance is expected to be funded out of escrowed lottery and construction proceeds. Additionally, the Board intends to maintain a balance of approximately \$300,000 total in the Non-recurring Lottery and School Construction Capital Projects funds to fund unanticipated capital or deferred maintenance items.

**Request for Information**

This financial report is designed to provide a general overview of the Board's finances for all those with an interest in the government's finance. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Director of Finance, Bristol Virginia Public Schools, 220 Lee Street, Bristol, Virginia 24201 or via email at [tmjones@bvps.org](mailto:tmjones@bvps.org).

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**STATEMENT OF NET POSITION**  
**June 30, 2013**

	Primary Government <u>Governmental Activities</u>	Component Unit <u>BVPS Education Foundation</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 754,315	1,005,310
Investments	113,679	-
Receivables	3,245	906,542
Due from Other Governmental Units	1,453,941	-
Due from Others	16,255	-
Due from Primary Government	-	7,410
Inventories	24,802	-
Restricted Assets		
Cash and Cash Equivalents	477,980	-
Investments	264,133	-
Capital Assets, Net	<u>15,964,721</u>	<u>4,866,960</u>
<b>TOTAL ASSETS</b>	<u>19,073,071</u>	<u>6,786,222</u>
<b>LIABILITIES</b>		
Accounts Payable	384,060	987,918
Accrued Payroll and Related Liabilities	1,471,023	-
Unearned Revenue	6,738	-
Due to Primary Government	100,118	617,362
Long-Term Liabilities		
Due Within One Year	29,208	187,500
Due in More Than One Year	<u>485,146</u>	<u>750,000</u>
<b>TOTAL LIABILITIES</b>	<u>2,476,293</u>	<u>2,542,780</u>
<b>NET POSITION</b>		
Invested in Capital Assets	15,964,721	-
Restricted for		
Capital Projects	864,855	2,529,029
Unrestricted	<u>(232,798)</u>	<u>1,714,413</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 16,596,778</u></u>	<u><u>4,243,442</u></u>

See Accompanying Notes to the Financial Statements.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component
					Governmental	Unit
					Governmental	BVPS
					Activities	Education
						Foundation
Governmental Activities						
Administration	\$ 1,078,676	-	-	129,128	(949,548)	-
Instructional Costs	20,742,873	37,717	9,545,196	-	(11,159,960)	-
Attendance and Health Services	596,525	-	-	-	(596,525)	-
Transportation	848,154	-	-	-	(848,154)	-
Food Services	1,361,158	380,315	942,690	-	(38,153)	-
Operations and Maintenance	2,296,468	5,430	-	-	(2,291,038)	-
Interest on Long-Term Debt	135,000	-	-	-	(135,000)	-
Total Governmental Activities	<u>\$ 27,058,854</u>	<u>423,462</u>	<u>10,487,886</u>	<u>129,128</u>	<u>(16,018,378)</u>	<u>-</u>
Component Unit						
BVPS Education Foundation	\$ 1,126,863	111,160	-	5,233,632	-	4,217,929
Total Component Units	<u>\$ 1,126,863</u>	<u>111,160</u>	<u>0</u>	<u>5,233,632</u>	<u>0</u>	<u>4,217,929</u>
General Revenues						
					9,299,500	-
					6,394,797	-
					6,728	5,878
					769,747	-
					(36,434)	-
					<u>16,434,338</u>	<u>5,878</u>
					<u>415,960</u>	<u>4,223,807</u>
					16,531,923	19,635
					(351,105)	-
					<u>16,180,818</u>	<u>19,635</u>
					<u>\$ 16,596,778</u>	<u>4,243,442</u>

See Accompanying Notes to the Financial Statements.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**BALANCE SHEET**  
**June 30, 2013**

	Operating Fund	School Construction Capital Projects Fund	Other Governmental Funds	Total
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 601,711	-	152,604	754,315
Investments	-	-	113,679	113,679
Receivables	3,245	-	-	3,245
Due from Other Governmental Units	1,442,659	-	11,282	1,453,941
Due from Others	16,255	-	-	16,255
Inventories	-	-	24,802	24,802
Restricted Assets				
Cash and Cash Equivalents	-	180,040	297,940	477,980
Investments	-	167,124	97,009	264,133
Due from Other Funds	51,112	-	179,945	231,057
<b>TOTAL ASSETS</b>	<b>\$ 2,114,982</b>	<b>347,164</b>	<b>877,261</b>	<b>3,339,407</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 377,969	-	6,091	384,060
Accrued Payroll and Related Liabilities	1,456,950	-	14,073	1,471,023
Unearned Revenue	-	-	6,738	6,738
Due to Primary Government	100,118	-	-	100,118
Due to Other Funds	179,945	46,212	4,900	231,057
<b>TOTAL LIABILITIES</b>	<b>2,114,982</b>	<b>46,212</b>	<b>31,802</b>	<b>2,192,996</b>
<b>FUND BALANCES</b>				
Nonspendable - Inventories	-	-	24,802	24,802
Restricted for Capital Outlay	-	300,952	563,903	864,855
Assigned for Food Service	-	-	256,754	256,754
<b>TOTAL FUND BALANCES</b>	<b>0</b>	<b>300,952</b>	<b>845,459</b>	<b>1,146,411</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,114,982</b>	<b>347,164</b>	<b>877,261</b>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 15,964,721

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at fiscal year end consist of compensated absences and other post-employment benefits. (514,354)

Net Position of Governmental Activities \$ 16,596,778

See Accompanying Notes to the Financial Statements.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**For the Fiscal Year Ended June 30, 2013**

	Operating Fund	School Construction Capital Projects Fund	Other Governmental Funds	Total
<b>REVENUES</b>				
Intergovernmental Revenues				
City of Bristol, Virginia	\$ 9,105,000	-	-	9,105,000
Commonwealth of Virginia	12,490,417	-	23,725	12,514,142
Federal Government	3,447,355	-	918,964	4,366,319
Investment Earnings	-	2,851	3,877	6,728
Charges for Services	15,925	-	380,537	396,462
Other	315,047	-	632,769	947,816
<b>TOTAL REVENUES</b>	<b>25,373,744</b>	<b>2,851</b>	<b>1,959,872</b>	<b>27,336,467</b>
<b>EXPENDITURES</b>				
Current				
Administration	903,961	-	-	903,961
Instructional Costs	20,570,977	-	-	20,570,977
Attendance and Health Services	596,525	-	-	596,525
Transportation	702,918	-	-	702,918
Food Services	-	-	1,306,344	1,306,344
Operations and Maintenance	2,294,687	-	-	2,294,687
Capital Projects	615,347	76,810	215,611	907,768
Debt Service				
Interest and Fiscal Charges	135,000	-	-	135,000
<b>TOTAL EXPENDITURES</b>	<b>25,819,415</b>	<b>76,810</b>	<b>1,521,955</b>	<b>27,418,180</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(445,671)	(73,959)	437,917	(81,713)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from Operating Fund	-	-	231,665	231,665
Transfer to School Textbook Fund	(200,257)	-	-	(200,257)
Transfer to Local Capital Projects Fund	(31,408)	-	-	(31,408)
Insurance Recoveries	201,123	-	-	201,123
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(30,542)</b>	<b>0</b>	<b>231,665</b>	<b>201,123</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(476,213)</b>	<b>(73,959)</b>	<b>669,582</b>	<b>119,410</b>
<b>FUND BALANCE, JULY 1, 2012</b>	<b>476,213</b>	<b>374,911</b>	<b>175,877</b>	<b>1,027,001</b>
<b>FUND BALANCE, JUNE 30, 2013</b>	<b>\$ 0</b>	<b>300,952</b>	<b>845,459</b>	<b>1,146,411</b>

See Accompanying Notes to the Financial Statements.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2013**

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Net Change in Fund Balances - Total Governmental Funds	\$ 119,410
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which acquisition of new capital assets of \$1,955,497 exceeded depreciation of \$1,494,692 in the current period.	460,805
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The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net position.	(316,719)
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Recognition of allocation of asset equal to debt service payment, net of accumulated depreciation.	194,500
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Compensated absences are measured by the amounts earned during the year in the statement of activities. However, expenditures for these items are measured by the amount of financial resources used in the governmental funds. Compensated absences decreased by this amount during the fiscal year.	22,289
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(64,325)</u>
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Change in Net Position of Governmental Activities	<u><u>\$ 415,960</u></u>
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See Accompanying Notes to the Financial Statements.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**OPERATING FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
<b>REVENUES</b>				
Intergovernmental Revenues				
City of Bristol, Virginia	\$ 9,542,081	9,388,200	9,105,000	(283,200)
Commonwealth of Virginia	12,066,195	12,488,585	12,490,417	1,832
Federal Government	2,735,299	3,624,101	3,447,355	(176,746)
Charges for Services	23,250	23,250	15,925	(7,325)
Other	280,828	914,677	315,047	(599,630)
<b>TOTAL REVENUES</b>	<b>24,647,653</b>	<b>26,438,813</b>	<b>25,373,744</b>	<b>(1,065,069)</b>
<b>EXPENDITURES</b>				
Current				
Administration	857,721	903,047	903,961	(914)
Instructional Costs	19,573,184	20,804,900	20,570,977	233,923
Attendance and Health Services	492,082	581,317	596,525	(15,208)
Transportation	717,432	726,767	702,918	23,849
Operations and Maintenance	2,449,641	2,355,458	2,294,687	60,771
Capital Projects	5,000	645,121	615,347	29,774
Debt Service				
Interest and Fiscal Charges	350,700	418,200	135,000	283,200
<b>TOTAL EXPENDITURES</b>	<b>24,445,760</b>	<b>26,434,810</b>	<b>25,819,415</b>	<b>615,395</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	201,893	4,003	(445,671)	(449,674)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer to School Textbook Fund	(201,893)	(200,996)	(200,257)	739
Transfer to Local Capital Projects Fund	-	-	(31,408)	(31,408)
Insurance Recoveries	-	196,993	201,123	4,130
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(201,893)</b>	<b>(4,003)</b>	<b>(30,542)</b>	<b>(26,539)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>0</b>	<b>0</b>	<b>(476,213)</b>	<b>(476,213)</b>
<b>FUND BALANCE, JULY 1, 2012</b>	<b>-</b>	<b>-</b>	<b>476,213</b>	<b>476,213</b>
<b>FUND BALANCE, JUNE 30, 2013</b>	<b>\$ 0</b>	<b>0</b>	<b>0</b>	<b>0</b>

See Accompanying Notes to the Financial Statements.



**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**SCHOOL CONSTRUCTION CAPITAL PROJECTS FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
REVENUES				
Investment Earnings	\$ -	2,000	2,851	851
TOTAL REVENUES	0	2,000	2,851	851
EXPENDITURES				
Capital Projects	-	188,820	76,810	112,010
TOTAL EXPENDITURES	0	188,820	76,810	112,010
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	(186,820)	(73,959)	112,861
FUND BALANCE, JULY 1, 2012	355,691	355,691	374,911	19,220
FUND BALANCE, JUNE 30, 2013	\$ 355,691	168,871	300,952	132,081

See Accompanying Notes to the Financial Statements.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2013**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

***Primary Government***

The City of Bristol, Virginia School Board (the School Board), a component unit of the City of Bristol, Virginia (the City), is a legally separate entity from the City, which operates four elementary schools, one middle school, and one high school for students residing in the City. The School Board consists of five elected members. City Council approves the School Board's operational and capital budgets and must approve the issuance of bonded debt. City Council also provides fiscal guidance because it levies taxes for the School Board's operations and issues debt for its school construction capital projects. Based on these facts, the City reports the School Board as a discretely presented component unit. The financial statements of the School Board have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the School Board's accounting policies are described below.

***Discretely Presented Component Unit***

Bristol Virginia Public Schools Education Foundation (the Foundation), a Virginia non-stock corporation, is an independent community-based organization, formed for charitable and educational purposes, as defined under 501(c)(3) of the Internal Revenue Code of 1986. The entity's expressed purpose is for improving the quality of education in the Bristol Public School System by implementing a public/private partnership to implement public school improvement projects approved by the School Board of the City of Bristol, Virginia. Based on the Foundation's relationship with the School Board, it is reported as a discretely presented component unit. The Foundation issues separate audited combined financial statements and may be obtained from the School Board's administrative office. The combined financial statements include the Foundation and six other entities that are related through common ownership and/or control. The Foundation's fiscal year end is December 31. However, the year end is treated consistently each year for reporting in the School Board's financial statements.

The Foundation follows the Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC) for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB recognition criteria and presentation features. Therefore, certain reclassifications have been made to the Foundation's financial information to conform to GASB presentation format. Net assets and changes in net assets are unchanged due to these reclassifications.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2013**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Related Organizations**

School Board members are occasionally appointed to various committees as provided under state and local laws and ordinances. However, the committees are advisory in nature and the School Board is not financially accountable for these committees and, therefore, they are not included in the School Board financial statements.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. Governmental activities are normally supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the School Board's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying statement of net position in accordance with the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was implemented during fiscal year 2013. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2013**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School Board considers revenues to be available if they are collected within twelve months of the end of the current fiscal period or when expenditures are incurred under a reimbursable-type grant. Expenditures, other than interest on long-term debt, generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only if the leave is expected to be paid with currently available financial resources. Interest on long-term debt is recognized when due except for interest due on July 1, which is accrued.

The School Board reports the following major governmental funds:

- *Operating Fund* - the School Board's primary operating fund that accounts for all general revenues and other receipts that are not allocated by law or contractual agreement to another fund. General operating expenditures and capital improvement costs that are not paid through other funds are paid from the Operating Fund.
- *School Construction Capital Projects Fund* - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for school construction projects or site acquisition.

Amounts reported as program revenues include 1) charges to students or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

**Fund Balances – Governmental Funds**

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable at June 30, 2013, by the School Board are nonspendable in form. The School Board has not reported any amounts that are legally or contractually required to be maintained intact.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2013**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balances – Governmental Funds (Continued)**

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the School Board, their highest level of decision making authority. Commitments may be modified or rescinded only through resolutions approved by the School Board.

Assigned – includes amounts that the School Board intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the School Board's adopted policy, amounts may be assigned by the Superintendent of Schools, or his designee.

Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose, as applicable, within the Operating Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School Board considers restricted funds to have been spent first, unless legal requirements disallow it or unrestricted funds will be lost if not utilized. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School Board considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the School Board has provided otherwise in its commitment or assignment actions.

**Budgets and Budgetary Accounting**

The following procedures are used by the School Board in establishing the budgetary data reflected in the financial statements:

The funds available to the School Board for the establishment, support and maintenance of schools consist of state funds appropriated for school purposes and apportioned to the School Board, federal funds appropriated for educational purposes and apportioned to the School Board, local funds appropriated to the School Board by the City, and other funds that may be set apart for public school purposes.

The School Board manages and controls the funds made available by the City. The school superintendent prepares, with the approval of the School Board, and submits to the City prior to April 1, the proposed operating budget for the next fiscal year. Before the School Board gives final approval to its budget for submission to the City Council, the School Board holds at least one public hearing to receive the view of citizens.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2013**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets and Budgetary Accounting (Continued)**

City Council has adopted the policy of appropriating the school budget in total rather than by categories. Accordingly, the legal restrictions on expenditures for the School Board are at the fund level. The School Board is authorized to transfer budgeted amounts within the fund at its discretion.

The School Board, with the concurrence of the City Council, may from time to time amend the budget to provide for additional expenditures and the means of financing them. The School Board approved additional appropriations totaling \$1,988,153 during the current fiscal year primarily for classroom instructional costs and capital costs.

The school budget is adopted on a basis consistent with generally accepted accounting principles. Operating and Cafeteria Funds' appropriations lapse on June 30 and School Textbook, Non-recurring Lottery Proceeds, School Construction Capital Projects, Local Capital Projects and Central Office Renovation Funds' appropriations carry unexpended balances into the following year on a continuing basis. The budget data presented in the accompanying financial statements are revised as of June 30 and include all appropriations approved by the City Council.

All expenditures from the School Textbook Fund, Non-recurring Lottery Proceeds Fund, School Construction Capital Projects Fund, Local Capital Projects and Central Office Renovation Fund are appropriated by the School Board on an as-needed basis.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed as an extension of formal budgetary integration. Encumbrances outstanding at fiscal year end do not constitute expenditures or liabilities and are not reflected in the financial statements.

**Cash and Cash Equivalents**

The School Board considers all highly liquid investments (including certificates of deposit, repurchase agreements, treasury bills and restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2013**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Inventories**

All inventories are valued at the lower of cost using the first-in/first-out (FIFO) method or market, except for commodities received from the federal government which are valued at market. Inventories consist of food and supplies. Inventories are offset by nonspendable fund balance which indicates that they do not constitute available expendable resources.

**Capital Assets**

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School Board as assets with an initial, individual cost of more than \$1,000, with the exception of textbooks, library books and certain technological equipment which are considered a capital asset regardless of cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and Structural Improvements	50 years
Non-Structural Improvements	15 – 26 years
Furniture, Books and Equipment	5 – 15 years
Vehicles and Buses	8 years

**Capital Asset and Related Debt Reporting**

Local governments in Virginia have a “tenancy in common” with the School Board whenever the locality incurs a financial obligation for school property which is payable over more than one fiscal year. The primary government reports this debt in its financial statements. In order to match the capital assets with the related debt, the legislation permits the primary government to report the portion of the school property related to the outstanding financial obligation. As principal is repaid, capital assets equal to the amount of principal debt reduction are removed from the primary government’s financial statements and reported in the School Board’s financial statements. The School Board retains authority and responsibility over the operation and control of this property.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2013**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Compensated Absences**

The School Board has policies which allow for the accumulation and vesting of limited amounts of vacation and sick leave until termination or retirement. Amounts of such absences are accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if the leave is expected to be paid with currently available financial resources.

**Contributions**

The Foundation accounts for contributions in accordance with FASB ASC guidance. In accordance with FASB ASC, contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

**Estimates**

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

**Income Taxes**

The Foundation, as a 501(c)(3) charitable organization, is exempt from income taxes with the exception of non-related business income. The Foundation did not have any non-related business income during the fiscal year 2012. Therefore, the Foundation incurred no federal or state income taxes for the fiscal year 2012.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**Deposits**

All cash and certificates of deposit of the School Board are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance.



**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2013**

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**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments**

Statutes authorize the School Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

All deposits and investments are under the control and management of the City Treasurer.

**Restricted Cash and Cash Equivalents and Investments**

Restricted cash and cash equivalents and investments in the Non-recurring Lottery Proceeds and School Construction Capital Projects funds are state grant proceeds awarded but not yet spent. These funds can only be spent for nonrecurring costs to include school construction, additions, infrastructure, site acquisition, renovations, technology and other expenditures related to modernizing classroom equipment, and debt service payments on school projects completed during the last ten years. The School Textbook fund's restricted cash and cash equivalents can only be spent on new and replacement textbooks.

The above items are reflected in the statements as follows:

Deposits and Investments	
Cash on Hand	\$ 520
Deposits	1,609,587
	<u>\$ 1,610,107</u>
Statement of Net Assets	
Cash and Cash Equivalents	\$ 754,315
Investments	113,679
Restricted Cash and Cash Equivalents	477,980
Restricted Investments	264,133
	<u>\$ 1,610,107</u>

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
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**NOTE 3 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2013, is as follows:

Receivable Fund	Payable Fund	Amount
Operating Fund	Non-recurring Lottery Proceeds Fund	\$ 4,900
Operating Fund	School Construction Capital Projects Fund	46,212
Local Capital Projects Fund	Operating Fund	31,408
School Textbook Fund	Operating Fund	148,537
Total		<u>\$ 231,057</u>

The interfund balances represent cash received by the Operating Fund on behalf of the other funds or reimbursement to the Operating Fund for expenditure paid on behalf of the other funds. The interfund balances have been eliminated on the government-wide statements.

Transfer In	Transfer Out	Amount
School Textbook Fund	Operating Fund	\$ 200,257
Local Capital Projects Fund	Operating Fund	31,408
Total		<u>\$ 231,665</u>

The purpose for the interfund transfers noted above was to transfer unexpended restricted funds.

**NOTE 4 - RECEIVABLES**

The Foundation has a receivable of \$906,542 at December 31, 2012 for historical tax credits related to the Central Office renovation project. The Foundation agreed to contribute 50% of the net excess funds received as a result of the tax credit transactions to the City. In April 2013, subsequent to the Foundation's fiscal year end, the Foundation contributed \$400,500 to the City.

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**NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS**

A summary of funds due from other governmental units is as follows:

	Operating Fund	Cafeteria Fund	Total
Federal Government	\$ 611,855	-	611,855
Commonwealth of Virginia	830,804	11,282	842,086
Total Due from Other Governmental Units	<u>\$ 1,442,659</u>	<u>11,282</u>	<u>1,453,941</u>

**NOTE 6 - DUE TO PRIMARY GOVERNMENT**

The School Board has a payable to the City at June 30, 2013 and consists of the following:

Net Due to Primary Government, June 30, 2012	\$ (69,218)
Other - Retiree Health Credits	<u>(30,900)</u>
Net Due to Primary Government, June 30, 2013	<u>\$ (100,118)</u>

This balance constantly fluctuates throughout the fiscal year due to ongoing transactions with the primary government, and therefore it is not likely to be paid within one year.

The School Board advanced funds to the Foundation and related companies related to the renovation of the Central Office building. The amount of \$617,362 is shown as due to primary government on the Foundation's combined financial statements at December 31, 2012. The advances were repaid by the Foundation and related companies in April 2013, therefore is shown as revenue from others in the Central Office Renovation fund for the fiscal year ended June 30, 2013.

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**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the School Board for the fiscal year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Adjustments/ Transfers	Ending Balance
Capital Assets, Not Being Depreciated					
Land	\$ 273,242	-	-	-	273,242
Construction in Progress	118,897	-	-	(118,897)	-
Total Capital Assets, Not Being Depreciated	<u>392,139</u>	<u>0</u>	<u>0</u>	<u>(118,897)</u>	<u>273,242</u>
Capital Assets, Being Depreciated					
Building and Improvements	23,806,469	701,372	(39,012)	208,466	24,677,295
Furniture, Books and Equipment	9,006,140	1,079,494	(537,791)	(130,857)	9,416,986
Vehicles and Buses	2,085,645	134,621	(33,070)	-	2,187,196
Total Capital Assets, Being Depreciated	<u>34,898,254</u>	<u>1,915,487</u>	<u>(609,873)</u>	<u>77,609</u>	<u>36,281,477</u>
Less Accumulated Depreciation for					
Building and Improvements	(12,032,203)	(557,164)	7,175	(324,248)	(12,906,440)
Furniture, Books and Equipment	(5,829,698)	(781,105)	514,314	5,192	(6,091,297)
Vehicles and Buses	(1,451,252)	(173,240)	32,231	-	(1,592,261)
Total Accumulated Depreciation	<u>(19,313,153)</u>	<u>(1,511,509)</u>	<u>553,720</u>	<u>(319,056)</u>	<u>(20,589,998)</u>
Total Capital Assets, Being Depreciated, Net	<u>15,585,101</u>	<u>403,978</u>	<u>(56,153)</u>	<u>(241,447)</u>	<u>15,691,479</u>
Governmental Activities Capital Assets, Net	<u>\$ 15,977,240</u>	<u>403,978</u>	<u>(56,153)</u>	<u>(360,344)</u>	<u>15,964,721</u>

Depreciation expense was charged to functions of the School Board as follows:

Administration	\$ 174,715
Instructional Costs	1,134,962
Transportation	145,236
Food Services	54,814
Operations and Maintenance	<u>1,782</u>
Total Depreciation	<u>\$ 1,511,509</u>

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**NOTE 7 - CAPITAL ASSETS (CONTINUED)**

As discussed in Note 1, school capital assets financed with debt incurred by the City have been reported in the City's financial statements. The activity above for buildings and improvements is net of those amounts. Activity for those assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings and Improvements	\$ 1,475,000	-	(275,000)	1,200,000
Accumulated Depreciation	(416,501)	(24,000)	80,500	(360,001)
Total Assets Allocated	<u>\$ 1,058,499</u>	<u>(24,000)</u>	<u>(194,500)</u>	<u>839,999</u>

Insurance recoveries in the amount of \$201,123 were received in the Operating fund during the fiscal year as a result of building and equipment damages. Included in the capital projects function is an impairment loss of \$260,566 for buildings with hail damage and restoration costs of \$700,656.

Capital asset activity of the Foundation for fiscal year ended December 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated				
Building and Improvements	\$ -	4,676,559	-	4,676,559
Furniture, Books and Equipment	-	297,912	-	297,912
Total Capital Assets, Being Depreciated	<u>0</u>	<u>4,974,471</u>	<u>0</u>	<u>4,974,471</u>
Less Accumulated Depreciation for				
Building and Improvements	-	(64,952)	-	(64,952)
Furniture, Books and Equipment	-	(42,559)	-	(42,559)
Total Accumulated Depreciation	<u>0</u>	<u>(107,511)</u>	<u>0</u>	<u>(107,511)</u>
Foundation Capital Assets, Net	<u>\$ 0</u>	<u>4,866,960</u>	<u>0</u>	<u>4,866,960</u>

Total depreciation expense on the Foundation for the fiscal year ended December 31, 2012 was \$107,511.

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**NOTE 8 - LONG-TERM LIABILITIES**

The following is a summary of changes in the School Board's long-term liabilities for the fiscal year ended June 30, 2013:

	Beginning Balance	Additions	Reductions	Ending Balances	Due Within One Year
Compensated Absences	\$ 413,743	101,429	123,718	391,454	29,208
Other Post-Employment Benefits Obligation	58,600	64,300	-	122,900	-
Total Long-Term Liabilities	<u>\$ 472,343</u>	<u>165,729</u>	<u>123,718</u>	<u>514,354</u>	<u>29,208</u>

The City issued a \$3,000,000 Qualified School Construction Bond (QSCB) in June 2011. The QSCB proceeds funded the \$2,940,000 Contribution Agreement to the Foundation in May 2012. The City has received a federal subsidy grant (expected to be close to 100%) for the interest portion of the bond. The Foundation agreed to manage the funds to assure compliance with all the terms of the City's obligations to the Virginia Public School Authority. In the initial tax credit period, the Foundation will make the principal payment of \$187,500 annually starting July 1, 2013 and will end when the related entities dissolve in 2017 (approximately five years) for a total of \$937,500. The Foundation's pledge payable is reported as long-term liabilities on the statement of net position.

The School Board budgets and receives an appropriation from the City each year to make the debt payment for the Literary Fund Loan. Since the debt is in the City's name, the debt is recorded by the City. For the fiscal year ended June 30, 2013, the School Board received \$283,200 from the City which is netted with the debt payment of \$283,200.

**NOTE 9 - LEASE OBLIGATIONS**

The School Board has a lease for the furniture and equipment in the Central Office building with Central Warehouse Manager, LLC (one of the companies in the Foundation's combined financial statements). The lease term is renewed annually on May 31 with an annual lease payment of \$14,820, payable monthly. The total rent expense for the fiscal year ended June 30, 2013 is \$17,290.

There is a sub-lease between the School Board and Bristol Tenant, LLC (one of the companies in the Foundation's combined financial statements), where the School Board leases the Central office building for an annual lease payment of \$210,600. The lease terminates in May 2022. Total rent expense for the fiscal year ended June 30, 2013 is \$228,150. Future minimum payments are \$210,600 annually until May 2022 for a total of \$1,895,400.

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**NOTE 10 - PENSION PLAN**

**Plan Description**

The School Board contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by VRS. Professional employees participate in a VRS statewide teacher cost sharing pool, and non-professional employees participate as a separate group in the agent multiple-employer retirement system.

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

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

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
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**NOTE 10 - PENSION PLAN (CONTINUED)**

**Plan Description (Continued)**

The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 3.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

VRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/pdf/Publications/2012-Annual-Report.pdf> or by writing to VRS's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

**Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation to the VRS. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended June 30, 2013 was 14.38% (9.38% plus 5.00% member contribution) of annual covered payroll.

For the three fiscal years ended June 30, 2013, 2012, and 2011, total employer and employee contributions made to the VRS statewide teacher pool for professional employees by the School Board were \$2,042,206, \$1,320,592, and \$1,042,839, respectively and represented 16.66%, 11.33%, and 8.93%, of annual covered payroll, respectively, and 100% of required contributions for 2013, 2012 and 2011.



**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
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**NOTE 10 - PENSION PLAN (CONTINUED)**

**Annual Pension Cost**

For the fiscal year ended June 30, 2013, the School Board's annual pension cost of \$50,489 for VRS was equal to the School Board's required and actual contributions.

**Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2013	\$ 50,489	100%	\$ -
June 30, 2012	50,045	100%	-
June 30, 2011	43,787	100%	-

The fiscal year 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.75% to 6.20% per year for teachers, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and projected salary increases also include an inflation component of 2.50%. The actuarial value of the School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The School Board's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

**Funded Status and Funding Progress**

As of June 30, 2012, the most recent actuarial valuation date, the plan was 83.26% funded. The actuarial accrued liability for benefits was \$2,679,151, and the actuarial value of assets was \$2,230,622, resulting in an unfunded actuarial accrued liability (UAAL) of \$448,529. The covered payroll (annual payroll of active employees covered by the plan) was \$367,833, and the ratio of the UAAL to the covered payroll was 121.94%.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
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**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS**

The School Board provides other post-employment health care benefits. A retired employee, who is participating in the employer's medical program is eligible to elect post-employment coverage if: (a) eligible for immediate retirement benefits under VRS (age 50 with 10 years of total service), or (b) permanently, totally disabled and injured in the line of duty and is eligible for immediate disability retirement benefits under VRS. The medical coverage for retirees is as follows: (1) the retiree pays 100% of the employee premium if retired with less than 25 years of service, (2) the retiree pays the employee premium less \$100 monthly credit if retired with 25 or more years of service but less than 30 years of service, (3) the retiree pays the employee premium less \$200 monthly credit if retired with 30 or more years of service but less than 35 years of service or (4) the retiree pays the employee premium less \$300 monthly credit if retired with 35 or more years of service. For all spouses, the retiree pays 100% of the employee's spousal premium. Coverage continues to age 65 for retirees and spouses. There are approximately 313 school employees participating in the post-employment health care benefit arrangements.

**Funding Policy**

The contribution requirements of plan members are based on pay-as-you go financing requirements.

**Annual OPEB Cost and Net OPEB Obligation**

The School Board's other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB. 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 (of funding excess) over a period not to exceed thirty years. The following table shows the components of the School Board's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the School Board's OPEB obligation.

Funding Interest Rate	4.25%
Annual Required Contribution (ARC)	\$ 254,300
Interest on Net OPEB Obligation	5,200
Adjustment to the ARC	(5,200)
Annual OPEB Cost	<u>254,300</u>
Annual Employer Contribution	<u>190,000</u>
Change in Net OPEB Obligation	64,300
Net OPEB Obligation - Beginning of the Year	<u>58,600</u>
Net OPEB Obligation - End of Year	<u><u>\$ 122,900</u></u>

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
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NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2013**

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**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for current fiscal year and each of the two preceding years are as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2013	\$ 254,300	75%	\$ 122,900
June 30, 2012	194,100	98%	58,600
June 30, 2011	194,000	118%	81,300

**Funded Status and Funding Progress**

As of June 30, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$3,407,500.

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 healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Actuarial Methods and Assumptions**

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

In the June 30, 2012 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.25% investment rate of return and an annual healthcare cost trend rate of 9.00% initially, decreasing at a rate of 0.50% per year until an ultimate rate of 5.00% is reached. The UAAL is being amortized as a level percentage over 30 years.

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**NOTE 12 - RISK MANAGEMENT**

**Risk Management**

The School Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; injuries to employees and natural disasters. The Risk Management Programs utilized by the School Board are as follows:

Workmen's Compensation

Workmen's Compensation Insurance is provided through the School Systems of Virginia Group Self Insurance Association. Benefits are those afforded through State of Virginia as outlined in the Code of Virginia Section 65.2-100; premiums are based upon covered payroll, job rates and claims experience.

General Liability and Other

The School Board provides general liability and other insurance through policies with the Virginia Municipal Liability Pool. General liability and business automobile have a \$1,000,000 limit. Machinery is covered as per statement of values and is provided through the City's insurance policy with a portion of the premium being paid by the School Board.

Healthcare

Healthcare Insurance coverage is provided to School Board employees through a policy with United Health Care. Partial premiums are withheld from the employee's earnings and remaining premiums are paid by the School Board. Retired employees and dependents of employees of the School Board are also covered by the program provided they pay the premium.

There were no significant reductions in insurance coverage from the prior fiscal year and no settlements that exceeded the amount of insurance coverage during the last three fiscal years.

**NOTE 13 - CONTINGENT LIABILITIES**

Special Purpose Grants are subject to audit to determine compliance with their requirements. School Board officials believe that if any refunds are required, they will be immaterial.

**NOTE 14 - ECONOMIC DEPENDENCY**

The School Board receives a substantial amount of its support from federal, state and local governments. A significant reduction in the level of this support, if this were to occur, may have an effect on the School Board's programs and activities.

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**NOTE 15 - UNCERTAIN TAX POSITIONS**

The Foundation and related companies file income tax returns in the U.S. federal jurisdiction and the Virginia state jurisdictions. The Foundation's federal income tax returns for the fiscal year 2012 are subject to examination by the Internal Revenue Services for three years after filing. State jurisdictions have statutes of limitations that generally range from three to five years. Management believes that all tax positions taken are in accordance with the Internal Revenue Code and regulations.

**NOTE 16 - PRIOD PERIOD ADJUSTMENT**

A prior period adjustment at the government-wide level of \$351,105 was necessary to remove the Central Office Renovation capital assets recorded in prior fiscal years. The capital assets are recorded by a related entity, Central Warehouse Building, as lease improvements; therefore, they should not be recorded by the School Board.

**NOTE 17 - SUBSEQUENT EVENT**

In October 2013, the School Board signed a purchase lease agreement for an Energy Upgrade project at three schools in the amount of \$3,247,472.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
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**REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Fiscal Year Ended June 30, 2013**

**Analysis of Funding Progress for Defined Benefit Pension Plan**

	(a)	(b)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b)  Funded Ratio	( c )  Annual Covered Payroll	((b-a)/c)  UAAL as a Percentage of Covered Payroll
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)				
June 30, 2012	\$ 2,230,622	\$ 2,679,151	\$ 448,529	83.26%	\$ 367,833	121.94%
June 30, 2011	2,313,685	2,815,819	502,134	82.17%	350,356	143.32%
June 30, 2010	2,368,412	2,936,997	568,585	80.64%	361,980	157.08%

**Analysis of Funding Progress for Other Post-Employment Benefits**

	(a)	(b)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b)  Funded Ratio	( c )  Annual Covered Payroll	((b-a)/c)  UAAL as a Percentage of Covered Payroll
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)				
June 30, 2012	\$ -	\$ 3,407,500	\$ 3,407,500	0.00%	N/A	N/A
June 30, 2010	-	2,476,900	2,476,900	0.00%	N/A	N/A
June 30, 2008	-	2,099,200	2,099,200	0.00%	N/A	N/A

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
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**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2013**

	Special Revenue Funds					
	Cafeteria Fund	School Textbook Fund	Central Office Renovation Fund	Local Capital Projects Fund	Non-recurring Lottery Proceeds Fund	Nonmajor Governmental Funds
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 152,604	-	-	-	-	152,604
Investments	113,679	-	-	-	-	113,679
Due from Other Governmental Units	11,282	-	-	-	-	11,282
Inventories	24,802	-	-	-	-	24,802
Restricted Assets						
Cash and Cash Equivalents	-	101,977	-	107,544	88,419	297,940
Investments	-	-	-	-	97,009	97,009
Due from Other Funds	-	148,537	-	31,408	-	179,945
<b>TOTAL ASSETS</b>	<b>\$ 302,367</b>	<b>250,514</b>	<b>0</b>	<b>138,952</b>	<b>185,428</b>	<b>877,261</b>
<b>LIABILITIES</b>						
Accounts Payable	\$ -	6,091	-	-	-	6,091
Accrued Payroll and Related Liabilities	14,073	-	-	-	-	14,073
Unearned Revenue	6,738	-	-	-	-	6,738
Due to Other Funds	-	-	-	-	4,900	4,900
<b>TOTAL LIABILITIES</b>	<b>20,811</b>	<b>6,091</b>	<b>0</b>	<b>0</b>	<b>4,900</b>	<b>31,802</b>
<b>FUND BALANCES</b>						
Nonspendable - Inventories	24,802	-	-	-	-	24,802
Restricted for Capital Outlay	-	244,423	-	138,952	180,528	563,903
Assigned for Food Service	256,754	-	-	-	-	256,754
<b>TOTAL FUND BALANCES</b>	<b>281,556</b>	<b>244,423</b>	<b>0</b>	<b>138,952</b>	<b>180,528</b>	<b>845,459</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 302,367</b>	<b>250,514</b>	<b>0</b>	<b>138,952</b>	<b>185,428</b>	<b>877,261</b>

See Independent Auditors' Report.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2013**

	Special Revenue Funds					
	Cafeteria Fund	School Textbook Fund	Central Office Renovation Fund	Local Capital Projects Fund	Non-recurring Lottery Proceeds Fund	Nonmajor Governmental Funds
REVENUES						
Intergovernmental Revenues						
Commonwealth of Virginia	\$ 23,725	-	-	-	-	23,725
Federal Government	918,964	-	-	-	-	918,964
Investment Earnings	745	481	1,268	107	1,276	3,877
Charges for Services	380,315	222	-	-	-	380,537
Other	-	-	632,769	-	-	632,769
<b>TOTAL REVENUES</b>	<b>1,323,749</b>	<b>703</b>	<b>634,037</b>	<b>107</b>	<b>1,276</b>	<b>1,959,872</b>
EXPENDITURES						
Current						
Food Services	1,306,344	-	-	-	-	1,306,344
Capital Projects	30,665	142,361	37,685	-	4,900	215,611
<b>TOTAL EXPENDITURES</b>	<b>1,337,009</b>	<b>142,361</b>	<b>37,685</b>	<b>0</b>	<b>4,900</b>	<b>1,521,955</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(13,260)	(141,658)	596,352	107	(3,624)	437,917
OTHER FINANCING SOURCES (USES)						
Transfer from Operating Fund	-	200,257	-	31,408	-	231,665
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>0</b>	<b>200,257</b>	<b>0</b>	<b>31,408</b>	<b>0</b>	<b>231,665</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(13,260)</b>	<b>58,599</b>	<b>596,352</b>	<b>31,515</b>	<b>(3,624)</b>	<b>669,582</b>
<b>FUND BALANCE, JULY 1, 2012</b>	<b>294,816</b>	<b>185,824</b>	<b>(596,352)</b>	<b>107,437</b>	<b>184,152</b>	<b>175,877</b>
<b>FUND BALANCE, JUNE 30, 2013</b>	<b>\$ 281,556</b>	<b>244,423</b>	<b>0</b>	<b>138,952</b>	<b>180,528</b>	<b>845,459</b>

See Independent Auditors' Report.



**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**CAFETERIA FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
<b>REVENUES</b>				
Intergovernmental Revenues				
Commonwealth of Virginia	\$ 21,435	22,000	23,725	1,725
Federal Government	875,000	895,000	918,964	23,964
Investment Earnings	4,025	2,025	745	(1,280)
Charges for Services	500,000	500,000	380,315	(119,685)
<b>TOTAL REVENUES</b>	<b>1,400,460</b>	<b>1,419,025</b>	<b>1,323,749</b>	<b>(95,276)</b>
<b>EXPENDITURES</b>				
Current				
Food Services	1,368,081	1,384,537	1,306,344	78,193
Capital Projects	30,000	34,000	30,665	3,335
<b>TOTAL EXPENDITURES</b>	<b>1,398,081</b>	<b>1,418,537</b>	<b>1,337,009</b>	<b>81,528</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,379	488	(13,260)	(13,748)
<b>FUND BALANCE, JULY 1, 2012</b>	<b>294,816</b>	<b>294,816</b>	<b>294,816</b>	<b>-</b>
<b>FUND BALANCE, JUNE 30, 2013</b>	<b>\$ 297,195</b>	<b>295,304</b>	<b>281,556</b>	<b>(13,748)</b>

See Independent Auditors' Report.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**SCHOOL TEXTBOOK FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
REVENUES				
Investment Earnings	\$ -	100	481	381
Charges for Services	-	-	222	222
TOTAL REVENUES	0	100	703	603
EXPENDITURES				
Capital Projects	-	250,000	142,361	107,639
TOTAL EXPENDITURES	0	250,000	142,361	107,639
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	(249,900)	(141,658)	108,242
OTHER FINANCING SOURCES (USES)				
Transfer from Operating Fund	-	200,996	200,257	(739)
TOTAL OTHER FINANCING SOURCES (USES)	0	200,996	200,257	(739)
NET CHANGE IN FUND BALANCE	0	(48,904)	58,599	107,503
FUND BALANCE, JULY 1, 2012	93,964	93,964	185,824	91,860
FUND BALANCE, JUNE 30, 2013	\$ 93,964	45,060	244,423	199,363

See Independent Auditors' Report.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**CENTRAL OFFICE RENOVATION FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
REVENUES				
Investment Earnings	\$ -	-	1,268	1,268
Other	-	700,000	632,769	(67,231)
TOTAL REVENUES	0	700,000	634,037	(65,963)
EXPENDITURES				
Capital Projects	-	737,534	37,685	699,849
TOTAL EXPENDITURES	0	737,534	37,685	699,849
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	(37,534)	596,352	633,886
FUND BALANCE, JULY 1, 2012	37,534	37,534	(596,352)	(633,886)
FUND BALANCE, JUNE 30, 2013	\$ 37,534	0	0	0

See Independent Auditors' Report.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**LOCAL CAPITAL PROJECTS FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
REVENUES				
Investment Earnings	\$ -	-	107	107
TOTAL REVENUES	0	0	107	107
TOTAL EXPENDITURES	0	0	0	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	107	107
OTHER FINANCING SOURCES (USES)				
Transfer from Operating Fund	-	-	31,408	31,408
TOTAL OTHER FINANCING SOURCES (USES)	0	0	31,408	31,408
NET CHANGE IN FUND BALANCE	0	0	31,515	31,515
FUND BALANCE, JULY 1, 2012	-	-	107,437	107,437
FUND BALANCE, JUNE 30, 2013	\$ 0	0	138,952	138,952

See Independent Auditors' Report.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**NON-RECURRING LOTTERY PROCEEDS FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**For the Fiscal Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
REVENUES				
Investment Earnings	\$ -	500	1,276	776
TOTAL REVENUES	0	500	1,276	776
EXPENDITURES				
Capital Projects	-	90,000	4,900	85,100
TOTAL EXPENDITURES	0	90,000	4,900	85,100
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	(89,500)	(3,624)	85,876
FUND BALANCE, JULY 1, 2012	182,230	182,230	184,152	1,922
FUND BALANCE, JUNE 30, 2013	\$ 182,230	92,730	180,528	87,798

See Independent Auditors' Report.

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD**  
**(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Fiscal Year Ended June 30, 2013**

<u>Federal Grantor/Program Title</u>	<u>Pass Through Grantor (Commonwealth of Virginia)</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Agriculture</u></b>			
Food Distribution - Commodities	Department of Agriculture	10.555	\$ 75,423
National School Lunch Program	Department of Education	10.555	613,311
National School Breakfast Program	Department of Education	10.553	276,095
Fresh Fruits and Vegetables Grant	Department of Education	10.582	29,558
<b><u>U.S. Department of Education</u></b>			
Title I, Part A - Improving Basic Programs	Department of Education	84.010	1,959,498
Title II, Part A - Improving Teacher Quality State Grants	Department of Education	84.367	173,062
Title II, Part D - Enhancing Education Through Technology, Stimulus	Department of Education	84.386	5,396
Title III English Proficiency	Department of Education	84.365	2,893
Special Education - Preschool (IDEA, Preschool)	Department of Education	84.173	17,332
Special Education - Grants to States (IDEA, Part B)	Department of Education	84.027	694,607
21st Century Community Learning Centers	Department of Education	84.287	153,375
Special Education - IDEA, Parent Resource Center	Department of Education	84.027	24,671
Carl Perkins - Vocational Education	Department of Education	84.048	64,452
Education Jobs Fund	Department of Education	84.410	33,138
ARRA - Longitudinal Data Systems	Department of Education	84.384	30,000
<b><u>U.S. Department of Health and Human Services</u></b>			
Medicaid	N/A	93.000	13,225
Total Federal Award Expenditures			<u>\$ 4,166,036</u>

(Continued)

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2013**

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**NOTE A: BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Bristol, Virginia School Board and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B: FOOD DISTRIBUTION**

Non-monetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of commodities received and used.

See Independent Auditors' Report.

### **SECTION III**

#### **INTERNAL CONTROL AND COMPLIANCE SECTION**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Superintendent and  
School Board Members  
City of Bristol, Virginia School Board  
Bristol, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bristol, Virginia School Board (the School Board), a component unit of the City of Bristol, Virginia, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements. We did not audit the discretely presented component unit. These financial statements collectively comprise the School Board's basic financial statements and we have issued our report thereon dated November 11, 2013. Our report includes a reference to other auditors who audited the combined financial statements of the Bristol Virginia Public School Education Foundation, as described in our report on the School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The combined financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

City of Bristol, Virginia School Board  
Independent Auditors' Report on  
Internal Control and Compliance

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Blackburn, Childers and Steagall, PLLC*  
BLACKBURN, CHILDERS & STEAGALL, PLC  
Johnson City, Tennessee

November 11, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Superintendent and  
School Board Members  
City of Bristol, Virginia School Board  
Bristol, Virginia

**Report on Compliance for Each Major Federal Program**

We have audited the City of Bristol, Virginia School Board's (the School Board) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School Board's major federal programs for the fiscal year ended June 30, 2013. The School Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the School Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School Board's compliance.

### Opinion on Each Major Federal Program

In our opinion, the School Board, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2013.

### Report on Internal Control Over Compliance

Management of the School Board, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Board's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Blackburn, Childers and Steagall, PLLC*  
BLACKBURN, CHILDERS & STEAGALL, PLC  
Johnson City, Tennessee

November 11, 2013

**CITY OF BRISTOL, VIRGINIA SCHOOL BOARD  
(COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2013**

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**Section I - Summary of Auditors' Results**

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the City of Bristol, Virginia School Board.
2. No significant deficiencies relating to the audit of the financial statements are reported this Schedule.
3. No instances of noncompliance material to the financial statements of the City of Bristol, Virginia School Board were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in this Schedule.
5. The auditors' report on compliance for the major federal award programs for the City of Bristol, Virginia School Board expresses an unmodified opinion on all major federal programs.
6. There were no audit findings required to be reported in accordance with section 510(a) of Circular A-133.
7. The programs tested as major programs were:

<u>Program</u>	<u>CFDA</u>
Title I, Part A	84.010
21 <sup>st</sup> Century Community Learning Centers	84.287

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City of Bristol, Virginia School Board was determined to be a low-risk auditee.

**Section II - Financial Statement Audit Findings**

None

**Section III - Major Federal Award Programs Audit Findings and Questioned Costs**

None