

Stafford County Public Schools
A Component Unit of Stafford County, Virginia
June 30, 2013



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Dr. Pamela Kahle, Assistant Superintendent for Elementary Education & Support Services
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Stafford County Public Schools
A Component Unit of Stafford County, Virginia
June 30, 2013

2013 COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2013
(July 1, 2012 – July 30, 2013)

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"To challenge each student to achieve excellence in a global society."

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June 30, 2013

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STAFFORD COUNTY PUBLIC SCHOOLS

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Lance W. Wolff, CPA
Assistant Superintendent
for Financial Services

The mission of Stafford County Public Schools is to challenge each student to achieve excellence in a global society.

January 7, 2014

Members of the Stafford County School Board
Stafford County Public Schools
County of Stafford, Virginia

We hereby submit the Comprehensive Annual Financial Report (CAFR) of Stafford County Public Schools (SCPS, or the division) for the fiscal year ended June 30, 2013. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of SCPS. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various activities and funds of SCPS.

Overview of the Comprehensive Annual Financial Report

This CAFR is divided into four sections: (1) Introductory, (2) Financial, (3) Statistical, and (4) Compliance. The Introductory section includes this Letter of Transmittal, plus a list of the School Board members and principal officials and the organizational chart for SCPS. The Financial section, prepared in accordance with the Governmental Accounting Standards Board's Statement No. 34 (GASB 34), includes the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), the basic financial statements and accompanying notes to the financial statements, and Required Supplementary Information (RSI).

In addition, the Financial section contains other supplementary information, including the combining financial statements. The MD&A is management's narrative overview and analysis of the basic financial statements, which should be read in conjunction with this Letter of Transmittal. The Statistical section contains selected financial and demographic information generally presented on a multi-year basis. The final section is the Compliance section, which includes information with respect to the Single Audit Act (see below).

Independent Audit

SCPS' financial statements have been audited by the accounting firm of McGladrey LLP and earned an unmodified opinion. McGladrey LLP examined, on a test basis, documents supporting the amounts and disclosures in the financial statements assessed, the accounting principles used and significant estimates made by management, and evaluated the overall financial statement presentation. The Independent Auditors' Report is included as the first document in the Financial section of this report.

Single Audit Act

SCPS is required to undergo an annual single audit in conformity with the provision of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Information related to this single audit, including a Schedule of Expenditures of Federal Awards, the Independent Auditor's Report on Compliance for each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133, the 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 *Governmental Auditing Standards*, and a Schedule of Findings and Questioned Costs, if any, are included in the compliance section of CAFR.

Profile of the County of Stafford and Stafford County Public Schools

The County of Stafford

Historical sites as well as cultural and recreational opportunities abound for residents of the County of Stafford (Stafford County, or the county) which is located only forty miles south of Washington, D.C. and fifty-five miles north of Richmond, VA. To our south are the popular vacation destinations of Virginia Beach and Colonial Williamsburg, and to the west lie the panoramic Blue Ridge Mountains.

Stafford's rich history of over 349 years is evident in places like Ferry Farm, George Washington's boyhood home, Chatham, an 18th century manor house, and Belmont, artist Gari Melcher's estate and gallery. Because of its close proximity to the richness of historical Virginia, the cultural attributes of Washington, D.C., and the recreational opportunities of the Atlantic Ocean, Chesapeake Bay, and the Blue Ridge Mountains, Stafford County is one of the most attractive counties in the state. It is a family-oriented suburban community with plenty of rural countryside.

From 2001 to 2011 Stafford County averaged 4.0% annualized job growth, the second highest growth rate among the 134 counties and independent cities in Virginia. From 2000 through 2012, Stafford County experienced a 44.0% increase in population. The resident population as of July 1, 2013 was 137,903.

Based on a survey conducted by Stafford County, approximately 91.1% of the county's residents were high school graduates, 22.9% have had some college, 7.8% hold an Associate's degree, 20.5% a Bachelor's degree and 12.6% have a Graduate or Professional degree.

Stafford County Public Schools

The citizens of Stafford County expect and support a quality educational system. Our students score above the state and national averages on standardized tests and earn awards at the regional, state and national levels. More than 82% of our graduates plan to continue their education at college or trade/technical schools.

Programs and policies of SCPS are established by an elected seven-member School Board representing the following districts: Aquia, Falmouth, Garrisonville, George Washington, Griffis-Widewater, Hartwood, and Rockhill. The School Board itself has no power to levy and collect taxes, or to increase the budget. The county's Board of Supervisors appropriates all funds (other major sources of revenue for SCPS include state and federal funds, as well as grants) to SCPS for educational expenditures, plus levies taxes and issues debt on behalf of SCPS.

The School Board employs a superintendent of schools to administer the public school division. As of September 30, 2013, a full range of public educational services are provided to 26,904 students from grades kindergarten through 12th grade at 31 main school sites, including Head Start. The school enrollment for the 2013-2014 school year was projected in the School Board's adopted budget to be 27,229.

Economic Outlook

Median Household Income

Median household income for the county ranked in the top 12 among U.S. counties and was the 6th highest ranked county in Virginia. Between 2007 and 2012, Stafford County has had the 5th highest job growth rate for Virginia localities. Stafford County also experienced the 7th highest business growth rate for localities with more than 2,000 establishments between 2007 and 2012.

Despite the economic slowdown, the business sector in Stafford is experiencing stability. Quantico Marine Corps Base straddles both Stafford County and Prince William County. The proximity of the military base strongly influences where high-paying employers locate, and as a result, many defense contractors are choosing office space in the county. During 2011, military investigative agencies relocated approximately 3,000 jobs to a new facility in Stafford County. The Stafford Hospital Center opened in 2009, bringing additional employment to Stafford County. In southern Stafford County, a nationally known commercial developer is constructing a mixed use corporate center known as Celebrate Virginia North.

Also, higher incomes mean more discretionary income. Recent trends include luxury retailers establishing an unprecedented foothold in Stafford County. As an example, Aquia Towne Center located on U.S. 1 is being transformed to offer boutiques, restaurants and other retail establishments that appeal to a higher-end customer.

Higher household incomes bring an increased demand for bigger homes in communities offering up-scale amenities. Single-family structures over 2,500 square feet were developed by such affinity developers as Augustine Homes. Once the housing sector recovers, growth in the student population will follow the increased housing development.

Composite Index

The Commonwealth of Virginia computes an index figure for each locality, known as the Composite Index of Local Ability-to-Pay (Composite Index). The calculation for the Composite Index is very complex but is summarized in *Management's Discussion & Analysis*. The Composite Index determines how much the required local match contribution to state funding for the standards of learning (SOQ) programs, incentive programs, and the lottery funded programs. In December 2013, the Composite Index increased from .3305 in the state biennium covering fiscal years 2013 and 2014 to .3411 in the state biennium covering fiscal years 2015 and 2016.

Impact of State Funding

The composite index as discussed above attempts to bring equity across the State. State funds are disbursed based on this index. As a locality acquires greater wealth, the State adjusts the index upward which reduces State funding and increases the locality's funding responsibility. The State's revenue picture for fiscal year 2014 continues to improve from the recession.

Major Initiatives and Accomplishments

Heather Empfield Day School and Transition Center

At the conclusion of the 2008-2009 school year, renovations and upgrades totaling \$390,453 were made at Drew Middle School to establish a new day school and transition center. The facility was completed at the start of the 2009-2010 school year and was dedicated on November 5, 2009. The day school is a relatively new program created in response to the disproportionate increase in students with autism, intellectual disabilities and emotional disabilities requiring specialized services. These services continue to be provided under an agreement with the county on a cost reimbursement basis. Operating the day school reduces the county's overall program cost.

Before and After School Child Care Program

Beginning with school year 2006-2007, the Rappahannock Area YMCA was authorized to offer a Before and After School Child Care program at 5 elementary schools as a pilot program for pre-K and school-age children. In school year 2008-2009, the successful program expanded to all 17 elementary schools. In addition, at the conclusion of the 2009-2010 school year (for the 2010 summer season), a summer program was started at two of the elementary schools and was expanded to five elementary schools for the 2010-2011 school year (the 2011 summer season).

International Baccalaureate Program

In fiscal year 2010, the International Baccalaureate Program expansion from the initial site at Mountain View High School to Brooke Point High School was completed for fiscal year 2011.

Energy Efficiency Program

In calendar year 2012, SCPS consumed less energy for a net cost savings of \$1,950,805, the equivalent to energy costs for operating 8 elementary schools or 4 high schools. SCPS is exercising environmental stewardship and reducing costs by emitting 48,324,000 less pounds of carbon dioxide (CO₂) into the atmosphere.

Technology

Cyclic Computer Replacement Program. The cyclic replacement of mobile laptop laboratory carts and desktop computers places current technology in the hands of students and teachers. A goal of the program is to replace these computers on a five year interval. Increasing demand for computers to be used for assessments and Standards of Learning (SOL) testing is well documented as over 60,000 tests are administered per year, which will continue into the foreseeable future. While the cyclic replacement program has been successful in replacing computers, the need for additional computers and mobile devices in our schools is evident as students and staff rely on computer technology as a necessity for both living and learning.

21st Century Classroom Program. All schools now have a wireless infrastructure in place for Wi-Fi connectivity in all classrooms. Mounted projectors are also now installed in all classrooms for teachers to utilize as a tool to integrate technology into instruction. Less than half of all classrooms have interactive white boards installed, which allows teachers and students to use technology interactively in the classroom. Document cameras, student response systems, and other instructional technology tools are also available in many classrooms.

Fiber-Optics Connectivity Project. SCPS continues to experience explosive growth in site-to-site as well as Internet bandwidth demand. Fiber-optic connectivity was increased to 18 schools in fiscal year 2013. Work is in progress to bring fiber-optic connectivity to the remaining 16 sites. Leased lines offer finite bandwidth for a fixed recurring price, while owning a fiber-optic network offers virtually limitless capacity with little or no recurring expenses. With the installation of our own fiber network, our recurring costs for low-bandwidth leased lines have decreased significantly over the last few years, bandwidth between schools has increased tremendously, and access to the Internet has been greatly improved. As a direct result of fiber installation, we have been able to establish a reliable high speed connection to the county offices and the sheriff's offices. Our work with the sheriff's department has resulted in a "real time" viewing capability from the sheriff's command center to all security cameras within our schools, which will greatly aid an emergency response effort if the need arises. In addition, we continue to implement and capitalize on Voice over Internet Protocol (VoIP) technology in our new telephone installations.

Instructional Technology. SCPS continues to promote and support the use of technology for instruction in our classrooms from kindergarten to 12th grade. Each school has a full time Instructional Technology Resource Teacher (ITRT) on staff to provide training and support for teachers as they integrate tools and strategies in their classrooms. ITRT's at the elementary level are focusing students and teachers on integrating technology to enhance students' keyboarding skills and on using technology as part of the writing process. Our secondary ITRT's help teachers with differentiating lessons and using the online resources available to them and their students. All ITRT's continue to assist teachers in the development of student 21st Century Skills as part of their lesson planning. Since ITRT's are on-site with the teachers, they are able to provide "just in time" support to teachers in the classroom setting.

Food and Nutrition Services

SCPS' school cafeterias provide a nutritious breakfast and lunch daily to all Stafford County students. In fiscal year 2013, 930,958 breakfasts (daily average of 5,445) and 2,552,766 lunches (daily average of 14,930) lunches were served. In addition, 496,758 free and 98,713 reduced breakfasts plus 807,510 free and 176,585 reduced lunches were served to qualifying students under the National School Lunch and Breakfast Program in fiscal year 2013. Meal prices for the 2012-2013 school year were \$1.20 for breakfast (all levels), \$2.30 for elementary school lunch, \$2.40 for middle school and high school lunch.

Transportation Services

Our school buses transport students daily in a safe and timely manner throughout the school year. With a fleet of 236 mainstream buses, 64 special needs buses and 5 activity buses, bus drivers made 13,789 bus stops over 813 bus routes with an average of 18,893 student riders daily, including both regular and special program routes. A total of 2.1 million miles were traveled for fiscal year 2013. In fiscal year 2009, the construction of a new transportation facility began, which was completed and opened in early fiscal year 2010. This new facility provides staff with ample space and state-of-the-art communications to properly schedule and track our school bus fleet on a daily basis. In addition, GPS devices were installed in all buses by the end of fiscal year 2013 and high resolution camera systems will be installed in all buses during fiscal year 2014.

Other Post-Employment Benefits (OPEB) Trust Fund

SCPS established an irrevocable trust to invest funds to cover the OPEB liability for current and future retiree health benefit costs. In fiscal year 2013, a \$6.8 million contribution was made to the OPEB Trust Fund. The market value of the trust fund investments at June 30, 2013 was \$12,325,983 million. Additionally, the School Board approved a \$4 million contribution towards the OPEB liability in fiscal year 2014.

Accreditation

For the fourth consecutive year, 100% of our schools have earned full state accreditation. In Virginia, public school accreditation is based on Standards of Learning (SOL) test results from the previous academic year or may include a three year average of achievement in the academic areas of English, History, Mathematics, and Science. To earn full accreditation, a school must meet or exceed the minimum benchmarks for SOL passing rates in English, History, Mathematics and Science during the previous school year or cumulatively over the past three school years. The "Accreditation with Warning" rating means that a school met or exceeded minimum benchmarks in every academic area except the area(s) cited. The "Accreditation Denied" rating means that the school failed to meet the requirements for full accreditation for four consecutive years. The "Conditionally Accredited" rating can apply to a new school, or a school that fails to meet full accreditation for four consecutive years. Historical accreditation data is also included in the statistical section of this document.

Annual Measurable Objectives (AMO's)

For the 2012-2013 school year, 47% of our schools met all federal AMO's. However, the school division overall did not meet all federal AMO's.

The Commonwealth of Virginia, in accordance with the *Elementary and Secondary Education Act of 1965* (ESEA) flexibility waiver granted on June 29, 2012, has established AMO's designed to reduce proficiency gaps between high- and low-performing schools within six years. Under the provisions of Virginia's application, new annual AMO's will be established to reduce the failure rate in half for the following subgroups over the next six years:

- All students
- Proficiency Gap Group 1 – Economically Disadvantaged Students, English Language Learners, Students with Disabilities (unduplicated)
- Proficiency Gap Group 2 – Black students, not of Hispanic origin
- Proficiency Gap Group 3 – Hispanic students, of one or more races
- Asian students
- Economically disadvantaged students
- English language learners
- Students with disabilities
- White students

The AMO's are based on the actual performance of students in each subgroup for reading and mathematics. AMO's for mathematics for assessment years 2012 – 2013 through 2016 - 2017 culminate with all students in all subgroups achieving a pass rate of at least 73% in the subject. Reading AMO's for assessment years 2012-2013 through 2016-2017 culminate with all students in all subgroups achieving a pass rate of at least 78% in the subject.

No Child Left Behind (NCLB) Safe Harbor

NCLB's "safe harbor" provision recognizing a ten-percent reduction in a subgroup's failure rate as acceptable progress remains in effect. In addition, under a new safe harbor provision for higher-performing schools and subgroups, a subgroup that performed higher in the prior year than the current year's AMO target is expected to meet the prior year's pass rate or be within five percent of the prior year's pass rate. This prevents schools from being penalized for typical year-to-year fluctuations in achievement. This safe harbor provision was effective for Mathematics in assessment year 2012-2013 and will be effective for Reading in assessment year 2013-2014. It may not be invoked for more than two consecutive years.

Financial Information

SCPS continues its sound financial condition as demonstrated by the financial statements and schedules included in this report, operating within the resources available while achieving many of its program goals. Approximately 85% of the current operating costs are related to employee compensation and providing competitive compensation and benefits to attract and retain qualified staff. This remains a top priority for SCPS.

SCPS will experience limited growth in state funding in the near future. Funding from the Commonwealth of Virginia is expected to increase only in proportion to student growth and modest amounts for inflation, which will be mitigated by the increase in the Composite Index as the county grows in wealth compared to the rest of the Commonwealth. Appropriations from the county are expected to increase based on the anticipated rise in the Composite Index and are interdependent on the county's ability to maintain its unreserved general fund balance at 12% of total revenues in tight economic times.

Internal Controls

The internal control system is designed to provide reasonable, but not absolute, assurance that SCPS' management objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. The internal control system should reduce to a relatively low level the risk that material errors or fraud may occur. Materiality is determined in relation to the financial statements as a whole. The internal control system should ensure any material errors or fraud that occur are detected in a timely manner by employees in the normal course of performing their job duties and responsibilities.

Budgetary Controls

SCPS' management maintains budgetary controls to ensure compliance with the annual appropriated budget adopted by the Board. In accordance with state law, the advertised budget is submitted to the Board of Supervisors (BOS) for appropriation. The BOS determines the level of local funding to be provided to SCPS. Based on that appropriation, the School Board makes changes in its advertised budget and usually adopts the approved budget by late April or early May, depending on the timing of the Virginia General Assembly's adoption of the state budget.

Legal spending control is placed on the individual fund categorical levels with regard to the County appropriations. However, SCPS has established account level control over the budget with functional reporting. The Department of Financial Services ensures that purchase orders and other procurement methods comply with legal purchasing requirements and sufficient budgeted funds are available for the purchases.

SCPS also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Expenditure commitments, including purchase orders and contracts, are encumbered to ensure funds have been reserved and will be available when the purchased goods or services are received and payment is due. Outstanding encumbrances are reported as a reservation of fund balance in the Operating Fund Balance Sheet.

Risk Management

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

Liability risk is managed through insurance. SCPS' insurance policies include: property insurance, surety bonds, fiduciary insurance and catastrophic medical insurance for participants in the Virginia High School League. The self-insurance programs cover health benefits for retirees and employees and workers' compensation benefits for employees. SCPS also retains the professional services of an insurance broker firm to lead and participate in identifying and analyzing areas of concern and providing assistance, ideas and solutions to reduce and control overall risk.

Cash Management

The county is the custodian of all the cash and investments of SCPS, except certain cash on hand, investments held for certain capital projects, and funds held in local student activity accounts. SCPS' does not report a year-end cash balance as it is county policy to reclassify SCPS' year-end cash and equivalents balances as "Due from Primary Government". The Treasurer's Office has custodial and internal control responsibilities over SCPS' cash and cash equivalents, with the exception of SCPS' fiduciary funds, which is explained in Note 1, section F of the financial statements.

Acknowledgements

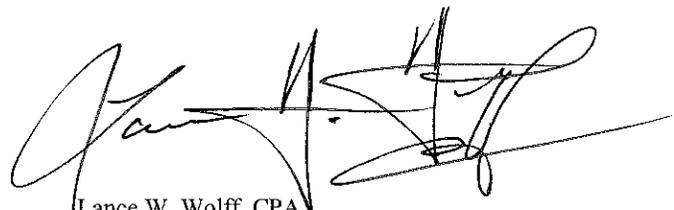
We would like to express our sincere gratitude to all the members of the Department of Financial Services who were involved in or assisted with the preparation of this report. Our dedicated finance and accounting staff has accomplished the major task of preparing this Comprehensive Annual Financial Report and remains committed to the ongoing goal of continuously improving our financial accountability to the citizens of the County of Stafford.

We would also like to thank the School Board for their leadership and support in conducting the financial affairs of SCPS in a responsible and progressive manner, during these challenging economic times. Their steady support is vital to the financial health of the school division and the accomplishment of its mission.

Respectfully,

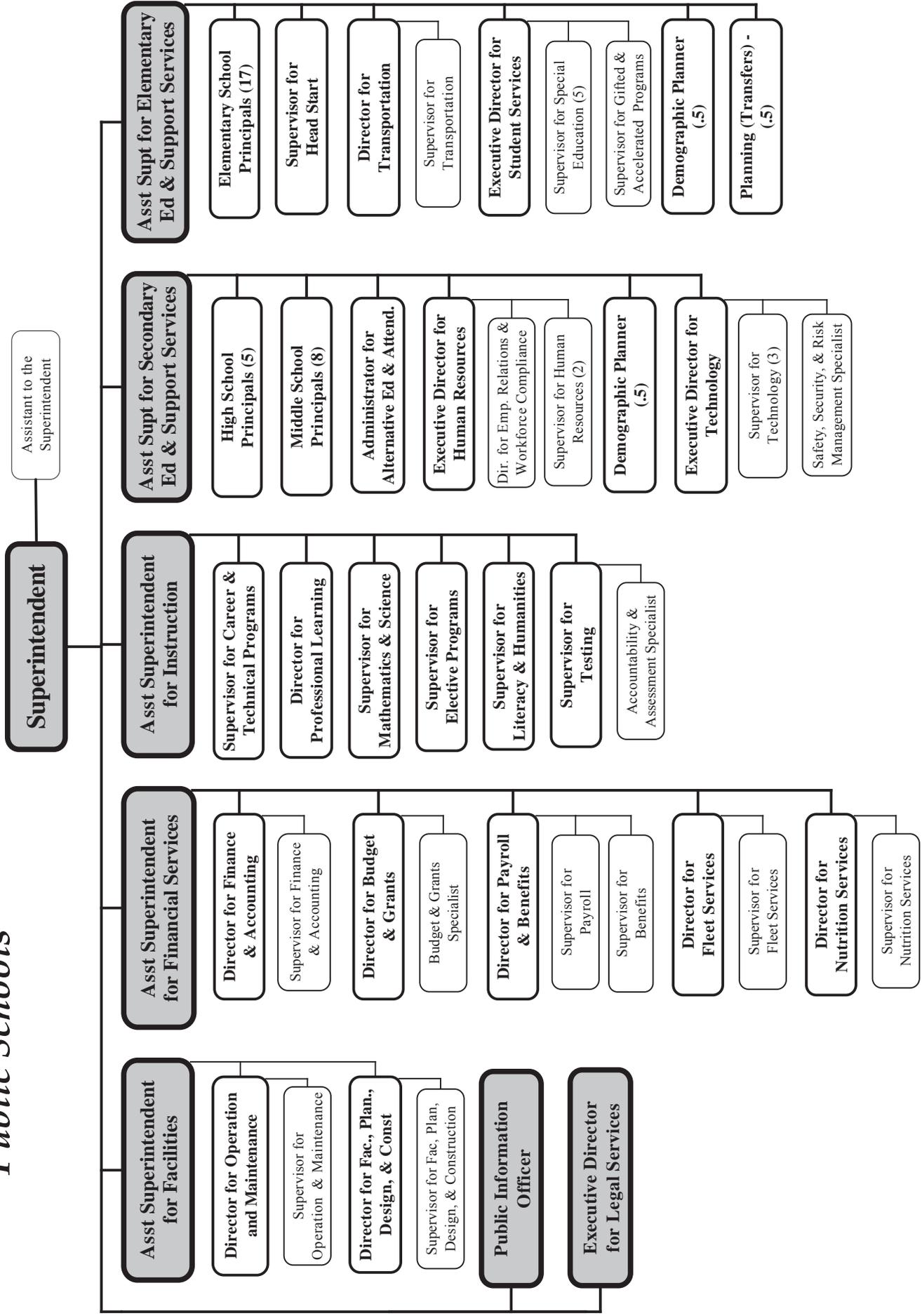


William C. Symons, Ed. D.
Acting Superintendent



Lance W. Wolff, CPA
Assistant Superintendent for Financial Services

Stafford County Public Schools



Stafford County Public Schools
A Component Unit of Stafford County, Virginia
June 30, 2013

INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Stafford County School Board
Stafford County School Board
Stafford, 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 Stafford County School Board (the school board), a component unit of Stafford County, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and the *Specifications* 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Stafford County School Board, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Restatement of prior year net position and fund balances

As discussed in Note 17 of the notes to the basic financial statements, the beginning balance of net position in Governmental Activities and the beginning fund balances in the Operating Fund and the Food and Nutrition Services Fund have been restated for the correction of two errors. The school board restated its beginning net position and fund balances to (a) capitalize payments for services paid for, but not yet utilized by, the school board, and (b) accrue a liability for employee health insurance benefits, which were earned by the fiscal year-end. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of pension and other post-employment benefit (OPEB) funding progress on pages 8 - 12 and 54 - 56 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stafford County School Board's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, other schedules, statistical section, and schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 07, 2014 on our consideration of Stafford County 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 Stafford County School Board's internal control over financial reporting and compliance.

McGladrey LLP

New Bern, North Carolina
January 07, 2014

Stafford County Public Schools
A Component Unit of Stafford County, Virginia
June 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF THE COUNTY OF STAFFORD, Virginia
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
June 30, 2013

INTRODUCTION

As management of Stafford County Public Schools ("SCPS"), we offer readers an overview and analysis of financial activities for the fiscal year ended June 30, 2013. This section of the Comprehensive Annual Financial Report (CAFR) presents Management's Discussion and Analysis (MD&A) of the overall financial performance of SCPS during the fiscal year ended June 30, 2013. Readers are encouraged to consider this information in conjunction with SCPS' transmittal letter, basic financial statements and notes to the basic financial statements to enhance their understanding and use of the basic financial statements.

FINANCIAL HIGHLIGHTS

SCPS' total net position (assets less liabilities) on a government-wide basis was \$411.3 million at June 30, 2013, representing an increase of \$21.8 million, or 5.60%, from the total net position of \$389.5 million at June 30, 2012, as restated. This increase was due to an \$18.6 million increase in governmental funds balance, an increase in net investment in capital assets of \$5.9 million, while internal service funds incurred a loss of \$2.7 million. Current assets decreased by \$1.8 million, or 2.3%, due to a decrease in unrestricted cash and receivables of \$4.3 million, an increase in Due from Stafford County of \$2.3 million, and an increase in inventory of \$.1 million. Restricted cash increased by \$13.9 million due to an increase in Virginia Public School Authority (VPSA) bond money for construction projects. Current liabilities decreased by \$.8 million over fiscal year 2012 due primarily to a combined increase in insurance claims and unearned revenue of \$.8 million and a decrease in accounts payable of \$1.8 million. Noncurrent liabilities decreased by \$3.0 million in fiscal year 2013 due to a \$3.0 million decrease in the OPEB liability

For fiscal year 2013, SCPS' governmental activities expenses of \$290.7 million exceeded program revenues (charges for services plus grants and contributions) of \$99.3 million by \$191.4 million. This excess is a 3.4% decrease in the \$198.0 million excess for fiscal year 2012, as restated. Additionally, general revenues, unreserved funds available for all educational purposes, including contributions from the County and general contributions from the state and federal governments, increased by \$13.7 million, or 6.9%, from \$199.5 million in fiscal year 2012 to \$213.2 million in fiscal year 2013.

SCPS' General Fund (otherwise referred to as the Operating Fund) reported a fund balance of \$5.5 million for the fiscal year ended June 30, 2013. This represents an increase of \$2.5 million, or 85.3%, as compared to the June 30, 2012 fund balance of \$3.0 million, as restated. This is due to an increase in encumbrances at the end of fiscal year 2013 and the restatement of 2012 fund balance.

OVERVIEW OF THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

According to the Government Accounting Standards Board (GASB), state and local governments are encouraged to prepare a CAFR "covering all funds and activities of the primary government and providing an overview of all discretely presented component units of a reporting entity – including an Introductory section, MD&A, basic financial statements, required supplementary information (other than the MD&A), combining and individual fund statements, schedules, narrative explanations, and a statistical section". The GASB has further identified a set of basic financial statements and Required Supplementary Information (RSI) disclosures that are required to be in compliance with Generally Accepted Accounting Principles (GAAP) and the minimum required contents of a governmental financial report, which are as follows:

- MD&A as RSI
- Basic Financial Statements
 - Government-wide Financial Statements
 - Fund Financial Statements
 - Notes to the Financial Statements
- RSI other than MD&A

The CAFR is to include four major sections: (1) Introductory, (2) Financial, (3) Statistical, and (4) Compliance.

Introductory section: The introductory section includes a table of contents, a letter of transmittal, a list of principal officials and an organization chart. This introductory section is unaudited.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF THE COUNTY OF STAFFORD, Virginia
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
June 30, 2013

OVERVIEW OF THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) (Continued)

Financial section: The financial section includes the auditor's report, MD&A, the basic financial statements (i.e., government-wide, fund and accompanying notes), RSI and other supplementary information (i.e., combining financial statements and supporting schedules).

Statistical section: The purpose of this section is to provide historical and trend data to help the reader of the financial statements better understand, review and analyze the overall viability of the governmental entity and its economic status. This section presents various tables with 10-year historical information on financial trends, revenue capacity, debt capacity, demographic and economic information and operating data. This section is unaudited.

GASB *Statement No. 44 "Economic Condition Reporting: The Statistical Section"* (May 2004) provided guidance on the content of the statistical section to include five categories: (1) financial trend information; (2) revenue capacity information; (3) debt capacity information; (4) demographic and economic information; and (5) operating information. Sources and assumptions must be described for all statistical information presented. Other information is permissible as long as it supports the goal of improving a user's basic understanding and analysis of the governmental entity's economic condition.

Compliance section: The final section is the compliance section, which includes information with respect to the Single Audit Act (discussed in the Transmittal Letter) as well as the following two auditor's reports: (1) 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* and (2) Report on Compliance for Each Federal Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards required by OMB Circular A-133. The Schedule of Expenditures of Federal Awards along with the related note disclosures is also included in this section.

THE BASIC FINANCIAL STATEMENTS

There are two types of financial statement presentations, the government-wide (for SCPS as a whole) and the fund financial statements (for each SCPS fund). The government-wide financial statements provide both long-term and short-term information about the SCPS' overall financial status on an economic resource focus. The remaining statements are fund financial statements that focus on a current financial resource basis and individual parts of SCPS' operations in greater depth and detail than the government-wide financial statements.

Also included in the financial statements are *notes* that explain some of the information in the financial statements and provide more detailed financial data and explanations. Following the financial statements is a section of RSI that further explains and supports the information in the financial statements.

The following chart summarizes the major features of SCPS' financial statements and the types of information they contain. The remainder of this overview section of MD&A's discussion and analysis explains the structure and contents of each of the statements.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF THE COUNTY OF STAFFORD, Virginia
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
June 30, 2013

THE BASIC FINANCIAL STATEMENTS (Continued)

The major features of SCPS' government-wide financial statements and fund financial statements are as follows:

	Government-wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire school division	Activities of school system not fiduciary or proprietary, such as Operating Fund, Capital Projects Fund, Food and Nutrition Services Fund and Grants Fund	Activities of school system operating similar to private businesses, such as Fleet Services Fund, Health Benefits Fund and Workers' Compensation Funds	Activities of school system with an agent or trustee overseeing resources, such as OPEB Trust Fund, Scholarship and Endowment Trust Funds, School Activity Agency Funds, Employee Flexible Spending Agency Fund and Fiduciary Services Fund
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses, and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of net position • Statements of changes in net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Agency Fund - cash basis of accounting Trust Fund – accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital and short-term and long-term	Agency Fund - does not contain capital assets nor liabilities Trust Fund – all financial assets and liabilities, short-term and long-term
Type of inflow/outflow information	All revenues earned and expenses incurred during year, regardless of when cash is received or paid	Revenues when cash is received during or soon after year-end; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues earned and expenses incurred during year, regardless of when cash is received or paid	Agency Fund - all receipts as received and disbursements as paid Trust Fund – all revenues earned and expenses incurred during year

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June 30, 2013

FINANCIAL ANALYSIS OF SCPS AS A WHOLE

Following is a discussion of the major financial highlights in SCPS' government-wide financial statements.

Net Position

Total net position at June 30, 2013 increased by \$21.8 million, or 5.6%, over June 30, 2012, as restated. Current assets decreased by \$1.8 million, or 2.3%, due primarily to a decrease in cash of \$4.0 million and an increase in due from primary government of \$2.3 million from 2012 to 2013. Restricted assets increased by \$13.9 million, or 80.0%, from 2012 to 2013 due to an increase in VPSA bond proceeds received from the County. The net investment in capital assets increased by \$5.9 million, or 1.6%, due primarily to the renovation of Stafford Elementary School. Current liabilities decreased by \$0.8 million, or 1.4% due to \$1.8 million decrease in accounts payable, \$0.6 million increase in unearned revenue and \$0.3 increase in accrued insurance claims. Noncurrent liabilities decreased by \$3.0 million due to a decrease in the OPEB liability of \$3.0 million from 2012 to 2013. The restricted net position increased by \$4.4 million, or 25.2%, due to \$4.8 million increase of the net position from the Capital Project Fund being restricted, partially offset by \$0.3 million less being restricted in the Food and Nutrition Services Fund's net position classified as restricted. The unrestricted net position increased by \$11.5 million, or 196.7%, due primarily to the increase in encumbrances classified as unrestricted in the governmental funds of \$14.1 million, and the net decrease in internal service funds unrestricted net position due to a loss of \$2.7 million.

The following table provides a summary of SCPS' net position as of June 30, 2013 and 2012:

Summary of Net Position				
As of June 30,				
(In thousands of dollars)				
Governmental Activities				
	2013	2012	Change	% Change
		as restated		
Assets:				
Current assets	\$ 76,818	\$ 78,626	\$ (1,808)	(2.3) %
Noncurrent assets:				
Restricted assets	31,387	17,440	13,947	80.0 %
Capital assets	385,419	379,568	5,851	1.5 %
Total assets	<u>493,624</u>	<u>475,634</u>	17,990	3.8 %
Liabilities:				
Current liabilities	53,385	54,157	(772)	(1.4) %
Noncurrent liabilities	<u>28,899</u>	<u>31,929</u>	(3,030)	(9.5) %
Total liabilities	<u>82,284</u>	<u>86,086</u>	(3,802)	(4.4) %
Net position:				
Net investment in capital assets	383,729	377,832	5,897	1.6 %
Restricted	21,973	17,548	4,425	25.2 %
Unrestricted	5,638	(5,832)	11,470	196.7 %
Total net position	<u>\$ 411,340</u>	<u>\$ 389,548</u>	<u>\$ 21,792</u>	5.6 %

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF THE COUNTY OF STAFFORD, Virginia
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
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FINANCIAL ANALYSIS OF SCPS AS A WHOLE (Continued)

Changes in Net Position

Revenue increased by \$23.4 million as a result of an increase in charges for services of \$1.6 million, an increase of \$9.5 million in capital contributions of VPSA bond proceeds in the construction fund, a \$10.0 million increase in local revenue received from Stafford County in the operating fund, a \$6.9 million increase in funding received from the Commonwealth of Virginia, a \$5.8 million decrease in revenue from the federal government, and a \$1.0 million increase in proceeds from capital asset disposals. The increase in the VPSA bond proceeds funded the increase in capital outlay expenditures. The following table summarizes SCPS' changes in net position for the fiscal years ended June 30, 2013 and 2012:

Summary of Changes in Net Position

For the Fiscal Year Ended June 30,

(In thousands of dollars)

	Governmental Activities			
	<u>2013</u>	<u>2012</u>	<u>Variance</u>	<u>% Variance</u>
Revenues:				
<i>Program revenues:</i>				
Charges for services	\$ 17,987	\$ 16,405	\$ 1,582	10 %
Operating grants and contributions	47,321	48,627	(1,306)	(3) %
Capital grants and contributions	34,050	24,581	9,469	39 %
<i>General revenues:</i>				
Sales tax	25,513	23,710	1,803	8 %
Basic aid	77,332	76,666	666	1 %
Unrestricted grants and contributions	108,626	98,599	10,027	10 %
Investment earnings	53	33	20	61 %
Gain on capital asset disposal	1,070	41	1,029	2,510 %
Miscellaneous	568	419	149	36 %
Total Revenues	312,520	289,081	23,439	8 %
<i>Program expenses:</i>				
Education:				
Instruction	173,648	174,180	(532)	0 %
Administrative, attendance and health services	41,919	41,484	435	1 %
Pupil transportation	13,595	13,664	(69)	(1) %
Operation and maintenance	20,641	20,121	520	3 %
Food and nutrition services	11,367	11,280	87	1 %
Facilities	13,194	12,576	618	5 %
Technology	14,589	13,495	1,094	8 %
Capital outlay	1,695	783	912	116 %
Interest and fiscal charges	80	82	(2)	(2) %
Total program expenses	290,728	287,665	3,063	1 %
Change in net position	21,792	1,416	20,376	1,439 %
Beginning net position, as restated	389,548	388,132	1,416	0 %
Ending net position	\$ 411,340	\$ 389,548	\$ 21,792	6 %

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF THE COUNTY OF STAFFORD, Virginia
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
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GENERAL FUND BUDGETARY HIGHLIGHTS

It is the duty of each division's superintendent to prepare and submit to the school board a recommended budget with the estimated funding needed during the next fiscal year to support the division. The school board, after a public hearing to receive the views of the public, shall submit to the board of supervisors an approved budget with its estimate of the funding needed during the next fiscal year to support the public schools of the division, by the 1st day of April. The estimate shall set up the amount needed by each major classification prescribed by the Board of Education and such other headings or items as may be necessary. The board of supervisors must approve the school board's budget and the school board must adopt the approved budget by May 1 of each year or within 30 days after the close of the General Assembly, whichever is later.

Below is a summary of SCPS' operating fund budget for the fiscal year ended June 30, 2013:

Operating Fund Budget Summary

For the fiscal year ended June 30, 2013

<u>Operating Activity Category</u>	<u>Budget</u>		<u>Actual</u>	<u>Variance from Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Total revenues	\$ 247,247	\$ 248,276	\$ 246,568	\$ (1,708)
Total expenditures	(247,447)	(255,940)	(246,390)	9,550
Total other financing sources	200	2,362	2,361	(1)
Net change in fund balance	\$ -	\$ (5,302)	\$ 2,539	\$ 7,841

CAPITAL ASSETS

Below is a summary of SCPS' net capital assets as of June 30, 2013 and 2012. Additional information on SCPS's capital assets can be found in Note 8.

Net Capital Assets Summary

As of June 30,

(Net of depreciation and amortization, in thousands of dollars)

<u>Capital Asset Category</u>	<u>Governmental Funds</u>		<u>Internal Service Funds</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land & land improvements	\$ 62,516	\$ 60,767	\$ 659	\$ 707
Assets not yet placed in service	635	82	-	-
Construction in progress	17,389	5,675	218	225
Building & building improvements	291,234	297,769	771	486
Furniture & equipment	1,456	3,337	59	68
Vehicles	8,986	8,811	32	12
Software	135	206	24	39
Technology infrastructure	1,115	1,159	-	-
Distribution and collection system	191	225	-	-
Total net capital assets	\$ 383,657	\$ 378,031	\$ 1,763	\$ 1,537

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF THE COUNTY OF STAFFORD, Virginia
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
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CAPITAL ASSETS (Continued)

The major transactions comprising the change in net capital assets were as follows:

Governmental Funds:

Building improvements increased due to: (a) the renovation of Falmouth Elementary School (\$1.2 million); (b) the chiller replacement at Stafford Middle School (\$0.5 million); (c) various renovations at North Stafford High School (\$1.2 million); and (d) generator replacement at Brooke Point High School (\$.7 million). Building and building improvements had a net decrease in value due to depreciation of \$11.5 million.

Vehicles increased due to the purchase of 15 new buses (\$1.4 million) and the purchase of 2 new trucks.

Construction in progress increased due to: (a) the installation and implementation of a new student information system (\$.6 million); (b) the costs associated with the rebuilding of Stafford High School (\$1.5 million); and (c) the renovation of Stafford Elementary School (\$10.6 million).

Land and land improvements increased due the parking lot surfacing project at Brooke Point High School (\$1.2 million).

Technology infrastructure increased with the installation and operation of the fiber optic network (\$0.4 million).

Depreciation and amortization expense for 2013 was \$15.7 million.

Internal Service Funds:

The incurred cost of replacing three lifts for the Fleet Services facility included in construction in progress at June 30, 2012 was completed and placed in service in the first quarter of fiscal year 2013. Phase II of this construction project is expected to be completed in the spring of 2014. In addition, construction projects to extend the facility front entrance were completed in August 2013 and the relocation of the fuel island was completed in September 2013.

Vehicles increased due to the purchase of a new Ford F250 truck.

ENERGY PERFORMANCE CAPITAL LEASE

In 2006, SCPS had the foresight to hire an energy manager and embark on a mission to conserve energy by entering into an energy performance contract funded by a lease which paid for modernization of facility building systems. Not only has this proven beneficial but, it has been timely given the volatility of energy costs.

This project was funded in fiscal year 2007 (i.e., the summer of 2006) through an energy performance capital lease obtained from Citicapital. The financing for this project was structured as a tax-exempt municipal lease and qualifies as a capital lease for accounting purposes. Energy savings from the capital improvements will cover the required minimum lease payments. If the energy savings are not achieved, then NORESKO will pay the lease payment(s). The total amount financed was \$3,204,186, including capitalized interest of \$60,289. Unfortunately, SCPS is not always able to retain its operational savings.

In fiscal year 2013, the energy reduction efforts for calendar year for 2012 were reported. SCPS consumed approximately 37,644,000 less MBTU's, rendering a savings of approximately \$2,337,713, which when reduced by the \$386,908 capital lease payment, rendered an estimated net savings of \$1,950,805. This savings is the equivalent of enough energy to operate eight SCPS elementary schools or four high schools. As a result of these efforts, SCPS emitted approximately 48,324,000 less pounds of carbon dioxide (CO2) into the atmosphere for calendar year 2012. In fiscal year 2013, SCPS retro-commissioned Hardwood Elementary and is continuing the holiday break, spring break and summer reduction settings and fine tuning of the automatic temperature control settings.

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June 30, 2013

ENERGY PERFORMANCE CAPITAL LEASE (Continued)

Through the American Recovery and Reinvestment Act (ARRA) federally subsidized financing for certain public school capital expenditures can be made through the Qualified School Construction Bond. SCPS participated in the bond pool and received \$1,305,000 in July 2010. These bonds have strict requirements that include a mandatory three- year spend-down, Davis-Bacon Act compliance, and a maximum maturity of 17 years. SCPS will use these funds to further its energy management efforts. At various sites, improvements will be made through the replacement of existing lighting fixtures with high-efficiency fixtures, the addition of occupancy sensors, the installation of low flush water closets and urinals, the installation of variable frequency drives, and the replacement of old motors with premium efficiency motors.

COMPOSITE INDEX

The Commonwealth of Virginia computes an index figure for each locality, known as the Composite Index of Local Ability-to-Pay (Composite Index). It is comprised of three components:

- ✓ The first component is an index of wealth per student (based on average daily membership)
- ✓ The second component is an index of the wealth per capita (based on population)
- ✓ The third component is the local nominal share of the costs of the Standards of Quality

The sum of the first component and the second component is multiplied by the third component, which is set at .45 each year.

The Composite Index, as developed by the Commonwealth, is designed to bring equity across the Commonwealth. Commonwealth funds are disbursed based on this index. As a locality acquires greater wealth, the Commonwealth adjusts the index upward, which reduces Commonwealth funding and increases the locality's funding responsibility. Such is the case in Stafford County. The current Composite Index of .3411 was released in November 2013 for the current biennium covering fiscal years 2015 and 2016.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Since adopting the fiscal year 2014 budget, some factors have surfaced that may impact SCPS' financial operations:

- The economy is slowly recovering from the recession and the Commonwealth is anticipating a slightly improved revenue picture in fiscal year 2014.
- On May 1, 2013, the board of supervisors unanimously adopted and approved fiscal year 2014 County budgets, in resolution R13-98. The resolution encouraged the school board to implement salary increases for school employees.
- The County's fiscal year 2014 budget adopted by the board of supervisors included a local operating transfer to the school division of \$109.5 million, but only \$104.0 million was appropriated. The balance of \$5.5 million was held back and these funds won't be available to the division until appropriated by the board of supervisors pending a mid-year review.
- In fiscal year 2013, the real estate market started to improve slowly after four years of depressed sales activities, continued foreclosures, and a major decline in the assessed valuation of real property within the County. These positive trends have continued in fiscal year 2014. For both the Commonwealth of Virginia and the County, much of their revenue is dependent on the housing/real estate sector of the economy, which in turn impacts their appropriations to SCPS.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF THE COUNTY OF STAFFORD, Virginia
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June 30, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (Continued)

- Funding SCPS' Other Post Employment Benefits (OPEB) liability is a major concern. For fiscal year 2013, the County appropriation for the Health Benefit Fund did not include the annual funding requirement for OPEB. SCPS's annual required contribution (ARC) for OPEB was approximately \$5.4 million in fiscal year 2013 and a \$6.8 million contribution was made to the OPEB Trust Fund. The school board approved a \$4.0 million contribution to the OPEB Trust fund in fiscal year 2014, which was made in November 2013. Continuing to under-fund the OPEB liability may adversely impact the County's bond rating. The GASB may adopt tougher reporting and accounting standards for the OPEB liability with more disclosures and shorter amortization periods, which would increase the annual required contribution (ARC).
- The potential for increased energy costs, specifically oil, has a major financial impact on SCPS operations. SCPS consumes approximately 558,000 gallons of fuel annually transporting students, operates 36 facilities that heat and cool approximately 3,9877,000 square feet of space, and maintains approximately 1,327 acres of school division property. The magnitude of SCPS's operations subjects its financial health to continuous volatility in the local, regional, national, and global energy marketplaces.
- In spite of the recent recession, growth in the student population for SCPS returned for fiscal years 2010 through 2013, which increases the Commonwealth revenues received by SCPS, as the majority of Commonwealth revenues are driven by the average daily student membership. The extent of this growth in revenue is mitigated by required increases in expenditures to accommodate the additional students.
- Providing competitive salaries continues to put pressure on SCPS resources as contiguous neighboring counties have exceeded SCPS teacher salaries. This factor inhibits the division's ability to attract and sustain quality teachers, especially in critical expertise areas, such as mathematics and science.
- SCPS continues to experience growing student populations in English as a Second Language (ESL), autism, and children who qualify for free and reduced lunch. These special populations add additional expenses beyond the general educational requirements.
- The implementation of Base Realignment & Closure (BRAC) and its resulting impact on Quantico Marine Base and installations just to the north still remains uncertain as to how many new students' families may relocate to Stafford County. SCPS and the County continue to closely monitor and assess this situation.
- Effective for fiscal year 2013, the General Assembly passed a provision requiring employees of each governmental employer to make a 5% annual contribution to the Virginia Retirement System. Governmental employers must either incrementally increase employee salary scales by 5% over 5 years or increase it over a shorter period to offset the pay deduction for employees hired before fiscal year 2013.

CONTACTING SCPS MANAGEMENT

This financial report is designed to provide citizens, taxpayers, parents and guardians, and creditors with a general overview of SCPS' finances and to demonstrate accountability for the money it receives. If you have any questions about this report or need any additional financial information, please contact Lance W. Wolff, CPA, Assistant Superintendent for Financial Services, Stafford County Public Schools, 31 Stafford Avenue, Stafford, VA 22554, by email at wolflw@staffordschools.net or by telephone at 540-658-6584.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF NET POSITION
June 30, 2013

Exhibit A

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 27,279,195
Accounts receivable, net of allowance for uncollectibles	6,668,698
Due from primary government	41,628,020
Prepaid expenses	525,298
Inventory	716,415
Restricted cash and cash equivalents	31,386,670
Capital assets:	
Land	33,044,498
Land improvements	42,699,604
Construction in progress	18,241,613
Buildings and building improvements	428,645,475
Water treatment system	635,154
Furniture, fixtures and equipment	8,757,663
Technology infrastructure	1,297,380
Software	599,371
Vehicles	21,901,737
Less: Accumulated depreciation	(170,403,267)
Total capital assets	<u>385,419,228</u>
Total assets	<u>\$ 493,623,524</u>
LIABILITIES	
Accounts payable	\$ 4,140,280
Contract retainage	650,080
Accrued salaries and benefits	41,998,663
Accrued insurance claims	5,057,482
Unearned revenue	647,187
Current portion of long-term debt	889,887
Noncurrent portion of accrued insurance claims	89,418
Noncurrent portion of long-term debt	8,442,983
Noncurrent portion of OPEB liability	20,367,099
Total liabilities	<u>82,283,079</u>
NET POSITION	
Net investment in capital assets	383,728,660
Restricted for:	
Capital Projects	19,823,101
School Nutrition	2,109,164
Grants	41,193
Unrestricted	5,638,327
Total net position	<u>411,340,445</u>
Total liabilities and net position	<u>\$ 493,623,524</u>

The accompanying notes are an integral part of these financial statements.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013

Exhibit B

Functions/Programs	Expenses	Program Revenues		Net (Expenses), Revenues and Changes in Net Positin	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental activities:					
Education:					
Instruction	\$173,648,277	\$ 1,523,724	\$ 41,921,655	\$ -	\$ (130,202,898)
Administration, attendance and health	41,919,522	7,740,056	-	-	(34,179,466)
Pupil transportation	13,594,611	1,392,921	-	-	(12,201,690)
Operation and maintenance	20,640,786	35,637	-	-	(20,605,149)
Food and nutrition services	11,367,064	6,637,054	5,398,966	-	668,956
Facilities	13,193,547	261,075	-	-	(12,932,472)
Technology	14,588,729	90,171	-	-	(14,498,558)
Capital outlay	1,695,534	306,671	-	34,050,331	32,661,468
Interest and fiscal charges	80,373	-	-	-	(80,373)
Total governmental activities	<u>\$290,728,443</u>	<u>\$ 17,987,309</u>	<u>\$ 47,320,621</u>	<u>\$ 34,050,331</u>	<u>(191,370,182)</u>
General revenues:					
Sales tax					25,513,251
Basic aid					77,332,151
Unrestricted grants and contributions					108,625,975
Investment earnings					53,507
Gain on capital asset disposal					1,069,605
Miscellaneous					567,629
Total general revenues					<u>213,162,118</u>
Change in net position					<u>21,791,936</u>
Net position, beginning - July 1, 2012, as restated					<u>389,548,509</u>
Net postion, ending - June 30, 2013					<u>\$ 411,340,445</u>

The accompanying notes are an integral part of these financial statements.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

Exhibit C

	Operating Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Pooled cash and investments	\$ 53,714	\$ 5,206,873	\$ 3,077,029	\$ 8,337,616
Restricted cash and investments	-	31,298,670	-	31,298,670
Accounts receivable	252,887	-	28,031	280,918
Intergovernmental receivables:				
Federal Government	30,565	-	1,587,506	1,618,071
Commonwealth of Virginia	4,760,259	-	9,450	4,769,709
Due from primary government	41,561,578	-	-	41,561,578
Due from other funds	1,324,050	-	-	1,324,050
Prepaid expenses	525,298	-	-	525,298
Inventory	-	-	341,770	341,770
Total assets	<u>\$ 48,508,351</u>	<u>\$ 36,505,543</u>	<u>\$ 5,043,786</u>	<u>\$ 90,057,680</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 2,017,597	\$ 1,876,262	\$ 70,026	\$ 3,963,885
Contract retainage	-	640,769	-	640,769
Accrued salaries and benefits	40,708,614	12,446	1,116,830	41,837,890
Unearned revenue	51,714	568,400	25,000	645,114
Due to other funds	215,862	111	1,339,803	1,555,776
Total liabilities	<u>42,993,787</u>	<u>3,097,988</u>	<u>2,551,659</u>	<u>48,643,434</u>
Fund balance:				
Nonspendable:				
Prepaid expenses	525,298	-	-	525,298
Inventory	-	-	341,770	341,770
Total nonspendable	<u>525,298</u>	<u>-</u>	<u>341,770</u>	<u>867,068</u>
Restricted:				
Capital projects	-	19,823,101	-	19,823,101
Food and nutrition services	-	-	2,109,164	2,109,164
Grants	-	-	41,193	41,193
Total restricted	<u>-</u>	<u>19,823,101</u>	<u>2,150,357</u>	<u>21,973,458</u>
Committed:				
Operating	7,318,523	-	-	7,318,523
Capital projects	-	13,584,454	-	13,584,454
Total committed	<u>7,318,523</u>	<u>13,584,454</u>	<u>-</u>	<u>20,902,977</u>
Unassigned:				
Operating	(2,329,257)	-	-	(2,329,257)
Total unassigned	<u>(2,329,257)</u>	<u>-</u>	<u>-</u>	<u>(2,329,257)</u>
Total fund balance	5,514,564	33,407,555	2,492,127	41,414,246
Total liabilities and fund balance	<u>\$ 48,508,351</u>	<u>\$ 36,505,543</u>	<u>\$ 5,043,786</u>	<u>\$ 90,057,680</u>

The accompanying notes are an integral part of these financial statements.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2013

Exhibit C-1

Fund balance - total governmental funds \$ 41,414,246

Amounts reported for governmental activities in the Statement of Net Position are different due to:

Capital assets used in governmental activities are not current financial resources and therefore not reported in the governmental funds.

Governmental capital assets	\$ 552,785,293	
Less accumulated depreciation and amortization	<u>(169,128,565)</u>	
Net capital assets		383,656,728

Internal service funds are used by management to charge the costs of goods provided to other departments or funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.

Assets	\$ 21,465,456	
Liabilities	<u>(26,282,068)</u>	
Net assets		(4,816,612)

Long-term liabilities consist of a capital lease, note payable and compensated absences that are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Noresco energy performance capital lease	\$ (1,416,494)	
Compensated absences	(6,417,423)	
Stafford County loan	<u>(1,080,000)</u>	
Total		(8,913,917)

Net position of governmental activities		<u>\$ 411,340,445</u>
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The accompanying notes are an integral part of these financial statements.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2013

Exhibit D

	Operating Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Intergovernmental:				
Stafford County	\$ 108,625,975	\$ 34,050,331	\$ -	\$ 142,676,306
Commonwealth of Virginia	133,170,102	-	306,647	133,476,749
Federal Government	2,071,309	-	14,617,965	16,689,274
Total intergovernmental revenues	243,867,386	34,050,331	14,924,612	292,842,329
Charges for services:				
Tuition and fees	911,220	-	-	911,220
Food sales	-	-	6,681,246	6,681,246
Recovered costs	1,460,970	306,671	-	1,767,641
Miscellaneous	328,109	-	259,491	587,600
Interest	-	45,810	-	45,810
Total revenues	246,567,685	34,402,812	21,865,349	302,835,846
EXPENDITURES				
Current operating:				
Education:				
Instruction	181,881,078	-	9,552,878	191,433,956
Administration, attendance and health	10,422,301	-	-	10,422,301
Pupil transportation	13,419,206	-	-	13,419,206
Operation and maintenance	21,315,872	-	-	21,315,872
Food and nutrition services	212,264	-	11,842,519	12,054,783
Facilities	198,990	-	-	198,990
Technology	14,783,665	-	346,162	15,129,827
Capital outlay	3,692,085	19,112,635	102,597	22,907,317
Debt service:				
Principal	393,292	-	-	393,292
Interest and fiscal charges	71,631	-	-	71,631
Total expenditures	246,390,384	19,112,635	21,844,156	287,347,175
Excess of revenues over expenditures	177,301	15,290,177	21,193	15,488,671
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of land	-	1,000,000	-	1,000,000
Net transfers from (to) other funds	2,361,672	-	(203,343)	2,158,329
Change in fund balance	2,538,973	16,290,177	(182,150)	18,647,000
Fund balance, beginning - July 1, 2012, as restated	2,975,591	17,117,378	2,674,277	22,767,246
Fund balance, ending - June 30, 2013	\$ 5,514,564	\$ 33,407,555	\$ 2,492,127	\$ 41,414,246

The accompanying notes are an integral part of these financial statements.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013

Exhibit D-1

Net change in fund balance - total governmental funds \$ 18,647,000

Amounts reported for governmental activities in the Statement of Activities are different due to:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation and amortization expense.

Expenditures for acquisition of capital assets	\$ 21,759,907	
Less: Depreciation and amortization expense	<u>(15,586,140)</u>	
Excess of capital outlay over depreciation and amortization		6,173,767

The net effect of miscellaneous transactions involving capital assets (i.e. sales, trade-ins, disposals and donations) is to decrease net position. (548,123)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the Statement of Net Position.

Principal repayments:

Noresco energy performance capital lease	\$ 318,292	
Stafford County loan	<u>75,000</u>	
		393,292

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 the governmental funds.

Compensated absences (128,886)

Internal service funds are used by management to charge the costs of vehicle maintenance and employee benefits to individual funds. The net expense is reported with governmental funds.

Total revenues and transfers from other funds	\$ 33,206,020	
Total expenses	<u>(35,951,134)</u>	
		<u>(2,745,114)</u>

Change in net position of governmental activities \$ 21,791,936

The accompanying notes are an integral part of these financial statements.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

Exhibit E

	Governmental Activities - Internal Service Funds
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 18,941,579
Accounts receivable - due from primary government	66,442
Due from other funds	232,290
Inventory	374,645
Restricted cash and equivalents	88,000
Capital assets:	
Land	37,357
Land improvements	942,970
Buildings and building improvements	1,565,050
Construction in progress	218,186
Furniture, fixtures and equipment	135,872
Vehicles	59,042
Software	78,725
Less: accumulated depreciation and amortization	(1,274,702)
Total noncurrent assets	<u>1,762,500</u>
Total assets	<u>\$ 21,465,456</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 176,395
Accrued salaries and benefits	160,773
Due to other funds	564
Contract retainage	9,311
Unearned revenue	2,073
Current portion of capital lease	27,173
Current portion of accrued insurance claims	5,057,482
Current portion of compensated absences	12,575
Noncurrent portion of accrued insurance claims	89,418
Noncurrent portion of capital lease	246,901
Noncurrent portion of compensated absences	132,304
Noncurrent portion of OPEB Liability	20,367,099
Total liabilities	<u>26,282,068</u>
NET POSITION	
Net investment in capital assets	1,488,426
Unrestricted (deficit)	<u>(6,305,038)</u>
Total net position	<u>(4,816,612)</u>
Total liabilities and net position	<u>\$ 21,465,456</u>

The accompanying notes are an integral part of these financial statements.

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2013**

Exhibit F

	Governmental Activities - Internal Service Funds
Operating revenues:	
Charges for services	\$ 35,287,047
Operating expenses:	
Personnel services	2,035,647
Contractual services	32,109,430
Materials and supplies	1,614,823
Utilities	17,392
Telecommunication	32,216
Depreciation and amortization	132,884
Total operating expenses	<u>35,942,392</u>
Operating loss	<u>(655,345)</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	7,697
Interest expense	(8,742)
Vehicle sales	69,605
Total nonoperating revenues, net	<u>68,560</u>
Loss before transfers	(586,785)
Transfers from other funds, net	(2,158,329)
Change in net position	<u>(2,745,114)</u>
Total net position, beginning - July 1, 2012	(2,071,498)
Total net position, ending - June 30, 2013	<u>\$ (4,816,612)</u>

The accompanying notes are an integral part of these financial statements.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2013

Exhibit G

	Governmental Activities - Internal Service Funds
Cash flows from operating activities:	
Receipts from customers	\$ 36,366,755
Payments to suppliers	(36,690,455)
Payments to employees	(3,400,989)
Net cash used in operating activities	<u>(3,724,689)</u>
Cash flows from noncapital and related financing activities:	
Transfers to other funds, net	(2,158,329)
Net cash used in noncapital and related financing activities	<u>(2,158,329)</u>
Cash flows from capital and related financing activities:	
Proceeds from vehicle and supply sales	69,605
Proceeds from capital lease	300,500
Principal paid on capital lease	(26,426)
Interest paid on capital lease	(8,742)
Acquisition and construction of capital assets	(363,749)
Net cash used in capital and related financing activities	<u>(28,812)</u>
Cash flows from investing activities:	
Interest earned on investments	7,697
Net cash provided by investing activities	<u>7,697</u>
Net decrease in cash and cash equivalents	(5,904,133)
Cash and cash equivalents, beginning - July 1, 2012	24,933,712
Cash and cash equivalents, ending - June 30, 2013	<u>\$ 19,029,579</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (655,345)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization expense	132,884
Changes in assets and liabilities:	
Decrease in accounts receivable	1,079,708
Increase in inventory	(8,183)
Decrease in accounts payable and accrued expenses	(1,261,173)
Increase in compensated absences	2,522
Decrease in OPEB liability	(3,015,102)
Total adjustments	<u>(3,069,344)</u>
Net cash used in operating activities	<u>\$ (3,724,689)</u>

The accompanying notes are an integral part of these financial statements.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF NET POSITION
FIDUCIARY FUNDS - TRUST AND AGENCY FUNDS
June 30, 2013

Exhibit H

	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 2,665,132
Restricted investments	12,358,368	-
Total assets	<u>\$ 12,358,368</u>	<u>\$ 2,665,132</u>
LIABILITIES		
Reserved for future expenditures	\$ -	\$ 2,665,132
Total liabilities	<u>\$ -</u>	<u>\$ 2,665,132</u>
NET POSITION		
Net position held for OPEB	12,325,983	-
Net position held for scholarships	59	-
Net position held for endowment	32,326	-
Total net position	<u>\$ 12,358,368</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF NET POSITION
COMBINING FIDUCIARY FUNDS - TRUST FUNDS
June 30, 2013

Exhibit I

	<u>OPEB Trust Fund</u>	<u>Scholarship Trust Fund</u>	<u>Endowment Trust Fund</u>	<u>Total Trust Fund</u>
ASSETS				
Restricted investments	\$ 12,325,983	\$ 59	\$ 32,326	\$ 12,358,368
NET POSITION				
Net position held for OPEB	\$ 12,325,983	\$ -	\$ -	\$ 12,325,983
Net position held for scholarships	-	59	-	59
Net position held for endowment	-	-	32,326	32,326
Total net position	<u>\$ 12,325,983</u>	<u>\$ 59</u>	<u>\$ 32,326</u>	<u>\$ 12,358,368</u>

The accompanying notes are an integral part of these financial statements.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND - OPEB TRUST FUND
For the Fiscal Year Ended June 30, 2013

Exhibit J

Trust Fund				
OPEB Trust Fund				
Fiduciary Net Position - July 1, 2012	Additions	Deductions	Fiduciary Net Position - June 30, 2013	
ASSETS				
Restricted investments:				
Beginning balance	\$ 4,697,715	\$ -	\$ -	\$ 4,697,715
Contributions from employer	-	6,800,000	-	6,800,000
Investment gains, net	-	836,384	-	836,384
Investment expenses	-	-	(8,116)	(8,116)
Ending balance	<u>\$ 4,697,715</u>	<u>\$ 7,636,384</u>	<u>\$ (8,116)</u>	<u>\$ 12,325,983</u>
NET POSITION				
Net position held for OPEB	<u>\$ 4,697,715</u>	<u>\$ 7,636,384</u>	<u>\$ (8,116)</u>	<u>\$ 12,325,983</u>

The accompanying notes are an integral part of these financial statements.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND - SCHOLARSHIP TRUST FUND
For the Fiscal Year Ended June 30, 2013

Exhibit K

	Trust Fund			
	Scholarship Trust Fund			
	Fiduciary Net Position - July 1, 2012	Additions	Deductions	Fiduciary Net Position - June 30, 2013
ASSETS				
Restricted investments:				
Beginning balance	\$ 4,058	\$ -	\$ -	\$ 4,058
Contributions from donors	-	3,603	-	3,603
Investment interest income	-	1	-	1
Scholarships paid	-	-	(7,603)	(7,603)
Ending balance	<u>\$ 4,058</u>	<u>\$ 3,604</u>	<u>\$ (7,603)</u>	<u>\$ 59</u>
NET POSITION				
Net position held for scholarships	<u>\$ 4,058</u>	<u>\$ 3,604</u>	<u>\$ (7,603)</u>	<u>\$ 59</u>

The accompanying notes are an integral part of these financial statements.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND - ENDOWMENT TRUST FUND
For the Fiscal Year Ended June 30, 2013

Exhibit L

	Trust Fund			
	Endowment Trust Fund			
	Fiduciary Net Position - July 1, 2012	Additions	Deductions	Fiduciary Net Position - June 30, 2013
ASSETS				
Restricted investments:				
Beginning balance	\$ 33,273	\$ -	\$ -	\$ 33,273
Contributions from donors	-	1,000	-	1,000
Investment interest income	-	53	-	53
Scholarships paid	-	-	(2,000)	(2,000)
Ending balance	<u>\$ 33,273</u>	<u>\$ 1,053</u>	<u>\$ (2,000)</u>	<u>\$ 32,326</u>
LIABILITIES				
Scholarships payable	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ (1,000)</u>	<u>\$ -</u>
NET POSITION				
Net position held for endowment	<u>\$ 32,273</u>	<u>\$ 1,053</u>	<u>\$ (1,000)</u>	<u>\$ 32,326</u>

The accompanying notes are an integral part of these financial statements.

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stafford County Public Schools (SCPS or “the division”) is a corporate body operating under the constitution of the Commonwealth of Virginia and the Code of Virginia, and provides elementary and secondary education for the County of Stafford (County). The seven voting members of the School Board of Stafford County Public Schools (Board) are elected by the citizens of the County to serve 4-year terms. Each of the County’s seven districts has a Board member who represents its constituents. The Board is responsible for setting the educational policies of SCPS and appoints a superintendent to implement the Board’s policies and serve as the chief administrative officer of the division, providing leadership and direct management of the division in accordance with policies adopted by the Board.

The following is a summary of SCPS’ significant accounting policies:

A. THE FINANCIAL REPORTING ENTITY

A financial reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the basic financial statements are not misleading. The primary government for SCPS includes all funds and departments that are not legally separate from SCPS. SCPS is not financially accountable for any legally separate organizations; therefore, it has no component units. However, because SCPS is fiscally dependent on the County and SCPS’ operations are funded by payments from the County’s general fund, SCPS is considered a component unit of the County. Other significant determining factors also include: the County approves SCPS’ budget, the County funds any deficits, and the County issues and contracts debt to finance capital projects for SCPS. Also, SCPS provides services, which primarily benefit the citizens of the County.

The accompanying financial statements presented for SCPS conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for establishing governmental accounting and financial reporting principles.

B. FUND ACCOUNTING

Financial transactions and accounts of SCPS are maintained on the basis of fund accounting. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts. Each fund reports cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of SCPS are financed. The acquisition, use and balances of SCPS’ expendable financial resources and the related liabilities are accounted for through these funds. SCPS has two major governmental funds and two non-major governmental funds as follows:

Major Governmental Funds

- **General Fund (hereafter referred to as the Operating Fund):** The Operating Fund is SCPS’ primary fund to account for and report the assets, liabilities, fund balance, revenues and expenditures associated with SCPS’ public school system operations, including financial resources not required to be accounted for and reported in another fund.
- **Capital Projects Fund:** This fund accounts for and reports the assets, liabilities, fund balance, revenues and expenditures that are restricted, committed or assigned to SCPS’ capital projects, including the acquisition, construction and equipping of new schools and the renovation, improvement and repairing of existing schools.

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FUND ACCOUNTING (continued)

Non-major Governmental Funds

- **Special Revenue Funds:** The special revenue funds are used to account for and report proceeds of specific revenue sources, other than major capital projects, in which expenditures are restricted or committed for a specific purpose. SCPS has two special revenue funds:
 - **Food and Nutrition Services Fund** - accounts for the assets, liabilities, fund balance, revenues and expenditures associated with the provision of food and nutrition services within SCPS' school cafeterias.
 - **Grants Fund** - accounts for the assets, liabilities, fund balance, revenues and expenditures associated with grants received and used by SCPS to supplement operations.

PROPRIETARY FUNDS

Proprietary funds are used to account for activities similar to those often engaged in by profit-seeking businesses. These funds account for the provision of services to other funds of SCPS and the County on a cost-reimbursement basis. Operating revenues include charges for services and operating expenses include the cost of services.

Enterprise Funds

This type of proprietary fund accounts for services provided to the general public on a user-charge basis. SCPS does not have any enterprise funds.

Internal Service Funds

Activities that produce goods or services to be provided to other departments or other governmental units on a cost-reimbursement basis are accounted for by internal service funds. SCPS has three internal service funds:

- **Fleet Services Fund** - accounts for the assets, liabilities, net position, revenues and expenses associated with the provision of vehicle maintenance services on a cost reimbursement basis to the departments and agencies of the County and SCPS.
- **Health Benefits Fund** - accounts for the assets, liabilities, net position, revenues and expenses associated with the provision of health benefits to the enrolled employees and retirees of SCPS under a comprehensive health benefits self-insurance program.
- **Workers' Compensation Fund** - accounts for the assets, liabilities, net position, revenues and expenses associated with the administration of the workers' compensation self-insurance program and the provision of workers' compensation benefits to the injured employees of SCPS.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by a government acting as a trustee or agent for entities external to the governmental unit: individuals, organizations, other governmental units, or other funds. There are four types of fiduciary funds: agency funds; private-purpose trust funds; investment trust funds; and pension and other employee benefit trust funds. Fiduciary funds are not included in the government-wide financial statements. SCPS has three trust funds and three agency funds as follows:

**STAFFORD COUNTY PUBLIC SCHOOLS
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Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FUND ACCOUNTING (continued)

- ***OPEB Trust Fund*** - accounts for the assets, liabilities, net position and changes in net position (additions and deletions) associated with the investment of funds contributed into an irrevocable trust and used to cover current and future retiree health benefit costs.
- ***Scholarship Trust Fund*** - accounts for the assets, liabilities, net position and changes in net position (additions and deletions) associated with scholarship programs administered by SCPS.
- ***Endowment Trust Fund*** - accounts for the assets, liabilities, net position and changes in net position (additions and deletions) associated with endowment programs administered by SCPS.
- ***School Activity Funds*** - account for the cash, cash receipts and cash disbursements associated with the various activities conducted at the individual school sites in connection with student athletics, classes, clubs, and various fundraising activities and private donations. In addition, each school also has a faculty activity fund. SCPS is liable if any school is unable to meet its obligations with respect to these funds.
- ***Employee Flexible Spending Fund*** – accounts for the cash, cash receipts and cash disbursements associated with the employee flexible spending program, which includes unreimbursed medical expense reimbursements and dependent care reimbursements.
- ***Fiduciary Services Fund*** - accounts for the cash, cash receipts and cash disbursements associated with the certain activities conducted on a division-wide level, in connection with private donations and sales tax collections. SCPS is liable for any obligation this fund is unable to meet.

C. BASIS OF FINANCIAL STATEMENT PRESENTATION

GASB has established the accounting requirements and reporting model to be used in the annual financial reports of state and local governments. The reporting model was developed to make the Comprehensive Annual Financial Report (CAFR) easier to understand and more useful to the people who use governmental financial information to make decisions.

The basic financial statements consist of the government-wide statements, including the Statement of Net Position and the Statement of Activities; fund financial statements, which provide more detailed financial information; and notes to the basic financial statements which provide detailed narrative information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements (the Statement of Net Position and the Statement of Activities) present financial information about SCPS as a whole. These statements include the financial activity of the SCPS primary government, except the fiduciary funds. In accordance with GASB reporting requirements, activities are reported in these statements as either governmental or business-type. SCPS does not have any business-type activities.

The Statement of Net Position presents the overall financial condition of SCPS at fiscal year-end. Presence and size of the net position is an indication of SCPS' ability to cover its cost and continue to provide services in the future.

**STAFFORD COUNTY PUBLIC SCHOOLS
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Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BASIS OF FINANCIAL STATEMENT PRESENTATION (continued)

The Statement of Activities reports the expenses and revenues of SCPS in a format that focuses on the cost of SCPS' major functions, while net revenue or expenses indicate whether a function is self-supporting or relies on general revenue funding sources. Direct expenses are those that are clearly identifiable to particular functions. Program revenues include: (1) charges for services (e.g., tuition and fees); (2) operating grants and contributions; and (3) capital grants and contributions. Revenues not directly related to a program are reported as general revenues, including SCPS' portion of property tax revenues received from the County and other unrestricted amounts received from the Commonwealth of Virginia and the Federal government. SCPS does not allocate indirect expenses.

The effect of inter-fund activity has been eliminated from the government-wide financial statements.

FUND FINANCIAL STATEMENTS

In order to provide budgetary controls and maintain legal compliance, SCPS records transactions in separate funds rendering a more detailed level. SCPS' Operating Fund and Capital Projects Fund are deemed to be major governmental funds; therefore, they are separately reported in the governmental fund statements. All of SCPS' special revenue funds are aggregated in the column entitled non-major governmental funds. The internal service funds are presented in the proprietary fund statements; SCPS has three internal service funds. There are six fiduciary funds, three agency fund and three trust funds. The agency funds are comprised of activity funds at all 30 schools and one fiduciary service activity fund, which is purely custodial (i.e., assets equal liabilities) and the flexible spending fund is comprised of the funds collected from and disbursed to employees for unreimbursed medical expenses and dependent care expenses. Agency funds do not involve the measurement of operations. The trust funds are comprised of the OPEB (Other Post-Employment Benefits) Trust Fund, an irrevocable trust, and involves the measurement of OPEB plan operations, a Scholarship trust fund, a fund involved in the collection of donations for the distribution of scholarships to students and an Endowment trust fund, a fund involved in the collection of donations used for investment purposes and whose earnings are then distributed as scholarships.

D. MEASUREMENT FOCUS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are presented using an economic resources measurement focus. All assets and liabilities are shown in the Statement of Net Position, which includes capital assets (i.e., land, buildings, improvements, and other capital assets) as well as long-term liabilities (i.e., capital lease obligations, compensated absences, accrued insurance claims and OPEB liability).

Presented by the Statement of Activities is the degree to which expenses are offset by program revenues for a specific program or function of SCPS. Program revenues include charges for services, operating grants and contributions and capital grants and contributions. Grants and contributions from the County, the Commonwealth of Virginia, and the Federal Government, which are not restricted for specific purposes, are presented as general revenues. Revenue from the use of money is also presented as general revenues.

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Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. MEASUREMENT FOCUS (continued)

FUND FINANCIAL STATEMENTS

Governmental Funds

All governmental funds are accounted for using a current financial resources measurement focus, whereby only current assets and current liabilities are included in the balance sheet. The operating statements for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in current financial resources. Since governmental fund statements are presented on a different measurement focus than government-wide statements, a reconciliation of the total fund balance to net position is presented which briefly explains the adjustments made to reconcile the governmental activities reflected in the governmental fund financial statements to the government-wide statements.

Proprietary Funds

All proprietary funds are accounted for on the economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the Statement of Net Position. Proprietary fund equity (i.e., net position) is segregated into unrestricted and net investment in capital assets. The proprietary fund operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The operating revenue is charges for services; the cost to provide these services is reported as operating expenses. Non-operating revenue is generated from financing and investing type activities.

Fiduciary Funds

The agency fiduciary fund has no measurement focus and reports only assets and related liabilities to SCPS student groups and employees. The trust fiduciary funds are accounted for on the economic resources measurement focus.

E. BASIS OF ACCOUNTING

The basis of accounting determines when transactions are recorded as financial entries reported in the financial statements. The government-wide financial statements are reported using the accrual basis of accounting. All governmental funds use the modified accrual basis of accounting. The proprietary and fiduciary funds use the accrual basis of accounting. The difference in the basis of accounting relates to how revenue is recognized, how unearned revenue is recorded and whether expenses or expenditures are reported.

REVENUES

In the government-wide financial statements, revenue is recorded when earned. In the governmental funds, revenue is recorded on the modified accrual basis, that is, revenue is recorded in the fiscal year in which resources are measurable and expected to be collected by fiscal year end or soon enough thereafter to be used to pay current liabilities. SCPS uses the period 45 days after fiscal year end for its funds availability criteria. Non-exchange transactions, in which SCPS either gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. These revenues are recognized in the fiscal year in which all eligibility requirements have been satisfied. The effect of inter-fund revenue has been eliminated from these statements.

SCPS' primary revenues are unrestricted payments from the County and the Commonwealth of Virginia. These are considered general revenue and are recognized in the period received. Revenue from general-purpose grants is recognized as general revenues in the period to which the grant applies. Special purpose revenue (i.e., federal, state, and other grants) is recognized as program revenue when earned. Revenue from continuing adult and community education classes and the school lunch program is recognized as program revenue at the time that the revenue is earned. Operating revenue in the proprietary funds is revenue that is earned from charges for services provided to other departments on a cost-reimbursement basis. The non-operating revenue of these funds does not require a good or service to be delivered. The primary source for non-operating revenue is interest income and vehicle sales.

**STAFFORD COUNTY PUBLIC SCHOOLS
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June 30, 2013**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. BASIS OF ACCOUNTING (continued)

EXPENDITURES/EXPENSES

On the accrual basis of accounting, expenses are recorded when incurred. On the modified accrual basis of accounting, decreases in net financial resources are reported as expenditures rather than expenses. Expenditures are reported in the fiscal year when the related fund liability is incurred, except certain general long-term obligations, such as compensated absences, which are recognized only to the extent they have matured. Depreciation and amortization, which are allocations of cost, are not recorded in the governmental funds.

The operating expenses in the proprietary funds are those costs that relate directly to providing goods and services to the other departments, within the school district, on a cost-reimbursement basis. For services which extend over more than one fiscal period, such as insurance, the change in the actuarially determined insurance liability from one year to the next is reported as an operating expense. Any costs incurred as a result of financing and investing activities are reported as non-operating expenses.

F. CASH AND CASH EQUIVALENTS

Cash on deposit with the Treasurer's Office at the County of Stafford represents the majority of SCPS' available cash throughout the fiscal year. At the close of the fiscal year, all available cash in the Operating Fund is reclassified to Due from primary government and represents cash available to pay existing liabilities at year-end, primarily accrued payroll. The Treasurer's Office has custodial and internal control responsibilities for SCPS' cash including monthly bank reconciliations.

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. In order to maximize investment returns, cash and cash equivalents are maintained in a fully insured or collateralized investment pool administered by the Treasurer's Office of the County of Stafford. At June 30, 2013, all of the County's deposits were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). The Act established a single body of law applicable to the pledge of security as collateral for public funds on deposit in banking institutions so that the procedure for securing public deposits is uniform throughout the Commonwealth. Under the Act, banks holding public deposits must pledge certain levels of collateral and make monthly filings with the State Treasury Board.

RESTRICTED CASH

Cash amounts in the Health Benefits Fund are restricted for health-related benefits for employees. The Capital Projects Fund restricted cash represents proceeds from school bonds held by the Virginia State Non-Arbitrage Program and funds held in escrow related to a capital lease obligation (see Note 7).

G. DEPOSITS AND INVESTMENTS

Cash resources of the individual funds, excluding cash held with fiscal agents in the Capital Projects Fund, Proprietary Funds, and Fiduciary Funds, are combined in accordance with County policy to form a pool of cash and investments to maximize interest earnings. Investments in the pool consist of repurchase agreements, commercial paper and obligations of the federal government, which are recorded at fair value. Income from pooled cash and investments is retained by the County. The fair value of investments is based on quoted market prices and no investments are valued at cost. All investments in external investment pools are reported at fair value.

**STAFFORD COUNTY PUBLIC SCHOOLS
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June 30, 2013**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. INVENTORIES

The Food and Nutrition Services Fund (a special revenue fund that is a non-major governmental fund) carries its inventory on a cost basis (first-in, first-out), which is not in excess of market value. This inventory consists of food service supplies and perishable and non-perishable food products.

The Fleet Services Fund (a proprietary fund that is an internal service fund) carries its inventory on a cost basis (first-in, first-out), which is not in excess of market value. The inventory consists of parts, materials and supplies for repairs and maintenance of SCPS and County vehicles, primarily school buses, police cars and fire trucks.

The consumption method of accounting for inventory is used in the government-wide statements as well as in the internal service funds. Under this method, inventory items are expensed as operating supplies and material as consumed. The purchase method of accounting for inventory is used in the governmental funds. Under this method, inventory items are expensed when purchased. In the governmental funds, the inventory of the Food and Nutrition Services Fund, which consists of perishable and non-perishable food products, is considered nonspendable fund balance. The Internal Service Fund inventory is comprised of expendable supplies held for consumption.

I. CAPITAL ASSETS

Capital assets are reported in the government-wide financial statements and proprietary fund statements and include land, buildings, improvements, furniture and equipment with a cost of \$5,000 or more. Depreciation and amortization is recorded on capital assets in the government-wide statements and proprietary fund statements using the straight-line method. Capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair market value on the date of the donation. Maintenance, repairs and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation and amortization, if applicable, are eliminated from the respective accounts and any resulting gain or loss is recorded in the results of operations.

Assets acquired through capital lease agreements are recorded at the present value of the minimum lease payments, as stated in the lease's amortization schedule. The interest expense incurred during the construction is capitalized.

All reported capital assets except land, construction in progress and assets not yet placed in service are depreciated or amortized. Accumulated depreciation and amortization is recorded as a reduction to capital assets. The straight-line depreciation or amortization method is used over the following estimated useful lives:

Land improvements	20 years
Buildings and building improvements	4 – 50 years
Furniture, fixtures and equipment	5 – 15 years
Vehicles and school buses	8 – 14 years

J. COMPENSATED ABSENCES

SCPS employees accumulate vacation time and sick leave depending upon their length of service. SCPS has established accumulated leave balance thresholds for vacation leave. Excess days above the allowed carry-over are converted to sick leave days. There is no threshold on accumulated sick leave. Vacation leave up to the established threshold and a portion of sick leave time is payable upon termination of employment.

The current and long-term portions of the governmental funds' accumulated vacation, personal and sick leave are recorded as liabilities in the government-wide financial statements. Current and long-term compensated absences liabilities for proprietary funds are recorded in the government-wide and proprietary fund financial statements.

**STAFFORD COUNTY PUBLIC SCHOOLS
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June 30, 2013**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. ACCRUED LIABILITIES AND LONG-TERM DEBT

All payables, accrued liabilities and long-term debt amounts are reported in the government-wide financial statements and the proprietary fund financial statements. Accounts payable and accrued liabilities expected to be paid from current financial resources are reported as current liabilities in each applicable fund. Long-term debt is segregated between amounts due within one year (current) and amounts due beyond one year (non-current).

L. NET POSITION

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources in the government-wide and proprietary fund financial statements. The net position of SCPS fall into three categories: (1) net investment in capital assets; (2) restricted; and (3) unrestricted. The first category represents the portion of net position related to capital assets, net of accumulated depreciation and amortization, reduced by the outstanding capital lease obligations incurred to acquire these assets. The second category represents the portion restricted by external parties and /or transactions. The unrestricted portion is reported in the third category.

By law, the SCPS does not have taxing authority and, therefore, it cannot incur debt through general obligation bonds to fund the acquisition, construction or improvement of capital assets. That responsibility lies with the local governing body that issues the debt on behalf of SCPS. However, the *Code of Virginia* requires SCPS to hold title to the capital assets (buildings and equipment) due to its responsibility for maintenance and insurance.

In the Statement of Net Position, this scenario presents a dilemma for the County and SCPS. Debt issued on behalf of SCPS is reported along with the County debt as a liability of the primary government, thereby reducing the net position of the primary government. The corresponding capital assets are reported as assets of SCPS (title holder), the component unit, thereby increasing the net position of SCPS.

The Virginia General Assembly amended the *Code of Virginia* to allow a tenancy in common with a school division whenever the locality incurs a financial obligation which is payable over more than one fiscal year for the acquisition of any school property. The tenancy in common terminates when the associated debt has been paid in full. For financial reporting purposes, the legislation permits the locality to report the portion of the school property related to any outstanding financial obligation, thus eliminating a potential deficit from financing capital assets with debt. The legislation allows local governments to elect not to acquire a tenancy in common by adopting a resolution to that effect.

The County concluded that while joint tenancy would resolve a deficit in the primary government's net position, the continual computation process that would be required to allocate principal, interest, asset additions and depreciation and amortization between the County and SCPS would be cumbersome and not provide any added benefit to the financial statements. Therefore, the Board of Supervisors of the County adopted a resolution declining tenancy in common for current and future financial obligations.

M. ENCUMBRANCES

SCPS uses encumbrance accounting where purchase orders, contracts and other commitments for the expenditure of funds are reported as restricted, committed, assigned or unassigned fund balance. Encumbrances represent the estimated amount of expenditures resulting when open purchase orders and unfinished contracts and commitments are completed in the subsequent fiscal year. The encumbrances for the Capital Projects Fund do not lapse until the projects are completed and are reported as restricted or committed fund balance at year-end. Funding for all other encumbrances lapse at year-end and require re-appropriation by the County. These are shown as restricted or assigned fund balance to indicate they are not available for other financing purposes.

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A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. USE OF ESTIMATES

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

O. STEWARDSHIP, COMPLIANCE, AND ACCOUNTING

SCPS follows these procedures in establishing the budgetary data reflected in the financial statements.

1. SCPS' Superintendent prepares an annual budget that is presented to the School Board. The School Board then reviews and requests changes be made or approves the Superintendent's Budget and presents it to the County Board of Supervisors.
2. Prior to April 1, the County Administrator submits a proposed budget (operating and capital) to the Board of Supervisors for the fiscal year commencing the following July 1. The budget includes proposed obligations and the means of financing them. The budget embodies estimates of specific amounts of revenue.
3. Public hearings are conducted by the Board of Supervisors to obtain taxpayer and citizen comments.
4. Prior to June 30, the County's budget, which includes SCPS as a component unit, is legally enacted through passage of a resolution by the Board of Supervisors. The School Board then adopts the budget approved by the County and the following individual fund budgets are legally adopted:

Stafford County Public Schools' Budgets

Governmental Funds:

- Operating Fund
- Capital Projects Fund
- Food and Nutrition Services Fund
- Grants Fund

Proprietary Funds – Internal Service Funds:

- Fleet Services Fund
- Health Benefits Fund
- Workers' Compensation Fund

Budgets are adopted on a basis consistent with GAAP. The budget for the proprietary funds serves as a guide and not as legally binding limitations. Although legal restrictions on expenditures are established at the departmental level, effective administrative control over expenditures is maintained through the establishment of more detailed line-item budgets. For the year ended June 30, 2013, there were no expenditures in excess of budgetary appropriations.

The budget is integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, comparing actual revenue and expenditures with budgeted amounts as originally adopted, and as amended by the Board of Supervisors through June 30, 2013. Individual amendments were not material in relation to the original appropriations.

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. FUND BALANCES

Beginning with fiscal year 2011, the SCPS implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority; and
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are only reported in the operating fund.

When fund balance resources are available for a specific purpose in more than one classification, it is SCPS' policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

The School Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the School Board through the adoption or amendment of the budget as intended for specific purposes (such as the purchase of capital assets, construction, debt service, or for other purposes).

Note 2. DEPOSITS AND INVESTMENTS

DEPOSITS

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2-2-400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

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, bankers' acceptances, repurchase agreements, Supplemental Nutrition Assistance Program (SNAP) and the State Treasurer's Local Government Investment Pool (LGIP).

CUSTODIAL CREDIT RISK

The School Board's investments at June 30, 2013 were held by the School Board or in the School Board's name by the School Board's custodial banks.

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

Note 2. DEPOSITS AND INVESTMENTS (Continued)

CREDIT RISK OF DEBT SECURITIES

Stafford County Public Schools' debt investments as of June 30, 2013 were rated by Standard & Poor's and/or an equivalent national rating organization. The ratings using Standard & Poor's rating scale are presented below:

	<u>AAA</u>	<u>AAA</u>	<u>A1</u>
VACo/VML Pooled OPEB Trust	\$ 12,325,983	\$ -	\$ -
LGIP	4,760,267	-	-
SNAP	31,298,670	-	-
Total	\$ 48,384,920	\$ -	\$ -

EXTERNAL INVESTMENT POOLS

The fair value of the positions in the external investment pools (LGIP and the VACo/VML Pooled OPEB Trust) are the same as the value of the pool shares. As these pools are not SEC-registered, regulatory oversight of the pools rests with the Virginia State Treasury.

Note 3. DUE FROM STAFFORD COUNTY (PRIMARY GOVERNMENT)

The receivable due from Stafford County at June 30, 2013 represents primarily, SCPS' ending cash balance, excluding the balance reported as "Pooled cash and investments", which was reclassified and reported at year-end as "Due from primary government" in the Operating Fund.

Note 4. DUE FROM COMMONWEALTH OF VIRGINIA AND FEDERAL GOVERNMENT

Significant amounts of intergovernmental receivables due from other governments at June 30, 2013 were as follows:

<i>Intergovernmental Receivables:</i>	Governmental Funds - Operating Fund	Nonmajor Governmental Funds - Food and Nutrition Services Fund	Nonmajor Governmental Funds - Grants Fund	Governmental Funds Total
	Commonwealth of Virginia	\$ 4,760,259	\$ -	\$ 9,450
Federal Government	30,565	202,208	1,385,298	1,618,071
Total	\$ 4,790,824	\$ 202,208	\$ 1,394,748	\$ 6,387,780

The receivable from the Commonwealth of Virginia is primarily attributed to state sales taxes due to the school system. The Virginia Retail Sales and Use Tax Act requires one and one-eighth cents out of every five cents collected in State Sales Tax be distributed to school divisions based on school-age population. The receivable from the Commonwealth of Virginia also includes reimbursement for the second semester of dual enrollment from Germanna Community College and FAMIS. The amount due from the Commonwealth of Virginia in the Grants Fund is attributed to a Project Graduation.

Amounts due from the federal government in the Operating Fund are attributed primarily to Medicaid and JROTC reimbursements. Amounts due from the federal government in the Food and Nutrition Services Fund are attributed solely to the free and reduced breakfast and lunch programs. The Grants Fund federal receivable consists of Title I and Title II Part A programs that enhance the instruction for disadvantaged children and the Head Start program.

SCPS' receivables are considered fully collectible and therefore an allowance for uncollectible accounts does not apply to these receivables.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

Note 5. INTERFUND TRANSFERS

In the fiscal year ended June 30, 2013, the majority of the inter-fund transfers made were from the Operating Fund to the Health Benefits Fund. During the fiscal year, each fund accounted for healthcare premium payments to the Health Benefits Fund totaling \$29,633,868, which was classified as administrative, attendance and health expenditures. The inter-fund transfers made during the year ended June 30, 2013 were, as follows:

<i>Transfer from:</i>	Operating Fund	Food and Nutrition Services	Grants Fund	Health Benefits Fund	Total
<i>Transfer to:</i>					
Operating Fund	\$ -	\$ 200,000	\$ -	\$ 2,756,061	\$ 2,956,061
Workers' Compensation Fund	594,389	-	3,343	-	597,732
Total	<u>\$ 594,389</u>	<u>\$ 200,000</u>	<u>\$ 3,343</u>	<u>\$ 2,756,061</u>	<u>\$ 3,553,793</u>

The transfer from the Operating Fund and Grants Fund to the Workers' Compensation Fund was to cover the costs incurred in the Workers' Compensation Fund. The transfer from the Food and Nutrition Services Fund to the Operating Fund was to cover the administrative costs incurred by the Operating Fund in support for the Food and Nutrition Services Fund. The transfer from the Health Benefits Fund to the Operating Fund was made to cover necessary repairs at schools. This transfer was mutually agreed upon by the Stafford Board of Supervisors and Stafford County School Board.

Note 6. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term liability activity of SCPS for the year ended June 30, 2013:

	Amounts Payable at 7/1/12	Increases	Decreases	Amounts Payable at 6/30/13	Amounts Due within One Year
<i>Governmental Activities:</i>					
General Long-Term Debt:					
Capital Lease	\$ 1,734,786	\$ -	\$ 318,292	\$ 1,416,494	\$ 332,020
Compensated Absences *	6,288,537	539,452	410,566	6,417,423	443,119
Note Payable - Stafford County	1,155,000	-	75,000	1,080,000	75,000
<i>Internal Service Funds:</i>					
Capital Lease	-	300,500	26,426	274,074	27,173
Compensated Absences	142,357	11,294	8,772	144,879	12,575
Total	<u>\$ 9,320,680</u>	<u>\$ 851,246</u>	<u>\$ 839,056</u>	<u>\$ 9,332,870</u>	<u>\$ 889,887</u>

* The Operating Fund is primarily used to liquidate the liability for compensated absences.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

Note 6. CHANGES IN LONG-TERM DEBT (Continued)

On July 8, 2010, SCPS received the proceeds of a note payable from Stafford County in the amount of \$1,305,000. The note is related to a VPSA bond Stafford County received from Virginia Public School Authority. It is a principal only note with an annual payment due June 30th each year for 17 years. The payment schedule is as follows:

<u>Fiscal year ending June 30:</u>	<u>Amount</u>
2014	\$ 75,000
2015	75,000
2016	75,000
2017	75,000
2018	75,000
2019-2023	385,000
2024-2027	320,000
Total future payments	<u>\$ 1,080,000</u>

Note 7. CAPITAL LEASE OBLIGATIONS

SCPS contracted to perform a detailed energy audit to determine the energy savings potential from an energy savings contract. The results indicated that such a contract would reduce the energy and operating costs of SCPS, while updating or replacing building system equipment.

The financing for this project was structured as a Tax-exempt Municipal Lease and qualifies as a capital lease for accounting purposes. The total amount financed was \$3,204,186, including capitalized interest of \$60,289, of which \$1,416,494 is outstanding as of June 30, 2013.

For the year ended June 30, 2013, interest expense from the capital lease obligation totaled \$68,616.

The maturities of future minimum lease payments and the net present value of capitalized lease obligations as of June 30, 2013 are as follows:

<u>Fiscal year ending June 30:</u>	<u>Amount</u>
2014	\$ 386,909
2015	386,909
2016	386,909
2017	386,908
Total future minimum lease payments	<u>1,547,635</u>
Less: interest included in total future minimum lease payments	<u>131,141</u>
Net present value of capitalized lease obligations	<u>\$ 1,416,494</u>

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Note 7. CAPITAL LEASE OBLIGATIONS (Continued)

Stafford County School Board entered into a lease agreement with the Industrial Development Authority of the County of Stafford and the City of Staunton, Virginia to finance the purchase of three Steril Koni Eco 60-13 Heavy Duty In-ground Axle Engaging Lifts installed at Fleet Services.

The financing for this project was structured as a Tax-exempt Lease/Purchase Agreement and qualifies as a capital lease for accounting purposes. The total amount financed was \$300,500, including capitalized interest of \$500, of which \$274,074 is outstanding as of June 30, 2013.

For the year ended June 30, 2013, interest expense from the capital lease obligation totaled \$8,742.

The maturities of future minimum lease payments and the net present value of the capitalized lease obligation as of June 30, 2013 are as follows:

Fiscal year ending June 30:	Amount
2014	\$ 34,668
2015	34,668
2016	34,668
2017	34,668
2018	34,668
2019-2022	138,676
Total future minimum lease payments	312,016
Less: interest included in total future minimum lease payments	37,942
Net present value of capitalized lease obligations	<u>\$ 274,074</u>

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Note 8. CAPITAL ASSETS

The following is a summary of the changes in *Total capital assets, net - governmental activities*, excluding internal service funds for the fiscal year ended June 30, 2013:

	Balance			Re-	Balance
	July 1, 2012	Increases	Decreases	classifications	June 30, 2013
<i>Governmental Activities :</i>					
<u>Capital assets not being depreciated or amortized:</u>					
Land	\$ 33,038,347	\$ -	\$ (31,206)	\$ -	\$ 33,007,141
Assets not yet placed in service	81,905	600,909	-	(48,181)	634,633
Construction in progress	5,675,201	17,465,950	(113,518)	(5,638,839)	17,388,794
Total capital assets not being depreciated or amortized	38,795,453	18,066,859	(144,724)	(5,687,020)	51,030,568
<u>Capital assets being depreciated or amortized:</u>					
Land improvements	38,665,635	528,024	(9,253)	2,572,228	41,756,634
Buildings & building improvements	423,287,816	1,238,190	(1,523,932)	4,078,351	427,080,425
Furniture, fixtures & equipment	9,155,190	462,042	(48,502)	(946,939)	8,621,791
Vehicles	20,899,679	1,456,524	(476,342)	(37,166)	21,842,695
Software	512,378	8,268	-	-	520,646
Technology infrastructure	1,276,834	-	-	20,546	1,297,380
Water treatment system	635,154	-	-	-	635,154
Total capital assets being depreciated or amortized	494,432,686	3,693,048	(2,058,029)	5,687,020	501,754,725
<u>Less accumulated depreciation or amortization for:</u>					
Land improvements	(10,936,996)	(2,062,327)	3,014	748,851	(12,247,458)
Buildings & building improvements	(125,518,322)	(11,511,612)	1,183,061	-	(135,846,873)
Furniture, fixtures & equipment	(5,818,147)	(673,779)	37,317	(711,685)	(7,166,294)
Vehicles	(12,088,660)	(1,161,721)	431,238	(37,166)	(12,856,309)
Software	(306,541)	(78,951)	-	-	(385,492)
Technology infrastructure	(117,942)	(64,446)	-	-	(182,388)
Water treatment system	(410,447)	(33,304)	-	-	(443,751)
Total accumulated depreciation or amortization	(155,197,055)	(15,586,140)	1,654,630	-	(169,128,565)
Total capital assets being depreciated or amortized, net	339,235,631	(11,893,092)	(403,399)	5,687,020	332,626,160
Total capital assets, net - governmental activities	\$ 378,031,084	\$ 6,173,767	\$ (548,123)	\$ -	\$ 383,656,728

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Note 8. CAPITAL ASSETS (Continued)

Depreciation and amortization expense was allocated to the government-wide functions as follows:

Function	Depreciation and amortization expense
Instruction	\$ 409,644
Administration, attendance and health	34,196
Pupil transportation	1,043,318
Operation and maintenance	488,556
Food and nutrition services	85,286
Facilities	12,997,081
Technology	528,059
Total depreciation and amortization expense - governmental activities	\$ 15,586,140

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Note 8. CAPITAL ASSETS (Continued)

The following is a summary of the changes in *Total capital assets, propriety funds* (i.e., for SCPS' Fleet Services Fund, an internal service fund) for the fiscal year ended June 30, 2013:

	Balance July 1, 2012	Increases	Decreases	Re- classifications	Balance June 30, 2013
<i>Internal - Service activities:</i>					
<u>Capital assets not being depreciated or amortized:</u>					
Land	\$ 37,357	\$ -	\$ -	\$ -	\$ 37,357
Construction in progress	225,366	218,186	-	(225,366)	218,186
Total capital assets not being depreciated and amortized	262,723	218,186	-	(225,366)	255,543
<u>Capital assets being depreciated or amortized:</u>					
Land improvements	942,970	-	-	-	942,970
Buildings & building improvements	1,225,255	114,429	-	225,366	1,565,050
Furniture, fixtures & equipment	135,872	-	-	-	135,872
Vehicles	33,277	25,765	-	-	59,042
Software	78,725	-	-	-	78,725
Total capital assets being depreciated or amortized	2,416,099	140,194	-	225,366	2,781,659
<u>Less accumulated depreciation and amortization for:</u>					
Land improvements	(273,756)	(47,514)	-	-	(321,270)
Buildings & building improvements	(739,564)	(54,826)	-	-	(794,390)
Furniture, fixtures & equipment	(67,929)	(9,029)	-	-	(76,958)
Vehicles	(21,207)	(5,770)	-	-	(26,977)
Software	(39,362)	(15,745)	-	-	(55,107)
Total accumulated depreciation and amortization	(1,141,818)	(132,884)	-	-	(1,274,702)
Total capital assets being depreciated or amortized, net	1,274,281	7,310	-	225,366	1,506,957
Total capital assets, net - internal - service activities	\$ 1,537,004	\$ 225,496	\$ -	\$ -	\$ 1,762,500

Note 9. CONSTRUCTION COMMITMENTS

At June 30, 2013, SCPS had contractual commitments of \$19.8 million in the Capital Projects Fund for construction of various projects.

**STAFFORD COUNTY PUBLIC SCHOOLS
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Note 10. RELATED PARTIES

With the exception of the County, which funds a large portion of the SCPS budget and is the custodian of the majority of SCPS' cash and cash equivalents, the school system has no significant related parties.

Note 11. DEBT SERVICE

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

Note 12. RISK MANAGEMENT

SCPS is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which SCPS carries commercial insurance through Vacorp. Settled claims from these risks have not exceeded commercial coverage for the past three years.

SCPS is a member of the Virginia Municipal League Programs (VML) for workers' compensation. This program is administered by a servicing contractor, which furnishes claims review and processing. Each Association member jointly and severally agrees to assume, pay and discharge any liability. SCPS pays Virginia Municipal Group contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

SCPS carries commercial insurance for all risks of loss, except for workers' compensation. Like the County, SCPS participates in the VML public entity risk pool. Settled claims have not exceeded commercial insurance coverage and there have not been any significant reductions in insurance coverage over the previous year. The total estimated workers' compensation insurance claims payable as of June 30, 2013 were \$638,702, of which \$549,284 was estimated to be current claims payable.

Beginning in fiscal year 2002, SCPS revised its health insurance plan to fully retain the associated risk. The risk financing is accounted for in the Health Benefits Fund. Premiums are paid for all full-time employees of the SCPS to a claims administrator who processes all claims.

Liabilities are reported when it is possible that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include any amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering recent settlement trends including frequency and amount of payouts. The change in the claims liabilities balance during the past two years is as follows:

Fiscal Year Ended June 30,	2013	2012
Unpaid claims, beginning of fiscal year	\$ 4,439,458	\$ 4,260,708
Incurred claims (including IBNR)	24,943,096	24,338,084
Claims payments	(24,874,356)	(24,159,334)
Unpaid claims, end of fiscal year	<u>\$ 4,508,198</u>	<u>\$ 4,439,458</u>

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Note 13. LITIGATION AND CONTINGENT LIABILITIES

SCPS is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. It is the opinion of SCPS' management, based on advice from legal counsel, that any losses incurred as a result of claims existing as of June 30, 2013 will not be material to the financial statements.

Federal programs in which the School Board participates were audited in accordance with the provisions of the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by our audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

Note 14. DEFINED BENEFIT PENSION PLAN

A. PLAN DESCRIPTION

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (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 service 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 5 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 %. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013. 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.

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Note 14. DEFINED BENEFIT PENSION PLAN (Continued)

A. PLAN DESCRIPTION (continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation the COLA is 0.00%. 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.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS web site at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. FUNDING POLICY

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period 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 SCPS 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 SCPS contribution rate for professional and non-professional employees for the fiscal year ended 2013 was 11.66% and 9.65%, respectively, of annual covered payroll.

Total contributions to the VRS State Teachers Pool for the fiscal years ended June 30, 2013, 2012, and 2011 were \$23,323,978, \$15,914,751, and \$12,511,835 (including both the employer and employee portions) respectively, representing 16.66%, 11.33%, and 8.93%, respectively, of the annual covered payroll for the three fiscal years then ended. The contributions equaled the required contributions for each year.

C. ANNUAL PENSION COST

For fiscal year 2013, SCPS' actual annual pension cost of \$1,223,981 was equal to its required and actual contribution for the nonprofessional employees. Below is a schedule of the Pension trend for nonprofessional employees:

Three-year Pension Trend Information for SCPS:			
Fiscal Year Ending	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
June 30, 2013	\$ 1,223,981	100.00%	\$ -
June 30, 2012	6,569,000	100.00%	-
June 30, 2011	9,106,473	100.00%	-

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Note 14. DEFINED BENEFIT PENSION PLAN (Continued)

C. ANNUAL PENSION COST (continued)

The FY 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, 3.75% to 6.20% for teachers, and 3.5% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, 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 the projected salary increases include an inflation component of 2.50%. The actuarial value of the SCPS' 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. SCPS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 29 years.

D. FUNDED STATUS AND FUNDING PROGRESS

As of June 30, 2012, the most recent actuarial valuation date, the School Board's plan was 74.30% funded. The actuarial accrued liability for benefits was \$25,105,138, and the actuarial value of assets was \$18,653,192, resulting in an UAAL of \$6,451,946. The covered payroll (annual payroll of active employees covered by the plan) was \$8,451,315 and the ratio of the UAAL to the covered payroll was 76.34%.

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.

Note 15. OTHER POST-EMPLOYMENT BENEFITS (OPEB) MEDICAL PLAN

A. PLAN DESCRIPTION

Stafford County Public Schools' post-employment medical plan (the plan) is a single-employer defined benefit health care plan which offers health insurance for retired employees. The plan is administered by the School Board of Stafford County, Virginia and has no separate financial report.

RETIREMENT BENEFITS

Plan participants are eligible for coverage based upon normal retirement at age 65 with 5 years of service or at age 50 with 30 years of service or early retirement at age 50 with 10 years of service or at age 55 with 5 years of service in accordance with the eligibility provisions of the VRS retirement plan.

In addition, plan participants are also eligible to receive a health insurance credit (HIC) based upon retirement at age 50 for up to a minimum of 10 years and a maximum of 30 years of service, with the employer contribution (subsidy) percentages ranging from 15% to 100%. The HIC represents a subsidy of post-employment health care premiums for retirees, which is applied only to individual medical coverage. Retirees may elect to continue spousal and/or dependent coverage upon retirement, but they must pay the entire cost of that coverage.

The employer's subsidized portion of the participants' benefit is determined after any credit given to the retiree from the VRS. For inactive participants, the VRS subsidy amount paid to retirees is used. For active participants, the HIC provided by VRS is determined by multiplying the participants' years of service (up to a maximum of 30 years) by \$1.50 for non-professional employees and \$4.00 for professional employees.

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Note 15. OTHER POST-EMPLOYMENT BENEFITS (OPEB) MEDICAL PLAN

A. PLAN DESCRIPTION (continued)

DISABILITY BENEFITS

The VRS disability eligibility is the date of hire for a participant, which is the same eligibility SCPS requires. Disability participants receive the same subsidy percentage as a retiree, except there is no age 50 requirement to receive the employer subsidy. The employer's subsidized portion of the participants' benefit is determined after any credit given to the retiree from the VRS.

SURVIVOR BENEFITS

Surviving spouses of participants with dependent coverage can stay on the plan, but receive no subsidy from SCPS.

MEDICARE COVERAGE OPTIONS

Pre-Medicare retirees may continue to remain in one of the three options for medical and prescription drug coverage offered to active participants. Once the participant is Medicare eligible they can continue with the Medicare carve-out plan, which is offered secondarily to Medicare.

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.

ACTUARIAL METHODS AND ASSUMPTIONS

Cost Method

The entry age normal cost method is used to determine the Plan's liabilities and costs. Under this cost method, the actuarial present value of projected benefits of every active Participant as if the Plan's provisions on the valuation date had always been in effect, is determined as a level percentage of expected annual earnings for each future year of expected service. A normal annual cost from the assumed entry date is determined by applying this percentage of pay to the assumed earnings for that year (or if benefits are not pay related, the level amount for each year).

Under this method, inactive participants have no normal cost, and their actuarial liability is the present value of the plan benefits to which they and their beneficiaries are entitled. The Plan's total annual normal cost and actuarial liability are the sum of the individual participant amounts.

An experience gain or loss is a decrease or increase in the unfunded actuarial liability attributable to actual experience that differed from that expected by the actuarial assumptions. Such gains or losses are explicitly recognized under this method. The UAAL is being amortized as a level percentage of projected payroll on an open basis.

Interest Assumptions

The actuarial assumptions of the plan as of June 30, 2013 are as follows:

- Discount rate 8.0%
- VRS retiree credit increase 4.0%
- Payroll growth 4.0%

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Note 15. OTHER POST-EMPLOYMENT BENEFITS (OPEB) MEDICAL PLAN (Continued)

B. FUNDING POLICY

The School Board establishes employer contribution rates for plan participants as part of the annual budget process. The School Board also determines whether to partially or fully fund the plan during the annual budget process.

C. ANNUAL OPEB COST AND NET OPEB OBLIGATION

The annually required contribution (ARC) represents an actuarially computed annual level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of OPEB and amortize the unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The School Board's annual OPEB cost (expense) for the year ended June 30, 2013 was \$5,762,000 (comprised of the ARC of \$5,387,406 plus interest of \$1,870,576 on the beginning net OPEB obligation less an ARC adjustment of \$1,495,982) and the annual contributions were \$8,777,102, yielding a decrease in the net OPEB obligation of \$3,015,102.

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for fiscal years 2013, 2012, and 2011 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2013	\$ 5,762,000	\$ 8,777,102	152.33%	\$ 20,367,099
June 30, 2012	6,569,000	3,589,375	54.64%	23,382,201
June 30, 2011	9,106,473	1,138,038	12.50%	20,402,575

D. FUNDED STATUS AND PROGRESS

As of June 30, 2013, the most recent valuation date, the plan was 21.48% funded. The actuarial accrued liability for benefits was \$55,269,000, and the actuarial value of the assets was \$11,874,000, resulting in an UAAL of \$43,395,000. The covered payroll (annual payroll of active employees) was \$103,582,553, and the ratio of the UAAL to the covered payroll was 41.89%.

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 revisions 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 multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for plan benefits.

Note 16. VRS HEALTH INSURANCE CREDIT OPEB PLAN

A. PLAN DESCRIPTION

SCPS participates in the state's post-employment Health Insurance Credit (HIC) Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is an agent and cost-sharing, multiple-employer defined benefit plan administered by VRS.

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Note 16. VRS HEALTH INSURANCE CREDIT OPEB PLAN (Continued)

A. PLAN DESCRIPTION (continued)

The Virginia General Assembly establishes the dollar amount of the HIC for each year of creditable service. The credit amount and eligibility differ for state, school division, political subdivision, local officer, local social services department and general registrar retirees.

An employee of SCPS retiring under the VRS (the "System") with at least 15 years of total creditable service in the System and is enrolled in a health insurance plan, is eligible to receive a monthly HIC of \$1.50 per year of creditable service up to a maximum monthly credit of \$45. However, such credit shall not exceed the health insurance premium for the employee. Disabled retirees automatically receive the maximum monthly HIC of \$45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the costs of such credits in the applicable employer rate pursuant to § 51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the HIC. VRS issues separate financial statements as previously discussed in Note 14.

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 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 included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Cost Method

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.0% investment rate of return, compounded annually, including an inflation component of 2.5%, and a payroll growth rate of 3%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2012 was 29 years.

B. FUNDING POLICY

As a participating local political subdivision, SCPS is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. SCPS' contribution rate effective for the upcoming fiscal year is .28% of annual covered payroll.

C. ANNUAL OPEB COST AND NET OPEB OBLIGATION

The annual cost of OPEB under Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, is based on the ARC determined for each fiscal year. SCPS is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

Note 16. VRS HEALTH INSURANCE CREDIT OPEB PLAN (Continued)

C. ANNUAL OPEB COST AND NET OPEB OBLIGATION (continued)

For 2013, SCPS' contribution of \$23,273 was equal to the ARC and OPEB cost. SCPS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for 2013, 2012, and 2011 are as follows:

Fiscal Year Ended	OPEB Cost (ARC)	Percentage of	
		ARC Contributed	Net OPEB Obligation
June 30, 2013	\$ 23,273	100.00%	\$ -
June 30, 2012	22,495	100.00%	-
June 30, 2011	22,750	100.00%	-

D. FUNDING STATUS AND FUNDING PROGRESS

The funded status of the plan as of June 30, 2012, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	346,381
Actuarial value of plan assets	\$	173,361
Unfunded actuarial accrued liabilities (UAAL)	\$	173,020
Funded ratio (actuarial value of plan assets/AAL)		50.05%
Covered payroll (active plan members)	\$	8,451,315
UAAL as a percentage of covered payroll		2.05%

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 and reflect a long-term perspective. 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. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

E. PROFESSIONAL EMPLOYEES

The School Board participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is a cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service.

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

Note 16. VRS HEALTH INSURANCE CREDIT OPEB PLAN (Continued)

E. PROFESSIONAL EMPLOYEES (continued)

A teacher, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly HIC of \$4 per year of creditable service. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive a monthly HIC of \$4 multiplied by the larger of (i) twice the amount of their creditable service per month or (ii) the amount of monthly creditable service they would have completed at age 60 if they had remained in service to that age.

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.11% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2013, 2012, and 2011 were \$1,555,242, \$844,063, and \$841,378, respectively and equaled the required contributions for each year.

Note 17. PRIOR PERIOD ADJUSTMENTS

A. NET POSITION OF THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The net position of the Government-wide financial statements as of June 30, 2012 was overstated by \$2,449,003, due to:

1. Prepaid service contracts were not properly recorded as a prepaid asset as of June 30, 2012 and
2. The accrual of health benefits for 10- and 11-month employees was not properly recorded as expenditures, in fiscal year 2012.

	<u>Governmental Activities</u>
Net position, June 30, 2012, as previously reported	\$ 391,997,512
Effect of recording the prepaid service contracts	490,227
Effect of recording the accrued health benefit	(2,939,230)
Net position, June 30, 2012, as restated	<u>\$ 389,548,509</u>

B. FUND BALANCES OF THE OPERATING FUND AND SCHOOL NUTRITION FUND

The fund balances for the Operating Fund and Food and Nutrition Services Fund were overstated as June 30, 2012 by \$2,326,107 and \$122,896, respectively. The Operating Fund was understated by \$490,227 for the prepaid expenses and overstated by the health benefit accrual for 10- and 11-month employees by \$2,816,334. The Food and Nutrition Service Fund was overstated by \$122,896 as of June 30, 2012 due to the unaccrued health benefits for 10- and 11-month employees.

	<u>Operating Fund</u>	<u>Food and Nutrition Services Fund</u>	<u>Total</u>
Fund Balance, June 30, 2012, as previously reported	\$ 5,301,698	\$ 2,756,845	\$ 8,058,543
Effect of recording the prepaid service contracts	490,227	-	490,227
Effect of recording the accrued health benefit	(2,816,334)	(122,896)	(2,939,230)
Fund Balance, June 30, 2012, as restated	<u>\$ 2,975,591</u>	<u>\$ 2,633,949</u>	<u>\$ 5,609,540</u>

The deficit in the unassigned fund balance in the Operating Fund as of June 30, 2013 is due to the health benefit accrual prior period adjustment as of June 30, 2012.

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

Note 17. PRIOR PERIOD ADJUSTMENTS (Continued)

C. NET POSITION OF THE AGENCY FINANCIAL STATEMENTS

In prior years, School Activity Funds included a division-wide activity fund. Beginning in fiscal year 2013, the division-wide activity fund was eliminated and a new agency fund, the Fiduciary Services Fund, was created.

	School Activity Funds	Fiduciary Services Fund
Net position, June 30, 2012, as previously reported	\$ 2,602,042	\$ -
Effect of creating a new fund	(41,189)	41,189
Net position, June 30, 2012, as restated	<u>\$ 2,560,853</u>	<u>\$ 41,189</u>

Note 18. DEFICIT IN NET POSITION

The Health Benefits Fund had a deficit net position balance of \$8,415,791 as of June 30, 2013.

Note 19. NEW AND PENDING ACCOUNTING STANDARDS OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD

ADOPTION OF NEW ACCOUNTING STANDARD

During 2013, SCPS adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Implementation also required the reclassification of “net assets” to “net position”.

In 2013, SCPS early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. For SCPS, no reclassification or recognition was required.

PENDING GASB STATEMENTS

In March 2012, GASB issued Statement No. 66, *Technical Corrections 2012 – an amendment of GASB Statements No. 10 and 62*. This statement provides clarifying guidance on fund classifications and the accounting for operating leases with scheduled rent increases. The statement is effective for reporting periods beginning after December 15, 2012. SCPS has not implemented this statement.

In June 2012, GASB issued Statements No. 67 *Financial Reporting for Pension Plans* and No. 68, *Accounting and Reporting for Pensions*. Statement No. 67 addresses financial reporting for state and local government pension plans. Statement No. 68 establishes standards for measuring and recognizing the liabilities and expenses related to the employer’s pension plan. Statement No. 67 is effective for fiscal years beginning after June 15, 2013, and Statement No. 68 will take effect for employers in fiscal years beginning after June 15, 2014. SCPS will implement Statement No. 68 in Fiscal year 2015.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. Statement No. 69 establishes accounting and reporting standards related to disclosure of government combinations (acquisitions, mergers, transfers) and disposals of operations. The statement is effective for reporting periods beginning after December 15, 2013. SCPS has not implemented this statement.

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

**Note 19. NEW AND PENDING ACCOUNTING STANDARDS OF GOVERNMENTAL ACCOUNTING
STANDARDS BOARD (Continued)**

PENDING GASB STATEMENTS (continued)

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Statement No. 70 requires revenue and liability recognition for nonexchange financial guarantees and specifies related disclosures. The statement is effective for reporting periods beginning after June 15, 2013. SCPS has not implemented this statement.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Operating Fund
For the Fiscal Year Ended June 30, 2013

Exhibit M

	Budget		Actual	Variance from Final Budget Over (Under)
	Original	Final		
REVENUES				
Intergovernmental:				
Stafford County	\$106,850,774	\$109,846,455	\$ 108,625,975	\$ (1,220,480)
Commonwealth of Virginia	133,985,923	134,006,617	133,170,102	(836,515)
Federal Government	3,998,046	1,700,000	2,071,309	371,309
Total intergovernmental revenues	<u>244,834,743</u>	<u>245,553,072</u>	<u>243,867,386</u>	<u>(1,685,686)</u>
Charges for services:				
Tuition and fees	935,500	935,500	911,220	(24,280)
Recovered costs	710,000	1,443,564	1,460,970	17,406
Miscellaneous	766,779	344,530	328,109	(16,421)
Total revenues	<u>247,247,022</u>	<u>248,276,666</u>	<u>246,567,685</u>	<u>(1,708,981)</u>
EXPENDITURES				
Current operating:				
Instruction	183,569,225	184,409,234	181,881,078	(2,528,156)
Administration, attendance and health	11,500,302	11,007,108	10,422,301	(584,807)
Pupil transportation	14,066,601	13,412,207	13,419,206	6,999
Operation and maintenance	22,427,849	22,458,060	21,315,872	(1,142,188)
Food and nutrition services	229,414	216,899	212,264	(4,635)
Facilities	290,000	416,800	198,990	(217,810)
Technology	13,596,341	16,477,458	14,783,665	(1,693,793)
Capital outlay	1,305,381	7,077,346	3,692,085	(3,385,261)
Debt service:				
Principal	393,293	393,293	393,292	(1)
Interest and fiscal charges	68,616	71,631	71,631	-
Total expenditures	<u>247,447,022</u>	<u>255,940,036</u>	<u>246,390,384</u>	<u>(9,549,652)</u>
Excess (deficiency) of revenues over (under) expenditures	(200,000)	(7,663,370)	177,301	7,840,671
OTHER FINANCING SOURCES				
Transfers from (to) other funds, net	<u>200,000</u>	<u>2,361,672</u>	<u>2,361,672</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (5,301,698)</u>	<u>2,538,973</u>	<u>\$ 7,840,671</u>
Fund balance, beginning - July 1, 2012, as restated			<u>2,975,591</u>	
Fund balance, ending - June 30, 2013			<u>\$ 5,514,564</u>	

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
SCHEDULE OF FUNDING PROGRESS FOR VARIOUS BENEFIT PLANS
Last Six Fiscal Years

Exhibit N

A. Virginia Retirement System

For Non-professional Employees:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll $\{(b) - (a)\} / (c)$
June 30, 2012	\$ 18,653,192	\$ 25,105,138	\$ 6,451,946	74.30%	\$ 8,451,315	76.34%
June 30, 2011	18,125,118	23,521,671	5,396,553	77.06%	8,652,954	62.37%
June 30, 2010	17,171,281	22,318,924	5,147,643	76.94%	9,204,760	55.92%
June 30, 2009	16,407,925	19,741,420	3,333,495	83.11%	9,355,749	35.63%
June 30, 2008	15,105,330	18,143,961	3,038,631	83.25%	9,423,081	32.25%
June 30, 2007	12,924,290	16,463,072	3,538,782	78.50%	9,275,202	38.15%

B. Other Post-Employment Benefits (OPEB) Medical Plan

For Professional and Non-professional Employees:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll $\{(b) - (a)\} / (c)$
July 1, 2013	\$ 11,874,000	\$ 55,269,000	\$ 43,395,000	21.48%	\$ 103,582,553	41.89%
July 1, 2012	4,697,715	50,489,000	45,791,285	9.30%	104,507,089	43.82%
July 1, 2011	2,700,962	96,984,000	94,283,038	2.79%	104,195,744	90.49%
July 1, 2010	2,236,000	89,408,000	87,172,000	2.50%	102,349,123	85.17%
July 1, 2008	1,058,479	50,636,479	49,578,000	2.09%	106,020,819	46.76%
e Plan Design Change: July 1, 2007	-	7,967,000	7,967,000	0.00%	103,300,000	7.71%

C. VRS Health Insurance Credit OPEB Plan

For Non-professional Employees:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll $\{(b) - (a)\} / (c)$
June 30, 2012	\$ 173,361	\$ 346,381	\$ 173,020	50.05%	\$ 8,451,315	2.05%
June 30, 2011	170,484	324,869	154,384	52.48%	8,652,954	1.78%
June 30, 2010	138,036	300,205	162,169	45.98%	9,204,760	1.76%
June 30, 2009	102,886	260,568	157,682	39.49%	9,355,749	1.69%
June 30, 2008	101,971	303,765	201,794	33.57%	9,423,081	2.14%
June 30, 2007	73,627	417,967	344,340	17.62%	9,275,502	3.71%

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2013**

A. BUDGETS AND BUDGETARY ACCOUNTING

SCPS follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent prepares an annual budget that is presented to the School Board, usually in January of each year. Budget schedules and deadlines are developed annually.
2. Following public hearing on the Superintendent's Proposed Budget and School Board discussions, the School Board adopts its annual budget and forwards it to the governing body, the County of Stafford's Board of Supervisors, for consideration. This usually takes place in March of each year.
4. Prior to April 1, the County Administrator submits a proposed budget including SCPS as a component unit of the primary government to the Board of Supervisors for the fiscal year commencing the following July 1. This budget includes proposed obligations and means of financing them, which embodies estimates of specific revenue sources. Public hearings are conducted by the Board of Supervisors to obtain taxpayer and citizen comments on the budget.
5. Prior to June 30, the County's annual budget is legally enacted through passage of a resolution by the Board of Supervisors. The School Board adopts the budgets approved by the County, thereby legally adopting these budgets:

Stafford County Public Schools

Governmental Funds:

- Operating Fund
- Capital Projects Fund
- Food and Nutrition Services Fund
- Grants Fund

Proprietary Funds – Internal Service Funds:

- Fleet Services Fund
- Health Benefits Fund
- Worker's Compensation Fund

6. The budget for the proprietary funds serves as a guide and not as legally binding limitations. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
7. Although legal restrictions on expenditures are established at the departmental level, effective administrative control over expenditures is maintained through the establishment of more detailed line-item budgets.
8. An encumbrance system is used to monitor purchases and contractual commitments during the fiscal year. Any outstanding (open) encumbrances at year-end are reported as a reservation of fund balance. Encumbrances do not constitute expenditures of the current fiscal year. Appropriations with outstanding commitments or encumbrances are carried forward to the following fiscal year.
9. Unexpended, unencumbered appropriations lapse (except for the Capital Projects Fund) and are closed to the proper fund balances at the end of each fiscal year (June 30). However, the Operating Fund's net assets balance (i.e., total assets less total liabilities) not reserved or designated at June 30 for outstanding encumbrances, inventory, prepaid expenses, and future expenditures, revert to the County before closing the fiscal year. Appropriations for the subsequent fiscal year are increased to cover the outstanding encumbrances at June 30 via a re-appropriation of funds by the County. Encumbered appropriations are liquidated through expenditures in the subsequent fiscal year.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2013

Exhibit O

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	Food and Nutrition Services Fund	Grants Fund	
ASSETS			
Pooled cash and investments	\$ 3,077,029	\$ -	\$ 3,077,029
Accounts receivable	5,128	22,903	28,031
Intergovernmental receivables:			
Federal Government	202,208	1,385,298	1,587,506
Commonwealth of Virginia	-	9,450	9,450
Inventory	341,770	-	341,770
Total assets	<u>\$ 3,626,135</u>	<u>\$ 1,417,651</u>	<u>\$ 5,043,786</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 42,618	\$ 27,408	\$ 70,026
Accrued salaries and benefits	1,116,830	-	1,116,830
Unearned revenue	-	25,000	25,000
Due to other funds	15,753	1,324,050	1,339,803
Total liabilities	<u>1,175,201</u>	<u>1,376,458</u>	<u>2,551,659</u>
Fund balance:			
Nonspendable:			
Inventory	341,770	-	341,770
Total nonspendable	<u>341,770</u>	<u>-</u>	<u>341,770</u>
Restricted:			
Food and nutrition services	2,109,164	-	2,109,164
Grants	-	41,193	41,193
Total restricted	<u>2,109,164</u>	<u>41,193</u>	<u>2,150,357</u>
Total fund balance	<u>2,450,934</u>	<u>41,193</u>	<u>2,492,127</u>
Total liabilities and fund balance	<u>\$ 3,626,135</u>	<u>\$ 1,417,651</u>	<u>\$ 5,043,786</u>

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2013

Exhibit P

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	Food and Nutrition Services Fund	Grants Fund	
REVENUES			
Intergovernmental:			
Commonwealth of Virginia	\$ 218,554	\$ 88,093	\$ 306,647
Federal Government	5,180,412	9,437,553	14,617,965
Total intergovernmental revenues	<u>5,398,966</u>	<u>9,525,646</u>	<u>14,924,612</u>
Charges for services:			
Food sales	6,681,246	-	6,681,246
Miscellaneous	-	259,491	259,491
Total revenues	<u>12,080,212</u>	<u>9,785,137</u>	<u>21,865,349</u>
EXPENDITURES			
Current operating:			
Education:			
Instruction	-	9,552,878	9,552,878
Food and nutrition services	11,842,519	-	11,842,519
Technology	125,351	220,811	346,162
Capital outlay	95,357	7,240	102,597
Total expenditures	<u>12,063,227</u>	<u>9,780,929</u>	<u>21,844,156</u>
Excess of revenues over expenditures	16,985	4,208	21,193
OTHER FINANCING USES			
Transfers to other funds	(200,000)	(3,343)	(203,343)
Change in fund balance	(183,015)	865	(182,150)
Fund balance, beginning - July 1, 2012, as restated	2,633,949	40,328	2,674,277
Fund balance, ending - June 30, 2013	<u>\$ 2,450,934</u>	<u>\$ 41,193</u>	<u>\$ 2,492,127</u>

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
COMBINING STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

Exhibit Q

	Internal Service Funds			Total Proprietary Funds
	Fleet Services Fund	Health Benefits Fund	Workers' Compensation Fund	
ASSETS				
Cash and cash equivalents	\$ 1,060,103	\$ 16,291,023	\$ 1,590,453	\$ 18,941,579
Accounts receivable	66,442	-	-	66,442
Due from other funds	66,442	165,848	-	232,290
Inventory	374,645	-	-	374,645
Restricted cash and equivalents	-	88,000	-	88,000
Capital assets:				
Land	37,357	-	-	37,357
Land improvements	942,970	-	-	942,970
Buildings and building improvements	1,565,050	-	-	1,565,050
Constructions in progress	218,186	-	-	218,186
Furniture, fixtures and equipment	135,872	-	-	135,872
Vehicles	59,042	-	-	59,042
Software	78,725	-	-	78,725
Less accumulated depreciation and amortization	(1,274,702)	-	-	(1,274,702)
Total capital assets	1,762,500	-	-	1,762,500
Total assets	\$ 3,330,132	\$ 16,544,871	\$ 1,590,453	\$ 21,465,456
LIABILITIES				
Accounts payable	\$ 24,410	\$ 77,001	\$ 74,984	\$ 176,395
Accrued salaries and benefits	146,462	8,364	5,947	160,773
Due to other funds	511	-	53	564
Contract retainage	9,311	-	-	9,311
Unearned revenue	2,073	-	-	2,073
Current portion capital lease	27,173	-	-	27,173
Current portion of accrued insurance claims	-	4,508,198	549,284	5,057,482
Current portion of compensated absences	12,575	-	-	12,575
Noncurrent portion of accrued insurance claims	-	-	89,418	89,418
Noncurrent portion of capital lease	246,901	-	-	246,901
Noncurrent portion of compensated absences	132,304	-	-	132,304
Noncurrent portion of OPEB liability	-	20,367,099	-	20,367,099
Total liabilities	601,720	24,960,662	719,686	26,282,068
NET POSITION				
Net investment in capital assets	1,488,426	-	-	1,488,426
Unrestricted (deficit)	1,239,986	(8,415,791)	870,767	(6,305,038)
Total net position	2,728,412	(8,415,791)	870,767	(4,816,612)
Total liabilities and net position	\$ 3,330,132	\$ 16,544,871	\$ 1,590,453	\$ 21,465,456

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2013

Exhibit R

	Internal Service Funds			Total Proprietary Funds
	Fleet Services Fund	Health Benefits Fund	Workers' Compensation Fund	
Operating revenues:				
Charges for services	\$ 3,763,278	\$ 31,523,769	\$ -	\$ 35,287,047
Operating expenses:				
Personnel services	1,811,693	144,767	79,187	2,035,647
Contractual services	15,046	31,376,161	718,223	32,109,430
Materials and supplies	1,614,823	-	-	1,614,823
Utilities	17,392	-	-	17,392
Telecommunications	32,216	-	-	32,216
Depreciation and amortization	132,884	-	-	132,884
Total operating expenses	3,624,054	31,520,928	797,410	35,942,392
Operating income (loss)	139,224	2,841	(797,410)	(655,345)
Nonoperating revenues (expenses):				
Interest and investment revenue	-	7,697	-	7,697
Interest expense	(8,742)	-	-	(8,742)
Vehicle sales	69,605	-	-	69,605
Total nonoperating revenues, net	60,863	7,697	-	68,560
Income (loss) before transfers	200,087	10,538	(797,410)	(586,785)
Transfers from other funds	-	-	597,732	597,732
Transfers to other funds	-	(2,756,061)	-	(2,756,061)
Change in net position	200,087	(2,745,523)	(199,678)	(2,745,114)
Net position, beginning - July 1, 2012	2,528,325	(5,670,268)	1,070,445	(2,071,498)
Net position, ending - June 30, 2013	\$ 2,728,412	\$ (8,415,791)	\$ 870,767	\$ (4,816,612)

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2013

Exhibit S

	Internal Service Funds			Total Proprietary Funds
	Fleet Services Fund	Health Benefits Fund	Workers' Compensation Fund	
Cash flows from operating activities:				
Receipts from customers	\$ 3,631,679	\$ 32,735,076	\$ -	\$ 36,366,755
Payments to suppliers	(1,703,732)	(34,361,881)	(624,842)	(36,690,455)
Payments to employees	(1,799,648)	(1,522,518)	(78,823)	(3,400,989)
Net cash provided by (used in) by operating activities	<u>128,299</u>	<u>(3,149,323)</u>	<u>(703,665)</u>	<u>(3,724,689)</u>
Cash flows from noncapital financing activities:				
Transfers from (to) other funds	-	(2,756,061)	597,732	(2,158,329)
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>(2,756,061)</u>	<u>597,732</u>	<u>(2,158,329)</u>
Cash flows from capital and related financing activities:				
Proceeds from vehicle and supply sales	69,605	-	-	69,605
Proceeds from capital lease	300,500	-	-	300,500
Principal paid on capital lease	(26,426)	-	-	(26,426)
Interest paid on capital lease	(8,742)	-	-	(8,742)
Acquisition and construction of capital assets	(363,749)	-	-	(363,749)
Net cash used in capital and related financing activities	<u>(28,812)</u>	<u>-</u>	<u>-</u>	<u>(28,812)</u>
Cash flows from investing activities:				
Interest earned on investments	-	7,697	-	7,697
Net cash provided by investing activities	<u>-</u>	<u>7,697</u>	<u>-</u>	<u>7,697</u>
Net increase (decrease) in cash and cash equivalents	99,487	(5,897,687)	(105,933)	(5,904,133)
Cash and cash equivalents, beginning July 1, 2012	960,616	22,276,710	1,696,386	24,933,712
Cash and cash equivalents, ending June 30, 2013	<u>\$ 1,060,103</u>	<u>\$ 16,379,023</u>	<u>\$ 1,590,453</u>	<u>\$ 19,029,579</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 139,224	\$ 2,841	\$ (797,410)	\$ (655,345)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization expense	132,884	-	-	132,884
Changes in assets and liabilities:				
(Increase) decrease in accounts receivables	(131,599)	1,211,307	-	1,079,708
Increase in inventory	(8,183)	-	-	(8,183)
Increase (decrease) in accounts payable and accrued expenses	(6,549)	(1,348,369)	93,745	(1,261,173)
Increase in compensated absences	2,522	-	-	2,522
Decrease in OPEB liability	-	(3,015,102)	-	(3,015,102)
Total adjustments	<u>(10,925)</u>	<u>(3,152,164)</u>	<u>93,745</u>	<u>(3,069,344)</u>
Net cash provided by (used in) operating activities	<u>\$ 128,299</u>	<u>\$ (3,149,323)</u>	<u>\$ (703,665)</u>	<u>\$ (3,724,689)</u>

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF NET POSITION
FIDUCIARY FUNDS - AGENCY FUNDS
June 30, 2013

Exhibit T

	School Activity Funds	Employee Flexible Spending	Fiduciary Services Fund	Total Agency Funds
ASSETS				
Cash and cash equivalents	\$ 2,530,142	\$ 115,396	\$ 19,594	\$ 2,665,132
LIABILITIES				
Reserved for future expenditures	\$ 2,530,142	\$ 115,396	\$ 19,594	\$ 2,665,132

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUND - SCHOOL ACTIVITY AGENCY FUND
For the Fiscal Year Ended June 30, 2013

Exhibit U

	Agency Fund			
	School Activity Funds			
	Beginning Balance - July 1, 2012	Additions - Cash Receipts	Deductions - Cash Disbursements	Ending Balance - June 30, 2013
ASSETS				
Cash and cash equivalents	\$ 2,560,853	\$ 6,037,362	\$ (6,068,073)	\$ 2,530,142
LIABILITIES				
Reserved for future expenditures	\$ 2,560,853	\$ 6,037,362	\$ (6,068,073)	\$ 2,530,142

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUND - EMPLOYEE FLEXIBLE SPENDING AGENCY FUND
For the Fiscal Year Ended June 30, 2013

Exhibit V

	<u>Agency Fund</u>			
	<u>Employee Flexible Spending Fund</u>			
	Beginning Balance - July 1, 2012	Additions - Cash Receipts	Deductions - Cash Disbursements	Ending Balance - June 30, 2013
ASSETS				
Cash and cash equivalents	\$ 154,912	\$ 767,969	\$ (807,485)	\$ 115,396
LIABILITIES				
Reserved for future expenditures	\$ 154,912	\$ 767,969	\$ (807,485)	\$ 115,396

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUND - FIDUCIARY SERVICES FUND
For the Fiscal Year Ended June 30, 2013

Exhibit W

	Agency Fund			
	Fiduciary Services Fund			
	Beginning Balance July 1, 2012	Additions - Cash Receipts	Deductions - Cash Disbursements	Ending Balance June 30, 2013
ASSETS				
Cash and cash equivalents	\$ 41,189	\$ 42,962	\$ (64,557)	\$ 19,594
LIABILITIES				
Reserved for future expenditures	\$ 41,189	\$ 42,962	\$ (64,557)	\$ 19,594

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STATISTICAL SECTION
June 30, 2013**

The statistical section of the CAFR presents detailed information as a context for understanding what the financial information presented in the basic financial statements, notes to the basic financial statements, and required and other supplementary information means regarding the overall financial health of SCPS. It includes financial trends, demographic information, and operating indicators and data for the division.

No information on revenue capacity is presented, since SCPS has no taxing authority. SCPS is primarily fiscally dependent on appropriations from the Commonwealth of Virginia and the County of Stafford. Similarly, no information on debt capacity is presented, since SCPS has no debt issuance authority. The only debt carried by SCPS is in the form of an energy-performance lease that qualifies as a capital lease.

The following information included in this statistical section is unaudited.

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STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
NET POSITION BY COMPONENT
Fiscal Years 2006 - 2013
(Accrual Basis of Accounting)

	June 30,			
	2006	2007	2008	2009
NET POSITION				
Investment in capital assets, net of related debt	\$ 328,150,928	\$ 360,219,807	\$ 372,811,891	\$ 377,290,792
Net investment in capital assets	-	-	-	-
Restricted	21,388	843	-	-
Unrestricted	45,517,698	26,411,900	27,817,509	17,502,199
Total net assets	\$ 373,690,014	\$ 386,632,550	\$ 400,629,400	\$ 394,792,991
Total net position				

NOTE: In fiscal year 2007, SCPS issued its first stand-alone CAFR. Ten years of data is unavailable, but will be accumulated going forward.

NOTE: Amounts have been updated to reflect a restatement to fiscal year ended June 30, 2012 balances.

NOTE: SCPS implemented GASB Statement 63 in fiscal year 2013, which changed descriptions and definitions. "Net Assets" is now "Net Position" and "Invested in capital assets, net of related debt" is now "Net investment in capital assets". The new statement also changed how these amounts are calculated.

Table S-1

June 30,				
2010	2011	2012	2013	
\$ 371,615,809	\$ 371,880,043	\$ 377,833,302	\$ -	NET POSITION
-	-	-	383,728,660	Investment in capital assets, net of related debt
6,615,701	11,479,446	17,548,128	21,973,458	Net investment in capital assets
8,350,669	4,772,785	(5,832,921)	5,638,327	Restricted
<u>\$ 386,582,179</u>	<u>\$ 388,132,274</u>	<u>\$ 389,548,509</u>	-	Unrestricted
			<u>\$ 411,340,445</u>	Total net assets
				Total net position

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
CHANGES IN NET POSITION BY COMPONENT
Fiscal Years 2006 - 2013
(Accrual Basis of Accounting)

	For the Fiscal Year Ended June 30,			
	2006	2007	2008	2009
Expenses				
Governmental activities	\$239,085,262	\$254,849,234	\$269,258,983	\$279,829,235
Program revenues				
Charges for services	10,253,513	12,905,290	10,738,470	17,996,927
Grants and contributions	125,172,680	140,951,314	146,067,195	152,758,520
Total program revenues	<u>135,426,193</u>	<u>153,856,604</u>	<u>156,805,665</u>	<u>170,755,447</u>
Net expenses	<u>(103,659,069)</u>	<u>(100,992,630)</u>	<u>(112,453,318)</u>	<u>(109,073,788)</u>
General revenues				
Sales Tax and Basic Aid	*	*	*	*
Unrestricted grants and contributions	153,719,718	110,969,860	124,008,330	101,194,329
Investment earnings	1,123,206	1,635,750	954,628	411,486
Gain on capital asset disposals	-	-	-	-
Miscellaneous	516,691	1,151,800	1,487,210	1,631,563
Total general revenues	<u>155,359,615</u>	<u>113,757,410</u>	<u>126,450,168</u>	<u>103,237,378</u>
Change in net position/assets	<u>\$ 51,700,546</u>	<u>\$ 12,764,780</u>	<u>\$ 13,996,850</u>	<u>\$ (5,836,410)</u>

* Sales tax and basic aid were included in grants and contributions prior to the fiscal year ended June 30, 2011.

NOTE: In fiscal year 2007, SCPS issued its first stand-alone CAFR. Ten years of data is unavailable, but will be accumulated going forward.

NOTE: Amounts have been updated to reflect a restatement to fiscal year ended June 30, 2012 balances.

Table S-2

For the Fiscal Year Ended June 30,				
2010	2011	2012	2013	
<u>\$275,344,685</u>	<u>\$ 281,858,250</u>	<u>\$ 287,665,251</u>	<u>\$ 290,728,443</u>	Expenses
				Governmental activities
				Program revenues
21,992,880	17,282,725	16,404,687	17,987,309	Charges for services
140,144,414	64,321,646	73,208,380	81,370,952	Grants and contributions
<u>162,137,294</u>	<u>81,604,371</u>	<u>89,613,067</u>	<u>99,358,261</u>	Total program revenues
<u>(113,207,391)</u>	<u>(200,253,879)</u>	<u>(198,052,184)</u>	<u>(191,370,182)</u>	Net expenses
				General revenues
*	96,195,244	100,375,990	102,845,402	Sales Tax and Basic Aid
103,808,533	99,323,620	98,599,339	108,625,975	Unrestricted grants and contributions
24,374	22,090	33,339	53,507	Investment earnings
(9,726)	80,567	40,600	1,069,605	Gain on capital asset disposals
1,791,969	332,453	419,151	567,629	Miscellaneous
<u>105,615,150</u>	<u>195,953,974</u>	<u>199,468,419</u>	<u>213,162,118</u>	Total general revenues
<u>\$ (7,592,241)</u>	<u>\$ (4,299,905)</u>	<u>\$ 1,416,235</u>	<u>\$ 21,791,936</u>	Change in net position/assets

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
FUND BALANCES, GOVERNMENTAL FUNDS
Fiscal Years 2006 - 2013
(Modified Accrual Basis of Accounting)**

Operating Fund:	June 30,				
	2006	2007	2008	2009	2010
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Reserved	6,453,593	5,797,867	9,189,151	4,329,683	3,566,366
Designated	-	-	1,792,849	4,700,000	618,571
Fund balance - operating fund	<u>6,453,593</u>	<u>5,797,867</u>	<u>10,982,000</u>	<u>9,029,683</u>	<u>4,184,937</u>
All Other Governmental Funds:					
Reserved:					
Capital Projects Fund	23,646,442	18,667,695	9,916,007	1,822,581	4,581,296
Food and Nutrition Services Fund	17,872	136,083	340,048	353,134	315,257
School Construction, Renovation and Maintenance Fund	800	843	-	-	-
Grants Fund	-	-	-	558,638	47,115
	<u>23,665,114</u>	<u>18,804,621</u>	<u>10,256,055</u>	<u>2,734,353</u>	<u>4,943,668</u>
Unreserved:					
Capital Projects Fund	12,659,776	(2,801,008)	8,655,320	3,546,746	1,923,648
Food and Nutrition Services Fund	1,518,252	1,606,927	1,240,709	1,375,483	1,540,575
Grants Fund	-	-	-	(558,638)	-
	<u>14,178,028</u>	<u>(1,194,081)</u>	<u>9,896,029</u>	<u>4,363,591</u>	<u>3,464,223</u>
Nonspendable:					
Food and Nutrition Services Fund	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted:					
Capital Projects Fund	-	-	-	-	-
Food and Nutrition Services Fund	-	-	-	-	-
Grants Fund	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Committed:					
Capital Projects Fund	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - other governmental funds	<u>37,843,142</u>	<u>17,610,540</u>	<u>20,152,084</u>	<u>7,097,944</u>	<u>8,407,891</u>
Fund balance - total governmental funds	<u>\$ 44,296,735</u>	<u>\$ 23,408,407</u>	<u>\$ 31,134,084</u>	<u>\$ 16,127,627</u>	<u>\$ 12,592,828</u>

NOTE: In fiscal year 2007, SCPS issued its first stand-alone CAFR. Ten years of data is unavailable, but will be accumulated going forward.

NOTE: Amounts have been updated to reflect a restatement to fiscal year ended June 30, 2012 balances.

NOTE: In fiscal year 2011, SCPS implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which effectively changed the classifications used to report fund balances. The terms reserved and unreserved are no longer used to describe fund balance. Fund balance is now classified as nonspendable, restricted, committed, assigned, or unassigned.

Table S-3

June 30,			
2011	2012	2013	Operating Fund:
\$ -	\$ 490,227	\$ 525,298	Nonspendable
960,510	-	-	Restricted
-	4,757,640	7,318,523	Committed
7,007,460	544,058	-	Assigned
-	(2,816,334)	(2,329,257)	Unassigned
-	-	-	Reserved
-	-	-	Designated
<u>7,967,970</u>	<u>2,975,591</u>	<u>5,514,564</u>	Fund balance - operating fund
			All Other Governmental Funds:
			Reserved:
-	-	-	Capital Projects Fund
-	-	-	Food and Nutrition Services Fund
-	-	-	School Construction, Renovation and Maintenance Fund
-	-	-	Grants Fund
<u>-</u>	<u>-</u>	<u>-</u>	
			Unreserved:
-	-	-	Capital Projects Fund
-	-	-	Food and Nutrition Services Fund
-	-	-	Grants Fund
<u>-</u>	<u>-</u>	<u>-</u>	
			Nonspendable:
234,485	238,566	341,770	Food and Nutrition Services Fund
<u>234,485</u>	<u>238,566</u>	<u>341,770</u>	
			Restricted:
8,168,063	14,990,608	19,823,101	Capital Projects Fund
2,273,740	2,395,383	2,109,164	Food and Nutrition Services Fund
77,133	40,328	41,193	Grants Fund
<u>10,518,936</u>	<u>17,426,319</u>	<u>21,973,458</u>	
			Committed:
1,781,748	2,126,770	13,584,453	Capital Projects Fund
<u>1,781,748</u>	<u>2,126,770</u>	<u>13,584,453</u>	
			Fund balance - other governmental funds
12,535,169	19,791,655	35,899,681	Fund balance - total governmental funds
<u>\$ 20,503,139</u>	<u>\$ 22,767,246</u>	<u>\$ 41,414,245</u>	

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
Fiscal Years 2006 - 2013
(Modified Accrual Basis of Accounting)

	For the Fiscal Year Ended June 30,			
	2006	2007	2008	2009
REVENUES:				
Intergovernmental:				
Stafford County	\$ 153,719,718	\$ 110,969,860	\$ 124,008,330	\$ 101,194,329
Commonwealth of Virginia	112,576,745	127,676,745	132,608,495	138,721,700
Federal Government	12,595,935	13,274,571	13,458,700	14,036,820
Total intergovernmental revenues	<u>278,892,398</u>	<u>251,921,176</u>	<u>270,075,525</u>	<u>253,952,849</u>
Charges for services:				
Tuition and fees	882,554	469,534	448,696	646,368
Food sales	6,286,732	6,849,080	6,948,489	7,124,957
Recovered costs	-	728,878	1,217,023	1,199,174
Miscellaneous	516,691	399,420	124,779	396,412
Interest	937,846	1,386,795	742,760	331,375
Total revenues	<u>287,516,221</u>	<u>261,754,883</u>	<u>279,557,272</u>	<u>263,651,135</u>
EXPENDITURES:				
Education:				
Instruction	157,321,292	165,233,993	184,897,493	182,434,351
Administration, attendance and health	10,838,707	12,895,864	16,360,660	13,411,457
Pupil transportation	9,961,980	11,187,407	13,001,603	12,363,412
Operation and maintenance	16,701,941	17,960,887	20,624,177	21,287,639
Food and nutrition services	8,655,391	9,165,532	10,666,907	10,848,880
Facilities	4,555,802	401,980	73,908	524,866
Technology	-	-	-	12,005,015
Capital outlay	58,510,774	48,922,976	24,902,092	18,306,903
Debt service:				
Principal	228,562	556,414	322,495	268,828
Interest and fiscal charges	48,994	138,833	110,444	118,081
Total expenditures	<u>266,823,443</u>	<u>266,463,886</u>	<u>270,959,779</u>	<u>271,569,432</u>
Excess (deficiency) of revenues over (under) expenditures	<u>20,692,778</u>	<u>(4,709,003)</u>	<u>8,597,493</u>	<u>(7,918,297)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of land	-	-	-	-
Transfers from other funds	-	100,000	100,000	100,000
Transfers to other funds	(15,586,903)	(19,483,531)	(2,764,665)	(5,395,311)
Loan from Stafford County	-	-	-	-
Total other financing uses, net	<u>(15,586,903)</u>	<u>(19,383,531)</u>	<u>(2,664,665)</u>	<u>(5,295,311)</u>
Net change in fund balance	<u>\$ 5,105,875</u>	<u>\$ (24,092,534)</u>	<u>\$ 5,932,828</u>	<u>\$ (13,213,608)</u>

NOTE: In fiscal year 2007, SCPS issued its first stand-alone CAFR. Ten years of data is unavailable, but will be accumulated going forward.

NOTE: Amounts have been updated to reflect a restatement to fiscal year ended June 30, 2012 balances.

Table S-4

For the Fiscal Year Ended June 30,				
2010	2011	2012	2013	
				REVENUES:
\$ 109,379,789	\$ 107,735,478	\$ 123,180,386	\$ 142,676,306	Intergovernmental:
119,332,877	118,851,130	126,557,871	133,476,749	Stafford County
20,811,537	33,253,902	22,445,452	16,689,274	Commonwealth of Virginia
249,524,203	259,840,510	272,183,709	292,842,329	Federal Government
				Total intergovernmental revenues
				Charges for services:
804,273	695,978	721,180	911,220	Tuition and fees
6,817,209	7,316,875	7,231,445	6,681,246	Food sales
960,986	1,370,939	1,180,368	1,767,641	Recovered costs
768,248	332,453	419,151	587,600	Miscellaneous
10,472	12,329	26,157	45,810	Interest
258,885,391	269,569,084	281,762,010	302,835,846	Total revenues
				EXPENDITURES:
				Education:
181,521,213	181,073,501	187,321,574	191,433,956	Instruction
12,611,894	9,688,371	10,062,051	10,422,301	Administration, attendance and health
12,279,285	12,706,286	13,335,894	13,419,206	Pupil transportation
19,949,060	20,957,014	20,688,827	21,315,872	Operation and maintenance
10,620,763	11,162,148	11,908,144	12,054,783	Food and nutrition services
250,290	187,981	182,034	198,990	Facilities
11,949,997	14,581,888	13,887,167	15,129,827	Technology
9,273,865	11,518,149	21,150,304	22,907,317	Capital outlay
				Debt service:
280,422	367,517	380,132	393,292	Principal
106,486	102,347	81,776	71,631	Interest and fiscal charges
258,843,275	262,345,202	278,997,903	287,347,175	Total expenditures
				Excess (deficiency) of revenues over
42,116	7,223,882	2,764,107	15,488,671	(under) expenditures
				OTHER FINANCING SOURCES (USES):
-	-	-	1,000,000	Proceeds from sale of land
118,434	1,958,212	-	2,361,672	Transfers from other funds
(4,313,920)	(1,958,212)	(500,000)	(203,343)	Transfers to other funds
-	1,305,000	-	-	Loan from Stafford County
(4,195,486)	1,305,000	(500,000)	3,158,329	Total other financing uses, net
\$ (4,153,370)	\$ 8,528,882	\$ 2,264,107	\$ 18,647,000	Net change in fund balance

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
GENERAL INFORMATION
June 30, 2013

Table S-5

Stafford County	
Independent county:	September 27, 1664
Form of government:	Traditional Board of Supervisors
Area - square miles:	277 square miles

Stafford County Public Schools			
Number of Schools:		Fall Membership: (1)	
Early childhood centers	1	Elementary schools	11,512
Elementary schools	17	Middle schools	6,308
Middle schools	8	High schools	9,152
High schools	5	Total	<u>26,972</u>
Alternative schools	<u>2</u>		
	<u>33</u>		

Contracted Employees:	
Licensed Instructional	2,174
Other Employees	<u>1,541</u>
	<u>3,715</u>

Source : County of Stafford website and Superintendent's Annual Report.

(1) Fall membership is defined as the number of students in public school on September 30 of each year. This information is as of September 30, 2012.

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
FULL-TIME EQUIVALENT GOVERNMENT EMPLOYEES BY FUNCTION
Fiscal Years 2004 - 2013**

	Fiscal Year						
	2004	2005	2006	2007	2008	2009	2010
Employees:							
Licensed Instructional	1,907	1,993	2,013	2,015	2,079	2,125	2,186
Other Employees	1,357	1,455	1,464	1,419	2,537	2,424	1,603
Total	<u>3,264</u>	<u>3,448</u>	<u>3,477</u>	<u>3,434</u>	<u>4,616</u>	<u>4,549</u>	<u>3,789</u>

Table S-6

Fiscal Year			
2011	2012	2013	Employees:
2,149	2,168	2,174	Licensed Instructional
1,586	1,537	1,541	Other Employees
<u>3,735</u>	<u>3,705</u>	<u>3,715</u>	Total

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
NUMBER OF SCHOOLS IN THE DIVISION
Fiscal Years 2004 - 2013**

	Fiscal Year				
	2004	2005	2006	2007	2008
Number of Schools:					
Elementary Schools	15	15	16	17	17
Secondary/ Elementary Schools	6	6	6	7	7
High Schools	4	4	5	5	5
Total	<u>25</u>	<u>25</u>	<u>27</u>	<u>29</u>	<u>29</u>

Table S-7

Fiscal Year					
2009	2010	2011	2012	2013	
17	17	17	17	17	Number of Schools:
					Elementary Schools
					Secondary/ Elementary Schools
8	8	8	8	8	High Schools
5	5	5	5	5	Total
30	30	30	30	30	

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
DIVISION-WIDE ENROLLMENT
Fiscal Years 2004 - 2013**

	Fiscal Year				
	2004	2005	2006	2007	2008
Student Membership:					
September 30 membership	24,590	25,399	25,927	26,171	26,387
Average daily membership as of March 31	24,639	25,419	25,871	26,181	26,109
End-of-year membership	24,541	25,423	25,733	25,934	26,142
Students enrolled in special education programs	2,725	2,655	2,543	2,415	2,346
English Language Learners	414	697	791	1,040	1,036
Students enrolled in grades K-3	7,169	7,303	7,181	7,273	7,186

N/A - Not available.

Table S-8

Fiscal Year					
2009	2010	2011	2012	2013	
26,638	26,758	27,257	26,815	26,972	Student Membership:
26,350	26,648	26,737	26,774	26,928	September 30 membership
26,384	26,522	26,603	26,681	N/A	Average daily membership as of March 31
2,410	2,391	2,412	2,425	N/A	End-of-year membership
					Students enrolled in special education programs
1,036	996	1,135	1,160	1,192	English Language Learners
7,320	7,416	5,471	5,505	7,526	Students enrolled in grades K-3

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
VARIOUS OPERATING INDICATORS
Fiscal Years 2004 - 2013**

	Fiscal Year				
	2004	2005	2006	2007	2008
Operating Statistics:					
Average per pupil expenditures	\$ 7,028	\$ 7,562	\$ 8,496	\$ 8,639	\$ 9,335
Average classroom teacher salary	\$ 44,161	\$ 46,212	\$ 49,068	\$ 51,383	\$ 52,251
Composite index (1)	0.3296	0.3274	0.3274	0.3503	0.3503

(1) The composite index uses various factors to measure the County's wealth. The higher the index, the less money the County receives (per pupil) from the Commonwealth.

N/A - Not available.

Table S-9

Fiscal Year					
2009	2010	2011	2012	2013	
\$ 9,531	\$ 9,399	\$ 12,387	\$ 9,752	N/A	Operating Statistics:
\$50,820	\$52,591	\$50,692	\$51,465	\$ 48,331	Average per pupil expenditures
0.3698	0.3629	0.3362	0.3362	0.3305	Average classroom teacher salary
					Composite index (1)

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
TRANSPORTATION OPERATING INDICATORS
Fiscal Years 2004 - 2013**

	Fiscal Year				
	2004	2005	2006	2007	2008
Transportation Statistics:					
Average Ridership (Regular)	15,419	17,749	18,844	18,619	19,404
Average Ridership (Special Needs)	598	429	412	607	497
Average Ridership (Head Start)	N/A	185	222	224	225
Buses Operated Daily (Regular)	171	171	157	165	168
Buses Operated Daily (Special Needs)	36	35	39	53	43
Buses Operated Daily (Head Start)	N/A	10	10	11	11
Special Trip Assignments	3,564	2,703	2,365	3,100	2,587
Miles Traveled (Regular)	1,574,528	2,133,408	2,494,260	2,336,706	2,889,000
Miles Traveled (Special Needs)	519,668	573,440	1,141,920	1,272,132	1,324,920

N/A - Not available.

Table S-10

Fiscal Year					
2009	2010	2011	2012	2013	
17,997	19,950	20,007	19,991	18,893	Transportation Statistics:
532	576	650	626	566	Average Ridership (Regular)
250	284	300	300	353	Average Ridership (Special Needs)
166	154	159	143	150	Average Ridership (Head Start)
41	53	45	63	70	Buses Operated Daily (Regular)
11	14	12	11	11	Buses Operated Daily (Special Needs)
2,600	2,132	4,214	4,477	4,048	Buses Operated Daily (Head Start)
1,479,400	1,612,567	2,118,744	1,529,964	1,269,012	Special Trip Assignments
685,040	1,053,310	1,331,000	716,207	839,917	Miles Traveled (Regular)
					Miles Traveled (Special Needs)

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
FOOD AND NUTRITION SERVICES OPERATING INDICATORS
Fiscal Years 2004 - 2013

	Fiscal Year				
	2004	2005	2006	2007	2008
School Nutrition Program (SNP)					
Statistics:					
Student Membership	24,590	25,399	25,927	26,171	26,387
Eligible for Free Lunch	2,412	2,651	2,982	3,091	3,263
<i>Percentage</i>	9.81%	10.44%	11.50%	11.81%	12.37%
Eligible for Reduced Price Lunch	836	849	928	1,042	1,112
<i>Percentage</i>	3.40%	3.34%	3.58%	3.98%	4.21%
Eligible for Free and Reduced Price Lunch - Total	3,248	3,500	3,910	4,133	4,375
<i>Percentage</i>	13.21%	13.78%	15.08%	15.79%	16.58%
Middle and High School Lunch Prices	\$ 1.55	\$ 1.75	\$ 1.85	\$ 1.85	\$ 1.85
Elementary School Lunch Prices	\$ 1.45	\$ 1.65	\$ 1.75	\$ 1.75	\$ 1.75

Table S-11

Fiscal Year					
2009	2010	2011	2012	2013	
26,638	26,758	26,737	26,774	26,928	School Nutrition Program (SNP)
					Statistics:
					Student Membership
3,727	4,632	5,277	5,933	5,993	Eligible for Free Lunch
13.99%	17.31%	19.74%	22.16%	22.26%	Percentage
1,237	1,281	1,106	1,520	1,520	Eligible for Reduced Price Lunch
4.64%	4.79%	4.14%	5.68%	5.64%	Percentage
4,964	5,913	6,383	7,453	7,513	Eligible for Free and Reduced Price Lunch - Total
18.64%	22.10%	23.87%	27.84%	27.90%	Percentage
\$ 2.10	\$ 2.25	\$ 2.25	\$ 2.40	\$ 2.40	Middle and High School Lunch Prices
\$ 2.10	\$ 2.15	\$ 2.15	\$ 2.30	\$ 2.30	Elementary School Lunch Prices

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
FLEET SERVICES OPERATING INDICATORS
Fiscal Years 2006 - 2013**

	Fiscal Year						Average Age
	2006	2007	2008	2009	2010	2011	
Fleet Vehicles Serviced by Fleet Services:							
Stafford County Public Schools Fleet Vehicles:							
Buses:							
Mainstream	219	229	232	229	232	240	9.18
Special Needs	57	64	67	69	67	66	6.43
Activity Buses	5	5	5	5	5	5	6.12
Less: Salvaged (1)	-	-	-	-	(5)	(20)	
Subtotal Buses	281	298	304	303	299	291	
Other School Vehicles:							
Administration	2	2	2	2	2	2	3.3
Driver's Education	12	12	12	13	13	13	4.4
Fleet Services	7	7	8	7	7	7	8.8
Head Start	4	4	4	4	4	4	7.9
Maintenance	39	42	42	42	46	48	7.8
Food and Nutritional Services	1	1	1	1	1	1	5.8
Planning & Construction	2	3	4	4	4	4	5.1
Technology	-	-	-	-	-	1	0.9
Security	5	5	5	5		7	5.0
Transportation	5	6	7	7	7	8	5.0
Subtotal Other Vehicles	77	82	85	85	92	95	
Total Stafford County Public Schools Fleet Vehicles	358	380	389	388	391	386	
County of Stafford Fleet Vehicles:							
Fire & Rescue	126	137	143	142	144	151	8.8
Sheriff	186	192	190	190	216	232	5.0
Utilities	93	96	101	101	103	84	8.3
Other	122	129	132	132	127	145	7.0
Total County of Stafford Fleet Vehicles	527	554	566	565	590	612	
Total Fleet Vehicles	885	934	955	953	981	998	
Other Vehicles Serviced by Fleet Services:							
Airport Authority Fleet Vehicles	3	2	2	2	2	2	N/A
Vocational Foundation Fleet Vehicles	1	1	1	1	1	1	N/A
Total Other Vehicles	4	3	3	3	3	3	

Source: Fleet Services internal records.

(1) To be sold at auction

N/A - Not available.

NOTE: In fiscal year 2007, SCPS issued its first stand-alone CAFR. Ten years of data are available, but only eight years are presented.

Table S-12A

Fiscal Year							
2012			2013				
Average Mileage	Active	Average Age	Average Mileage	Active	Average Age	Average Mileage	
10,284	233	8.91	12,373	236	9.33	12,287	Fleet Vehicles Serviced by Fleet Services:
19,854	62	6.31	16,689	64	6.32	15,366	Stafford County Public Schools Fleet Vehicles:
18,293	5	2.51	20,596	5	1.51	13,195	Buses:
	(6)			(18)			Mainstream
	<u>294</u>			<u>287</u>			Special Needs
							Activity Buses
							<u>Less: Salvaged (1)</u>
							Subtotal Buses
15,276	2	4.26	13,895	2	3.74	7,428	Other School Vehicles:
8,042	13	5.13	8,266	13	6.46	7,232	Administration
3,972	7	9.75	3,559	7	8.61	3,564	Driver's Education
1,982	6	7.34	2,532	6	8.67	2,756	Fleet Services
6,837	51	8.40	7,546	53	9.26	7,150	Head Start
3,117	1	6.82	2,509	1	8.15	1,151	Maintenance
4,691	4	6.05	5,170	4	7.38	4,013	Food and Nutritional Services
949	1	1.89	1,904	1	3.20	1,864	Planning & Construction
3,384	7	5.98	2,059	7	7.30	1,831	Technology
3,107	8	6.02	2,321	8	7.35	2,101	Security
	<u>100</u>			<u>102</u>			Transportation
	394			389			Subtotal Other Vehicles
							Total Stafford County Public Schools Fleet Vehicles
N/A	154	9.75	N/A	166	9.94	N/A	County of Stafford Fleet Vehicles:
N/A	223	5.38	N/A	222	5.97	N/A	Fire & Rescue
N/A	105	8.66	N/A	108	9.27	N/A	Sheriff
N/A	142	7.64	N/A	145	8.47	N/A	Utilities
	<u>624</u>			<u>641</u>			Other
							Total County of Stafford Fleet Vehicles
	<u>1,018</u>			<u>1,030</u>			Total Fleet Vehicles
N/A	N/A	N/A	N/A	N/A	N/A	N/A	Other Vehicles Serviced by Fleet Services:
N/A	<u>1</u>	17.00	N/A	<u>1</u>	18.00	N/A	Airport Authority Fleet Vehicles
							Vocational Foundation Fleet Vehicles
	<u>1</u>			<u>1</u>			Total Other Vehicles

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
FLEET SERVICES OPERATING INDICATORS
Fiscal Years 2007 - 2013**

	Fiscal Years				
	2007	2008	2009	2010	2011
FLEET OPERATIONS					
Work orders completed	6,038	6,124	6,394	6,314	6,390
Invoices processed	5,299	5,156	5,303	5,292	5,780
Parts transactions	23,970	25,007	22,140	27,222	20,147

	Fiscal Year			
	2010		2011	
	Schools	County	Schools	County
FLEET FUEL				
Gallons Purchased	541,583	487,191	562,728	443,724
Cost	\$1,236,772	\$1,038,981	\$1,602,158	\$1,184,052

	Fiscal Year			
	2010		2011	
	Replacement	Additional	Replacement	Additional
FLEET ACQUISITIONS				
School Buses - Mainstream	16	-	6	-
- Special Needs	5	-	-	-
Other School Vehicles	2	1	2	3

	Fiscal Year			
	2010		2011	
	Heavy Duty Shop	Light Duty Shop	Heavy Duty Shop	Light Duty Shop
FLEET SHOPS				
Vehicles per Technician by Shop	35.6	160	32.9	173

Source: Fleet Services internal records.

NOTE: In fiscal year 2007, SCPS issued its first stand-alone CAFR. Ten years of data is available, but only seven years are presented.

Table S-12B

Fiscal Years				
2012		2013		
6,101		5,593		FLEET OPERATIONS
4,814		4,374		Work orders completed
93,302		95,663		Invoices processed
				Parts transactions

Fiscal Year				
2012		2013		
<u>Schools</u>	<u>County</u>	<u>Schools</u>	<u>County</u>	FLEET FUEL
573,778	425,719	557,143	485,554	Gallons Purchased
\$ 1,838,125	\$ 1,305,111	\$ 1,791,347	\$ 1,484,928	Cost

Fiscal Year				
2012		2013		
<u>Replacement</u>	<u>Additional</u>	<u>Replacement</u>	<u>Additional</u>	FLEET ACQUISITIONS
5	-	12	-	School Buses - Mainstream
8	-	3	-	- Special Needs
5	-	3	-	Other School Vehicles

Fiscal Year				
2012		2013		
<u>Heavy Duty Shop</u>	<u>Light Duty Shop</u>	<u>Heavy Duty Shop</u>	<u>Light Duty Shop</u>	FLEET SHOPS
50	112	47	114	Vehicles per Technician by Shop

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
Technology and Information Services
Fiscal Years 2009 - 2013

Table S-13

	Fiscal Years				
	2009	2010	2011	2012	2013
Technology Statistics:					
Number of Sites Serviced (Schools and Support Offices)	34	34	34	34	34
Computer Statistics:					
Total Desktop Computers	6,863	6,943	7,077	7,141	7,141
Desktops Computers over 5 years old	608	2,073	819	139	65
Percentage of Desktop Computers over 5 years old	9%	30%	12%	2%	1%
Total Laptop Computers	3,746	3,746	3,731	3,825	3,825
Laptop Computers over 5 years old	31	617	731	108	187
Percentage of Laptop Computers over 5 years old	1%	16%	20%	3%	5%
Connectivity Statistics by Site					
Number of Sites with Wireless LAN connection	5	5	34	34	34
Percentage of Sites with Wireless LAN connection	15%	15%	100%	100%	100%
Number of Sites with Fiber WAN connection	-	9	9	18	18
Percentage of Sites with Fiber WAN connection	0%	26%	26%	53%	53%
Number of Sites with Wireless WAN connection	18	18	18	18	18
Percentage of Sites with Wireless WAN connection	53%	53%	53%	53%	53%
Number of Sites with T1 WAN connection	14	8	8	6	6
Percentage of Sites with T1 WAN connection	41%	24%	24%	18%	18%
Other Technology Statistics:					
Number of Schools fully equipped with Mounted Projectors	3	3	3	30	30
Percentage of Schools fully equipped with Mounted Projectors	10%	10%	10%	100%	100%

NOTE: In fiscal year 2007, SCPS issued its first stand-alone CAFR. Ten years of data is available, but only five years are presented.

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
Property Data
As of June 30, 2013

Table S-14

	<u>Year of Construction</u>	<u>Year of Last Renovation</u>	<u>Building - Square Feet</u>	<u>Site - Acreage</u>
High School Data				
Brooke Point HS	1993	-	266,656	52.82
Colonial Forge HS	1999	-	246,082	63.93
Mountain View HS	2005	-	254,854	95.35
North Stafford HS	1981	2003	304,096	88.50
Stafford Senior HS	1975	-	287,836	124.56
Middle School Data				
Edward Drew MS	1951	1998	98,913	15.31
Dixon-Smith MS	2006	-	145,700	36.13
H. H. Poole MS	1995	1998	145,140	36.62
Rodney Thompson MS	2000	-	138,199	43.68
Stafford MS	1991	2007	136,677	37.45
Shirley Heim MS	2008	-	146,770	22.00
T.B. Gayle MS	2002	-	148,221	39.98
A.G. Wright MS and Garrisonville ES (combined campus)	1981	2007	195,099	50.20
Elementary School Data				
Anthony Burns ES	2006	-	88,300	38.57
K. W. Barrett ES	2002	-	87,800	20.51
Conway ES	2005	-	88,300	19.92
Falmouth ES	1967	2012	69,698	41.49
Ferry Farm ES	1957	1992	70,550	18.12
Grafton Village ES	1967	1996	75,718	24.09
Hartwood ES	1963	1993	61,068	29.60
Hampton Oaks ES	1992	1996	80,968	18.76
Margaret Brent ES	2004	-	87,800	22.80
Moncure ES	1966	1997	76,098	18.54
Park Ridge ES	1990	1994	76,431	20.00
Rockhill ES	1989	1994	76,438	23.38
Rocky Run ES	2000	-	87,700	20.00
Stafford ES	1968	2013	70,946	15.87
Widewater ES	1988	1995	77,108	22.44
Winding Creek ES	1997	-	82,016	20.89
Other Property				
Alvin York Bandy Administration Building and and Professional Development Center	1998	2000	74,124	9.55
Gari Melchers Complex	1931	1990	79,887	8.43
Pupil Transportation (Included in Fleet Acreage)	2009	-	7,362	-
Fleet Services	1980	-	16,000	21.54
Maintenance (all buildings condemned)	-	-	-	19.54
Support Services Building (included in Fleet Acreage)	1998	-	25,650	-
Aimee Building (JROTC Office on Stafford Senior HS campus)	1981	-	2,304	-
Land				
High School #6, Clift Farm Road	-	-	-	181.00
Riverbend Subdivision Land	-	-	-	6.00

STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
Energy Management - Utilities Savings
Calendar Years 2006 - 2012

	Calendar Year			
	2006	2007	2008	2009
Utilities Summary of All Schools (by Year):				
Thousand British Thermal Units (MBTU)	231,703,193	246,594,352	235,724,780	217,896,785
Square Footage	3,390,412	3,624,412	3,771,182	3,771,182
MBTU/Square Footage	68.34	68.04	62.51	57.78

Utilities Summary by School Level (in MBTU):

	2012		
	Actual	Historical	Savings
Elementary Schools:			
Electric	56,356,651	66,965,898	10,609,247
Gas	19,061,100	24,684,140	5,623,040
Oil	650,944	4,658,924	4,007,980
Propane	278,493	308,390	29,897
Subtotal	76,347,188	96,617,352	20,270,164
Middle Schools:			
Electric	33,204,016	35,699,383	2,495,367
Gas	7,004,100	10,044,420	3,040,320
Oil	3,320,002	2,885,005	(434,997)
Propane	80,068	85,652	5,584
Subtotal	43,608,186	48,714,460	5,106,274
High Schools:			
Electric	51,250,393	57,458,740	6,208,347
Gas	12,226,400	11,457,560	(768,840)
Oil	5,601,736	12,349,210	6,747,474
Propane	(26,027)	54,701	80,728
Subtotal	69,052,502	81,320,211	12,267,709
Total	189,007,876	226,652,023	37,644,147

Percentage of Savings 17%
Dollar Savings (net of capital lease payment of \$386,908) \$ 1,950,805

NOTE: In fiscal year 2007, SCPS issued its first stand-alone CAFR. Ten years of data is available, but only seven years are presented.

Table S-15

<u>2010</u>	<u>2011</u>	<u>2012</u>	
233,409,383	201,773,183	189,007,876	Utilities Summary of All Schools (by Year):
3,771,182	3,771,182	3,771,182	Thousand British Thermal Units (MBTU)
61.89	53.50	50.12	Square Footage
			MBTU/Square Footage

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
AVERAGE SAT SCORES
Fiscal Years 2004 - 2013**

	2004	2005	2006	2007	2008	2009	2010
Average SAT Scores:							
Math	513	531	511	502	509	504	509
Verbal	521	521	(1)	(1)	(1)	(1)	(1)
Writing	N/A	N/A	494	482	488	484	493
Critical Reading	N/A	N/A	514	508	513	506	516

Source: College Board SAT 2011, College-Bound Seniors District Highlights Report.

(1) - Beginning with Fiscal Year 2006, the SAT now includes scores for Math, Writing and Critical Reading.

N/A - Not applicable.

Table S-16

2011	2012	2013	
504	505	509	Average SAT Scores:
(1)	(1)	(1)	Math
486	489	490	Verbal
510	514	514	Writing
			Critical Reading

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STANDARDS OF LEARNING TEST PASSING RATES
Fiscal Years 2007 - 2013**

Table S-17A

Grade	Location	2007	2008	2009	2010	2011	2012	2013
		Reading						
3	Division	77%	80%	81%	84%	85%	88%	76%
	State	80%	84%	89%	88%	83%	88%	72%
4	Division	87%	87%	86%	88%	90%	88%	74%
	State	87%	88%	89%	88%	87%	88%	70%
5	Division	85%	87%	88%	89%	91%	89%	79%
	State	87%	89%	92%	90%	89%	89%	73%
6	Division	88%	84%	84%	85%	89%	90%	79%
	State	84%	85%	86%	88%	87%	89%	73%
7	Division	86%	86%	89%	86%	91%	92%	82%
	State	86%	86%	88%	89%	89%	88%	74%
8	Division	86%	80%	87%	83%	92%	92%	77%
	State	80%	83%	87%	90%	90%	89%	71%
High School	Division	95%	94%	96%	94%	96%	97%	93%
	State	94%	94%	95%	94%	94%	94%	89%
		Writing						
5	Division	88%	89%	84%	87%	91%	90%	75%
	State	89%	87%	86%	88%	87%	87%	71%
8	Division	88%	86%	89%	87%	90%	91%	74%
	State	86%	87%	89%	91%	88%	88%	70%
High School	Division	92%	92%	95%	92%	96%	95%	90%
	State	92%	92%	92%	92%	93%	93%	87%

NOTE: In fiscal year 2007, SCPS issued its first stand-alone CAFR. Ten years of data is available, but only seven years are presented.

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STANDARDS OF LEARNING TEST PASSING RATES
Fiscal Years 2007 - 2013**

Table S-17B

Grade	Location	2007	2008	2009	2010	2011	2012	2013
History								
3	Division State	92%	92%	93%	94%	87%	89%	89%
		92%	93%	93%	93%	85%	87%	87%
5	Division State	N/A	N/A	N/A	83%	100%	93%	95%
				94%	90%	80%	84%	82%
History and Social Science (Alternative Assessment)								
4	Division State	N/A	N/A	N/A	N/A	88%	93%	96%
		N/A	N/A	95%	92%	87%	84%	81%
6	Division State	N/A	N/A	N/A	100%	95%	88%	83%
		N/A	N/A	N/A	91%	92%	86%	84%
7	Division State	N/A	N/A	N/A	100%	95%	96%	89%
		N/A	N/A	N/A	92%	91%	88%	84%
High School	Division State	N/A	N/A	N/A	95%	89%	92%	86%
		N/A	N/A	90%	91%	87%	84%	77%
Virginian and U.S. History								
High School	Division State	96%	97%	96%	97%	89%	93%	91%
		93%	94%	95%	95%	83%	85%	86%
World History I								
High School	Division State	93%	95%	96%	98%	88%	88%	92%
		89%	91%	93%	93%	81%	84%	84%
World History II								
High School	Division State	96%	96%	97%	97%	88%	91%	90%
		92%	92%	93%	92%	82%	85%	85%
World Geography								
High School	Division State	92%	93%	96%	99%	100%	99%	97%
		83%	84%	86%	86%	85%	85%	86%
Virginia Studies								
Content Specific	Division State	80%	79%	86%	87%	92%	91%	90%
		83%	93%	88%	87%	89%	89%	87%
U.S. History to 1877								
Content Specific	Division State	60%	69%	66%	80%	84%	82%	85%
		69%	74%	74%	78%	81%	81%	83%
U.S. History 1877 to present								
Content Specific	Division State	88%	91%	94%	94%	88%	86%	88%
		87%	92%	92%	91%	85%	84%	82%
Civics and Economics								
Content Specific	Division State	81%	84%	81%	82%	82%	84%	87%
		83%	84%	84%	86%	84%	84%	85%

NOTE: In fiscal year 2007, SCPS issued its first stand-alone CAFR. Ten years of data is available, but only seven years are presented.

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STANDARDS OF LEARNING TEST PASSING RATES
Fiscal Years 2007 - 2013**

Table S-17C

Grade	Location	2007	2008	2009	2010	2011	2012	2013
Mathematics								
3	Division	88%	88%	88%	93%	93%	69%	69%
	State	89%	89%	89%	92%	91%	64%	65%
4	Division	81%	81%	84%	88%	90%	75%	79%
	State	81%	84%	86%	88%	89%	70%	74%
5	Division	86%	86%	87%	94%	91%	72%	76%
	State	87%	88%	90%	92%	89%	67%	69%
6	Division	70%	70%	76%	83%	83%	82%	83%
	State	60%	68%	73%	77%	73%	74%	77%
7	Division	71%	71%	66%	68%	73%	54%	75%
	State	56%	65%	71%	75%	77%	58%	61%
8	Division	85%	85%	90%	89%	90%	83%	68%
	State	77%	83%	85%	87%	82%	60%	61%
Mathematics (Alternate Assessment)								
High School	Division	N/A	85%	91%	95%	100%	92%	67%
	State	88%	80%	81%	80%	77%	68%	65%
Algebra I								
High School	Division	93%	93%	94%	97%	97%	83%	87%
	State	92%	93%	94%	94%	94%	75%	76%
Geometry								
High School	Division	88%	88%	91%	90%	92%	77%	81%
	State	86%	87%	87%	88%	87%	74%	76%
Algebra II								
High School	Division	88%	88%	92%	92%	92%	72%	86%
	State	88%	90%	91%	91%	91%	69%	76%

NOTE: In fiscal year 2007, SCPS issued its first stand-alone CAFR. Ten years of data is available, but only seven years are presented.

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
STANDARDS OF LEARNING TEST PASSING RATES
Fiscal Years 2007 - 2013**

Table S-17D

Grade	Location	2007	2008	2009	2010	2011	2012	2013
Science								
3	Division	87%	88%	88%	91%	90%	92%	92%
	State	88%	89%	89%	91%	90%	90%	90%
5	Division	85%	88%	87%	90%	86%	88%	79%
	State	88%	88%	88%	88%	87%	88%	75%
8	Division	93%	93%	95%	94%	96%	96%	83%
	State	89%	90%	90%	92%	92%	92%	76%
Science (Alternate Assessment)								
High School	Division	N/A	85%	100%	86%	94%	96%	71%
	State	N/A	84%	88%	88%	90%	83%	59%
Biology								
High School	Division	91%	93%	93%	93%	95%	95%	89%
	State	87%	88%	88%	93%	90%	92%	83%
Chemistry								
High School	Division	96%	94%	97%	96%	95%	96%	90%
	State	91%	92%	93%	94%	93%	93%	86%
Earth Science								
High School	Division	89%	92%	93%	92%	93%	96%	91%
	State	85%	86%	87%	88%	89%	90%	83%

NOTE: In fiscal year 2007, SCPS issued its first stand-alone CAFR. Ten years of data is available, but only seven years are presented.

**STAFFORD COUNTY PUBLIC SCHOOLS
A COMPONENT UNIT OF STAFFORD COUNTY, VIRGINIA
SCHOOL ACCREDITATION AND ADEQUATE YEARLY PROGRESS (AYP)
OR FEDERAL ANNUAL MEASURABLE OBJECTIVES (FAMOs)
Fiscal Years 2005 - 2013**

	2005	2006	2007	2008	2009
Division-wide Status:					
Schools Fully Accredited	100%	100%	100%	97%	100%
Schools that Made AYP	71%	92%	63%	48%	47%
Division AYP	Did not make AYP	Did not make AYP	Made AYP	Did not make AYP	Made AYP
Schools that Made FAMOs	-	-	-	-	-
Division AYP	-	-	-	-	-

Source: Virginia Department of Education School Report Card.

Note: In fiscal year 2007, SCPS issued its first stand-alone CAFR. Ten years of data is available, but only nine years are presented.

Table S-18

2010	2011	2012	2013	
100%	100%	100%	100%	Division-wide Status: Schools Fully Accredited
53%	37%	37%	N/A	Schools that Made AYP
Did not make AYP	Did not make AYP	Did not make AYP	N/A	Division AYP
-	-	-	47%	Schools that Made FAMOs
-	-	-	Did not meet FAMOs	Division AYP



**Independent Auditor's 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**

To the Honorable Members of the Stafford County School Board
Stafford County Public Schools
Stafford, Virginia

We have audited, in accordance with the 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 the *Specifications for Audits of Counties, Cities, and Boards*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Stafford County School Board (the school board), a component unit of Stafford County, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the school board's basic financial statements and have issued our report thereon dated January 07, 2014.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Questioned Costs*, we identified a certain deficiency in internal control that we consider to be a material weakness and a certain deficiency in internal control that we consider to be a significant deficiency.

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. We consider the deficiency described under Finding 2013-1 in the accompanying *Schedule of Findings and Questioned Costs* to be a material weakness.

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. We consider the deficiency described under Finding 2013-2 in the accompanying *Schedule of Findings and Questioned Costs* to be a significant deficiency.

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*.

The School Board's Response to Findings

The school board's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. The school board's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

A handwritten signature in cursive script that reads "McGladrey LLP".

New Bern, North Carolina
January 07, 2014



**Independent Auditor's Report On Compliance For Each
Major Federal Program And On Internal Control Over
Compliance Required By OMB Circular A-133**

To the Honorable Members of the Stafford County School Board
Stafford County Public Schools
Stafford, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Stafford County School Board's (the school board), a component unit of Stafford County, Virginia, 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 year ended June 30, 2013. The school board's major federal programs are identified in the summary of auditor's 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 major federal programs.

Auditor's 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 Stafford County School Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the 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 a 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.



New Bern, North Carolina
January 07, 2014

**Stafford County Public Schools
Component Unit of the County of Stafford
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013**

Federal Grantor/State Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal REVENUE
Department of Agriculture: Child Nutrition Cluster: Food Distribution	10.555	10.555/2012	823,843
Department of Education: National school lunch program	10.555	10.555/2012	<u>3,545,981</u>
Total 10.555			<u>4,369,824</u>
National school breakfast program	10.553	10.553/2012	810,588
Total Child Nutrition Cluster			<u>5,180,412</u>
Total Department of Agriculture			<u>5,180,412</u>
Department of Defense: Direct Payments: JROTC	12.000	-	293,746
Basic and Applied Scientific Research	12.300	-	-
Department of Defense Impact Aid	12.558	-	388,955
Promoting K-12 Student Achievement at Military Connected Schools	12.556	-	<u>107,245</u>
Total Department of Defense			<u>789,946</u>
Department of Education: Direct Payments: Impact Aid	84.041	-	1,249,480
Pass Through Payments: Department of Education: Title I Grants to Local Educational Agencies	84.010	S010A110046	1,697,481
Special Education Cluster (IDEA): Special Education - Grants to States	84.027	H027A120107	4,416,376
Special Education - Preschool Grants	84.173	H173A120112	82,305
Career and Technical Education - Basic Grants to States	84.048	V048A120046	225,853
Education for Homeless Children and Youth	84.196	S196A100048	50,606
Improving Teacher Quality State Grants	84.367	S367A120044	461,381
Education Technology State Grants	84.318	S318X100046	2,558
English Language Acquisition Grant	84.365	S365A120046	141,024
ARRA - Education Jobs Fund	84.410	S410A100047	<u>84,747</u>
Total Department of Education			<u>8,411,811</u>
Department of Homeland Security Direct Payments:	97.088		<u>5,517</u>
Total Department of Homeland Security			<u>5,517</u>
Department Health and Human Services: Direct Payments: Head Start Program	93.600	-	2,252,725
Pass Through Payments: Department of Social Services: Medical Assistance Program	93.778	93.778/2012	<u>48,863</u>
Total Department Health and Human Services			<u>2,301,588</u>
Total Expenditures of Federal Awards			<u><u>16,689,274</u></u>

See accompanying notes to the schedule of expenditures of federal awards

**Stafford County School Board
A Component Unit of Stafford County, Virginia**

**Schedule Of Findings And Questioned Costs
Year Ended June 30, 2013**

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- ◆ Material weakness(es) identified? ✓ yes no
- ◆ Significant deficiency(ies) identified? ✓ yes none reported

Noncompliance material to financial statements noted? yes ✓ no

Federal Awards

Internal control over major federal programs:

- ◆ Material weakness(es) identified? yes ✓ no
- ◆ Significant deficiency(ies) identified? yes ✓ none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes ✓ no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 and 10.555	School Breakfast Program; National School Lunch Program
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs \$500,678

Auditee qualified as low-risk auditee? ✓ yes no

(Continued)

**Stafford County School Board
A Component Unit of Stafford County, Virginia**

**Schedule Of Findings And Questioned Costs (Continued)
Year Ended June 30, 2013**

Section II. Financial Statement Findings and Questioned Costs

Finding 2013-1

Criteria: Accounting principles generally accepted in the United States of America (GAAP) require the Stafford County School Board (the school board) to accrue a liability and expense / expenditure in the period in which it is incurred. Those standards further explain that the liability is normally accrued when it is expected to be paid in the near future with current resources.

Condition: The school board contracts to provide health insurance benefit coverage to its employees through August 31 of each year. Employees earn their health benefit coverage through August 31 by providing services through June 30. Health insurance benefits are recurring monthly expenses and the premiums for benefits are paid in the month in which employees are covered. On June 30, 2012, no liability was recorded for the July and August 2012 insurance benefit coverage earned by the employees.

Cause and Context: The process to prepare reporting period closing entries and financial statements relies on a small number of the school board's staff. The process requires technical knowledge and a significant amount of manual intervention. The annual reporting period closing requires significantly more time and, in some cases, different accounting treatments for similar transactions than in the monthly periods.

In the current fiscal year, employee attrition permitted the Financial Services department to hire new staff and move certain employees into new roles. This alignment subjected the financial statements to a greater level of review and revision. During the review of the June 30, 2013 financial statements, the Financial Services department staff identified the need to record a liability for future employee health benefits earned before the fiscal year ended.

Effect: In the June 30, 2012 Operating Fund balance sheet, fund balance was overstated and accrued salaries and benefits liability was understated by \$2.9 million. Similarly, in the June 30, 2012 Governmental Activities statement of net assets, unrestricted net assets were overstated and accrued salaries and benefits liability was understated by \$2.9 million.

Recommendation: We recommend management continue to develop and refine its financial reporting processes. Refinement should include reviewing the assignment of account reconciliations. We further recommend that management conduct a thorough assessment of the significant accounting policies and period cut-off estimates for its significant transaction cycles.

Management Response: The finance and accounting staff in the Department of Financial Services of Stafford County Public Schools is continually developing and monitoring the financial reporting process to meet the requirements set forth by GAAP and Government Accounting Standards Board (GASB). Our monitoring led to the identification and correction of the deficiency noted during the June 30, 2013 fiscal year-end closing and financial reporting process. On a prospective basis, all adjusting journal entries will be recorded timely and in the proper fiscal year.

**Stafford County School Board
A Component Unit of Stafford County, Virginia**

**Schedule Of Findings And Questioned Costs (Continued)
Year Ended June 30, 2013**

Finding 2013-2

Criteria: It is the school board's policy to amortize service contracts. Expense / expenditures are recognized evenly over the life of the service period. Expense / expenditures represent the benefit received each month by the school board, which is an allowable method under GAAP.

Condition: The school board enters into contracts with several software and information technology specialty services providers for a variety of software and hardware service agreements. The service periods for most of these contracts begin and end in different fiscal years. Vendors are paid intermittently and do not necessarily match the timing when expense / expenditures are recognized. Inevitably, payments are prior to the period for which they are incurred. In those instances, the policy dictates that a prepaid asset should be recorded and the expense / expenditure deferred to a future period. However, the school board had been recording the payments as expenditures in the period they were made.

Cause and Context: The process to prepare reporting period closing entries and financial statements relies on a small number of the school board's staff. The process requires technical knowledge and a significant amount of manual intervention. The annual reporting period closing process requires significantly more time and, in some cases, different accounting treatments for similar transactions than in the monthly periods.

In the current fiscal year, employee attrition permitted the Financial Services department to hire new staff and move certain employees into new roles. This realignment has subjected the financial statements to a greater level of review and revision. During the review of the June 30, 2013 financial statements, the Financial Services department staff identified the need to defer the cost of Information Technology contracts for which the Operating Fund receives a benefit in a future period.

Effect: In the June 30, 2012 Operating Fund balance sheet, fund balance and the prepaid expenditures asset were understated by \$490,000. Similarly in the Governmental Activities statement of net assets, unrestricted net assets and the prepaid expenses asset were understated by \$490,000.

Recommendation: We recommend management continue to develop and refine its financial reporting processes. Refinement should include reviewing the assignment of account reconciliations. We further recommend that management conduct a thorough assessment of the significant accounting policies and period end cut-off estimates for its significant transaction cycles.

Management Response: The finance and accounting staff in the Department of Financial Services of Stafford County Public Schools is continually developing and monitoring the financial reporting process to meet the requirements set forth by GAAP and GASB. Our monitoring led to the identification and correction of the deficiency noted during the June 30, 2013 fiscal year-end closing and financial reporting process. On a prospective basis, all adjusting journal entries will be recorded timely and in the proper fiscal year.

Section III. Findings and Questioned Costs for Federal Awards

None reported.

**Stafford County School Board
A Component Unit of Stafford County, Virginia**

**Corrective Action Plan
Year Ended June 30, 2013**

Identifying Number: 2013-1

Finding: The June 30, 2012 fund balance and net assets were overstated and the accrued salaries and benefits liability was understated by \$2.9 million. The financial reporting closing processes did not detect and record the liability in the year it was incurred.

Corrective Actions Taken: The school board identified the adjustments to the June 30, 2012 fund balance and net assets during the June 30, 2013 year end closing process. This accrual will be recorded accurately and timely for each subsequent fiscal year.

Identifying Number: 2013-2

Finding: The June 30, 2012 fund balance, net assets and prepaid expenses / expenditures asset were understated by \$490,000. The financial reporting closing processes did not detect and record the asset in the year the expenses / expenditures were prepaid.

Corrective Actions Taken: The school board identified the adjustments to the June 30, 2012 fund balance and net assets during the June 30, 2013 year end closing process. The prepaid expenses will be recorded accurately and timely for each subsequent fiscal year.

**Stafford County School Board
A Component Unit of Stafford County, Virginia**

**Schedule Of Prior Year Findings
Year Ended June 30, 2013**

None reported.