

STAFFORD COUNTY, VIRGINIA

COMPREHENSIVE

ANNUAL FINANCIAL REPORT



FISCAL YEAR 2007
(July 1, 2006 - June 30, 2007)

Steve Crosby, County Administrator
Anthony J. Romanello, Deputy County Administrator
Michael P. Neuhard, Deputy County Administrator
Maria J. Perrotte, Chief Financial Officer
Shelley Carmichael, Assistant Director of Finance
Mickey Kwiatkowski, Acting Assistant Director of Finance
Deborah King, Debt, Securities and Records Manager
Carol J. Atkinson, Risk Manager
Susan M. Fitzgibbon, Accountant

BOARD OF SUPERVISORS



Jack R. Cavalier, Chairman
Griffis-Widewater District



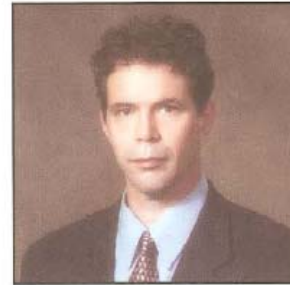
Mark Dudenhefer, Vice Chairman
Garrisonville District



Paul V. Milde III
Aquia District



George H. Schwartz
Falmouth District



Peter J. Fields
George Washington District



M. S. "Joe" Brito
Hartwood District



Robert C. Gibbons
Rock Hill District



Steve Crosby
County Administrator

**COUNTY OF STAFFORD, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2007**

TABLE OF CONTENTS

INTRODUCTORY SECTION

	Page
Letter of Transmittal	i
Organizational Chart	vi
Principal Officials	vii
Certificate of Achievement for Excellence in Financial Reporting	ix

FINANCIAL SECTION

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Exhibit I Statement of Net Assets	17
Exhibit II Statement of Activities	18
Fund Financial Statements	
Governmental Funds Financial Statements	
Exhibit III Balance Sheet – Governmental Funds	20
Exhibit IV Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Assets	21
Exhibit V Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	22
Exhibit VI Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Proprietary Funds Financial Statements	
Exhibit VII Statement of Net Assets – Proprietary Fund	24
Exhibit VIII Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund	25
Exhibit IX Statement of Cash Flows – Proprietary Fund	26
Fiduciary Funds Financial Statements	
Exhibit X Statement of Fiduciary Net Assets – Fiduciary Funds	27
Notes to Financial Statements	29

FINANCIAL SECTION (continued)

Required Supplementary Information other than Management's Discussion and Analysis

Budgetary Comparison Schedules

Exhibit XI	Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	65
Exhibit XII	Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Transportation Fund	67

Pension Schedules

Exhibit XIII	Schedule of Funding Progress	68
--------------	------------------------------	----

Notes to Required Supplementary Information	69
--	----

Other Supplementary Information

Combining Schedules

Schedule I	Combining Balance Sheet Nonmajor Governmental Funds	72
Schedule II	Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	74
Schedule III	Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Nonmajor Governmental Funds	76
Schedule IV	Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Capital Projects Fund	78
Schedule V	Combining Statement of Fiduciary Net Assets – Fiduciary Funds	80
Schedule VI	Combining Statement of Changes in Fiduciary Net Assets	81
Schedule VII	Statement of Net Assets Discretely Presented Component Unit – Wideswater Community Development Authority	83
Schedule VIII	Statement of Revenues, Expenses and Changes in Net Assets Discretely Presented Component Unit – Wideswater Community Development Authority	84

STATISTICAL SECTION

Statistical Section Overview	85
Table S-1 Net Assets by Component	86
Table S-2 Changes in Net Assets	87
Table S-3 Fund Balances, Governmental Funds	90
Table S-4 Changes in Fund Balances, Governmental Funds	91
Table S-5 Assessed Value and Actual Value of Taxable Real Property	93
Table S-6 Direct and Overlapping Tax Rates	94
Table S-7 Principal Property Tax Payers	95
Table S-8 Property Tax Levies and Collections	96
Table S-9 Ratios of General Bonded Debt Outstanding, Direct Debt Ratios	97
Table S-10 Ratios of General Bonded Debt Outstanding, Direct and Overlapping Debt Ratios	98
Table S-11 Direct and Overlapping Governmental Activities Debt	99
Table S-12 Debt Margin Information	100
Table S-13 Pledged Revenue Coverage: Water and Sewer Fund	103
Table S-14 Demographic and Economic Statistics	104
Table S-15 Comparative Demographic and Economic Statistics	105
Table S-16 Principal Employers	106
Table S-17 Full-Time Equivalent County Government Employees by Function	107
Table S-18 Operating Indicators by Function	108
Table S-19 Capital Asset Statistics by Function	111

COMPLIANCE SECTION

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	113
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	115
Schedule of Expenditures of Federal Awards	117
Notes to Schedule of Expenditures of Federal Awards	119
Schedule of Findings and Questioned Costs	120
Summary Schedule of Prior Audit Findings	124



Working To Be The Best Local Government In Virginia

Balance Empowerment Service Teamwork

INTRODUCTORY SECTION

BOARD OF SUPERVISORS

JACK R. CAVALIER
CHAIRMAN
MARK DUDENHEFER
VICE CHAIRMAN

M.S. "JOE" BRITO
PETER J. FIELDS
ROBERT C. GIBBONS
PAUL V. MILDE, III
GEORGE H. SCHWARTZ



1300 COURTHOUSE ROAD
P.O. BOX 339
STAFFORD, VIRGINIA 22555-0339

PHONE: (540) 658-8603
METRO: (703) 690-8222
FAX: (540) 658-7643
www.staffordcountyva.gov

COUNTY ADMINISTRATOR
STEVE CROSBY

February 8, 2008

To Members of the Board of Supervisors and Citizens of Stafford County:

We are herewith submitting the Comprehensive Annual Financial Report (CAFR) of the County of Stafford, Virginia (County) for Fiscal Year (FY) 2007 in compliance with Section 15.2-2511 of the *Code of Virginia* (1950), as amended. The County has used professionally accepted standards to prepare its financial statements. The report is designed to fairly present the financial position and results of financial operations of the County in all material respects and to demonstrate compliance with applicable finance-related legal and contractual provisions. The report adheres to the principle of full disclosure so that the reader may gain maximum understanding of the County's financial affairs.

The Finance Department has prepared this report in accordance with the following standards:

- Accounting principles generally accepted in the United States of America, which are uniform minimum standards and guidelines for financial accounting and reporting.
- Governmental accounting and financial reporting statements and interpretations issued by the Governmental Accounting Standards Board (GASB) and;
- Uniform financial reporting standards for counties, cities and towns issued by the Commonwealth of Virginia's Auditor of Public Accounts (APA).

The responsibility for the accuracy, completeness and fairness of the data presented in the report, including all disclosures, rests with the County.

Clifton Gunderson LLP, a firm of licensed certified public accountants, audited the County's financials statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2007, were free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditors concluded, based on their audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditors to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements and

internal controls involving the administration of federal awards. These reports are available in the compliance section of this report.

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

PROFILE OF STAFFORD COUNTY

Stafford County was formed in 1664 and was named for Staffordshire, England. The county is located in northeastern Virginia, approximately 40 miles south of Washington, D.C. and 55 miles north of Richmond, Virginia. It encompasses 277 square miles and is bordered by the Potomac River on the east and the Rappahannock River on the south.

Stafford County operates under the board of supervisors/administrator form of government. The Board of Supervisors (the Board) consists of seven members elected by district who have authority over local taxation, budgets, borrowing, local ordinances and policy. The Board appoints a County Administrator to act as the administrative head of the County. The County Administrator serves at the pleasure of the Board of Supervisors and carries out the policies established by the Board.

The government of the County provides a full range of services to its residents. These include general administration, judicial administration, public safety, public works, health and welfare, parks and recreation, education, and community and economic development. Funds required to support these services are reflected in this report.

Public Schools

Stafford County is financially accountable for a legally separate school district which is reported within the government-wide financial statements as a discreet component unit. Stafford County Public Schools is the largest service provided by the County. The school system is operated by an elected school board consisting of seven members elected by district. The School Board appoints a superintendent to administer its policies. The School Board is audited by separate auditors and issues a separate annual financial report.

Higher Education

Opportunities for higher education exist in the County. The University of Mary Washington's College of Graduate and Professional Studies campus is located in Stafford County. It offers a variety of career advancement and professional development programs for working adults. Approximately 800 students were enrolled in these programs during 2006-2007.

Budgetary Control

The annual budget serves as the foundation for the County's financial planning and control. County departments and agencies begin their budget preparation each year in October. Appropriation requests are submitted in December for the fiscal year beginning the following July 1st. The County Administrator submits a proposed operating and capital budget to the Board of Supervisors by March 1 each year. The budget includes proposed expenditures and the means of financing them. Work sessions are scheduled to further refine the proposal and align it with goals and objectives. A public hearing is conducted to obtain citizen comments on the proposed budget and tax rates. Property tax rates are set by passage of a resolution. Prior to June 30th, the budget is legally enacted through passage of an appropriations resolution. This resolution places legal restrictions on expenditures at the department level. Budget-to-actual comparisons are provided in this document in the section labeled "Other Supplementary Information".

The Code of Virginia requires the school superintendent to submit a School Board approved budget to the County Board of Supervisors. In February the School Board adopts its requested budget and forwards it to the County

Administrator. The County Board of Supervisors reviews the School Board's budget and determines the level of local funding.

Accounting System

In developing and maintaining the County's overall accounting and financial management system, adequacy of internal accounting controls has been considered. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss and the reliability of financial records. 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 evaluation of costs and benefits requires estimates and judgments by management. In this regard, we believe that the County's internal accounting controls are adequate. In addition, the external auditors evaluate these controls during the course of the annual audit. We are committed to deriving the maximum benefits from this review process and will continue to actively pursue implementation of all recommended policy and procedural changes which are deemed practicable.

The County operates a fully automated accounting and financial management information system. This system represents the important foundation required to support the "central accounting" function and represents a cooperative effort of both County and School Board financial staffs to advance this policy. Budgetary control is maintained primarily at the fund level and at the department level by the encumbrance of estimated purchases. Purchase orders are reviewed for adequate appropriations prior to release to vendors. Open encumbrances, which represent commitments for the purchase of goods or services in a future period, are reported as reservations of fund balances at the end of the fiscal year.

Cash Management

As custodian of County funds, the Treasurer is responsible for investing those funds to safeguard principal, meet liquidity objectives and maximize return. The Treasurer uses the pooled cash concept to maximize investment return. Investments and deposits during the year consisted of a variety of securities, durations and increments as allowable by the Code of Virginia and the County's investment policy. These include savings accounts, certificates of deposits, repurchase agreements, bankers' acceptances, commercial paper, money market accounts, the State-maintained Local Government Investment Pool and the State-maintained State Non-Arbitrage Pool.

Risk Management

The risks of loss to which the County are exposed include, but are not limited to, property loss, machinery and equipment breakdown, general liability, personal injury, vehicle liability, theft, embezzlement, harassment, law enforcement liability, zoning and code enforcement. Risks of loss are mitigated by insurance, insurance consulting services and safety policies. The County is self insured and participates in various public entity loss pools. The County also has a risk manager who, with the County's insurance consultant, oversees the identified areas of risk. The position also administers the County's safety program.

Relevant Financial Policies

In fiscal year 2005, the Board of Supervisors adopted a fund balance policy for the County's General Fund. The policy sets the minimum undesignated, unreserved fund balance for the General Fund at ten percent (10%) of General Fund revenues, in order to provide for overall stability and financial planning purposes. At June 30, 2007 the undesignated, unreserved fund balance in the General Fund was \$17.2 million or 8.1% of the fiscal year 2007 general revenues. We monitor revenues and expenditures on a monthly and quarterly basis in order to be proactive in maintaining compliance with the policy. See Note 10 (page 56) for a discussion of corrective measures.

In addition, the Board of Supervisors established a policy to limit net tax supported bonded debt to no more than 4.5% of assessed real property value and debt service to 12% of budgeted general government expenditures. For the fiscal year ended June 30, 2007, net bonded debt was 1.96% of assessed real property value. Debt service expenditures were 10.3% of budgeted general government expenditures.

Long-Term Financial Planning

The County prepares a five-year Capital Improvement Plan (CIP) annually. The CIP serves as a planning tool to analyze initiatives, formulate service levels and phase-in funding needed public facilities. The 2007-2012 CIP totals \$571.2 million and is comprised of County projects of \$108.7 million, school projects of \$241.3 million and

Utilities Fund projects of \$221.2 million. A variety of funding sources including general obligation bonds, revenue bonds, capital leases and General Fund revenues will fund the projects.

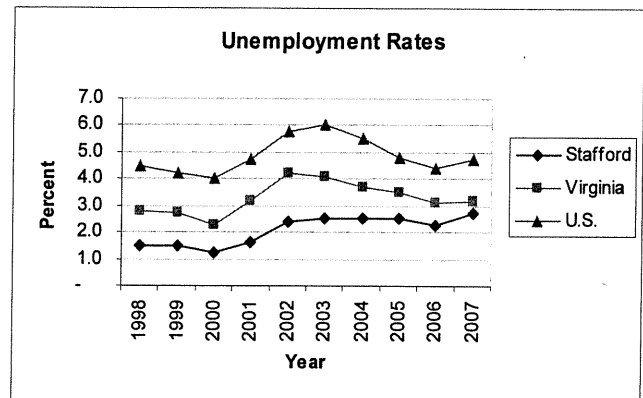
The County's five-year financial plan represents the County's attempt to quantify the impacts of future needs matched with a projection of available resources. The plan is presented with detailed assumptions in a separate section of the budget document. The plan seeks to maintain or enhance budgetary objectives of the Board of Supervisors. Conservative revenue forecasting has enabled the County to meet future targets. To assist policy makers and staff with foreseeing future needs and projected growth, the County has acquired a fiscal impact model. It uses current and trend information to calculate multi-year projections of revenues and expenditures.

ECONOMIC CONDITION AND OUTLOOK

Stafford County's location, rural character, suburban conveniences, strong educational system and superior quality of life combine to make it an attractive, vital community. The County enjoys a healthy and stable economy characterized by a relatively high skilled and educated labor force and very low unemployment.

According to the Virginia Employment Commission, unemployment in Stafford County increased from the 2006 figure of 2.4 percent to 2.7 percent in 2007. The area continues to have one of the lowest unemployment rates when compared to the 3.2 percent Virginia and 4.7 percent national unemployment rates.

In recent years, Stafford's economic development program has focused on bringing high-tech jobs to the area. As a result, the County has seen a 32% growth in businesses since 2002. The private sector has produced over 800,000 square feet of commercial space annually for the past several years. There are now more than 2,100 businesses located in Stafford County. This translates to continued growth in at-place employment. There are nearly 33,000 people who work in Stafford County. Job growth in the County is also driven by Federal spending. Marine Corps Base Quantico and the FBI Academy are located in the northern sector of the County. Quantico Office park, which is currently under construction, is one project that is part of the significant increase in construction of office space (in excess of two million square feet) to accommodate defense contractors and related businesses with the desire to locate offices in the Stafford area.



The County also has established commercial and industrial areas in its central and southern sectors. In August 2006, Mediacorp Health Systems was granted permission to construct a full service, acute care Stafford Hospital Center. It will be located in central Stafford near the Courthouse. It is currently under construction and is scheduled to open in 2009. A medical office park will also be constructed on the site. The southern business corridor is located near the I-95 and Route 17 interchange. A nationally recognized commercial developer is constructing a corporate center known as Celebrate Virginia North. Flexible zoning within the campus will accommodate approximately three million square feet of office and retail space.

Transportation issues are being addressed in all areas of the County. In north Stafford, construction has begun on a project to widen the major transportation corridor (Rt. 610). In south Stafford, preliminary engineering for the widening of Route 17 to accommodate development is underway. Planning continues for the leveraging of local, state, federal and private resources to facilitate needed improvements.

Efforts continue to develop the tourism sector of our economy. The Tourism Office uses a combination of Information resources, such as the Stafford Visitor Center, a tourism website and a comprehensive brochure, to attract visitors to many historical and recreational venues.

MAJOR INITIATIVES

In June 2006, the County broke ground for the construction of its new Public Safety Building. The 120,000 square foot building will be located near the County Courthouse and Administration Center and will cost approximately \$38 million. When complete it will house fire and rescue administrative offices, the County Sheriff's Department and the emergency communications center. The County has also broken ground for two new fire and rescue stations at a cost of \$4 to \$5 million each. A new simulcast UF digital radio system is also planned for next year.

Other major capital initiatives include construction of a 180-acre park in north Stafford, a second branch of the regional library in south Stafford, a Juvenile and Domestic Relations Courthouse and on-going renovations to school facilities.

OTHER INFORMATION

The Certificate of Achievement for Excellence in Financial Reporting - The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to Stafford County for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. This was the County's twenty-fifth consecutive award. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish a Comprehensive Annual Financial Report (CAFR) that is easy to read, efficiently organized and whose contents conform to program standards. The CAFR must satisfy accounting principles generally accepted in the United States of America and applicable legal requirements. We believe that our current report continues to conform to the Certificate of Achievement program requirements and will be submitted to GFOA.

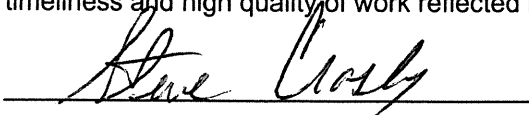
Distinguished Budget Presentation Award - The GFOA has also awarded the County its Distinguished Budget Award for the last eighteen years, including the 2007 fiscal year budget. In order to receive this award, a governmental unit must publish a budget document that is an exceptional policy document, operations guide, financial plan and communications medium.

For an overview of the County's financial condition and financial highlights for FY2007, please refer to the Management's Discussion and Analysis, located in the Financial Section of this document.

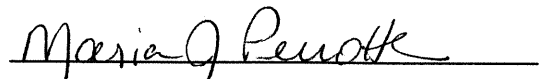
ACKNOWLEDGEMENTS

Stafford County has a sound record in financial management and continues to maintain a strong and stable financial reporting system. Appreciation is expressed to the members of the Stafford County Board of Supervisors, the School Board, the Treasurer, and the Commissioner of the Revenue for their interest and support in planning and conducting the financial operations of the County in a progressive and responsible manner.

Preparation of the Comprehensive Annual Financial Report was made possible by the dedicated and professional staff of the Department of Finance, the School Board Financial Services staff, the Commissioner of the Revenue and the Treasurer. All of these individuals have our sincere thanks and appreciation for the timeliness and high quality of work reflected in this report.



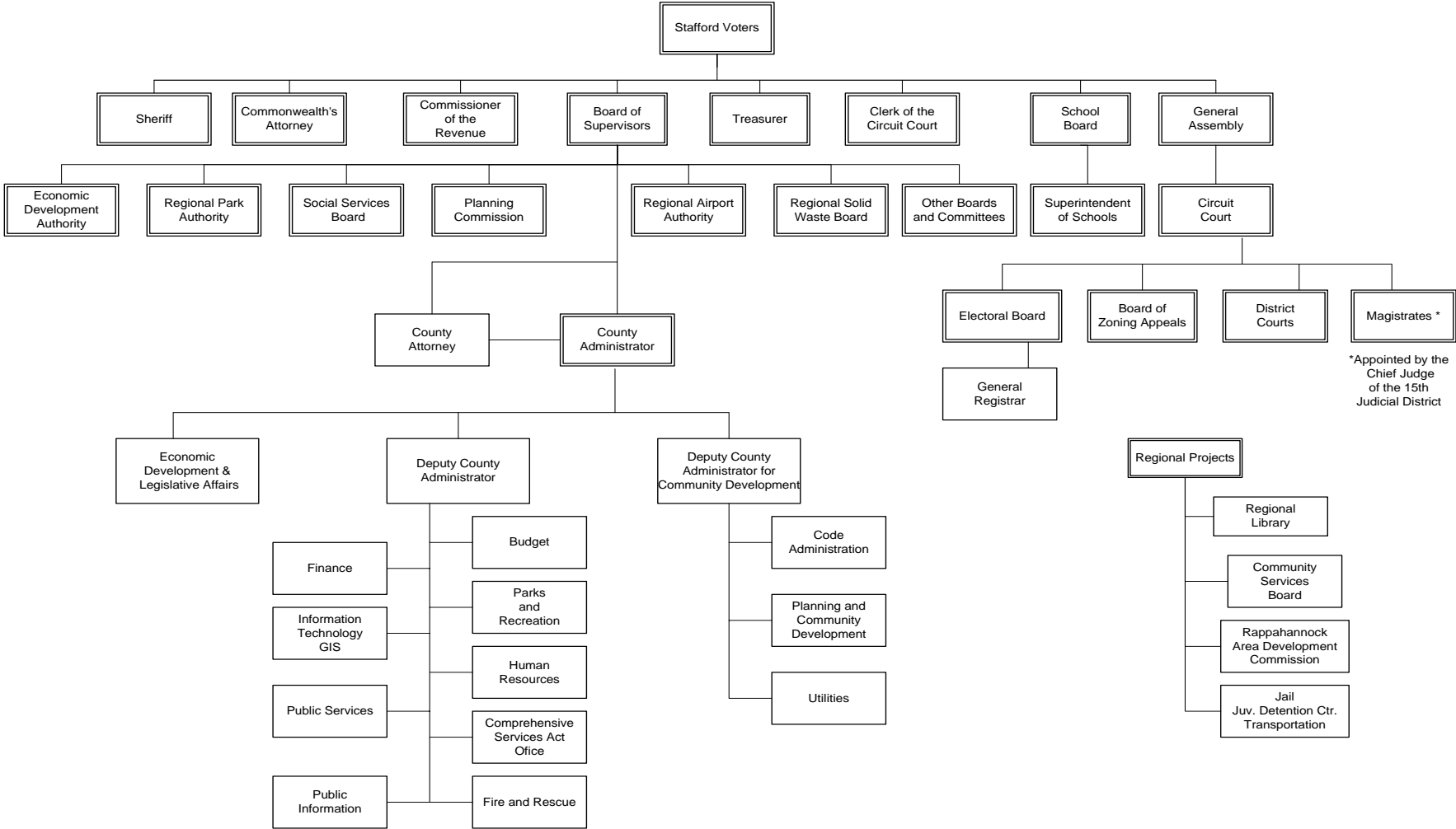
R. Steve Crosby
County Administrator



Maria J. Perrotte
Chief Financial Officer

County of Stafford, Virginia

Organizational Chart



COUNTY OF STAFFORD, VIRGINIA

PRINCIPAL OFFICIALS

BOARD OF SUPERVISORS

Jack R. Cavalier, Chairman	Griffis-Widewater District
Mark Dudenhefer, Vice Chairman	Garrisonville District
M. S. "Joe" Brito	Hartwood District
Peter J. Fields	George Washington District
Robert C. Gibbons	Rock Hill District
Paul V. Milde, III	Aquia District
George H. Schwartz	Falmouth District

CONSTITUTIONAL OFFICERS

Barbara G. Decatur	Clerk of Circuit Court
Scott A. Mayausky	Commissioner of the Revenue
Daniel M. Chichester	Commonwealth's Attorney
Charles E. Jett	Sheriff
Bill D. Colvin	Treasurer

COUNTY OF STAFFORD, VIRGINIA

PRINCIPAL OFFICIALS
(continued)

COUNTY ADMINISTRATIVE OFFICERS

Steve Crosby	County Administrator
Anthony J. Romanello	Deputy County Administrator
Michael P. Neuhard	Deputy County Administrator
Joseph L. Howard, Jr.	County Attorney
Robert E. Bos	Public Utilities Administrator
Cheryl L. Beagle	Director, Budget
Barry P. Fitz-James	Acting Director, Code Administration
David W. Noel	Director, Information Technology
J. Robert Brown	Fire Chief
Maria J. Perrotte	Chief Financial Officer
Tammi W. Ellis	Director, Human Resources
R. Greg Sager	Director, Parks and Recreation
Jeffrey A. Harvey	Director, Planning and Community Development
Michael J. Muse	Director, Social Services
Timothy J. Baroody	Director, Economic Development and Legislative Affairs

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Stafford County
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Enner

Executive Director



Working To Be The Best Local Government In Virginia

Balance Empowerment Service Teamwork

FINANCIAL SECTION



Independent Auditor's Report

The Honorable Members of the Board of
Supervisors of Stafford Virginia
Stafford, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Stafford, Virginia (County), as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the County of Stafford School Board, a discretely presented component unit, which represents 45.9 percent of the assets and 50.5 percent of the revenues of the total reporting entity. Those financial statements were audited by other auditors whose report thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for this discretely presented component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Stafford, Virginia, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2008 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

11710 Beltsville Drive
Suite 300
Calverton, MD 20705-3106
tel: 301-931-2050
fax: 301-931-1710

www.cliftoncpa.com

Offices in 17 states and Washington, DC



The management's discussion and analysis and the required supplementary information are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Stafford, Virginia's basic financial statements. The accompanying other supplementary information, such as the introductory section, combining schedules, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Calverton, Maryland
February 8, 2008

Management's Discussion and Analysis

As management of the County of Stafford, VA (County) we offer users of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the transmittal letter, financial statements, and the accompanying notes.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$67.7 million (*net assets*).
- The County's total net assets increased by \$12.3 million, with governmental activities decreasing by \$5.8 million and business-type activities increasing by \$18.0 million.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$60.0 million. Of the \$60.0 million, \$19.3 million is available for spending at the County's discretion (*undesignated fund balances*).
- Undesignated fund balance for the General Fund was \$17.2 million of total General Fund revenues, representing a decrease of \$2.0 million.
- The County's net debt increased by \$1.3 million during the current fiscal year. The net increase was the result of new debt less principal payments made during the year. New debt consisted of \$19.9 million of VPSA debt for school projects, \$3.5 million in capital leases for school buses and technology upgrades in schools.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of how the financial position of the County may be changing. Increases in net assets may indicate an improved financial position; however, even decreases in net assets may reflect the changing manner in which the County may have used previously accumulated funds.

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

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other activities that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include

general government administration; judicial administration; public safety; public works; health and social services; parks, recreation and cultural; community development; appropriation to School Board; transportation; and interest on long-term debt. The business-type activities consist of public utilities (water and sewer services).

The government-wide financial statements include not only the County itself (known as the primary government), but also a legally separate school board and a legally separate community development authority for which the County is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financials, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, users may better understand the long-term impact of the County's near-term financing decisions. Reconciliations between the governmental funds Balance Sheet and the Statement of Net Assets and between the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Statement of Activities are provided to facilitate this comparison between governmental funds and governmental activities.

The County maintains ten individual governmental funds. Information is reported separately in the governmental funds balance sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the Transportation Fund, and the General Capital Projects Fund; all three of which are considered to be major funds. Data from the other seven County funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Other Supplementary Information Section of this report. The County adopts an annual appropriated General Fund and Transportation Fund budget, for which budgetary comparison statements have been provided to demonstrate compliance with the respective budgets.

The County maintains one **Proprietary Fund** – an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for its public utilities. Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail.

Fiduciary funds are used to account for resources received and held in a fiduciary capacity for the benefit of individuals or other governments. Fiduciary funds are not reflected in the government-wide financial statements because resources of these funds are not available to support the County's programs. However, the County is responsible for ensuring fund assets are used for their intended purposes. The County has three fiduciary funds – Celebrate Virginia North Fund, Lake Arrowhead Sanitary District Fund and the George Washington Regional

Commission Fund. Separate statements of fiduciary net assets and statements of changes in fiduciary assets and liabilities are presented elsewhere in this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the pension related required supplementary information.

This report also contains a statistical section that supplements the basic financial statements by presenting detailed trend information, to assist readers in assessing the economic condition of the County. The County implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section* in fiscal year 2006, which resulted in the reformatting and addition of new information in the statistical section. The statistical section contains five categories of trend information about the County – financial trend information, revenue capacity information, debt capacity information, demographic and economic information, and operating information. The most significant additions to the statistical section are the historical trend information on governmental fund balances, net assets and changes in net assets, operating indicators, and capital asset statistics. We encourage readers to review the statistical section to better understand the County's operations, services and financial condition.

Government-wide Financial Analysis

Statement of Net Assets

As noted earlier, over time, changes in net assets may serve as an indicator of the County's financial position. The County's assets exceeded liabilities by \$67.7 million at the close of fiscal year 2007. By far, the largest portion of the County's net assets (\$216.7 million) reflects its investment in capital assets net of depreciation (e.g., land, buildings, vehicles, distribution and collections systems, and equipment); less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to its citizens (e.g., law enforcement, fire and emergency medical services, libraries, water and wastewater services). Consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the related debt must be provided by other sources since the capital assets cannot be used to liquidate the liabilities (the assets are not generally sold or otherwise disposed of during their useful life).

An additional portion of the County's net assets (\$13.1 million) represents resources that are subject to external restrictions on how they may be used. These restrictions include debt reserves and Federal drug enforcement constraints. The remaining balance of unrestricted net assets may be used for ongoing obligations.

Another significant point to note regarding school assets and their related debt is that in the State of Virginia, school boards cannot issue debt; however, they hold title to the assets acquired through debt issued by their respective primary governments. They are custodians of the assets and maintain the property. Therefore, the County reports a significant liability for debt related to school construction.

The increase in business-type activities net assets includes \$9.7 million in donated capital assets accepted into the water and sewer utility system and \$6.8 million in nonoperating availability fees also for the water and sewer utility system. These fees help offset the cost of upgrading and replacing infrastructure.

The following table presents the condensed Statement of Net Assets and compares the prior year to the current year.

Summary of Net Assets

(in millions)	Governmental		Business-type		Total		Component Unit	
	Activities		Activities		Primary Government		School Board	
	2007	2006	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 122.1	\$ 148.2	\$ 86.3	\$ 89.9	\$ 208.4	\$ 238.1	\$ 69.6	\$ 86.5
Capital assets	<u>103.6</u>	<u>76.8</u>	<u>202.7</u>	<u>183.5</u>	<u>306.3</u>	<u>260.3</u>	<u>363.5</u>	<u>328.1</u>
Total assets	<u>225.7</u>	<u>225.0</u>	<u>289.0</u>	<u>273.4</u>	<u>514.7</u>	<u>498.4</u>	<u>433.1</u>	<u>414.6</u>
Current liabilities	84.3	82.6	12.9	12.3	97.2	94.9	39.3	37.3
Noncurrent liabilities	<u>333.7</u>	<u>328.7</u>	<u>16.1</u>	<u>19.2</u>	<u>349.8</u>	<u>347.9</u>	<u>7.2</u>	<u>3.7</u>
Total liabilities	<u>418.0</u>	<u>411.3</u>	<u>29.0</u>	<u>31.5</u>	<u>447.0</u>	<u>442.8</u>	<u>46.5</u>	<u>41.0</u>
Net Assets:								
Invested in capital assets, net of related debt	32.9	6.8	183.8	161.4	216.7	168.2	360.2	328.1
Restricted	1.4	1.3	11.7	11.4	13.1	12.7	-	0.1
Unrestricted	<u>(226.4)</u>	<u>(194.4)</u>	<u>64.5</u>	<u>69.1</u>	<u>(161.9)</u>	<u>(125.3)</u>	<u>26.4</u>	<u>45.4</u>
Total net assets	<u>\$ (192.1)</u>	<u>\$ (186.3)</u>	<u>\$ 260.0</u>	<u>\$ 241.9</u>	<u>\$ 67.9</u>	<u>\$ 55.6</u>	<u>\$ 386.6</u>	<u>\$ 373.6</u>

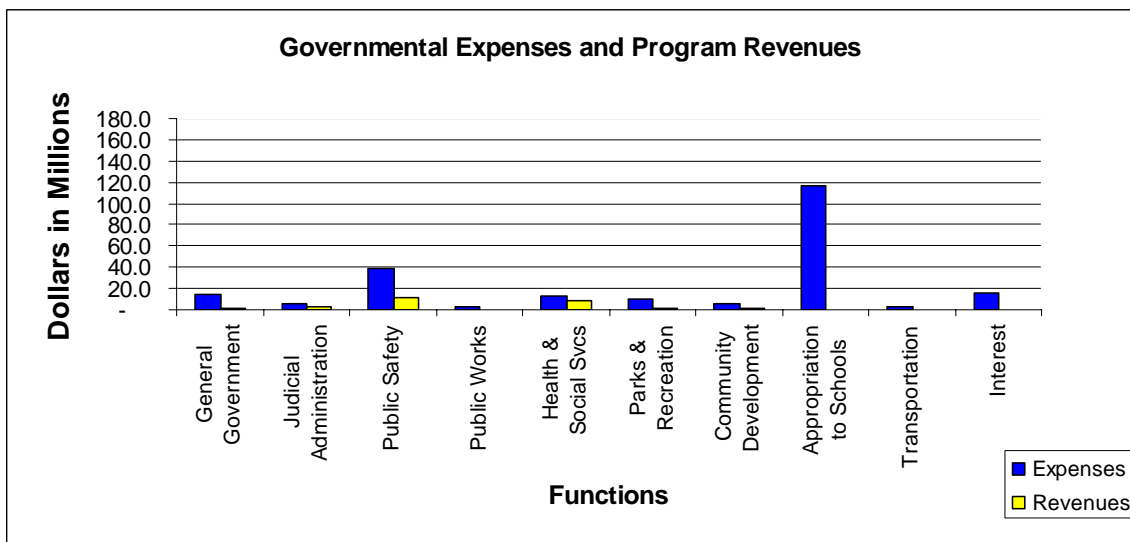
**Statement of Activities
Governmental Activities**

The decrease in net assets attributable to the County's governmental activities totaled \$5.8 million for fiscal year 2007. Generally, net asset changes are the result of the difference between revenues and expenses. For fiscal year 2007 revenues of \$221.9 million represent an increase of \$14.9 million over the prior year, while expenses of \$227.9 million decreased \$20.7 million for the same period. A summary of key elements follows:

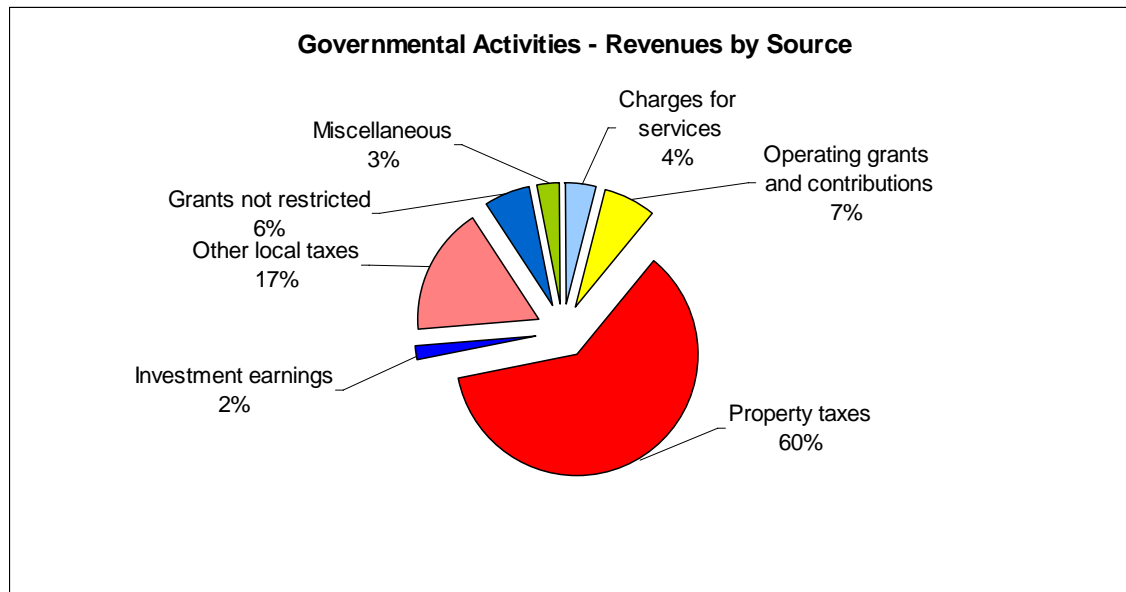
- The net change in program revenues was a decrease of \$0.1 million. Charges for services decreased by \$1.6 million over the prior year. A decrease in residential building permits mirrored the state and national slow-down in the housing construction industry, which accounts for this decrease.
- Operating grants and contributions (State and Federal grants for specific programs) increased by \$1.7 million. Homeland Security grants and the State Department of Transportation reimbursement for a road construction project were responsible for the increase in this category.
- General property taxes were \$134.6 million, an increase of \$15.3 million. The increase was primarily due to growth in the tax base from commercial construction.
- Other local taxes decreased by \$2.7 million. While most revenues in this category recorded modest increases, they were off-set by decreases in sales and use taxes (\$0.5 million) and recordation taxes (\$1.9 million). The decrease in sales tax was due to a State reporting adjustment and the decrease in recordation taxes reflects the slow down in property transfers.
- Grants and contributions not restricted to specific programs decreased by \$1.0 million from the prior year. Revenues in this category are derived from State sources. One component of this category is the State's portion of recordation fees. While the revenues in this category were either flat or posted small increases, the recordation fees, like their local component, reported a decrease.

- Expenses for governmental activities recorded a net decrease of \$20.7 million from the prior year. The appropriation to schools function accounts for a net \$36.5 million decrease. This function has two components – school operations and school capital projects. School operations increased \$6.4 million while school capital projects decreased \$42.9 million. The decrease in capital projects component was due to completion of major school facility construction and renovation projects.
- Most functions recorded increases, mostly related to salaries and benefits due to the implementation of a new employee compensation plan. The public safety function also recorded an increase (\$4.0 million) for non-recurring upgrades to the communications system. Other significant increases in expenses occurred in the parks, recreation and cultural function (\$2.2 million) for projects financed with 2002 general obligation bond proceeds. Interest expense for the 2006 debt issuances issues account for the \$4.0 million increase over the previous year.

The following graph illustrates the County's fiscal year 2007 expenses and program revenues by functional area comprising its governmental activities.



The following graph illustrates the County's fiscal year 2007 governmental revenues by source.



Business-type Activities

The increase in net assets attributable to the County's business-type activities totaled \$18.0 million for fiscal year 2007. Similar to the changes in net assets attributable to government activities, changes in business-type activity net assets also result from the difference between revenues and expenses. However, unlike governmental activities, which primarily rely on general tax revenues to finance operations, business-type activities are financed to a significant extent by fees charged for goods and services provided. The County's business-type activities consist of a Water and Sewer Fund. Like all business-type activities, the Water and Sewer Fund attempts to recover as much of the operating expenses it incurs to meet service demands through user charges. Nevertheless, operating revenues were less than operating expenses for fiscal year 2007, resulting in a net loss of \$4.6 million, primarily due to user fees failing to keep pace with operating costs. The net asset increase was primarily due to nonoperating availability fees of \$6.8 million and donated capital assets of \$9.7 million. The following is a summary of relevant financial results for fiscal year 2007:

- The Water and Sewer Fund implemented a rate increase of 9% in fiscal 2007 as identified by a recently completed rate study. The methodology of the rate study aligns the cost for provision of water and sewer services to the appropriate user fee (charges for services) and calculates the value of a connection to the system (availability fees) based on the cost of current and future infrastructure.
- Charges for services totaled \$20.5 million, which were \$ 1.6 million more than the prior fiscal year. This increase was primarily due to the user rate increase mentioned above, but also includes additional service to new customers.
- Availability fees totaled \$6.8 million which is a \$5.0 million decrease from the prior year. Availability fees are usually paid by the developer of a subdivision and then passed on to the new homeowner. The decrease is indicative of the continuing slowdown in residential construction.

- Donated capital assets totaled \$9.7 million, a \$2.7 million decrease from the prior year, again reflecting the slowdown in residential development.
- Expenses totaled \$25.7 million which were \$ 2.2 million higher than the prior year. The increase can be attributed to increases in personnel and benefits costs and materials and supplies. Depreciation expense also increased \$0.8 million over the previous year.

The following table compares current and prior year revenues and expenses of the County's governmental and business-type activities and the Component Unit – School Board.

Summary of Activities

(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit School Board	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenues:								
Program revenues:								
Charges for services	\$ 9.8	\$ 11.4	\$ 20.5	\$ 18.9	\$ 30.3	\$ 30.3	\$ 12.9	\$ 10.1
Operating grants and contributions	16.1	14.4	-	-	16.1	14.4	141.0	125.2
Capital grants and contributions	-	-	18.8	24.3	18.8	24.3	-	-
General Revenues:								
General property taxes	134.6	119.3	-	-	134.6	119.3	-	-
Other local taxes	37.8	40.4	-	-	37.8	40.4	-	-
Grants not restricted	13.1	14.1	-	-	13.1	14.1	111.0	153.7
Investment earnings	5.0	1.8	3.7	3.0	8.7	4.8	1.6	1.1
Miscellaneous	5.6	5.3	.7	0.2	6.3	5.5	1.2	.5
Extraordinary item	-	.3	-	-	-	.3	-	-
Total revenues	<u>222.0</u>	<u>207.0</u>	<u>43.7</u>	<u>46.4</u>	<u>265.7</u>	<u>253.4</u>	<u>267.7</u>	<u>290.6</u>
Expenses:								
General government	14.3	5.9	-	-	14.3	5.9	-	-
Judicial administration	6.2	5.5	-	-	6.3	5.5	-	-
Public safety	40.4	36.4	-	-	40.4	36.4	-	-
Public works	3.4	2.1	-	-	3.4	2.1	-	-
Health and social services	12.9	12.5	-	-	12.9	12.5	-	-
Parks, recreation and cultural	10.1	7.9	-	-	10.1	7.9	-	-
Community development	5.1	5.4	-	-	5.1	5.4	-	-
Appropriation to schools	117.2	153.7	-	-	117.2	153.7	254.9	238.9
Transportation	2.3	7.3	-	-	2.3	7.3	-	-
Interest	15.9	11.9	-	-	15.9	11.9	-	-
Water and sewer	-	-	25.7	23.5	25.7	23.5	-	-
Total expenses	<u>227.8</u>	<u>248.6</u>	<u>25.7</u>	<u>23.5</u>	<u>253.5</u>	<u>272.1</u>	<u>254.9</u>	<u>238.9</u>
Change in net assets	<u>(5.8)</u>	<u>(41.6)</u>	<u>18.0</u>	<u>22.9</u>	<u>12.2</u>	<u>(18.7)</u>	<u>12.8</u>	<u>51.7</u>
Net assets, (deficit) beginning	<u>(186.3)</u>	<u>(144.7)</u>	<u>241.9</u>	<u>219.0</u>	<u>55.6</u>	<u>74.3</u>	<u>373.8</u>	<u>321.9</u>
Net assets, (deficit) ending	<u>\$ (192.1)</u>	<u>\$ (186.3)</u>	<u>\$ 259.9</u>	<u>\$ 241.9</u>	<u>\$ 67.8</u>	<u>\$ 55.6</u>	<u>\$ 386.6</u>	<u>\$ 373.6</u>

Financial Analysis of the County's Funds

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

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

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$60.0 million, a decrease of \$25.5 million in comparison with the prior year. Of the \$60.0 million, \$19.3 million constitutes unreserved, undesignated fund balance, which is available for spending at the County's discretion. The County reserves portions of its fund balances for specific purposes, such as debt service covenants. Reserved amounts are not available for new spending. Designated portions of its fund balances are established to indicate tentative plans for use of financial resources. Designations include plans for future capital improvements and the intent to liquidate contracts and purchase orders (encumbrances) of the prior fiscal year.

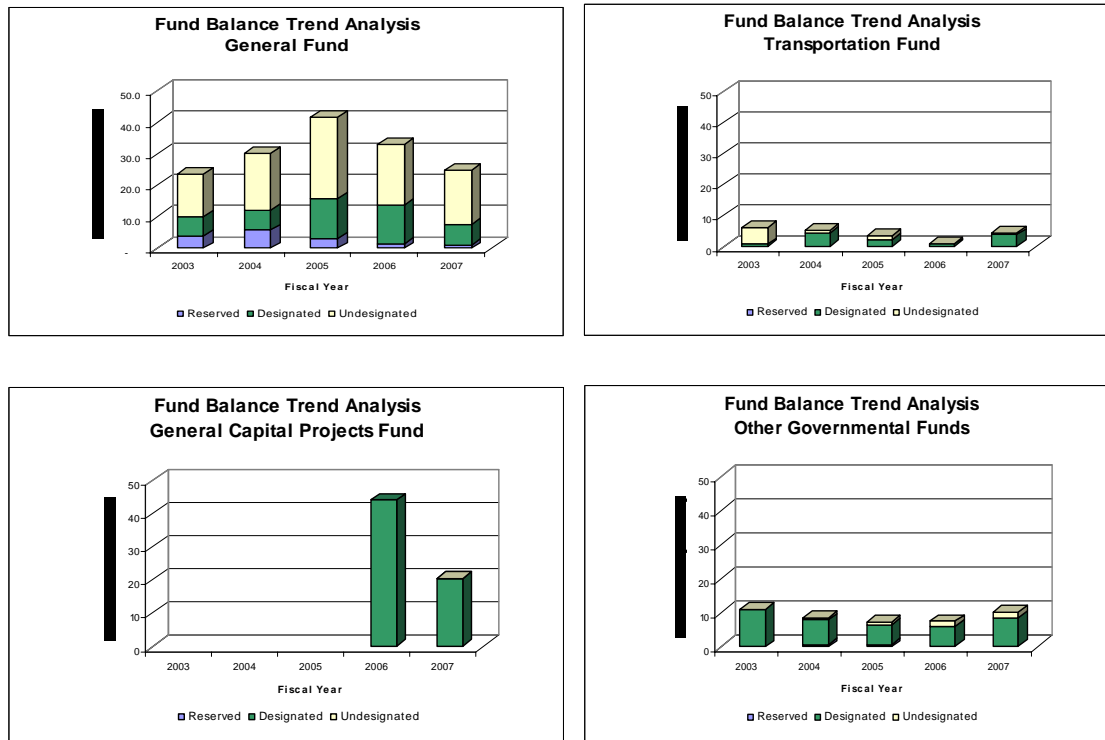
The General Fund is the primary operating fund of the County. The total fund balance of the County's General Fund decreased \$8.1 million during fiscal year 2007. This was due primarily to funding the implementation of a new employee compensation plan and funding the Component Unit – School Board outstanding 2007 encumbrances. The prior year undesignated fund balance fell below policy guidelines by 0.5%. At year end the General Fund undesignated fund balance was 8.1% of revenue. Management is committed to restoring it to the policy minimum of 10%. Monthly and quarterly analysis continues in order to restore it to the stated policy level.

In addition to the General Fund the County has two major governmental funds, the Transportation Fund and the General Capital projects Fund. Total fund balance for the Transportation Fund at year end was \$4.6 million, an increase of \$3.7 million over the prior year. This represents funds drawn down from the fiscal agent holding State fuels tax receipts for eligible County transportation projects. Of the \$4.6 million, \$0.2 million is designated for encumbrances and \$3.7 million is designated for transportation capital projects. The remained, \$0.7 million is undesignated.

Total fund balance for the General Capital Projects Fund at year end was \$20.6 million, a \$23.5 million decrease from prior year. The decrease is due to the spend-down of lease revenue bond proceeds for construction of a public safety administration building and two fire stations. The entire amount is designated with \$19.5 for encumbrances and \$1.1 million for anticipated project expenditures.

The County also has seven non-major governmental funds. In total, fund balance is \$10.1 million, a \$2.5 million increase over the prior year. Of the \$10.1 million, \$.3 is reserved, \$8.3 million is designated for encumbrances, capital improvements and community development projects, and \$1.4 million is undesignated.

The following graphs illustrate fund balance trends for the County's governmental funds for fiscal years 2003 through 2007.



Proprietary fund: The County's proprietary fund financial statements provide the same type of information presented in the business-type activities on the government-wide financial statements, but in more detail. The Water and Sewer Fund total net assets increased \$15.0 million during fiscal year 2007. The majority of this increase is attributed to the fund's investment in capital assets, net of depreciation and related debt, which resulted primarily from increased construction in progress (\$6.5 million) and net additions to distribution and collection systems (\$16.1 million). Restricted net assets remained stable at \$11.7 million and unrestricted net assets decreased by \$4.4 million. A summary of the Water and Sewer Fund operations for the year was previously provided in the discussion of business-type activities.

Component Unit – School Board: The change in net assets for the component unit School Board was \$12.8 million. This was due in large part to the increase in State and Federal grants (\$15.8 million). The transfer from the General Fund includes bond proceeds transferred to the school construction fund to offset facility construction expenditures. These expenditures decreased from the prior year resulting in a net decrease in the total transfer to the component unit.

General Fund Budgetary Highlights

Budget amendments resulted in an increase of \$17.5 million between the original budget and the final budget, with \$5.2 million of the increase resulting from reappropriation of prior fiscal year-end encumbered and unencumbered fund balance amounts for completion of ongoing projects in the current fiscal year. Significant reappropriations included:

- \$441,000 for facilities site improvements
- \$306,000 for phone system replacement
- \$204,000 for sheriff's department grant programs

- \$4.3 million for schools operations transfer to cover carry forward encumbrances

Other significant budget amendments from fund balance included:

- \$2.7 million for unexpended prior year schools operating funds appropriated for one-time capital acquisitions
- \$2.8 million in anticipation of lease revenue bond proceeds for park construction
- \$800,000 to increase the local transfer to schools operation
- \$691,000 for purchase of land for future County facilities
- \$685,000 for A&E services for a future County library
- \$664,000 for legal services

\$1.1 million in budget amendments were funded by various revenue sources. Significant sources included:

- \$985,000 in contributions from developers in the form of proffers
- \$144,000 in Homeland Security grants

General Fund revenues, excluding transfers, increased \$11.9 million over the prior year amount. General property taxes increased \$14.2 million due to the growth in commercial property. Other local taxes decreased by \$0.9 million due to the decline in sales tax revenue and property transfer recordation.

General Fund expenditures, excluding transfers, recorded a net increase of \$5.9 million over the prior year amount. Expenditures for the public safety function increased \$5.6 million due to an increase in personnel for law enforcement and career emergency services. Debt service expenditures increased \$6.8 million for the principal and interest payments associated with the prior year issuances. Decreases were recorded in capital outlay expenditures (\$4.6 million) and the appropriation to schools capital projects (\$7.3 million).

The following tables compare General Fund revenues and expenditures for fiscal year 2007 with the previous fiscal year.

General Fund Revenues	(in millions)		Increase (Decrease)
	<u>FY 2007</u>	<u>FY 2006</u>	
General property taxes	\$ 135.9	\$ 121.6	\$ 14.3
Other local taxes	28.8	31.6	(2.8)
Licenses and permits	6.3	7.2	(.9)
Use of money and property	2.3	1.4	.9
Charges for services	4.1	4.3	(.2)
Other	5.7	4.9	.8
Intergovernmental	<u>28.0</u>	<u>28.1</u>	<u>(.1)</u>
Total revenues	<u>\$ 211.1</u>	<u>\$ 199.1</u>	<u>\$ 12.0</u>

General Fund Expenditures	(in millions)		
	<u>FY 2007</u>	<u>FY 2006</u>	<u>Increase (Decrease)</u>
General government	\$ 13.8	\$ 11.7	\$ 2.1
Judicial administration	6.2	5.4	.8
Public safety	36.7	31.1	5.6
Public works	3.5	3.2	.3
Health and social services	13.0	12.5	.5
Parks, recreation and cultural	9.5	8.5	1.0
Community development	4.3	3.3	1.0
Education	94.5	96.0	(1.5)
Capital outlay	2.3	6.9	(4.6)
Debt service	<u>35.2</u>	<u>28.4</u>	<u>6.8</u>
Total expenditures	<u>\$ 219.0</u>	<u>\$ 198.2</u>	<u>\$ 20.8</u>

Capital Asset and Debt Administration

Capital assets: The County's investment in capital assets for its governmental and business-type activities as of June 30, 2007, totals \$306.4 million, net of accumulated depreciation. This represents an increase of \$46.1 million over the prior year. The investment in capital assets includes land, buildings, distribution and collection systems, equipment, vehicles, construction in progress and equity in joint venture – R-Board. Major capital asset events during the current fiscal year included the following:

- Governmental activities acquisition of land and buildings for future County facilities and parks.
- Governmental activities construction in progress for a radio communications system upgrade, public safety facilities and parks construction.
- Business-type activities acquisition of land for future construction of a reservoir.
- Business-type activities construction in progress for distribution and collection systems.
- Business-type activities acceptance of developer constructed distribution and collection systems.

The following table summarizes the changes in the County's governmental and business-type capital assets for fiscal year 2007. Additional information on the County's capital assets can be found in Note 4.

Primary Government Capital Assets (in millions)	Balance <u>June 30, 2006</u>	Net Additions/ Deletions	Balance <u>June 30, 2007</u>
Governmental Activities:			
Capital assets not being depreciated:			
Land	\$ 18.6	\$.9	\$ 19.5
Construction in progress	15.6	24.6	40.2
Investment in R-Board	6.1	.8	6.9
Capital assets being depreciated:			
Land improvements	11.3	-	11.3
Buildings and building improvements	30.0	1.2	31.2
Furniture, fixtures and equipment	9.4	1.0	10.4
Vehicles	9.6	.8	10.4
Accumulated depreciation	<u>(23.8)</u>	<u>(2.4)</u>	<u>(26.2)</u>
Total governmental capital assets	<u>\$ 76.8</u>	<u>\$ 26.9</u>	<u>\$ 103.7</u>

	Balance June 30, 2006	Net Additions/ Deletions	Balance June 30, 2007
Business-type Activities:			
Capital assets not being depreciated:			
Land	\$ 8.7	\$ 2.6	\$ 11.3
Construction in progress	30.9	6.6	37.5
Capital assets being depreciated:			
Land improvements	.4	-	.4
Buildings and building improvements	3.7	-	3.7
Distribution and collection systems	207.0	16.0	223.0
Furniture, fixtures and equipment	10.5	1.6	12.1
Vehicles	2.5	.5	3.0
Accumulated depreciation	(80.2)	(8.1)	(88.3)
Total business-type capital assets	<u>\$ 183.5</u>	<u>\$ 19.2</u>	<u>\$ 202.7</u>

Long-term debt: At the end of the current fiscal year, County governmental activities reported total bonded debt outstanding of \$326.9 million. Of this amount, \$272.7 million is debt backed by the full faith and credit of the County. The remainder of the County's debt is secured by specific revenue sources (i.e. revenue bonds, certificates of participation and obligations under capital leases). County governmental activities had a net increase in total debt of \$4.3 million during the fiscal year. This resulted from issuing \$19.9 million in general obligation bonds for School construction and renovation projects, \$3.5 million in capital leases for School vehicles and technology enhancements (the School Board has no taxing authority and therefore cannot incur general obligation debt), less principal payments.

The County's bond rating remains stable at:

- AA- Fitch Ratings
- Aa3 Moody's
- AA- Standard and Poors

The County is in compliance with all debt policy requirements as illustrated in Table S-12 in the Statistical Section of this report.

The County's business-type activities reported total bonded debt of \$18.7 million at the end of the current fiscal year. These bonds are secured by water and sewer revenues. The net decrease of \$3.3 million resulted from principal payments.

Additional information on the County's long-term debt can be found in Note 5 of this report. The following table compares summarized bonded debt for the primary government for the current year with the prior year.

	Governmental activities		Business-type activities		Total	
	FY 2007	FY 2006	FY 2007	FY 2006	FY 2007	FY 2006
Bonds Payable (in millions)						
General obligation bonds, net	\$ 279.9	\$ 273.5	\$ -	\$ -	\$ 279.9	\$ 273.5
Lease revenue bonds	47.0	47.0	-	-	47.0	47.0
Revenue bonds	-	-	18.7	21.9	18.7	21.9
Total bonds payable	<u>\$ 326.9</u>	<u>\$ 320.5</u>	<u>\$ 18.7</u>	<u>\$ 21.9</u>	<u>\$ 345.6</u>	<u>\$ 342.4</u>

Factors Influencing Future Budgets

Key factors that are expected to impact future budgets include:

- Projected increases in health insurance premiums.
- Funding for capital improvements.
- Implementation of the requirements of GASB Statement No. 45 – Postemployment Benefits Other than Pensions (OPEB).

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest therein. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, County of Stafford, P.O. Box 339, Stafford, VA 22555-0339.



Working To Be The Best Local Government In Virginia

Balance Empowerment Service Teamwork

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
June 30, 2007

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Totals	School Board	Widewater CDA
ASSETS					
Current assets:					
Cash, cash equivalents and temporary cash investments	\$ 65,013,076	\$ 68,869,160	\$ 133,882,236	\$ 13,682,785	\$ -
Receivables, net of allowance for uncollectibles	20,845,798	4,353,073	25,198,871	6,001,701	4,548
Accrued interest	120,700	383,070	503,770	-	-
Due from primary government	-	-	-	28,476,628	-
Internal balances	(418,536)	418,536	-	-	-
Inventory	17,492	428,311	445,803	597,566	-
Prepays	<u>777,373</u>	<u>-</u>	<u>777,373</u>	<u>-</u>	<u>-</u>
Total current assets	<u>86,355,903</u>	<u>74,452,150</u>	<u>160,808,053</u>	<u>48,758,680</u>	<u>4,548</u>
Noncurrent assets:					
Restricted cash and cash equivalents	34,653,076	11,695,567	46,348,643	20,901,471	1,701,297
Financing costs, net of accumulated amortization	1,072,213	159,861	1,232,074	-	-
Capital assets:					
Land	19,540,817	11,333,566	30,874,383	25,508,078	-
Construction in progress	40,235,243	37,445,904	77,681,147	28,777,075	-
Other non-depreciable assets	6,899,487	-	6,899,487	-	-
Land improvements	11,338,961	399,000	11,737,961	23,975,875	-
Buildings and building improvements	31,164,178	3,708,384	34,872,562	354,054,254	-
Distribution and collection systems	-	223,002,118	223,002,118	594,029	-
Furniture, fixtures and equipment	10,407,020	12,126,265	22,533,285	5,981,643	-
Vehicles	10,379,393	2,942,675	13,322,068	17,785,575	-
Less accumulated depreciation	<u>(26,250,016)</u>	<u>(88,294,702)</u>	<u>(114,544,718)</u>	<u>(93,252,536)</u>	<u>-</u>
Total noncurrent assets	<u>139,440,372</u>	<u>214,518,638</u>	<u>353,959,010</u>	<u>384,325,464</u>	<u>1,701,297</u>
Total assets	<u>\$ 225,796,275</u>	<u>\$ 288,970,788</u>	<u>\$ 514,767,063</u>	<u>\$ 433,084,144</u>	<u>\$ 1,705,845</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 9,128,876	\$ 1,278,147	\$ 10,407,023	\$ 5,802,013	\$ -
Retainage payable	1,238,331	354,502	1,592,833	3,331,956	-
Accrued salaries and benefits	1,617,825	301,161	1,918,986	25,863,555	-
Accrued insurance claims	754,552	-	754,552	186,612	-
Accrued interest	6,900,053	185,241	7,085,294	-	-
Arbitrage liability	319,571	-	319,571	-	-
Other accrued liabilities	1,312,743	52,600	1,365,343	3,443,000	-
Unearned revenue	1,942,212	39,891	1,982,103	14,857	4,471
Due to component unit	28,476,628	-	28,476,628	-	-
Deposits	11,389,215	7,006,760	18,395,975	-	1,275,228
Current portion of long-term debt	<u>21,170,601</u>	<u>3,728,021</u>	<u>24,898,622</u>	<u>628,746</u>	<u>-</u>
Total current liabilities	<u>84,250,607</u>	<u>12,946,323</u>	<u>97,196,930</u>	<u>39,270,739</u>	<u>1,279,699</u>
Noncurrent liabilities:					
Noncurrent portion of long-term debt	<u>333,661,878</u>	<u>16,066,539</u>	<u>349,728,417</u>	<u>7,180,855</u>	<u>-</u>
Total liabilities	<u>417,912,485</u>	<u>29,012,862</u>	<u>446,925,347</u>	<u>46,451,594</u>	<u>1,279,699</u>
NET ASSETS					
Invested in capital assets, net of related debt	32,895,897	183,788,210	216,684,107	360,219,807	-
Restricted:					
Debt service	1,118,262	4,893,067	6,011,329	-	426,146
Drug enforcement	261,147	-	261,147	-	-
Construction and maintenance	-	6,802,500	6,802,500	843	-
Grants	-	-	-	-	-
Unrestricted	<u>(226,391,509)</u>	<u>64,474,149</u>	<u>(161,917,360)</u>	<u>26,411,900</u>	<u>-</u>
Total net assets (deficit)	<u>(192,116,203)</u>	<u>259,957,926</u>	<u>67,841,723</u>	<u>386,632,550</u>	<u>426,146</u>
Total liabilities and net assets	<u>\$ 225,796,282</u>	<u>\$ 288,970,788</u>	<u>\$ 514,767,070</u>	<u>\$ 433,084,144</u>	<u>\$ 1,705,845</u>

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

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 14,320,059	\$ 184,244	\$ 604,780	\$ -
Judicial administration	6,259,936	728,369	1,914,556	-
Public safety	40,408,595	6,505,497	5,106,827	-
Public works	3,375,036	-	-	-
Health and social services	12,853,899	50,120	7,650,173	-
Parks, recreation and cultural	10,117,611	1,428,532	-	-
Community development	5,114,537	919,603	104,382	-
Appropriation to School Board:				
School operating	95,985,884	-	-	-
School capital projects	21,239,268	-	-	-
Transportation	2,293,299	-	716,564	-
Interest	15,903,856	-	-	-
Total governmental activities	<u>227,871,980</u>	<u>9,816,365</u>	<u>16,097,282</u>	<u>-</u>
Business-type activities:				
Water and Sewer	<u>25,694,334</u>	<u>20,457,137</u>	<u>65,702</u>	<u>18,775,970</u>
Total primary government	<u>\$ 253,566,314</u>	<u>\$ 30,273,502</u>	<u>\$ 16,162,984</u>	<u>\$ 18,775,970</u>
Component units:				
Stafford County School Board	<u>\$ 254,849,234</u>	<u>\$ 12,905,290</u>	<u>\$ 140,951,314</u>	<u>\$ -</u>
Total component units	<u>\$ 254,849,234</u>	<u>\$ 12,905,290</u>	<u>\$ 140,951,314</u>	<u>\$ -</u>

General revenues:

Taxes:

General property taxes

Other local taxes:

Sales

Fuels

Consumer utility

Motor vehicle decals

Bank stock

Recordation

Occupancy

Meals

Short-term rental

Cable franchise

Road impact fees

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues

Change in net assets

Net assets (deficit), beginning, as re-stated

Net assets (deficit), ending

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Totals	School Board	Widewater CDA
\$ (13,531,035)	\$ -	\$ (13,531,035)	\$ -	\$ -
(3,617,011)	-	(3,617,011)	-	-
(28,796,271)	-	(28,796,271)	-	-
(3,375,036)	-	(3,375,036)	-	-
(5,153,606)	-	(5,153,606)	-	-
(8,689,079)	-	(8,689,079)	-	-
(4,090,552)	-	(4,090,552)	-	-
(95,985,884)	-	(95,985,884)	-	-
(21,239,268)	-	(21,239,268)	-	-
(1,576,735)	-	(1,576,735)	-	-
(15,903,856)	-	(15,903,856)	-	-
(201,958,333)	-	(201,958,333)	-	-
-	13,604,475	13,604,475	-	-
(201,958,333)	13,604,475	(188,353,858)	-	-
-	-	-	(100,992,630)	-
-	-	-	(100,992,630)	-
134,602,576	-	134,602,576	-	3,775
9,776,827	-	9,776,827	-	-
3,917,268	-	3,917,268	-	-
9,273,550	-	9,273,550	-	-
2,038,837	-	2,038,837	-	-
206,658	-	206,658	-	-
4,542,781	-	4,542,781	-	-
1,085,420	-	1,085,420	-	-
4,944,214	-	4,944,214	-	-
47,081	-	47,081	-	-
1,513,850	-	1,513,850	-	-
414,265	-	414,265	-	-
13,133,856	-	13,133,856	110,969,860	-
5,014,146	3,735,172	8,749,318	1,635,750	-
5,622,502	697,882	6,320,384	1,151,800	-
196,133,831	4,433,054	200,566,885	113,757,410	3,775
(5,824,502)	18,037,529	12,213,027	12,764,780	3,775
(186,291,701)	241,920,397	55,628,696	373,867,770	422,371
\$ (192,116,203)	\$ 259,957,926	\$ 67,841,723	\$ 386,632,550	\$ 426,146

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General Fund	Special Revenue Transportation Fund	Capital Projects General Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in pooled cash and investments	\$ 58,839,576	\$ 1,184,393	\$ -	\$ 4,989,109	\$ 65,013,078
Restricted assets:					
Cash	1,006,061	-	468,358	-	1,474,419
Cash with fiscal agents	5,000	2,454,664	27,500,301	3,218,692	33,178,657
Receivables, net of allowance for uncollectibles:					
Property taxes	13,483,147	-	-	-	13,483,147
Accounts	2,315,665	-	-	373,733	2,689,398
Due from Primary government	-	-	-	3,112,407	3,112,407
Intergovernmental	3,628,219	973,288	-	71,746	4,673,253
Accrued interest	120,700	-	-	-	120,700
Due from other funds	426,224	-	-	-	426,224
Inventory	17,492	-	-	-	17,492
Prepaid expenditures	777,373	-	-	-	777,373
Total assets	<u>\$ 80,619,457</u>	<u>\$ 4,612,345</u>	<u>\$ 27,968,659</u>	<u>\$ 11,765,687</u>	<u>\$ 124,966,148</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 2,684,514	\$ 30,562	\$ 6,222,349	\$ 191,451	\$ 9,128,876
Retainage payable	41,584	-	1,106,231	90,516	1,238,331
Deposits	11,387,115	-	-	2,100	11,389,215
Accrued salaries and benefits	1,583,922	5,688	-	67,025	1,656,635
Other accrued liabilities	387,199	10,000	-	915,544	1,312,743
Due to other funds	3,530,942	-	-	426,224	3,957,166
Due to component unit	28,476,628	-	-	-	28,476,628
Unearned revenue	7,826,450	-	-	-	7,826,450
Total liabilities	<u>55,918,354</u>	<u>46,250</u>	<u>7,328,580</u>	<u>1,692,860</u>	<u>64,986,044</u>
Fund Balances:					
Reserved for:					
Debt service	1,118,262	-	-	-	1,118,262
Drug enforcement	-	-	-	261,148	261,148
Unreserved:					
Designated:					
Encumbrances:					
Special Revenue Funds:					
Transportation	-	213,908	-	-	213,908
Community Development	-	-	-	21,816	21,816
Capital Projects Funds	-	-	19,549,359	4,590,100	24,139,459
Capital improvements:					
Special Revenue Funds:					
Transportation	-	3,653,438	-	-	3,653,438
Community Development	-	-	-	2,625,467	2,625,467
Capital Projects Funds	-	-	1,090,720	1,125,427	2,216,147
Future expenditures:					
General Fund	6,407,832	-	-	-	6,407,832
Undesignated	17,175,009	-	-	-	17,175,009
Undesignated, Special Revenue Funds	-	698,749	-	1,448,869	2,147,618
Total fund balances	<u>24,701,103</u>	<u>4,566,095</u>	<u>20,640,079</u>	<u>10,072,827</u>	<u>59,980,104</u>
Total liabilities and fund balances	<u>\$ 80,619,457</u>	<u>\$ 4,612,345</u>	<u>\$ 27,968,659</u>	<u>\$ 11,765,687</u>	<u>\$ 124,966,148</u>

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

**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total fund balances- total governmental funds **\$ 59,980,104**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Governmental capital assets	\$ 123,065,612	
Other non-depreciable assets	6,899,487	
Less accumulated depreciation	<u>(26,250,016)</u>	
Net capital assets		103,715,083

Deferred revenue represents amounts that were not available to fund current expenditures and therefore is not reported as revenue in the governmental funds.

5,884,238

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

Financing costs	1,166,535	
Less accumulated amortization	<u>(94,322)</u>	
		1,072,213

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.

Revenue bonds	(47,030,000)	
General obligation bonds	(272,722,829)	
Literary loans	(6,922,229)	
Certificates of participation	(3,310,000)	
Capital leases	(12,401,196)	
Compensated absences	(5,297,463)	
Deferred amounts for bond premiums	(7,173,965)	
Deferred loss on refunding	64,017	
Arbitrage liability	(319,571)	
Accrued insurance claims	(754,552)	
Interest payable	<u>(6,900,053)</u>	
		<u>(362,767,841)</u>

Net Assets (Deficit) of Governmental Activities **\$ (192,116,203)**

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General Fund	Special Revenue Transportation Fund	Capital Projects General Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
General property taxes	\$ 135,859,852	\$ -	\$ -	\$ -	\$ 135,859,852
Other local taxes	28,778,674	3,917,268	-	2,794,531	35,490,473
Permits, privilege fees and regulatory licenses	6,277,427	-	-	-	6,277,427
Fines and forfeitures	905,693	-	-	-	905,693
Use of money and property	2,279,051	195,408	2,201,744	337,944	5,014,147
Charges for services	4,132,766	-	-	14,327	4,147,093
Miscellaneous	4,837,008	36,475	100	516,720	5,390,303
Intergovernmental	27,952,945	1,472,991	42,234	519,295	29,987,465
Total revenues	<u>211,023,416</u>	<u>5,622,142</u>	<u>2,244,078</u>	<u>4,182,817</u>	<u>223,072,453</u>
EXPENDITURES					
Current operating:					
General government	13,767,533	1,518,539	-	-	15,286,072
Judicial administration	6,158,871	-	-	8,769	6,167,640
Public safety	36,702,811	-	-	2,489,453	39,192,264
Public works	3,501,246	-	-	-	3,501,246
Health and social services	13,039,756	-	-	-	13,039,756
Parks, recreation and cultural	9,476,610	-	-	1,396,936	10,873,546
Community development	4,271,671	-	-	889,171	5,160,842
Appropriation to School Board:					
School operating	93,600,816	-	2,385,068	-	95,985,884
School capital projects	879,902	-	20,359,366	-	21,239,268
Capital outlay	2,273,233	813,788	23,591,934	-	26,678,955
Debt service:					
Principal	20,274,620	-	-	-	20,274,620
Interest and fiscal charges	14,945,078	-	-	-	14,945,078
Total expenditures	<u>218,892,147</u>	<u>2,332,327</u>	<u>46,336,368</u>	<u>4,784,329</u>	<u>272,345,171</u>
Deficiency of revenues under expenditures	<u>(7,868,731)</u>	<u>3,289,815</u>	<u>(44,092,290)</u>	<u>(601,512)</u>	<u>(49,272,718)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	4,124,646	445,687	825,000	3,134,551	8,529,884
Transfers out	(4,405,238)	(33,730)	(4,090,916)	-	(8,529,884)
Issuance of debt:					
Bonds	-	-	20,359,366	-	20,359,366
Capital leases	-	-	3,451,690	-	3,451,690
Total other financing sources (uses), net	<u>(280,592)</u>	<u>411,957</u>	<u>20,545,140</u>	<u>3,134,551</u>	<u>23,811,056</u>
Net change in fund balances	(8,149,323)	3,701,772	(23,547,150)	2,533,039	(25,461,662)
Fund balance, beginning	<u>32,850,426</u>	<u>864,323</u>	<u>44,187,229</u>	<u>7,539,788</u>	<u>85,441,766</u>
Fund balance, ending	<u>\$ 24,701,103</u>	<u>\$ 4,566,095</u>	<u>\$ 20,640,079</u>	<u>\$ 10,072,827</u>	<u>\$ 59,980,104</u>

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds **\$ (25,461,662)**

Reconciliation of amounts reported for governmental activities in the Statement of Activities:

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 expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Expenditures for capital assets	\$ 29,508,946	
Less depreciation expense	<u>(3,174,536)</u>	
Excess of capital outlay over depreciation		26,334,410

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

Loss on disposal of assets	(158,925)	
Change in R-Board equity investment	<u>704,855</u>	
		545,930

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unearned revenue		(1,257,275)
----------------------------	--	-------------

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal and issuance costs are expenditures in the governmental funds, but the repayment reduces long-term liabilities and the issue costs are capitalized in the Statement of Net Assets. This is the amount by which proceeds were more than repayments.

Debt issued or incurred:		
General obligation bonds	(19,930,000)	
Bond premium	(429,366)	
Capital lease financing	(3,451,690)	
Debt issuance costs	15,785	
Arbitrage	(256,658)	
Principal repayments:		
General obligation debt	15,446,361	
Commercial paper	2,715,000	
Capital leases	<u>2,111,341</u>	
		(3,779,227)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued interest	(1,278,457)	
Compensated absences	(1,089,098)	
Accrued insurance claims	(92,988)	
Amortization of premium, financing costs and deferred loss on refunding, net	<u>253,865</u>	
		<u>(2,206,678)</u>

Change in net assets of governmental activities		\$ <u>(5,824,502)</u>
--	--	------------------------------

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Business Type Activity - Enterprise Fund
	<u>Water and Sewer Fund</u>
ASSETS	
Current assets:	
Equity in pooled cash and investments	\$ 68,869,160
Receivables, net of allowance for uncollectibles	4,353,073
Accrued interest	383,070
Due from other funds	418,536
Inventory	<u>428,311</u>
Total current assets	<u>74,452,150</u>
Noncurrent assets:	
Restricted cash and cash equivalents	11,695,567
Financing costs, net of accumulated amortization	159,861
Capital assets:	
Land	11,333,566
Construction in progress	37,445,904
Land improvements	399,000
Buildings and building improvements	3,708,384
Distribution and collection systems	223,002,118
Furniture, fixtures and equipment	12,126,265
Vehicles	2,942,675
Less accumulated depreciation	<u>(88,294,702)</u>
Total capital assets (net of accumulated depreciation)	<u>202,663,210</u>
Total noncurrent assets	<u>214,518,638</u>
Total assets	<u>\$ 288,970,788</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 1,278,147
Retainage payable	354,502
Accrued salaries and benefits	301,161
Accrued interest	185,241
Other accrued liabilities	52,600
Unearned revenue	39,891
Deposits	7,006,760
Current portion of long-term debt	<u>3,728,021</u>
Total current liabilities	<u>12,946,323</u>
Noncurrent liabilities:	
Noncurrent portion of long-term debt	<u>16,066,539</u>
Total liabilities	<u>29,012,862</u>
NET ASSETS	
Invested in capital assets, net of related debt	183,788,210
Restricted:	
Debt service	4,893,067
Construction and maintenance	6,802,500
Unrestricted	<u>64,474,149</u>
Total net assets	<u>259,957,926</u>
Total liabilities and net assets	<u>\$ 288,970,788</u>

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	Business-Type Activity - Enterprise Fund
	<u>Water and Sewer Fund</u>
Operating revenues:	
Charges for services	\$ 20,457,137
Miscellaneous	697,882
Total operating revenues	<u>21,155,019</u>
Operating expenses:	
Personnel services	9,478,139
Contractual services	1,592,877
Materials and supplies	3,436,450
Heat, light and power	1,254,184
Telecommunication and internal services	1,396,669
Miscellaneous	340,791
Depreciation and amortization	<u>8,239,184</u>
Total operating expenses	<u>25,738,294</u>
Operating loss	<u>(4,583,275)</u>
Nonoperating revenues (expenses):	
Interest and investment revenue	3,735,172
Interest expense	35,365
Gain on disposal of capital assets	<u>8,595</u>
Total nonoperating revenues, net	<u>3,779,132</u>
Loss before contributions	<u>(804,143)</u>
Capital contributions:	
Donated capital assets	9,726,024
State reimbursement for capital project	65,702
Availability fees	6,818,909
Prorata fees	<u>2,231,037</u>
Total capital contributions	<u>18,841,672</u>
Change in net assets	18,037,529
Total net assets, beginning	<u>241,920,397</u>
Total net assets, ending	<u><u>\$ 259,957,926</u></u>

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	Business-Type Activity - Enterprise Fund Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 19,649,593
Other receipts, net	354,552
Payments to suppliers	(7,063,797)
Payments to employees	(9,285,786)
Net cash provided by operating activities	<u>3,654,562</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(17,592,597)
Principal paid on revenue bond maturities	(3,167,007)
Interest paid on revenue bonds	12,241
Proceeds from sale of capital assets	8,595
State reimbursement	65,702
Availability fees and prorata fees	9,049,946
Net cash used in capital and related financing activities	<u>(11,623,120)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends on investments	<u>3,689,971</u>
Net increase in cash and cash equivalents	(4,278,587)
Cash and cash equivalents, beginning	<u>84,843,314</u>
Cash and cash equivalents, ending	<u>\$ 80,564,727</u>
Equity in pooled cash and investments	\$ 68,869,160
Restricted cash and cash equivalents	<u>11,695,567</u>
Total cash and cash equivalents	<u>\$ 80,564,727</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (4,583,275)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization expense	8,239,184
Change in assets and liabilities:	
Increase in accounts receivable	(807,544)
Decrease in inventory	29,992
Increase in accounts payable and accrued liabilities	<u>776,205</u>
Total adjustments	<u>8,237,837</u>
Net cash provided by operating activities	<u>\$ 3,654,562</u>

Supplemental disclosure of noncash capital and related financing activities:
The Water and Sewer Fund received donated assets in 2007 valued at \$9,726,024.
Cash payments for interest include capitalized interest of \$1,127,211.

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Agency Funds</u>
ASSETS	
Current assets:	
Cash and short-term investments	\$ 1,332,126
Receivables:	
Property taxes	196,347
Accounts	<u>167,096</u>
Total current assets	<u>1,695,569</u>
Noncurrent assets:	
Cash with fiscal agent	<u>389,009</u>
Total assets	<u>\$ 2,084,578</u>
LIABILITIES	
Accrued salaries and benefits	\$ 35,879
Deferred revenue	2,942
Reserve for future expenditures	131,217
Reserve for bondholders	<u>1,914,540</u>
Total liabilities	<u>\$ 2,084,578</u>

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



Working To Be The Best Local Government In Virginia

Balance Empowerment Service Teamwork

NOTES TO FINANCIAL STATEMENTS

COUNTY OF STAFFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

The County of Stafford is located in northeastern Virginia, approximately 40 miles south of Washington, DC, and 55 miles north of Richmond, Virginia. It was founded in 1664 and was named for Staffordshire, England. It encompasses 277 square miles and has a population of 123,200.

The government of the County provides a full range of local government services including public safety, public works, public education, health and social services, parks and recreation, and community development. The County operates under the board of supervisors/administrator form of government.

The financial statements of the County of Stafford (County) conform to accounting principles generally accepted in the United States of America applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the County's more significant accounting policies:

A. THE FINANCIAL REPORTING ENTITY

GASB has established requirements and a reporting model for the annual financial reports of state and local governments. The reporting model was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions. The reporting model includes:

Management's Discussion and Analysis – The financial statements are accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

Government-wide financial statements – The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities, except for fiduciary funds. This approach includes current assets and liabilities (such as cash and accounts payable) and capital assets and long-term liabilities (such as buildings and general obligation debt). Full accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Assets – The Statement of Net Assets displays the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments report all capital assets and their related debt in the government-wide Statement of Net Assets. The net assets of a government are broken down into three categories – (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted.

Statement of Activities – The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each governmental function. The expense of individual functions is compared to the revenues generated directly by that function, thereby demonstrating the degree to which direct expenses are offset by program revenues.

Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Fund Financial Statements – The fund financial statements report detailed information about the County's operations. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting by fund type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Comparison Schedules – Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have an interest in following the actual financial progress of their governments over the course of the year. The County revises its original budget over the course of the year for a variety of reasons.

As required by accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered financially accountable. The discretely presented component units are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County. Each discretely presented component unit has a June 30 fiscal year-end.

Discretely Presented Component Units:

Discretely presented component units are entities that are legally separate from the primary government, and for which the government is financially accountable, or whose relationship with the government is such that exclusion would cause the government's financial statements to be misleading or incomplete. The component units are presented in separate columns in the government-wide financial statements to emphasize that they are legally separate from the primary government. The County has two component units.

County of Stafford School Board

The County of Stafford School Board (School Board) operates the public education system in the County for grades kindergarten through twelve. The County is accountable for all significant fiscal matters - approving the School Board's budget, funding deficits and issuing bonds to finance capital facilities. Also, the School Board provides services, which primarily benefit the citizens of the County. The School Board has separately issued financial statements which may be obtained as follows:

Stafford County School Board
Attention: Wayne C. Carruthers, CPA
Assistant Superintendent for Finance
31 Stafford Avenue
Stafford, Virginia 22554

Widewater Community Development Authority

The Widewater Community Development Authority (Authority), an independent entity, was created for the purpose of financing the construction of the Widewater Parkway and related road improvements on the Widewater Peninsula of Stafford County. The five members of the Authority's Board of Directors are appointed by the County's Board of Supervisors. By statute, the Authority has the power to issue tax-exempt revenue bonds to provide funding for these transportation improvements. Revenues of the Authority are generated by a special tax levied by the Board of Supervisors in a Special Tax District on the Widewater Peninsula. This District was created to provide funds for payment of the debt service on the bonds to be issued by the Authority. Additional Authority revenue that may be available to pay debt service is provided by pro rata fees assessed as a result of rezoning of new subdivisions in the Widewater Transportation District, also created by the Board of Supervisors. The County acts as fiscal agent for the Authority and collects both the special tax and pro rata assessment fees on behalf of the Authority, which are then transferred to the Authority. The County also provides staff support for the Authority. The County does not, however, approve the issuance of bonds. The Authority does not issue financial statements. Audited financial information about the Authority is presented within this Comprehensive Annual Financial Report.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the County as a whole) and fund financial statements. The focus is on either the County as a whole (within the government-wide statements) or on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The County generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The County may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities is reported using the economic resources measurement focus and accrual basis of accounting which reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues. The County does not allocate indirect expenses. The operating grants column includes operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the County's Water and Sewer Fund and various other functions of the County. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements emphasize the major funds in either the governmental or business-type categories. Non-major funds are summarized into a single column. Each fund is considered to be an independent fiscal accounting entity, with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The governmental fund statements are presented on a current financial resources and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

The County's fiduciary funds are presented in the fund financial statements by type (agency). Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities of the government, these funds are not incorporated into the government-wide statements.

The following is a brief description of the specific funds used by the County in fiscal year 2007.

(1) Governmental Funds

The focus of governmental funds (in the Fund Financial Statements) is on determination of financial position and changes in financial position. The County has the following governmental funds:

- a. General Fund** is the primary operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is a major governmental fund.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The County's Special Revenue Funds consist of the following:

1. **Transportation Fund** – accounts for the receipt and disbursement of the regional two percent motor fuels tax and developer contributions to be used for a variety of County transportation projects. The Transportation Fund is a major governmental fund.
2. **Road Impact Fee - West Fund** – accounts for impact fee receipts from new development in a designated service area in the western portion of the County. Disbursements from this fund are for road improvements attributable to the new development.
3. **Road Impact Fee - South East Fund** – accounts for impact fee receipts from new development in a designated service area in the southeastern portion of the County. Disbursements from this fund are for road improvements attributable to the new development.
4. **E-911 Fund** – accounts for the receipt of E-911 service taxes. Disbursements from this fund are for the operation, maintenance, repair and upgrade of the County's E-911 dispatch system.
5. **Asset Forfeiture Fund** – accounts for the receipts and disbursements associated with the County's drug enforcement activities.
6. **Tourism Fund** – accounts for the receipts of a local five percent transient lodging tax used to fund the promotion of tourist venues in the County.

c. Capital Projects Funds are used to account for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by Proprietary Funds).

1. **General Capital Projects Fund** – accounts for capital expenditures for land, new structures and the major repair, renovation and maintenance of existing structures. The General Capital Projects Fund is a major governmental fund.
2. **Parks and Recreation Bond Fund** – accounts for revenues and capital expenditures associated with the construction of County parks.
3. **Lake Arrowhead Sanitary District Fund** – accounts for the cost of street improvements in the Lake Arrowhead Sanitary District.

(2) Proprietary Funds

Proprietary Funds are used to account for activities that are similar to those found in the private sector. All assets, liabilities, equities, revenues, and expenses related to the government's business activities are accounted for through proprietary funds. The measurement focus of proprietary funds is on determination of net income, financial position and cash flows. The following is the County's Proprietary Fund type:

a. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the County is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The Water and Sewer Fund is the only Enterprise Fund. The Water and Sewer Fund is a major enterprise fund.

(3) Fiduciary Funds

Fiduciary Funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds. The agency funds are purely

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The following are the County's Fiduciary Fund types:

- a. Lake Arrowhead Sanitary District Fund** (Agency Fund) - accounts for a special assessment collection used to service a bond issue for road improvements in the District.
- b. Celebrate Virginia North Fund** (Agency Fund) – accounts for a special assessment collection used to service bonded debt for infrastructure improvements in the assessment district.
- c. George Washington Regional Commission** (Agency Fund) – accounts for the assets, liabilities, revenues and expenditures associated with a contractual arrangement to process the agency's payroll.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. Generally, only current assets and current liabilities are included on the balance sheet for this measurement focus. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of these funds present increases (e.g., revenues and other financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets for this measurement focus.

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the Statement of Net Assets. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in total net assets.

The Statement of Net Assets, Statement of Activities, and financial statements of the Proprietary and Fiduciary Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

Governmental funds utilize the modified accrual basis of accounting under which revenues and related assets are recorded when measurable and available to finance operations during the year. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes due before June 30, but not collected within 45 days after fiscal year end are reflected as deferred revenue. Sales taxes collected and held by the State at year-end on behalf of the County are recognized as revenue. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 75 days after year-end. Certain other intergovernmental revenues and sales and services, other than utility customer receivables, are not susceptible to accrual. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied. Licenses, permits, fines and rents are recorded as revenue when received. General purpose entitlement revenues are recognized in the period to which the entitlement applies.

The County recognizes assets of nonexchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Nonexchange transactions occur when one government provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return.

Expenditures of governmental funds are recorded when the related fund liabilities are incurred. Principal and interest on long-term debt are recognized when due.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise fund and the component unit's internal service funds are charges to internal customers for sales and services. Operating expenses for the

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

aforementioned enterprise fund and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. BUDGETS AND BUDGETARY ACCOUNTING

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

1. 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.
2. Public hearings are conducted by the Board of Supervisors to obtain taxpayer and citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution. Budgets are legally adopted for the following governmental funds:

Primary Government

General Fund
Transportation Fund
E-911 Fund
Asset Forfeiture Fund
Tourism Fund

Component Unit – School Board

School Operating Fund
School Nutrition Fund
School Health Benefits Fund
School Capital Projects Fund

4. The budget for the proprietary fund serves as a guide to the County and not as legally binding limitations.
5. The County Administrator is authorized to transfer budgeted amounts among departments within any fund; however, any revisions that alter the total expenditures of any fund or exceed \$20,000 between departments must be approved by the Board of Supervisors.
6. 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.
7. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
8. The budget is integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare actual revenue and expenditures with budgeted amounts as originally adopted, and as amended by the Board of Supervisors through June 30, 2006. Individual amendments were not material in relation to the original appropriations.
9. By law, total expenditures by fund may not, and did not, exceed appropriations in fiscal year 2006.
10. All appropriations lapse at year-end.

E. DEPOSITS AND INVESTMENTS

Cash resources of the individual funds, excluding cash held with fiscal agents in the General Fund, Special Revenue Fund, Capital Projects Fund, Proprietary Fund, and Fiduciary Fund, are combined 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 and are recorded at fair value. Income from pooled investments is allocated only when contractually or legally required. Investment earnings are allocated to the various funds based on equity in the investment pool.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fair value of investments is based on quoted market prices; no investments are valued at cost. All investments in external investment pools are reported at fair value.

F. INVENTORIES AND PREPAID ITEMS

Primary Government:

The General Fund inventory is stated at cost (first-in, first-out), which is not in excess of market value. It consists primarily of small dollar office supplies held for consumption.

The Water and Sewer Fund inventory is stated at cost (first-in, first-out), which is not in excess of market value. It consists primarily of operating materials held for consumption.

Component Units:

The School Nutrition Fund carries its inventory on a cost basis (first-in, first-out), which is not in excess of market value. The inventory consists of food service supplies and perishable and non-perishable food products.

The Fleet Services Fund carries its inventory on a cost basis (first-in, first-out), which is not in excess of market value. It consists of parts, materials and supplies for repairs and maintenance of school and County vehicles.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements using the consumption method.

G. RESTRICTED ASSETS – CASH AND INVESTMENTS

Restricted cash in the General Fund represents a reserve account held by the County's health insurance administrator and a debt service reserve account required to be set aside from proceeds of the Certificates of Participation.

Restricted cash in the Transportation Fund represents funds collected from a two percent motor fuel sales tax for Stafford County and held by the Potomac and Rappahannock Transportation Commission as fiscal agent for the County. The funds are used for transportation projects.

Restricted cash in the General Capital Projects Fund represents the unspent proceeds from lease revenue bonds issued in June 2006.

Restricted cash in the Parks and Recreation Bond Fund represents the unspent proceeds from the 2002 \$11 million Parks and Recreation Bond issue. The proceeds are used for various park construction and improvement projects.

Restricted cash and investments in the Water and Sewer Fund represent assets set aside to meet debt sinking fund requirements, project construction payments pursuant to bond covenants and customer advance payments.

Restricted cash in the Lake Arrowhead Sanitary District Agency Fund is the amount accumulated from the Sanitary District special assessment to pay debt service on debt issued for road improvements.

For the Component Unit – Stafford County Public Schools, cash amounts in the Health Benefits Fund are restricted for health-related benefits for employees. Restricted cash in the Food and Nutrition Services Fund are reserved as a result of a restricted cash donation in prior years. Capital Projects Fund restricted cash represents the proceeds from school bonds held by the Virginia State Non-Arbitrage Program (SNAP). The School Construction, Renovation and Maintenance Fund has restricted cash that must be used for school capital projects.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. CAPITAL ASSETS

Capital outlays are recorded as expenditures of the primary government for governmental type funds and as assets in the government-wide financial statements to the extent the County's capitalization threshold of \$5,000 is met. Infrastructure within the County (roads, streets, bridges, etc.) is owned and maintained by the Commonwealth of Virginia (Department of Transportation), and is therefore not recorded in the County's financial statements. Depreciation is recorded on capital assets on a government-wide basis using the straight-line method and the following estimated useful lives:

	<u>Primary Government</u> <u>Governmental Funds</u>	<u>Component Unit – School Board</u> <u>Governmental Funds</u>
Land improvements	20 years	20 years
Buildings and building improvements	25 – 50 years	15 -50 years
Furniture, fixtures and equipment	5 – 10 years	5 – 15 years
Vehicles	5 years	8 – 14 years

To the extent the County's capitalization threshold of \$5,000 is met, capital outlays of the Proprietary Fund are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the fund basis and the government-wide basis for the following useful lives:

	<u>Primary Government</u> <u>Water and Sewer</u> <u>Fund</u>	<u>Component Unit – School Board</u> <u>Fleet Services</u> <u>Fund</u>
Land improvements	20 years	20 years
Buildings and building improvements	20 – 100 years	15 – 50 years
Distribution and collection systems	20 – 80 years	-
Furniture, fixtures and equipment	5 – 10 years	5 – 15 years
Vehicles	5 years	6 – 14 years

All 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 donated. 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, if applicable, are eliminated from the respective accounts and any resulting gain or loss is recorded in the results of operations.

I. REAL ESTATE AND PERSONAL PROPERTY DATA

The tax calendars for real and personal property taxes are summarized below.

	<u>Real Property</u>	<u>Personal Property</u>
Levy	January 1	January 1
Due Date	June 5 / December 5 (50% each date)	June 5 / December 5 (50% each date)
Lien Date	June 6 / December 6	June 6 / December 6

J. COMPENSATED ABSENCES

County employees accumulate vacation time and sick leave depending upon their length of service. The County has established accumulated leave balance thresholds for vacation and compensatory leave. There is no threshold on accumulated sick leave. Vacation leave up to the established threshold and a portion of sick leave time is payable

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

upon termination of employment. Compensatory time earned by County employees up to the established threshold is also payable upon termination of employment. The current and long-term portions of the governmental funds' accumulated vacation, sick leave, and compensatory time for the primary government 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 fund financial statements.

K. LONG-TERM OBLIGATIONS

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Assets. Bond premiums, discounts and deferred losses, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium, discount and deferred loss. Bond issuance costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. NET ASSET DEFICIT

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

In the Statement of Net Assets, this scenario presents a dilemma for the primary government. Debt issued on behalf of the School Board is reported with the County debt as a liability of the primary government, thereby reducing the net assets of the primary government. The corresponding capital assets are reported as assets of the Component Unit – School Board (title holder), thereby increasing their net assets.

The Virginia General Assembly amended the *Code of Virginia* to allow a tenancy in common with the School Board whenever the locality incurs a financial obligation which is payable over more than one fiscal year for 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 assets, the continual computation process that would be required to allocate principal, interest, asset amount and depreciation between the County and School Board would be cumbersome and not provide any added benefit to the financial statements. Therefore, the Board of Supervisors adopted a resolution declining tenancy in common for current and future financial obligations.

M. RESERVED AND DESIGNATED FUND BALANCES

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for a specific purpose. Designations of portions of the fund balance are established to indicate tentative plans for financial resource utilization in a future period.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reservations of Fund Balance

Debt Service – legally segregated for satisfying debt service requirements.

Drug Enforcement – asset forfeiture funds legally restricted for the purchase of drug enforcement supplies and equipment.

Designations of Fund Balance

Encumbrances – designated for goods and services ordered before the end of the fiscal year, for which delivery had not been made prior to the close of the fiscal year.

Capital Improvements – designated for capital projects that the Board of Supervisors has already approved.

Future Expenditures – amount budgeted from fund balance for one-time capital expenditures in succeeding fiscal years.

N. CASH FLOWS

In accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, the County has presented a statement of cash flows for the Water and Sewer Fund. The cash amounts used in this statement of cash flows is the equivalent of all demand deposits as well as short-term investments. For purposes of this statement, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and investments with original maturities of 90 days or less.

O. PROPRIETARY FUND ACCOUNTING

The County has chosen to adopt for all governmental and business-type activities and enterprise funds all applicable GASB pronouncements, as well as all Financial Accounting Standards Board statements and interpretations (issued prior to November 30, 1989) except for those that conflict with or contradict GASB pronouncements. Business-type activities also apply FASB pronouncements issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

P. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2. DEPOSITS AND INVESTMENTS

DEPOSITS: All cash of the County, School Board, Widewater Community Development Authority and Celebrate Virginia North Community Development Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance.

INVESTMENTS: Statutes authorize local governments and other public bodies to invest in obligations of the United States or its 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, the State Treasurer’s Local Government Investment Pool (LGIP) and the Commonwealth of Virginia State Non-Arbitrage Program (SNAP).

Note 2. DEPOSITS AND INVESTMENTS (Continued)

The Treasurer has invested proceeds of the Water and Sewer System Refunding Bonds-Series 2002, Parks and Recreation Bonds-Series 2002, Public Safety-Series 2006 and all of the proceeds of the School Board VPSA bonds in the SNAP Fund (the Fund) to ensure compliance with certain arbitrage requirements of the *Internal Revenue Code* of 1986, as amended. The Fund is a professionally managed money market fund which provides Virginia issuers of tax-exempt borrowings investment management, accounting and arbitrage rebate calculation services. The Fund invests in qualifying obligations and securities as permitted by Virginia statutes. The fair value of the position in the SNAP external investment pool is the same as the value of the pool's shares, \$1 per share.

The Treasurer also has investments in the LGIP. The LGIP is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Section 2.2-4605 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The fair value of the position of the LGIP is the same as the value of the pool shares, i.e., the LGIP maintains a stable net asset value of \$1 per share.

Custodial Credit Risk: The County's investments at June 30, 2007 were held by the County or in the County's name by the County's custodial banks.

Credit Risk of Debt Securities: Standard & Poor's rated The County's debt investments as of June 30, 2007 and the ratings are presented below using the Standard & Poor's rating scale.

At year-end the Primary Government's investment balances were as follows:

<u>Investments</u> <u>Value</u>	<u>AAA</u>	<u>AA1</u>	<u>AA2</u>	<u>AA3</u>	<u>A1</u>	<u>A2</u>	<u>Unrated</u>
U. S. Agencies	\$ - \$12,277,646	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,461,275
Commercial Paper	-	-	-	-	1,121,316	-	-
Corporate Notes and Bonds	- 9,904,303	3,063,046	888,459	2,085,091	1,931,183	384,484	85,304
Money Market	- 20,405,238	-	-	-	-	-	-
LGIP	87,615,570	-	-	-	-	-	-
SNAP	30,523,941	-	-	-	-	-	-

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following; Moody's Investors Service, Standard & Poor's or Fitch Investor's Service. Corporate notes, negotiable Certificates of Deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investor Service.

Note 2. DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. If certain investments in any one issuer represents 5% of total investments, there must be a disclosure for the amount and the issuer. At June 30, 2007, the County had no investments with any one issuer that was greater than 5% of the total investments.

Interest Rate Risk: Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. Due to market conditions, the County's investment policy is to "buy and hold". This strategy, which involves holding all investments until maturity, guards against market fluctuations. By holding until maturity and not selling "short" the County is guaranteed the face value of the investment.

<u>Investment Type</u>	<u>Investment Maturities</u>		
	<u><90 days</u>	<u>91-365 days</u>	<u>365+ days</u>
Certificates of Deposit	\$ 3,337,548	\$ 1,752,732	\$ -
Corporate Obligations	800,189	5,079,046	11,256,015
Commercial Paper	1,121,972	-	-

At year-end, the Widewater Community Development Authority's investment balances were as follows:

	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
Investments Not Subject to Categorization:		
State Treasurer's Local Government		
Investment Pool (LGIP)	<u>\$ 1,701,297</u>	AAAm

At year-end, the Component Unit - Stafford County Public Schools debt investments were rated by Standard and Poor's and/or an equivalent national rating organization as follows:

	<u>AAAm</u>	<u>AAA</u>	<u>A1</u>
Commercial Paper	\$ -	\$ -	\$ 431,627
Money Market	-	843	-
LGIP	4,420,073	-	-
SNAP	20,039,693	-	-

Note 3. RECEIVABLES

Receivables at June 30, 2007 consist of the following:

Primary Government

	General Fund	Transportation Fund	Nonmajor Governmental Funds	Water and Sewer Fund	Totals
Property taxes	\$ 18,262,908	\$ -	\$ -	\$ -	\$ 18,262,908
Accounts	2,315,665	-	373,733	4,596,639	7,286,037
Intergovernmental	<u>3,628,219</u>	<u>973,288</u>	<u>71,746</u>	<u>-</u>	<u>4,673,253</u>
Gross Receivables	24,206,792	973,288	445,479	4,596,639	30,222,198
Less:					
Allowance for uncollectible accounts	<u>(4,779,761)</u>	<u>-</u>	<u>-</u>	<u>(243,566)</u>	<u>(5,023,327)</u>
Net Receivables	<u>\$ 19,427,031</u>	<u>\$ 973,288</u>	<u>\$ 445,479</u>	<u>\$ 4,353,073</u>	<u>\$ 25,198,871</u>

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue reported in the General Fund were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable	\$ 5,935,370	\$ -
Advance collection of 2007-2008 taxes	-	140,464
Ground lease	-	1,748,572
Other	<u>-</u>	<u>2,044</u>
	<u>\$ 5,935,370</u>	<u>\$ 1,891,080</u>

Component Unit – Stafford County Public Schools

	Operating Fund	Food and Nutrition Services Fund	Fleet Services Fund	Totals
Accounts receivable	\$ 328,386	\$ 22,958	\$ 147,536	\$ 498,880
Intergovernmental	5,378,634	124,187	-	5,502,821
Due from Primary Government	<u>28,476,628</u>	<u>-</u>	<u>-</u>	<u>28,476,628</u>
Net Receivables	<u>\$ 34,183,648</u>	<u>\$ 147,145</u>	<u>\$ 147,536</u>	<u>\$34,478,329</u>

Stafford County Public Schools' receivables are considered fully collectible and therefore an allowance for uncollectible accounts is not applicable to these receivables.

Note 4. CAPITAL ASSETS

The following is a summary of changes in capital assets for the Primary Government's governmental activities for the fiscal year ended June 30, 2007:

PRIMARY GOVERNMENT Governmental Activities

	Balance June 30, 2006	Increases	Reclassifications/ Decreases	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 18,618,988	\$ 1,065,092	\$ (143,263)	\$ 19,540,817
Construction in progress	15,578,170	24,870,785	(213,712)	40,235,243
Joint venture – R-Board	<u>6,194,632</u>	<u>704,855</u>	<u>-</u>	<u>6,899,487</u>
Total capital assets not being depreciated	<u>40,391,790</u>	<u>26,640,732</u>	<u>(356,975)</u>	<u>66,675,547</u>
Capital assets being depreciated:				
Land improvements	11,290,804	48,157	-	11,338,961
Buildings and building improvements	29,972,049	978,417	213,712	31,164,178
Furniture, fixtures and equipment	9,416,598	990,4232	-	10,407,020
Vehicles	<u>9,585,172</u>	<u>1,556,071</u>	<u>(761,852)</u>	<u>10,379,393</u>
Total capital assets being depreciated	<u>60,264,623</u>	<u>3,573,067</u>	<u>(548,140)</u>	<u>63,289,550</u>
Less accumulated depreciation for:				
Land improvements	(4,451,715)	(508,586)	25,650	(4,934,651)
Buildings and building improvements	(7,487,957)	(645,033)	-	(8,132,990)
Furniture, fixtures and equipment	(6,188,143)	(946,142)	-	(7,134,285)
Vehicles	<u>(5,704,030)</u>	<u>(1,074,775)</u>	<u>730,715</u>	<u>(6,048,090)</u>
Total accumulated depreciation	<u>(23,831,845)</u>	<u>(3,174,536)</u>	<u>756,365</u>	<u>(26,250,016)</u>
Total capital assets being depreciated, net	<u>36,432,778</u>	<u>398,533</u>	<u>208,225</u>	<u>37,039,536</u>
Total capital assets, governmental activities	<u>\$ 76,824,568</u>	<u>\$ 27,039,263</u>	<u>\$ (148,750)</u>	<u>\$ 103,715,081</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 391,125
Judicial administration	36,843
Public safety	1,379,026
Public works	685,379
Health and social services	9,120
Parks, recreation and cultural	627,035
Community development	<u>46,008</u>
Total	<u>\$ 3,174,536</u>

Note 4. CAPITAL ASSETS (Continued)

The following is a summary of changes in capital assets for Primary Government's business-type activities for the fiscal year ended June 30, 2007:

PRIMARY GOVERNMENT Business-type Activities Water and Sewer Fund

	Balance June 30, 2006	Increases	Reclassifications/ Decreases	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 8,683,105	\$ 2,650,461	\$ -	\$ 11,333,566
Construction in progress	<u>30,944,410</u>	<u>13,974,021</u>	<u>(7,472,527)</u>	<u>37,445,904</u>
Total capital assets not being depreciated	<u>39,627,515</u>	<u>16,624,482</u>	<u>(7,472,527)</u>	<u>48,779,470</u>
Capital assets being depreciated:				
Land improvements	399,000	-	-	399,000
Buildings and building improvements	3,708,384	-	-	3,708,384
Distribution and collection systems	206,981,261	9,826,918	6,193,939	223,002,118
Furniture, fixtures and equipment	10,510,673	346,165	1,269,427	12,126,265
Vehicles	<u>2,498,411</u>	<u>530,218</u>	<u>(85,954)</u>	<u>2,942,675</u>
Total capital assets being depreciated	<u>224,097,729</u>	<u>10,703,301</u>	<u>7,377,412</u>	<u>242,178,442</u>
Less accumulated depreciation for:				
Land improvements	(196,964)	(15,568)	-	(212,532)
Buildings and building improvements	(1,124,132)	(104,968)	-	(1,229,100)
Distribution and collection systems	(71,964,199)	(6,839,283)	-	(78,803,482)
Furniture, fixtures and equipment	(5,129,034)	(963,753)	-	(6,092,787)
Vehicles	<u>(1,791,409)</u>	<u>(251,346)</u>	<u>85,954</u>	<u>(1,956,801)</u>
Total accumulated depreciation	<u>(80,205,738)</u>	<u>(8,174,918)</u>	<u>85,954</u>	<u>(88,294,702)</u>
Total capital assets being depreciated, net	<u>143,891,991</u>	<u>2,528,383</u>	<u>7,463,366</u>	<u>153,883,739</u>
Total capital assets, business-type activities	<u>\$ 183,519,506</u>	<u>\$ 19,152,865</u>	<u>\$ (9,161)</u>	<u>\$ 202,663,210</u>

Note 4. CAPITAL ASSETS (Continued)

The following is a summary of changes in capital assets for Stafford County Public Schools' governmental activities for the fiscal year ended June 30, 2007:

COMPONENT UNIT – Stafford County Public Schools
Governmental Activities

	Balance June 30, 2006	Increases	Reclassifications/ Decreases	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 13,285,808	\$ 12,184,913	\$ -	\$ 25,470,721
Construction in progress	<u>55,641,880</u>	<u>31,178,676</u>	<u>58,112,513</u>	<u>28,708,043</u>
Total capital assets not being depreciated	68,927,688	43,363,589	58,112,513	54,178,764
Capital assets being depreciated:				
Land improvements	16,270,611	6,911,477	149,184	23,032,904
Buildings and building improvements	303,088,702	50,067,543	-	353,156,245
Furniture, fixtures and equipment	5,553,098	439,677	84,246	5,908,529
Vehicles	16,244,307	2,039,706	518,346	17,765,667
Distribution and collection systems	<u>396,936</u>	<u>197,092</u>	<u>-</u>	<u>594,028</u>
Total capital assets being depreciated	<u>341,553,654</u>	<u>59,655,495</u>	<u>751,776</u>	<u>400,457,373</u>
Less accumulated depreciation for:				
Land improvements	(1,667,031)	(1,007,604)	42,454	(2,632,181)
Buildings and building improvements	(69,467,930)	(7,514,494)	-	(76,982,424)
Furniture, fixtures and equipment	(2,512,719)	(615,285)	84,246	(3,043,758)
Vehicles	(9,167,964)	(1,043,786)	494,857	(9,716,893)
Distribution and collection systems	<u>(197,719)</u>	<u>(27,924)</u>	<u>-</u>	<u>(225,643)</u>
Total accumulated depreciation	<u>(83,013,363)</u>	<u>(10,209,093)</u>	<u>621,557</u>	<u>(92,600,899)</u>
Total capital assets being depreciated, net	<u>258,540,291</u>	<u>49,446,402</u>	<u>130,219</u>	<u>307,856,474</u>
Total capital assets, governmental activities	<u>\$ 327,467,979</u>	<u>\$ 92,809,991</u>	<u>\$ 58,242,732</u>	<u>\$ 362,035,238</u>

Depreciation expense was charged to governmental functions as follows:

Operating Fund:	
Total School Operating Fund	\$ 10,194,230
Food and Nutrition Services Fund:	
Other operations	<u>14,863</u>
Total	<u>\$ 10,209,093</u>

Note 4. CAPITAL ASSETS (Continued)

The following is a summary of changes in capital assets for Stafford County Public Schools' proprietary fund for the fiscal year ended June 30, 2007:

**COMPONENT UNIT – Stafford County Public Schools
Business-type Activities
Proprietary Fund – Fleet Services**

Proprietary Fund - Fleet Services	Balance June 30, 2006	Increases	Reclassifications/ Decreases	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 37,357	\$ -	\$ -	\$37,357
Construction in progress	-	69,031	-	69,031
Total capital assets not being depreciated	<u>37,357</u>	<u>69,031</u>	<u>-</u>	<u>106,388</u>
Capital assets being depreciated:				
Land improvements	21,932	921,039	-	942,971
Buildings and building improvements	898,009	-	-	898,009
Furniture, fixtures and equipment	67,176	5,937	-	73,113
Vehicles	-	19,910	-	19,910
Total capital assets being depreciated	<u>987,117</u>	<u>946,886</u>	<u>-</u>	<u>1,934,003</u>
Less accumulated depreciation for:				
Land improvements	(11,696)	(24,488)	-	(36,184)
Buildings and building improvements	(561,862)	(25,429)	-	(587,291)
Furniture, fixtures and equipment	(21,919)	(4,999)	-	(26,918)
Vehicles	-	(1,244)	-	(1,244)
Total accumulated depreciation	<u>(595,477)</u>	<u>(56,160)</u>	<u>-</u>	<u>(651,637)</u>
Total capital assets being depreciated, net	<u>391,640</u>	<u>890,726</u>	<u>-</u>	<u>1,282,366</u>
Total capital assets, business-type activities	<u>\$ 428,997</u>	<u>\$ 959,757</u>	<u>\$ -</u>	<u>\$ 1,388,754</u>

Note 5. LONG-TERM DEBT

A. PRIMARY GOVERNMENT – GOVERNMENTAL ACTIVITIES

The following is a summary of long-term liability activity of the primary government for the year ended June 30, 2007:

	<u>Amounts Payable at June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Amounts Payable at June 30, 2007</u>	<u>Amounts Due within One Year</u>
Bonds Payable:					
General obligation bonds	\$ 266,483,041	\$ 19,930,000	\$ (13,690,212)	\$ 272,722,829	\$14,721,566
Lease revenue Bonds	47,030,000	-	-	47,030,000	-
Plus deferred amounts for bond premiums	<u>7,050,411</u>	<u>429,366</u>	<u>(305,812)</u>	<u>7,173,965</u>	<u>-</u>
Bonds payable including deferred amounts for bond premiums	320,563,452	20,359,366	(13,996,024)	326,926,794	14,721,566
Less deferred loss on refunding	<u>(72,277)</u>	<u>8,260</u>	<u>-</u>	<u>(64,017)</u>	<u>-</u>
Total bonds payable	<u>320,491,175</u>	<u>20,367,626</u>	<u>(13,996,024)</u>	<u>326,862,777</u>	<u>14,721,566</u>
Commercial paper	2,715,000	-	(2,715,000)	-	-
Literary loans	7,678,378	-	(756,149)	6,922,229	756,149
Certificates of participation	4,310,000	-	(1,000,000)	3,310,000	1,050,000
Capital leases	11,060,846	3,451,690	(2,111,341)	12,401,195	2,367,967
**Compensated absences	<u>4,247,180</u>	<u>3,823,757</u>	<u>(2,734,659)</u>	<u>5,336,278</u>	<u>2,274,919</u>
Governmental activities long- term liabilities	<u>\$ 350,502,579</u>	<u>\$ 27,643,073</u>	<u>\$ (23,313,173)</u>	<u>\$ 354,832,479</u>	<u>\$ 21,170,601</u>

** The following governmental funds, wherein associated payroll expenditures are recorded, are used to liquidate their portion of the liability for compensated absences: General Fund, Transportation Fund, and E-911 Fund.

Annual requirements to amortize long-term debt and related interest, exclusive of premiums and deferred losses are as follows:

<u>Year Ending June 30,</u>	<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 14,721,566	\$ 13,267,845	\$ -	\$ 2,314,625
2009	14,942,457	12,633,944	815,000	2,298,325
2010	14,681,866	11,843,568	850,000	2,265,025
2011	14,382,306	11,077,401	885,000	2,230,325
2012	13,864,536	10,344,137	920,000	2,194,225
2013-2017	64,871,950	41,360,904	5,175,000	10,377,625
2018-2022	55,046,293	25,592,369	6,375,000	9,123,175
2023-2027	43,251,855	13,904,484	8,120,000	7,325,375
2028-2032	36,055,000	3,653,928	10,420,000	4,959,413
2033-2037	<u>905,000</u>	<u>20,249-</u>	<u>13,470,000</u>	<u>1,841,175</u>
Total	<u>\$ 272,722,829</u>	<u>\$ 143,688,829</u>	<u>\$ 47,030,000</u>	<u>\$ 44,929,288</u>

Note 5. LONG-TERM DEBT (Continued)

Year Ending June 30,	<u>Literary Loans</u>		<u>Certificates of Participation</u>	
	Principal	Interest	Principal	Interest
2008	\$ 756,149	\$ 207,667	1,050,000	139,250
2009	756,149	184,982	1,105,000	85,375
2010	656,149	162,298	1,155,000	28,875
2011	581,149	142,613	-	-
2012	511,149	126,529	-	-
2013-2017	2,330,745	409,379	-	-
2018-2022	<u>1,330,739</u>	<u>104,766</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,922,229</u>	<u>\$ 1,338,234</u>	<u>\$ 3,310,000</u>	<u>\$ 253,500</u>

Year Ending June 30,	<u>Capital Leases</u>	
	Principal	Interest
2008	\$ 2,367,967	\$ 513,062
2009	2,462,541	414,152
2010	2,486,335	311,561
2011	2,142,899	207,383
2012	1,263,276	126,778
2013-2017	<u>1,678,179</u>	<u>128,804</u>
Total	<u>\$ 12,401,197</u>	<u>\$1,701,740</u>

General Obligation Bonds

**Outstanding
Balance
June 30, 2007**

\$11,000,000 Parks and Recreation bonds issued April 1, 2002, maturing annually in installments of \$550,000 through January 1, 2022; interest at 3.00% to 5.00%, payable semi-annually, including net premium of \$27,769	\$ 8,277,769
\$4,122,053 Refunding bonds issued April 1, 2002, maturing annually in varying installments of \$185,000 - \$432,000 through January 1, 2015; interest at 3.00% to 4.75%, payable semi-annually, net of premium and deferred loss on refunding of \$(56,462)	<u>2,118,538</u>
Total General Obligation Bonds	<u>\$ 10,396,307</u>

Virginia Public School Authority General Obligation Bonds

\$2,875,000 issued August 30, 1990, maturing annually in varying installments of \$150,000 - \$190,000 through July 15, 2010; interest at 6.47% to 7.10%, payable semiannually.....	\$ 720,000
\$3,990,000 issued May 23, 1991, maturing annually in varying installments of \$185,000 - \$210,000 through December 15, 2010; interest at 6.35%, payable semiannually.....	835,000
\$3,790,997 issued July 31, 1991, maturing annually in varying installments of \$196,729 - \$245,547 through July 15, 2011; interest at 6.60%, payable semiannually	1,148,670
\$1,001,932 issued November 12, 1992, maturing annually in varying installments of \$49,812 - \$61,880 through July 15, 2012; interest at 5.70% to 6.35%, payable semiannually	344,202

Note 5. LONG-TERM DEBT (Continued)**Outstanding
Balance
June 30, 2007**

\$8,350,000 issued December 17, 1992, maturing annually in varying installments of \$255,000 - \$445,000 through December 15, 2012; interest at 5.70% to 5.85%, payable semiannually	\$ 1,990,000
\$5,375,000 issued April 29, 1993, maturing annually in varying installments of \$175,000 - \$255,000 through December 15, 2012; interest at 5.30% to 5.50%, payable semiannually	1,340,000
\$6,260,000 issued November 18, 1993, maturing annually in varying installments of \$30,000 - \$325,000 through December 15, 2013; interest at 4.70% to 5.00%, payable semiannually	895,000
\$30,905,000 issued January 3, 1994, maturing annually in varying installments of \$350,000 - \$1,975,000 through December 15, 2011; interest at 6.38% to 7.15%, payable semiannually	4,560,000
\$7,880,000 issued May 5, 1994, maturing semi-annually in varying installments of \$400,000 - \$405,000 through July 15, 2013; interest at 6.10% to 6.30%, payable semiannually	2,835,000
\$2,794,068 issued November 22, 1994, maturing annually in varying installments of \$134,520 - \$178,092 through July 15, 2014; interest at 6.10% to 6.60%, payable semiannually	1,276,193
\$4,615,000 issued November 22, 1994, maturing annually in installments of \$230,000 through July 15, 2014; interest at 6.10% to 6.60%, payable semiannually	1,840,000
\$650,000 issued May 18, 1995, maturing annually in varying installments of \$30,000 - \$35,000 through July 15, 2015, interest at 5.40% to 5.98%, payable semiannually	270,000
\$2,805,000 issued December 21, 1995, maturing annually in installments of \$140,000 through July 2015; interest at 5.10% to 6.10%, payable semiannually	1,260,000
\$2,096,324 issued December 21, 1995, maturing annually in varying installments of \$100,695 - \$123,720 through July 2015; interest at 5.10% to 6.10%, payable semiannually	1,033,309
\$6,370,000 issued May 2, 1996, maturing annually in installments of \$320,000 through July 2016; interest at 5.30% to 6.10%, payable semiannually	3,200,000
\$6,585,000 issued November 14, 1996, maturing annually in varying installments of \$325,000 - \$330,000 through July 2016; interest at 5.10% to 6.10%, payable semiannually	3,285,000
\$5,280,000 issued May 30, 1997, maturing annually in varying installments of \$230,000 - \$295,000 through July 2017; interest at 5.35% to 6.10%, payable semiannually	2,635,000
\$8,450,000 issued November 20, 1997, maturing annually in varying installments of \$420,000 - \$425,000 through January 15, 2018; interest varying from 4.60% to 5.35%, payable semiannually	4,625,000

Note 5. LONG-TERM DEBT (Continued)**Outstanding
Balance
June 30, 2007**

\$11,560,000 issued April 30, 1998, maturing annually in varying installments of \$575,000 - \$580,000 through July 15, 2018; interest varying from 4.35% to 5.30%, payable semiannually.....	\$ 6,920,000
\$4,345,729 issued November 19, 1998, maturing annually in varying installments of \$206,382 - \$247,440 through July 15, 2018; interest at 4.35% to 5.10%, payable semiannually	2,713,811
\$9,845,000 issued November 19, 1998, maturing annually in varying installments of \$490,000 - \$495,000 through July 15, 2018; interest at 4.35% to 5.10%, payable semiannually	5,885,000
\$18,000,000 issued May 13, 1999, maturing annually in installments of \$900,000 through July 15, 2019; interest at 4.10% to 5.23%, payable semiannually	11,700,000
\$9,805,170 issued November 18, 1999, maturing annually in varying installments of \$461,285 - \$554,360 through July 15, 2019; interest varying from 5.10% to 6.10%, payable semiannually	6,595,215
\$9,240,000 issued May 18, 2000, maturing annually in varying installments of \$460,000 - \$465,000 through July 15, 2020; interest at 5.10% to 5.60%, payable semiannually	6,450,000
\$4,260,000 issued November 16, 2000, maturing annually in varying installments of \$210,000 - \$215,000 through July 15, 2020; interest varying from 4.98% to 5.85%, payable semiannually	2,970,000
\$10,135,000 issued May 17, 2001, maturing annually in varying installments of \$505,000 - \$510,000 through July 15, 2021; interest varying from 4.85% to 5.60%, payable semiannually.....	7,585,000
\$9,257,513 issued November 15, 2001, maturing annually in varying installments of \$439,585 - \$506,160 through July 15, 2021; interest varying from 3.10% to 5.35%, payable semiannually, including net premium of \$128,456	7,188,333
\$2,685,000 issued May 16, 2002, maturing annually in varying installments of \$130,000 - \$135,000 through July 15, 2022; interest varying from 5.10% to 5.60%, payable semiannually, including net premium of \$83,735	2,228,735
\$1,815,000 issued November 7, 2002, maturing annually in varying installments of \$90,000 - \$95,000 through July 15, 2022; interest varying from 4.10% to 5.10%, payable semiannually, including net premium of \$55,647	1,495,647
\$6,905,000 issued May 15, 2003, maturing annually in varying installments of \$345,000 - \$350,000 through July 15, 2023; interest varying from 3.10% to 5.35%, payable semiannually, including net premium of \$403,229	6,268,229
\$54,070,000 issued November 1, 2003, maturing annually in varying installments of \$1,100,000 - \$3,710,000 through July 15, 2028; interest varying from 3.10% to 5.35%, payable semiannually, including net premium of \$1,650,672	52,250,672

Note 5. LONG-TERM DEBT (Continued)**Outstanding
Balance
June 30, 2007**

\$5,494,768 issued November 1, 2003, maturing annually in varying installments of \$235,058 - \$321,672 through July 15, 2023; interest varying from 3.10% to 5.35%, payable semiannually, including net premium of \$287,879	\$ 5,059,431
\$8,470,000 issued May 13, 2004, maturing annually in varying installments of \$175,000 – \$590,000 through July 15, 2029; interest varying from 4.85% to 5.10%, payable semiannually, including net premium of \$293,446	8,408,446
\$9,700,000 issued November 10, 2004, maturing annually in varying installments of \$195,000 - \$645,000 through July 15, 2029; interest varying from 4.1% to 5.6%, payable semi-annually, including net premium of \$349,898	9,649,898
\$17,895,000 issued May 12, 2005, maturing annually in varying installments of \$375,000 to \$1,195,000 through July 15, 2030, interest varying from 4.1% to 5.1%, payable semi-annually, including net premium of \$626,002	18,146,002
\$9,810,000 issued November 10, 2005, maturing annually in varying installments of \$205,000 to 655,000 through July 15, 2030, interest varying from 4.35% to 5.1%, payable semi-annually, including net premium of \$268,751	9,873,751
\$41,035,000 issued May 12, 2006, maturing annually in varying installments of \$855,000 to 2,740,000 through July 15, 2031, interest varying from 4.10% to 5.1%, payable semi-annually, including net premium of \$637,796	41,672,795
\$6,310,000 November 9, 2006, maturing annually in varying installments of \$135,000 to \$415,000 through July 15, 2032 interest varying from 4.225% to 5.1%, payable semi-annually, including net premium of \$66,086	6,376,086
\$13,620,000 issued May 10, 2007, maturing annually in varying installments of \$275,000 to 1,590,000 through July 15, 2032, interest varying from 4.1% to 5.1%, payable semi-annually, including net premium of \$359,527	<u>13,979,527</u>
Total Virginia Public School Authority General Obligation Bonds	<u>267,508,952</u>

Lease Revenue Bonds

\$47,030,000 issued June 27, 2006, maturing annually in varying installments of \$815,000 to \$2,985,000 through August 1, 2036, interest varying from 4.00% to 5.25%, payable semi-annually, including premium of \$1,927,518	<u>48,957,518</u>
Total Bonds Payable	<u>\$ 326,862,777</u>

Note 5. LONG-TERM DEBT (Continued)**State Literary Fund Loans**

These loans bear interest at 3.00%, payable semiannually, the proceeds of which were used for school construction.

**Outstanding
Balance
June 30, 2007**

\$2,000,000 issued August 15, 1988, due in annual installments of \$100,000 through August 15, 2008	\$ 200,000
\$1,500,000 issued July 15, 1990, due in annual installments of \$75,000 through July 15, 2010.....	225,000
\$1,400,000 issued November 1, 1990, due in annual installments of \$70,000 through November 1, 2011	280,000
\$900,000 issued May 15, 1992, due in annual installments of \$45,000 through May 15, 2012	225,000
\$5,000,000 issued November 1, 1997 due in annual installments of \$250,000 through November 1, 2017	2,750,000
\$4,322,974 issued August 15, 2001, due in annual installments of \$216,149 through August 15, 2021	<u>3,242,229</u>
Total State Literary Fund Loans	<u>\$ 6,922,229</u>

Capital Leases

\$478,000 issued February 23, 1999, maturing annually in varying installments of \$20,973 to \$44,973 through June 30, 2014; interest at 5.4%, payable semi-annually.....	\$ 271,701
\$530,000 issued January 1, 2001, maturing annually in installments of \$53,000 through December 1, 2011; interest at 4.45%, payable semi-annually	265,000
\$582,000 issued June 14,, 2001, maturing semi-annually in varying installments of \$19,790 to \$40,4813 through June 14, 2011; interest at 6.27%; payable semi-annually	188,046
\$554,000 issued February 28, 2002, maturing quarterly in varying installments of \$8,450 to \$19,250 through March 1, 2012; interest at 5.77% payable quarterly	160,554
\$346,107 issued April 30, 2004, maturing semi-annually in varying installments of \$32,560 to \$36,736 through April 30, 2009; interest at 2.7%, payable semi-annually	144,034
\$842,500 issued April 30, 2004, maturing semi-annually in varying installments of \$54,223 to \$66,520 through April 30, 2009; interest at 3.14%, payable semi-annually	503,996
\$89,960 issued July 30, 2004, maturing semi-annually in varying installments of \$5,763 to \$7,133 through July 30, 2011; interest at 3.31%, payable semi-annually	60,175
\$1,012,740 issued March 15, 2005, maturing semi-annually in varying installments of \$42,115 to \$60,175; through March 15, 2015, interest at 3.79%, payable semi-annually	557,864
\$2,006,870 issued October 7, 2005, maturing semi-annually in varying installments of \$128,430 to 159,287 through October 30, 2012; interest at 3.34%, payable semi-annually	1,615,108

Note 5. LONG-TERM DEBT (Continued)

	Outstanding Balance <u>June 30, 2007</u>
\$1,848,231 issued October 7, 2005, maturing semi-annually in varying installments of \$171,830 to \$198,381 through October 30, 2010; interest at 3.22%, payable semi-annually	\$ 1,324,400
\$2,073,705 issued May 19, 2006, maturing semi-annually in varying installments of \$189,415 to \$226,298 through October 30, 2011; interest at 3.99%, payable semi-annually	1,691,095
\$203,121 issued May 19, 2006, maturing semi-annually in varying installments of \$17,625 to \$23,228 through June 1, 2011; interest at 6.23%, payable semi-annually	167,322
\$203,121 issued May 19, 2006, maturing semi-annually in varying installments of \$18,553 to \$22,166 June 1, 2011; interest at 6.22%, payable semi-annually	165,644
\$2,099,163 issued May 19, 2006, maturing semi-annually in varying installments of \$130,955 to \$170,531 through June 1, 2013; interest at 4.10%, payable semi-annually	1,834,565
\$533,800 issued June 28, 2007, maturing semi-annually in varying installments of \$30,496 to 46,836, interest at 6.711%, payable semi-annually	533,800
\$600,525 issued June 28, 2007, maturing semi-annually in varying installments of \$34,308 to \$52,691, interest at 6.711%, payable semi-annually	600,525
\$586,560 issued June 28, 2007, maturing semi-annually in varying installments of \$33,510 to \$51,465, interest at 6.711%, payable semi-annually	586,560
\$664,183 issued June 28, 2007, maturing semi-annually in varying installments of \$104,857 to \$116,707, interest at 4.329%, payable semi-annually	664,183
\$247,345 issued June 28, 2007, maturing semi-annually in varying installments of \$9,950 to \$15,126, interest at 4.458%, payable semi-annually	247,345
\$118,217 issued June 28, 2007, maturing semi-annually in varying installments of \$10,733 to \$12,974, interest at 4.259%, payable semi-annually	118,217
\$273,936 issued June 28, 2007, maturing semi-annually in varying installments of \$11,020 to \$16,752, interest at 4.458%, payable semi-annually	273,936
\$427,124 issued June 28, 2007, maturing semi-annually in varying installments of \$38,777 to \$46,875, interest at 4.259%, payable semi-annually	<u>427,125</u>
Total Capital Leases	<u>\$ 12,401,195</u>

Note 5. LONG-TERM DEBT (Continued)

The County has entered into lease agreements as lessee for financing the acquisition of buildings, software systems and vehicles. These lease agreements qualify as capital leases for accounting purposes and therefore have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Land	\$ 89,386
Building	388,614
Software systems	5,223,601
Vehicles	10,886,458
Less: Accumulated depreciation	<u>(4,366,232)</u>
Total	<u>\$ 12,221,827</u>

In June, 2006, the County was a participant in the Virginia Municipal League/Virginia Association of Counties (VML/VACO) Finance Program. In this transaction, the Industrial Development Authority of the County of Stafford and the City of Staunton sold bonds totaling \$59,490,000. The County's share of this transaction was \$47,030,000 in Lease Revenue bonds for the purpose of constructing a new Public Safety Building and two (2) Fire Stations. The bonds sold at a premium, yielding an additional \$1,993,987 for construction purposes. Prior to the bond sale, the County acquired interim financing in the form of Commercial Paper from VML/VACO in the amount of \$2,715,000. This interim financing was repaid with proceeds from the bond sale on July 6, 2006.

Under a trust agreement dated November 15, 1989, the County issued \$13,000,000 in Certificates of Participation. These Certificates were issued to finance the acquisition, construction, renovation and equipping of an administration building and certain courthouse facilities which were leased to the County by the Industrial Development Authority of the County, under a Lease Purchase Agreement. A portion of these Certificates was refunded February 1, 1994 with \$9,995,000 in Refunding Certificates of Participation. These Certificates mature in variable annual installments of \$955,000 to \$1,155,000 through November 1, 2009 with interest at 4.5% to 5.00%, payable annually. Outstanding balance at June 30, 2007 is \$3,310,000.

The County is acting as an agent for the Lake Arrowhead property owners in collecting the assessments, forwarding the collections to the bondholders and initiating foreclosure proceedings, if necessary. Should the property owners default on their obligation to repay the \$650,000 remaining special assessment debt, the County has guaranteed to pay this debt.

The County has moral obligation pledges as follows:

- \$750,000 Virginia Resources Authority loan secured by the Stafford Regional Airport to fund various site improvements;
- \$2,500,000 over the next 20 years to the Rappahannock Area YMCA for the new North Stafford branch YMCA.

Note 5. LONG-TERM DEBT (Continued)

B. PRIMARY GOVERNMENT – BUSINESS-TYPE ACTIVITIES

	Amounts Payable at June 30, 2006	Increases	Decreases	Amounts Payable at June 30, 2007	Amounts Due within One Year
Bonds Payable:					
Revenue bonds	\$ 22,060,000	\$ -	\$ (3,185,000)	\$ 18,875,000	\$ 3,285,000
Plus deferred amounts for bond premiums	<u>664,093</u>	<u>-</u>	<u>(121,929)</u>	<u>542,164</u>	<u>-</u>
Bonds payable including deferred amounts for bond premiums/ (discounts)	22,724,093	-	(3,306,929)	19,417,164	3,285,000
Less deferred loss on refunding	<u>(860,989)</u>	<u>151,939</u>	<u>-</u>	<u>(709,050)</u>	<u>-</u>
Total bonds payable	21,863,104	151,939	(3,306,929)	18,708,114	3,285,000
Compensated absences	<u>941,085</u>	<u>713,436</u>	<u>(568,075)</u>	<u>1,086,446</u>	<u>443,021</u>
Business-type activities long- term liabilities	<u>\$ 22,804,189</u>	<u>\$ 865,375</u>	<u>\$ (3,875,004)</u>	<u>\$ 19,794,560</u>	<u>\$ 3,728,021</u>

Annual requirements to amortize long-term debt, exclusive of unamortized premiums and deferred losses, and related interest are as follows:

Year Ending June 30,	Revenue Bonds	
	Principal	Interest
2008	\$ 3,285,000	\$ 747,220
2009	3,350,000	544,823
2010	3,435,000	533,268
2011	2,920,000	411,580
2012	3,205,000	277,500
2013-2016	<u>2,680,000</u>	<u>268,000</u>
Total	<u>\$ 18,875,000</u>	<u>\$ 2,782,390</u>

Revenue Bonds	<u>Outstanding Balance June 30, 2007</u>
\$13,420,000 Water and Sewer Revenue Bond, issued March 7, 1996, maturing in annual installments of \$670,000 through July 1, 2015; interest at 4.2% to 5.0%, payable semiannually, net of discount of \$58,150	\$ 5,971,850
\$22,915,000 Revenue Refunding Bond, issued April 9, 2003 maturing in variable annual installments of \$2,415,000 - \$2,765,000 through June 30, 2012; interest at 2.75% to 5.00%, payable semiannually, net of premium and deferred loss on refunding of \$108,735	<u>12,736,265</u>
Total Bonds Payable	<u>\$ 18,708,114</u>

Note 5. LONG-TERM DEBT (Continued)

C. COMPONENT UNIT – Stafford County Public Schools

The following is a summary of long-term liability activity of the Component unit- SCPS for the year ended June 30, 2007:

	Amounts Payable at June 30, 2006	Increases	Decreases	Amounts Payable at June 30, 2007	Amounts Due within One Year
Governmental Activities					
Taxable refunding bonds	\$ 682,456	\$ -	\$ 682,456	\$ -	\$ -
Capital Lease	-	3,204,186	-	3,204,186	263,030
**Compensated absences	3,584,834	827,568	-	4,412,402	359,758
SCPS long-term liabilities	<u>\$ 4,267,290</u>	<u>\$ 4,031,754</u>	<u>\$ 682,456</u>	<u>\$ 7,616,588</u>	<u>\$ 622,788</u>

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

	Amounts Payable at June 30, 2006	Increases	Decreases	Amounts Payable at June 30, 2007	Amounts Due within One Year
Business-Type Activities					
Compensated absences	\$ 110,756	\$ 10,108	\$ -	\$ 120,864	\$ 5,958

Note 6. 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 employees of the County must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers, firefighters and sheriffs) or at age 50 with 30 years of service for participating employers (age 50 with 25 years of service for participating law enforcement officers, firefighters and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. 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 that report may be downloaded from their website at <http://www.varetire.org/pdf/2006annurept.pdf> or obtained by writing to the System 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% of their annual reported compensation to the VRS. The County has assumed this 5% member contribution. In addition, the County 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 County's

NOTE 6. BENEFIT PENSION PLAN (Continued)

contribution rate for the fiscal year ended 2007 was 14.43% of annual covered payroll.

Stafford County Public Schools' contribution rate for non-professional employees for the fiscal year ended 2007 was 12.75% of annual covered payroll.

Total contributions to the VRS State Teachers Pool for the years ended June 30, 2005, June 30, 2006 and June 30, 2007 were \$12,055,397, \$14,212,166, and \$18,209,670 respectively, representing 11.03%, 11.62%, and 14.2% respectively, of the covered payroll for the three years then ended.

C. ANNUAL PENSION COST

For fiscal year 2007, the County's annual pension cost of \$5,321,396 was equal to the County's required and actual contributions. The required contributions were determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 6.20% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the County's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County's unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis within a period of 21 years.

Trend Information for Stafford County is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 3,954,420	100.00%	\$ -
June 30, 2006	4,563,248	100.00%	-
June 30, 2007	5,321,396	100.00%	-

Trend information for the Component Unit – Stafford County Public Schools' non-professional employees is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 682,347	100.00%	\$ -
June 30, 2006	1,012,982	100.00%	-
June 30, 2007	1,295,417	100.00%	-

Note 7. INTERFUND AND COMPONENT UNIT RECEIVABLE / PAYABLE

Individual fund receivable and payable balances at June 30, 2007 are summarized as follows:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Receivable</u>
<u>Receivable Fund:</u>			
Primary Government			
General Fund	\$ -	\$ 426,224	\$ 426,224
Nonmajor Governmental Funds	3,112,406	-	3,112,406
Water and Sewer Fund	<u>418,536</u>	<u>-</u>	<u>418,536</u>
Total Primary Government	<u>3,530,942</u>	<u>426,224</u>	<u>3,957,166</u>
Component Unit – Stafford County Public Schools	<u>28,476,628</u>	<u>-</u>	<u>28,476,628</u>
Total Payable	<u>\$ 32,007,570</u>	<u>\$ 426,224</u>	<u>\$ 32,433,794</u>

The interfund payable from the General Fund to Nonmajor Governmental Funds were temporary loans in anticipation of project funding.

The interfund payable from the General Fund to the Water and Sewer Fund represents a temporary loan to fund a start-up stormwater utility.

The interfund payable from the General Fund to the Component Unit – School Board, School Operating Fund represents the accrued portion of the local appropriation.

The interfund payable from Nonmajor Governmental Funds to the General Fund was to cover year-end operating expenditures.

Note 8. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues for the County totaled \$29,941,963 for fiscal year 2007. Sources of these revenues were as follows:

	<u>Commonwealth</u>	<u>Federal</u>
Primary Government		
Governmental Funds:		
General Fund	\$ 23,609,252	\$ 4,340,425
Transportation Fund	1,431,427	41,564
E-911	425,341	-
Asset Forfeiture Fund	2,293	853
Tourism Fund	<u>5,000</u>	<u>85,808</u>
Total Primary Government	<u>\$ 25,473,313</u>	<u>\$ 4,468,650</u>
Component Unit – Stafford County Public Schools		
Governmental Funds:		
School Operating Fund	\$ 4,824,289	\$ 554,345
School Nutrition Fund	-	124,187
Total Component Unit	<u>\$ 4,824,289</u>	<u>\$ 678,532</u>

Note 9. INTERFUND TRANSFERS

	Primary Government			Total Transferred In
	General Fund	Transportation Fund	General Capital Projects Fund	
<hr/>				
Transfer To Fund:				
<hr/>				
Primary Government				
General Fund	\$ -	\$ 33,730	\$ 4,090,916	\$ 4,124,646
Transportation Fund	445,687	-	-	445,687
E-911 Fund	765,261	-	-	765,261
General Capital Projects	825,000	-	-	825,000
Parks & Recreation Capital Projects	<u>2,369,290</u>	<u>-</u>	<u>-</u>	<u>2,369,290</u>
Total Primary Government	<u>4,405,238</u>	<u>33,730</u>	<u>4,090,916</u>	<u>8,529,884</u>
<hr/>				
Component Unit - School Board				
School Capital Projects Fund	<u>879,902</u>	<u>-</u>	<u>-</u>	<u>879,902</u>
<hr/>				
Total Transferred Out	<u>\$ 5,285,140</u>	<u>\$ 33,730</u>	<u>\$ 4,090,916</u>	<u>\$ 9,409,786</u>

A summary of interfund transfer activity is presented as follows:

The transfer from the General Fund to the Transportation Fund was proffer funds for signalization at two intersections and road improvements.

The transfer from the General Fund to the E-911 Fund was for operating expenditures.

The transfer from the General Fund to the General Capital Projects Fund was to fund architectural and engineering services associated with the proposed construction of a new library facility.

The transfer from the General Fund to the Parks and Recreation Capital Projects Fund was for Patawomeck Park projects.

The transfer from the General Fund to the Component Unit - School Board Capital Projects Fund was for various school athletic field upgrades and paving at the Fleet Services facility.

The transfer from the Transportation Fund to the General Fund was a reimbursement for Social Service client transportation expenditures.

The transfer from the General Capital Projects Fund to the General Fund was to cover debt service expenditures associated with the Public Safety Building financing.

Note 10. COMMITMENTS, CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS

The County has several operating leases. Payments on these leases are made from the General Fund. Minimum annual payments for capital lease commitments are scheduled in Note 5. Rent expenditures relating to the General Fund operating leases aggregated \$207,170 in Fiscal Year 2007. Other funds had no significant leases.

At June 30, 2007, the County had contractual commitments of \$7.8 million for the construction of additions to the water and sewer system.

The County receives grant funds, principally from the U.S. Government, for education programs and various other County programs. Expenditures from certain of these funds are subject to audit by the grantor and the County is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the management of the County, no material refunds will be required as a result of expenditures disallowed by the grantors.

On September 4, 2007 the Stafford County Board of Supervisors authorized participation in the Fall 2007 Virginia Public School Authority issuance and sale of General Obligation School Bonds, in a principal amount not to exceed \$14,710,000. Proceeds of this issue will be used to finance a portion of construction costs for a high school and pre-construction site work for two proposed middle schools.

At June 30, 2007, the Component Unit – School Board had \$5.8 million in outstanding encumbrances for school operations. In November 2007, the County appropriated funds from General Fund fund balance to cover the resulting subsequent expenditures.

The FY 2008 General Fund budget called for \$6.4 million use of fund balance (shown as designated for future expenditures). Subsequent to the adoption and appropriation of the FY 2008 budget, analysis and projection of FY 2008 financial conditions revealed that pursuing this plan would cause the General Fund undesignated fund balance to fall below policy minimum or 10% of General Fund revenue. To mitigate this situation, the County reduced expenditure budgets by \$3.9 million and restored the use of fund balance. This action, coupled with continued monitoring and analysis, restored the undesignated fund balance to 10% of revenue.

The County is named as defendant in several cases for which the outcome of such claims is currently not predictable. It is the opinion of County management, based on the advice of the County Attorney, that any losses incurred related to claims existing at June 30, 2007 will not be material to the County's financial position.

At June 30, 2007, the Component Unit – Stafford County Public Schools had contractual commitments of \$18.6 million for the Capital Projects Fund for construction and renovation of several schools.

On September 18, 2007 the Stafford County Board of Supervisors authorized participation in the Fall 2007 Virginia Public School Authority issuance and sale of General Obligation School Bonds, in a principal amount not to exceed \$10,950,000. Proceeds of this issue will be used to finance a portion of construction costs for a high school, a middle school, a Pupil Transportation building and infrastructure upgrades.

Note 11. JOINT VENTURES

A. RAPPAHANNOCK REGIONAL SOLID WASTE MANAGEMENT BOARD

The Rappahannock Regional Solid Waste Management Board (the Board) is a joint venture of the County and the City of Fredericksburg (the City). The Board was formed under an agreement dated December 9, 1987, for the purpose of operating and maintaining the Regional Landfill for the use and benefit of the citizens of the County and the City. The Board is administered by a six-member board currently comprised of three members from the County and three members from the City made up as follows:

- The County Administrator of the County of Stafford
- Two members of the County of Stafford, Board of Supervisors, to be appointed by the Board of Supervisors
- The City Manager of Fredericksburg
- Two members of the City Council of Fredericksburg, to be appointed by the City Council

The Board adopts an annual operating budget and sets user fees for the landfill. The Board has the authority to enter into written agreements with any contracting party for the operation and maintenance of the landfill. The Board has entered into an operating agreement with the County of Stafford, which will expire December 31, 2024. The County and the City fund operating deficits equally. The title to all real property acquired, held or leased is also allocated equally between the County and City, except for 30 acres owned by Stafford County. The County's net investment is recorded on the

Statement of Net Assets as an other non-depreciable asset. The County's equity interest as of June 30, 2007 was \$6,899,487.

State and federal laws and regulations require the Board to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting the waste, the Board reports a portion of these closure and postclosure costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$6.1 million amount reported by the Board as landfill closure and post-closure liability at June 30, 2007 represents the cumulative amount reported to date based on the percentage of use method for the estimated capacity of the landfill. One-hundred percent of the liability has been recorded for the cells that are currently closed. These amounts are based on the estimated cost to perform all closure and postclosure care in 2007. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Both Stafford County and the City of Fredericksburg have demonstrated financial assurance for these costs.

Complete financial statements for the Board can be obtained from the Director of Solid Waste Management, Rappahannock Regional Solid Waste Management Board, P.O. Box 339, Stafford, Virginia 22555-0339.

B. RAPPAHANNOCK REGIONAL JAIL AUTHORITY

The Rappahannock Regional Jail Authority (Authority) was created in January 1995, to share the cost of operating the existing Security Center and constructing, equipping, maintaining and operating a new regional facility. Member jurisdictions are the City of Fredericksburg, and the Counties of Stafford, Spotsylvania and King George. A twelve-member board consisting of three representatives from each of the member jurisdictions, as follows, governs the Authority:

- The Sheriff of each jurisdiction
- A member of each jurisdiction's governing body
- A representative from each member jurisdiction, appointed by their governing body

When the Authority was created, Stafford County operated a jail facility. In November 1996, a transitional agreement between the Authority and Stafford County was signed. This agreement transferred operation of the Stafford County

Note 11. JOINT VENTURES (Continued)

Jail to the Authority from January 1997, until the date the new regional facility opened, when Stafford's prisoners would be housed in the joint facility. The Rappahannock Regional Jail is located in Stafford County and opened in June 2000. In

accordance with the Authority Agreement, member jurisdictions pay operating (per diem) and debt service costs based on percentage of inmate population. The County retains an ongoing financial responsibility for this joint venture due to this requirement of the agreement. The County's payments for the year ended June 30, 2007 totaled \$5,023,516.

Complete financial statements for the Rappahannock Regional Jail Authority can be obtained from the Director of Support Services, Rappahannock Regional Jail, P.O. Box 3300, Stafford, VA 22555.

C. CENTRAL RAPPAHANNOCK REGIONAL LIBRARY

The Central Rappahannock Regional Library (Library) was organized July 1, 1971, pursuant to the provisions of Title 42.1 of the *Code of Virginia* (1950), as amended. Member jurisdictions are the City of Fredericksburg, and the Counties of Stafford, Spotsylvania, and Westmoreland. It provides library and related services to the participating jurisdictions. The Library operates under a Regional Library Board consisting of representatives from each of the member jurisdictions, as follows:

- 2 appointed by the governing body of the City of Fredericksburg
- 2 appointed by the governing body of the County of Stafford
- 2 appointed by the governing body of the County of Spotsylvania
- 1 appointed by the governing body of the County of Westmoreland

The Regional Library Board is empowered to budget and expend funds and to execute contracts. Eighty percent of the Library's operating revenues are derived from annual appropriations by the participating jurisdictions. The remaining twenty percent is derived from fines, fees, donations and State grants. For the year ended June 30, 2007, Stafford County's appropriation to the Regional Library was \$4,165,906.

Complete financial statements for the Central Rappahannock Regional Library can be obtained from the Library Director, Central Rappahannock Regional Library, 1201 Caroline St., Fredericksburg, VA 22401.

Note 12. RISK MANAGEMENT

PRIMARY GOVERNMENT

The County is exposed to various risk of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. These risks are covered by a combination of commercial insurance purchased from independent third parties and participation in public entity risk pools. There have not been any significant reductions in insurance coverage as compared to the previous year. Settled claims from these risks have not exceeded commercial coverage for the past three fiscal years.

The County participates in VaCorp, which is a public entity risk pool that provides commercial general liability, property, automobile, and other types of insurance coverage to Virginia localities. The County also participates in the Virginia Municipal League Pool for its workers' compensation coverage. In the case of both pools, if there is a loss deficit and depletion of all assets and available insurance of the pool, the pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The County has chosen to partially retain the risk associated with the employees' health and dental insurance plan. Risk is retained up to the limits based on monthly claims paid per employee and a 115% aggregate stop

Note 12. RISK MANAGEMENT (Continued)

loss for total claims paid during the year. The risk financing is accounted for in the General Fund. Premiums are paid for all full-time employees of the County to a claims administrator, which processes all claims. Any excess funds at the end of the year are deposited in a reserve account with the claims administrator. This reserve account is used to fund losses in future years. At June 30, 2007, the account had a balance of \$1,092,762.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities

are calculated considering recent settlement trends including frequency and amount of pay-outs. The change in the claims liabilities balance during the past two years is as follows:

	<u>2007</u>	<u>2006</u>
Unpaid claims, beginning	\$ 661,564	\$ 703,723
Incurred claims (including IBNR)	8,214,768	6,261,685
Claim payments	(8,121,780)	(6,303,844)
Unpaid claims, ending	<u>\$ 754,552</u>	<u>\$ 661,564</u>

COMPONENT UNIT – Stafford County Public Schools

Stafford County Public Schools carries commercial insurance for all risks of loss, except for workers' compensation. Like the County, it 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.

Beginning in fiscal year 2002, Stafford County Public Schools 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 to a claims administrator which 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:

	<u>2007</u>	<u>2006</u>
Unpaid claims, beginning	\$ 3,241,000	\$ 1,561,000
Incurred claims (including IBNR)	18,486,216	18,598,569
Claim payments	(18,284,216)	(16,918,569)
Unpaid claims, ending	<u>\$ 3,443,000</u>	<u>\$ 3,241,000</u>

Note 13. AUTHORIZED BUT UNISSUED BONDS

On October 20, 1998, the Board of Supervisors, acting on behalf of the Lake Arrowhead Sanitary District, authorized the issuance of the District's Street Improvement Refunding Bond in the maximum principal amount of \$2,200,000 to refund a portion of the District's \$2,530,000 Street Improvement Bond, Series 1989. At June 30, 2007, this issue was pending.

Note 14. PENDING GASB STATEMENTS

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)*. This statement establishes standards for the measurement, recognition, and display of OPEB expenditures and related liabilities, note disclosures and required supplementary information. The statement is effective for fiscal periods beginning after December 15, 2007. The statement has not been implemented by the County. The County has received its actuarial valuation and is evaluating implementation and funding options.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. This statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. It is effective for fiscal periods beginning after December 15, 2006. The statement has not been implemented by the County.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The statement establishes circumstances that determine when a remediation liability needs to be reported and the required note disclosures. It is effective for fiscal periods beginning after December 15, 2007. The statement has not been implemented by the County.

In June 2007, GASB issued Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*. The statement establishes funding status disclosure requirements and the cost methods for determining the annual required contribution and funding status. The County participates in the Virginia Retirement System (VRS) an Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan. The required disclosures are included in Exhibit XIII (Schedule of Funding Progress) and Note 6 (Defined Benefit Pension Plan).

In July 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The statement defines the characteristics of intangible assets and reporting requirements. The statement is effective for fiscal periods beginning after June 15, 2009. The statement has not been implemented by the County.

Note 15. Prior Period Adjustments – Component Unit Stafford County Public Schools

The fund balance of the School Operating Fund as of June 30, 2006 was overstated by \$20,588. This amount should have been classified as deferred revenue rather than as a reserve for grants. In addition, the fund balance of the School Operating Fund as of June 30, 2006 was understated, as revenue and a related receivable from the federal government for a grant in the amount of \$198,344 should have been recognized.

	Component Unit – School Board Governmental Activities
Net assets, June 30, 2006 as previously reported	\$ 373,690,014
Effect of recording deferred revenue related to grants	(20,588)
Effect of recording revenue related to a grant	198,344
Net assets, June 30, 2006, as restated	<u>\$ 373,867,770</u>



Working To Be The Best Local Government In Virginia

Balance Empowerment Service Teamwork

REQUIRED SUPPLEMENTARY INFORMATION
(unaudited)

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
General property taxes	\$ 132,321,576	\$ 132,321,576	\$ 135,859,852	\$ 3,538,276
Other local taxes	32,086,200	32,086,200	28,778,674	(3,307,526)
Permits, privilege fees and regulatory licenses	7,636,000	7,636,000	6,277,427	(1,358,573)
Fines and forfeitures	843,000	843,000	905,693	62,693
Use of money and property	926,861	926,861	2,279,051	1,352,190
Charges for services	6,384,771	6,393,771	4,132,766	(2,261,005)
Miscellaneous	2,471,904	4,850,816	4,837,008	(13,808)
Intergovernmental	27,083,410	27,858,504	27,952,945	94,441
Total revenues	209,753,722	212,916,728	211,023,416	(1,893,312)
Expenditures				
Current operating:				
General government:				
Board of Supervisors	553,897	613,228	601,985	(11,243)
Clerk of the Board	211,869	216,489	216,074	(415)
County Administrator	627,561	624,745	606,400	(18,345)
Public Information	448,191	476,701	468,614	(8,087)
County Attorney	1,154,491	1,979,545	1,518,241	(461,304)
Human Resources	653,391	597,353	571,385	(25,968)
Commissioner of the Revenue	2,521,105	2,623,552	2,548,133	(75,419)
Treasurer	2,029,131	2,116,599	1,891,507	(225,092)
Finance	1,993,446	2,140,988	2,007,227	(133,761)
Budget	345,776	352,076	346,190	(5,886)
Computer Services	1,825,518	1,968,404	1,921,296	(47,108)
Geographic Information Systems	602,196	713,212	712,525	(687)
Electoral Board and Registrar	342,220	365,120	357,956	(7,164)
	13,308,792	14,788,012	13,767,533	(1,020,479)
Judicial administration:				
Circuit Court	108,015	110,287	76,375	(33,912)
General District Court	95,427	95,427	93,774	(1,653)
Juvenile and Domestic Relations District Court	77,700	79,000	69,560	(9,440)
Clerk of the Circuit Court	1,417,833	1,428,664	1,401,681	(26,983)
Magistrate	10,425	10,425	5,457	(4,968)
Commonwealth Attorney	2,143,575	2,453,120	2,449,894	(3,226)
Court Deputies	1,996,605	2,067,794	2,062,130	(5,664)
	5,849,580	6,244,717	6,158,871	(85,846)
Public safety:				
Policing and investigating	13,565,519	13,932,308	13,654,279	(278,029)
Emergency management	8,919,399	9,486,405	9,286,367	(200,038)
Volunteer rescue squads	227,174	203,479	183,289	(20,190)
Volunteer fire departments	1,145,562	1,460,061	1,427,064	(32,997)
Care and confinement of prisoners	5,037,925	5,037,925	5,023,516	(14,409)
15th District Court Unit	244,687	291,307	286,795	(4,512)
Rappahannock Juvenile Detention	1,419,417	1,419,417	1,310,684	(108,733)
Code compliance	5,446,627	5,344,750	4,542,195	(802,555)
Animal control	837,190	842,744	796,373	(46,371)
Litter control	208,683	208,683	192,249	(16,434)
	37,052,183	38,227,079	36,702,811	(1,524,268)
Public works:				
Engineering	1,027,049	939,809	556,676	(383,133)
Maintenance of general buildings and grounds and general properties	2,992,655	3,071,386	2,944,570	(126,816)
	4,019,704	4,011,195	3,501,246	(509,949)

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Health and social services:				
Local health department	\$ 579,502	\$ 579,502	\$ 579,502	\$ -
Public assistance	11,814,530	12,219,320	11,492,058	(727,262)
Other	1,637,412	1,024,202	968,196	(56,006)
	<u>14,031,444</u>	<u>13,823,024</u>	<u>13,039,756</u>	<u>(783,268)</u>
Parks, recreation and cultural:				
Administration	2,998,405	3,299,624	3,232,997	(66,627)
Community programs	202,692	178,753	151,544	(27,209)
Sports programs	201,964	167,214	136,504	(30,710)
Gymnastics program	600,000	523,155	517,256	(5,899)
Pool program	683,724	624,658	624,521	(137)
Senior citizens	120,370	92,034	88,038	(3,996)
Seasonal	241,317	254,117	254,102	(15)
Cultural programs	305,742	305,742	305,742	-
Regional library	4,165,906	4,165,906	4,165,906	-
	<u>9,520,120</u>	<u>9,611,203</u>	<u>9,476,610</u>	<u>(134,593)</u>
Community development:				
Planning and community development	2,254,951	3,021,618	2,356,165	(665,453)
Planning commission	17,870	68,242	68,204	(38)
Zoning board	520,566	506,291	475,234	(31,057)
Economic development	695,778	771,728	770,742	(986)
Other	408,593	409,219	409,218	(1)
Cooperative extension program	213,765	213,765	192,108	(21,657)
	<u>4,111,523</u>	<u>4,990,863</u>	<u>4,271,671</u>	<u>(719,192)</u>
Appropriation to School Board:				
School operating	93,791,777	97,312,929	93,600,816	(3,712,113)
School capital projects	-	879,902	879,902	-
	<u>93,791,777</u>	<u>98,192,831</u>	<u>94,480,718</u>	<u>(3,712,113)</u>
Capital outlay	<u>1,200,000</u>	<u>4,920,216</u>	<u>2,273,233</u>	<u>(2,646,983)</u>
Debt service:				
Principal	16,041,534	20,274,620	20,274,620	-
Interest and fiscal charges	13,728,158	15,024,188	14,945,078	(79,110)
	<u>29,769,692</u>	<u>35,298,808</u>	<u>35,219,698</u>	<u>(79,110)</u>
Total expenditures	<u>212,654,815</u>	<u>230,107,948</u>	<u>218,892,147</u>	<u>(11,215,801)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,901,093)</u>	<u>(17,191,220)</u>	<u>(7,868,731)</u>	<u>9,322,489</u>
Other Financing Sources (Uses)				
Transfers in	133,976	4,224,892	4,124,646	(100,246)
Transfers out	(697,981)	(4,780,071)	(4,405,238)	374,833
Total other financing sources (uses), net	<u>(564,005)</u>	<u>(555,179)</u>	<u>(280,592)</u>	<u>274,587</u>
Net change in fund balance	(3,465,098)	(17,746,399)	(8,149,323)	9,597,076
Fund balance, beginning	<u>3,465,098</u>	<u>17,746,399</u>	<u>32,850,426</u>	<u>15,104,027</u>
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,701,103</u>	<u>\$ 24,701,103</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
TRANSPORTATION FUND
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Other local taxes - fuel sales tax	\$ 3,738,389	\$ 3,738,389	\$ 3,917,268	\$ 178,879
Use of money	140,000	140,000	195,408	55,408
Miscellaneous	-	-	36,475	36,475
Intergovernmental	1,306,400	1,306,400	1,472,991	166,591
Total revenues	<u>5,184,789</u>	<u>5,184,789</u>	<u>5,622,142</u>	<u>437,353</u>
Expenditures				
Current operating:				
General government	1,619,113	1,765,079	1,518,539	(246,540)
Capital outlay	3,525,676	4,576,434	813,788	(3,762,646)
Total expenditures	<u>5,144,789</u>	<u>6,341,513</u>	<u>2,332,327</u>	<u>(4,009,186)</u>
Deficiency of revenues under expenditures	<u>40,000</u>	<u>(1,156,724)</u>	<u>3,289,815</u>	<u>4,446,539</u>
Other Financing Sources (Uses)				
Transfers in	-	445,687	445,687	-
Transfers out	(40,000)	(40,000)	(33,730)	6,270
Total other financing sources, net	<u>(40,000)</u>	<u>405,687</u>	<u>411,957</u>	<u>6,270</u>
Net change in fund balance	-	(751,037)	3,701,772	4,452,809
Fund balance, beginning	<u>-</u>	<u>751,037</u>	<u>864,323</u>	<u>113,286</u>
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,566,095</u>	<u>\$ 4,566,095</u>

SCHEDULE OF FUNDING PROGRESS

Virginia Retirement System

For the Primary Government:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2004	53,212,804	61,993,961	8,781,157	85.84%	24,947,360	35.20%
June 30, 2005	57,982,005	75,944,924	17,962,919	76.35%	28,585,983	62.84%
June 30, 2006	64,523,721	81,561,806	17,038,085	79.11%	32,842,159	51.88%

COUNTY OF STAFFORD, VIRGINIA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Board of Supervisors annually adopts budgets for the General Fund, and Special Revenue Funds of the primary government. All appropriations are legally controlled at the department level for the General Fund and Special Revenue Funds. On June 6, 2006, the Board of Supervisors approved the original budget reflected in the financial statements.

The budgets are integrated into the accounting system, and budgetary data, as presented in the financial statements, compare the revenues and expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedules for the General Fund and Transportation Fund present actual revenues and expenditures in accordance with accounting principles generally accepted in the United States of America on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations for annual budgets lapse at the end of each fiscal year.

Note 2. MATERIAL VIOLATIONS

There were no material violations of the annual appropriated budget for the General Fund or Transportation Fund for the fiscal year ended June 30, 2007.



Working To Be The Best Local Government In Virginia

Balance Empowerment Service Teamwork

OTHER SUPPLEMENTARY INFORMATION

COMBINING SCHEDULES
NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

Road Impact Fee – West Fund

Accounts for impact fee receipts from new development in a designated service area in the western portion of the County. Disbursements from this fund are for road improvements attributable to the new development.

Road Impact Fee – South East Fund

Accounts for impact fee receipts from new development in a designated service area in the southeastern portion of the County. Disbursements from this fund are for road improvements attributable to the new development.

E-911 Fund

Accounts for the receipt of E-911 service taxes. Disbursements from this fund are for the operation, maintenance, repair and upgrade of the County's E-911 dispatch system.

Asset Forfeiture Fund

Accounts for the revenues and expenditures associated with the County's drug enforcement activities.

Tourism Fund

Accounts for the revenues and expenditures associated with promoting tourist venues in the County.

CAPITAL PROJECTS FUNDS:

Parks and Recreation Construction Fund

Accounts for revenues and capital expenditures associated with the construction of County parks.

Lake Arrowhead Sanitary District Fund

Accounts for the cost of street improvements in the Lake Arrowhead Sanitary District.

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Special Revenue				
	Road Impact Fee - West Fund	Road Impact Fee - SE Fund	E-911 Fund	Asset Forfeiture Fund	Tourism Fund
ASSETS					
Equity in pooled cash and investments	\$ 2,062,218	\$ 543,788	\$ -	\$ 261,148	\$ 1,365,129
Accounts receivable	-	-	244,727	-	129,006
Due from Primary government	-	-	765,261	-	-
Intergovernmental receivables	-	-	71,746	-	-
Total assets	<u>\$ 2,062,218</u>	<u>\$ 543,788</u>	<u>\$ 1,081,734</u>	<u>\$ 261,148</u>	<u>\$ 1,494,135</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and other current liabilities	\$ -	\$ -	\$ 13,212	\$ -	\$ 1,345
Accrued salaries and benefits	-	-	64,381	-	2,644
Other liabilities	-	-	915,544	-	-
Due to other funds	-	-	88,597	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>1,081,734</u>	<u>-</u>	<u>3,989</u>
Fund Balances:					
Reserved for:					
Drug enforcement	-	-	-	261,148	-
Unreserved:					
Designated:					
Encumbrances	-	-	-	-	21,816
Community development	2,062,218	543,788	-	-	19,461
Undesignated	-	-	-	-	1,448,869
Total fund balances	<u>2,062,218</u>	<u>543,788</u>	<u>-</u>	<u>261,148</u>	<u>1,490,146</u>
Total liabilities and fund balances	<u>\$ 2,062,218</u>	<u>\$ 543,788</u>	<u>\$ 1,081,734</u>	<u>\$ 261,148</u>	<u>\$ 1,494,135</u>

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Capital Projects		Total
	Parks and Recreation Bond Fund	Lake Arrowhead Sanitary District Fund	Nonmajor Governmental Funds
ASSETS			
Equity in pooled cash and investments	\$ 753,356	\$ 3,470	\$ 4,989,109
Restricted assets:			
Cash	3,218,692	-	3,218,692
Accounts receivable	-	-	373,733
Due from Primary government	2,347,146	-	3,112,407
Intergovernmental receivables	-	-	71,746
Total assets	<u>\$ 6,319,194</u>	<u>\$ 3,470</u>	<u>\$ 11,765,687</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and other current liabilities	\$ 176,894	\$ -	\$ 191,451
Retainage payable	90,516	-	90,516
Deposits	2,100	-	2,100
Other liabilities	-	-	915,544
Accrued salaries and benefits	-	-	67,025
Due to other funds	337,627	-	426,224
Total liabilities	<u>607,137</u>	<u>-</u>	<u>1,692,860</u>
Fund Balances:			
Reserved for:			
Drug enforcement	-	-	261,148
Unreserved:			
Designated:			
Encumbrances	4,590,100	-	4,611,916
Community development	-	-	2,625,467
Capital improvements	1,121,957	3,470	1,125,427
Undesignated	-	-	1,448,869
Total fund balances	<u>5,712,057</u>	<u>3,470</u>	<u>10,072,827</u>
Total liabilities and fund balances	<u>\$ 6,319,194</u>	<u>\$ 3,470</u>	<u>\$ 11,765,687</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2007

	Special Revenue				
	Road Impact Fee - West Fund	Road Impact Fee - SE Fund	E-911 Fund	Asset Forfeiture Fund	Tourism Fund
REVENUES					
Other local taxes	\$ 226,676	\$ 187,588	\$ 1,294,847	\$ -	\$ 1,085,420
Use of money and property	102,818	16,966	-	13,514	-
Charges for services	-	-	-	-	14,327
Miscellaneous	-	-	220	-	16,500
Intergovernmental	-	-	425,341	3,146	90,808
Total revenues	<u>329,494</u>	<u>204,554</u>	<u>1,720,408</u>	<u>16,660</u>	<u>1,207,055</u>
EXPENDITURES					
Current operating:					
Judicial administration	-	-	-	8,769	-
Public safety	-	-	2,485,671	3,782	-
Parks, recreation and cultural	-	-	-	-	-
Community development	-	-	-	-	889,171
Total expenditures	<u>-</u>	<u>-</u>	<u>2,485,671</u>	<u>12,551</u>	<u>889,171</u>
Excess (deficiency) of revenues over (under) expenditures	<u>329,494</u>	<u>204,554</u>	<u>(765,263)</u>	<u>4,109</u>	<u>317,884</u>
OTHER FINANCING SOURCES					
Transfers in	<u>-</u>	<u>-</u>	<u>765,261</u>	<u>-</u>	<u>-</u>
Net change in fund balances	329,494	204,554	(2)	4,109	317,884
Fund balance, beginning	<u>1,732,724</u>	<u>339,234</u>	<u>2</u>	<u>257,039</u>	<u>1,172,262</u>
Fund balance ending	<u>\$ 2,062,218</u>	<u>\$ 543,788</u>	<u>\$ -</u>	<u>\$ 261,148</u>	<u>\$ 1,490,146</u>

**COMBINING STATEMENT OF REVENUES,
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2007

	Capital Projects		Total
	Parks and Recreation Bond Fund	Lake Arrowhead Sanitary District Fund	Nonmajor Governmental Funds
REVENUES			
Other local taxes	\$ -	\$ -	\$ 2,794,531
Use of money and property	204,646	-	337,944
Charges for services	-	-	14,327
Miscellaneous	500,000	-	516,720
Intergovernmental	-	-	519,295
Total revenues	<u>704,646</u>	<u>-</u>	<u>4,182,817</u>
EXPENDITURES			
Current operating:			
Judicial administration	-	-	8,769
Public safety	-	-	2,489,453
Parks, recreation and cultural	1,396,936	-	1,396,936
Community development	-	-	889,171
Total expenditures	<u>1,396,936</u>	<u>-</u>	<u>4,784,329</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(692,290)</u>	<u>-</u>	<u>(601,512)</u>
OTHER FINANCING SOURCES			
Transfers in	<u>2,369,290</u>	<u>-</u>	<u>3,134,551</u>
Net change in fund balances	1,677,000	-	2,533,039
Fund balance, beginning	<u>4,035,057</u>	<u>3,470</u>	<u>7,539,788</u>
Fund balance ending	<u>\$ 5,712,057</u>	<u>\$ 3,470</u>	<u>\$ 10,072,827</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS OF THE PRIMARY GOVERNMENT
YEAR ENDED JUNE 30, 2007**

PRIMARY GOVERNMENT	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Special Revenue Funds:				
E-911 Fund:				
Revenues				
Other local taxes - E-911 service tax	\$ 1,418,222	\$ 1,418,222	\$ 1,294,847	\$ (123,375)
Miscellaneous	-	-	220	220
Intergovernmental	374,000	374,000	425,341	51,341
Total revenues	1,792,222	1,792,222	1,720,408	(71,814)
Expenditures				
Current operating:				
Public safety	2,490,203	2,562,018	2,485,671	(76,347)
Excess (deficiency) of revenues over (under) expenditures	(697,981)	(769,796)	(765,263)	4,533
Other financing sources (uses)				
Transfers in	697,981	769,796	765,261	4,535
Net change in fund balance	-	-	(2)	(2)
Fund balance, beginning	-	-	2	2
Fund balance, ending	\$ -	\$ -	-	-
Asset Forfeiture Fund:				
Revenues				
Use of money and property	\$ -	\$ -	\$ 13,514	\$ 13,514
Intergovernmental	-	-	3,146	3,146
Total revenues	-	-	16,660	16,660
Expenditures				
Current operating:				
Judicial administration	17,630	17,630	8,769	(8,861)
Public safety	21,400	21,400	3,782	(17,618)
Total expenditures	39,030	39,030	12,551	(26,479)
Excess (deficiency) of revenues over (under) expenditures	(39,030)	(39,030)	4,109	43,139
Net change in fund balance	(39,030)	(39,030)	4,109	43,139
Fund balance, beginning	39,030	39,030	257,039	218,009
Fund balance, ending	\$ -	\$ -	\$ 261,148	\$ 261,148

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
NONMAJOR GOVERNMENTAL FUNDS OF THE PRIMARY GOVERNMENT
YEAR ENDED JUNE 30, 2007**

PRIMARY GOVERNMENT	Budgeted Amounts		Actual Amounts	Final Budget Over (Under)
	Original	Final		
Special Revenue Funds:				
Tourism Fund:				
Revenues				
Other local taxes	\$ 1,025,000	\$ 1,025,000	\$ 1,085,420	\$ 60,420
Charges for services	-	-	14,327	14,327
Miscellaneous	-	31,202	16,500	(14,702)
Intergovernmental	5,000	5,000	90,808	85,808
Total revenues	<u>1,030,000</u>	<u>1,061,202</u>	<u>1,207,055</u>	<u>145,853</u>
Expenditures				
Current operating:				
Community development	<u>735,758</u>	<u>959,254</u>	<u>889,171</u>	<u>(70,083)</u>
Excess of revenues over expenditures	<u>294,242</u>	<u>101,948</u>	<u>317,884</u>	<u>215,936</u>
Net change in fund balance	294,242	101,948	317,884	215,936
Fund balance, beginning	<u>(294,242)</u>	<u>(101,948)</u>	<u>1,172,262</u>	<u>1,274,210</u>
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,490,146</u>	<u>\$ 1,490,146</u>
Capital Projects Funds:				
Parks and Recreation Bond Fund:				
Revenues				
Use of money	\$ -	\$ -	\$ 204,646	\$ 204,646
Miscellaneous	-	-	500,000	500,000
Total revenues	<u>-</u>	<u>-</u>	<u>704,646</u>	<u>704,646</u>
Expenditures				
Current operating:				
Capital Outlay	<u>-</u>	<u>6,273,026</u>	<u>1,396,936</u>	<u>(4,876,090)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(6,273,026)</u>	<u>(692,290)</u>	<u>(5,580,736)</u>
Other financing sources				
Transfers in	<u>-</u>	<u>2,847,145</u>	<u>2,369,290</u>	<u>(477,855)</u>
Net change in fund balance	-	(3,425,881)	1,677,000	5,102,881
Fund balance, beginning	<u>-</u>	<u>3,425,881</u>	<u>4,035,057</u>	<u>609,176</u>
Fund balance, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,712,057</u>	<u>\$ 5,712,057</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
PRIMARY GOVERNMENT				
Capital Projects Funds:				
General Capital Projects Fund:				
Revenues				
Use of money	\$ -	\$ 491,000	\$ 2,201,744	\$ 1,710,744
Miscellaneous	-	-	100	100
Intergovernmental	-	42,234	42,234	-
Total revenues	-	533,234	2,244,078	1,710,844
Expenditures				
Current operating:				
Capital Outlay	2,100,000	42,884,628	23,591,934	(19,292,694)
Appropriation to School Board:				
School operating	3,492,276	5,137,355	2,385,068	(2,752,287)
School capital projects	-	20,359,366	20,359,366	-
Total expenditures	5,592,276	68,381,349	46,336,368	(22,044,981)
Deficiency of revenues under expenditures	(5,592,276)	(67,848,115)	(44,092,290)	23,755,825
Other financing sources				
Transfers in	-	21,511	825,000	803,489
Transfers out	-	(4,090,916)	(4,090,916)	-
Issuance of debt:				
Bonds	-	20,359,366	20,359,366	-
Capital leases	5,592,276	7,836,127	3,451,690	(4,384,437)
Total other financing sources	5,592,276	24,126,088	20,545,140	(3,580,948)
Net change in fund balance	-	(43,722,027)	(23,547,150)	20,174,877
Fund balance, beginning	-	43,722,027	44,187,229	465,202
Fund balance, ending	\$ -	\$ -	\$ 20,640,079	\$ 20,640,079

FIDUCIARY FUNDS:

Celebrate Virginia North Fund

This fund accounts for assets held by the County in a trustee capacity. It accounts for a special assessment collection used to retire debt incurred by the Celebrate Virginia North Community Development Authority for public infrastructure improvements in the district.

Lake Arrowhead Sanitary District Fund

This fund accounts for assets held by the County in a trustee capacity. It accounts for a special assessment collection used to service a bond issue for road improvements in the District.

George Washing Regional Commission Fund

Stafford county acts as fiscal agent for the George Washington Regional Commission payroll function. This fund records the payroll expense and tracks the reimbursement receipts for this activity.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	Agency Funds			
	Celebrate Virginia North	Lake Arrowhead Sanitary District	George Washington Regional Commission	Totals
ASSETS				
Current assets:				
Cash and short-term investments	\$ 1,019,697	\$ 312,429	\$ -	\$ 1,332,126
Receivables:				
Property taxes	5,992	190,355	-	196,347
Accounts	-	-	167,096	167,096
Total current assets	<u>1,025,689</u>	<u>502,784</u>	<u>167,096</u>	<u>1,695,569</u>
Noncurrent assets:				
Cash with fiscal agent	-	389,009	-	389,009
Total assets	<u>\$ 1,025,689</u>	<u>\$ 891,793</u>	<u>\$ 167,096</u>	<u>\$ 2,084,578</u>
LIABILITIES				
Accrued salaries and benefits	\$ -	\$ -	\$ 35,879	\$ 35,879
Deferred revenue	2,942	-	-	2,942
Reserve for future expenditures	-	-	131,217	131,217
Reserve for bondholders	<u>1,022,747</u>	<u>891,793</u>	<u>-</u>	<u>1,914,540</u>
Total liabilities	<u>\$ 1,025,689</u>	<u>\$ 891,793</u>	<u>\$ 167,096</u>	<u>\$ 2,084,578</u>

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

YEAR ENDED JUNE 30, 2007

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
<u>Celebrate Virginia North Fund</u>				
ASSETS				
Cash and short-term investments	\$ 1,008,850	\$ 2,039,594	\$ (2,028,747)	\$ 1,019,697
Property taxes receivable	-	5,992	-	5,992
Total assets	<u>\$ 1,008,850</u>	<u>\$ 2,045,586</u>	<u>\$ (2,028,747)</u>	<u>\$ 1,025,689</u>
LIABILITIES				
Reserve for bondholders	<u>\$ 1,008,850</u>	<u>\$ 2,045,586</u>	<u>\$ (2,028,747)</u>	<u>\$ 1,025,689</u>
<u>Lake Arrowhead Sanitary District Fund</u>				
ASSETS				
Cash and short-term investments	\$ 130,838	\$ 181,591	\$ -	\$ 312,429
Property taxes receivable	319,312	16,113	(145,070)	190,355
Cash with fiscal agent	657,582	4,636	(273,209)	389,009
Total assets	<u>\$ 1,107,732</u>	<u>\$ 202,340</u>	<u>\$ (418,279)</u>	<u>\$ 891,793</u>
LIABILITIES				
Reserve for bondholders	<u>\$ 1,107,732</u>	<u>\$ 202,340</u>	<u>\$ (418,279)</u>	<u>\$ 891,793</u>
<u>George Washington Regional Commission</u>				
ASSETS				
Accounts receivable	<u>\$ -</u>	<u>\$ 167,096</u>	<u>\$ -</u>	<u>\$ 167,096</u>
LIABILITIES				
Accrued salaries and benefits	\$ -	\$ 35,879	\$ -	\$ 35,879
Reserve for future expenditures	-	131,217	-	131,217
Total liabilities	<u>\$ -</u>	<u>\$ 167,096</u>	<u>\$ -</u>	<u>\$ 167,096</u>
<u>Totals - All Fiduciary Funds</u>				
ASSETS				
Cash and short-term investments	\$ 1,139,688	\$ 2,221,185	\$ (2,028,747)	\$ 1,332,126
Accounts receivable	-	167,096	-	167,096
Property taxes receivable	319,312	22,105	(145,070)	196,347
Cash with fiscal agent	<u>657,582</u>	<u>4,636</u>	<u>(273,209)</u>	<u>389,009</u>
Total assets	<u>\$ 2,116,582</u>	<u>\$ 2,415,022</u>	<u>\$ (2,447,026)</u>	<u>\$ 2,084,578</u>
LIABILITIES				
Accrued salaries and benefits	\$ -	\$ 35,879	\$ -	\$ 35,879
Reserve for future expenditures	-	131,217	-	131,217
Reserve for bondholders	<u>2,116,582</u>	<u>2,247,926</u>	<u>(2,447,026)</u>	<u>1,917,482</u>
Total liabilities	<u>\$ 2,116,582</u>	<u>\$ 2,415,022</u>	<u>\$ (2,447,026)</u>	<u>\$ 2,084,578</u>

COMBINING SCHEDULES
DISCRETELY PRESENTED COMPONENT UNIT –
WIDEWATER COMMUNITY DEVELOPMENT AUTHORITY

GOVERNMENTAL FUND:

Widewater Community Development Authority

As fiscal agent for the Authority, the County collects special tax district revenues and pro rata assessment fees for payment of debt service on transportation improvement bonds. Collections are transferred to the Authority.

**STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNIT
WIDEWATER COMMUNITY DEVELOPMENT AUTHORITY
JUNE 30, 2007**

ASSETS

Current assets:

Receivables	\$ 4,548
Total current assets	<u>4,548</u>

Noncurrent assets:

Restricted cash and cash equivalents	<u>1,701,297</u>
Total noncurrent assets	<u>1,701,297</u>
Total assets	<u>\$ 1,705,845</u>

LIABILITIES

Current liabilities:

Deferred revenue	\$ 4,471
Deposits	<u>1,275,228</u>
Total current liabilities	<u>1,279,699</u>

NET ASSETS

Restricted:

Debt service	<u>426,146</u>
Total net assets	<u>426,146</u>
Total liabilities and net assets	<u>\$ 1,705,845</u>

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
DISCRETELY PRESENTED COMPONENT UNIT
WIDEWATER COMMUNITY DEVELOPMENT AUTHORITY
YEAR ENDED JUNE 30, 2007

Operating revenues:	
Property taxes	\$ 3,775
Operating income	3,775
Change in net assets	3,775
Total net assets, beginning	422,371
Total net assets, ending	\$ 426,146

STATISTICAL SECTION

STATISTICAL SECTION

(unaudited)

This section of Stafford County's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the County's overall financial health.

Contents

Financial Trends **S-1 thru S-4**

These tables contain trend information to help the reader understand how the County's financial performance and well-being has changed over time.

Revenue Capacity **S-5 thru S-8**

These tables contain information to help the reader assess the factors affecting the County's ability to generate its property taxes.

Debt Capacity **S-9 thru S-13**

These tables present information to help the reader assess the affordability of the County's current levels of outstanding debt and its ability to issue additional debt in the future.

Demographic & Economic Information **S-14 thru S-16**

These tables offer demographic and economic indicators to help the reader understand the environment within which the County's financial activities take place and to help make comparisons over time and with other governments.

Operation Information **S-17 thru S-19**

These tables contain information about the County's operations and resources to help the reader understand how the County's financial information relates to the services the County provides and the activities it performs.

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial report for the relevant year. The County implemented GASB Statement 34 in fiscal year 2002; tables presenting government-wide information include information beginning in that year.

COUNTY OF STAFFORD, VIRGINIA

Table S-1

NET ASSETS BY COMPONENT
Fiscal Years 2002 - 2007 (1)
(accrual basis of accounting)
(unaudited) (2)

	Fiscal Year					
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Primary government:						
Governmental activities:						
Invested in capital assets, net of related debt	\$ 25,419,105	\$ 30,947,474	\$ 28,107,367	\$ 36,936,581	\$ 6,822,858	\$ 32,895,897
Restricted	1,052,067	1,023,400	1,614,704	1,545,450	1,318,218	1,379,409
Unrestricted (deficit)	(134,119,298)	(131,139,071)	(173,293,436)	(179,309,524)	(194,432,777)	(226,391,509)
Total governmental activities net assets	<u>\$ (107,648,126)</u>	<u>\$ (99,168,197)</u>	<u>\$ (143,571,365)</u>	<u>\$ (140,827,493)</u>	<u>\$ (186,291,701)</u>	<u>\$ (192,116,203)</u>
Business-type activities:						
Invested in capital assets, net of related debt	\$ 101,869,701	\$ 108,814,671	\$ 123,056,793	\$ 137,964,096	\$ 150,066,102	\$ 183,788,210
Restricted	979,716	2,011,415	-	11,065,752	11,396,183	11,695,567
Unrestricted	69,533,013	75,507,706	76,283,039	69,560,456	80,458,112	64,474,149
Total business-type activities net assets	<u>\$ 172,382,430</u>	<u>\$ 186,333,792</u>	<u>\$ 199,339,832</u>	<u>\$ 218,590,304</u>	<u>\$ 241,920,397</u>	<u>\$ 259,957,926</u>
Total Primary government						
Invested in capital assets, net of related debt	\$ 127,288,806	\$ 139,762,145	\$ 151,164,160	\$ 174,900,677	\$ 156,888,960	\$ 216,684,107
Restricted	2,031,783	3,034,815	1,614,704	12,611,202	12,714,401	13,074,976
Unrestricted (deficit)	(64,586,285)	(55,631,365)	(97,010,397)	(109,749,068)	(113,974,665)	(161,917,360)
Total primary government net assets	<u>\$ 64,734,304</u>	<u>\$ 87,165,595</u>	<u>\$ 55,768,467</u>	<u>\$ 77,762,811</u>	<u>\$ 55,628,696</u>	<u>\$ 67,841,723</u>
Component unit:						
Component unit - Widenwater CDA						
Restricted	\$ 129,440	\$ 157,185	\$ 208,653	\$ 341,506	\$ 422,371	\$ 426,146
Total component unit - Widenwater CDA net assets	<u>\$ 129,440</u>	<u>\$ 157,185</u>	<u>\$ 208,653</u>	<u>\$ 341,506</u>	<u>\$ 422,371</u>	<u>\$ 426,146</u>

(1) In fiscal year 2002, the County implemented new reporting requirements to comply with GASB 34. Therefore, ten years of data is unavailable, but will be accumulated going forward.

(2) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.

COUNTY OF STAFFORD, VIRGINIA

Table S-2
Page 1 of 3

CHANGES IN NET ASSETS
Fiscal Years 2002 - 2007 (1)
(accrual basis of accounting)
(unaudited) (2)

	Fiscal Year					
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Primary government:						
Expenses						
Governmental activities:						
General government	\$ 8,815,778	\$ 9,501,695	\$ 9,380,584	\$ 11,537,549	\$ 5,934,279	\$ 14,320,059
Judicial administration	3,242,523	3,645,112	4,051,602	4,575,589	5,484,964	6,259,936
Public safety	21,554,310	25,017,855	27,018,180	31,085,473	36,405,012	40,408,595
Public works	2,124,067	2,435,958	2,658,003	3,666,239	2,050,631	3,375,036
Health and social services	9,718,333	10,690,114	10,860,558	12,172,857	12,534,771	12,853,899
Parks, recreation and cultural	6,523,471	5,846,435	6,980,492	6,364,800	7,898,191	10,117,611
Community development	2,057,321	2,594,082	2,682,723	3,763,355	5,417,064	5,114,537
Appropriation to School Board	76,945,140	74,469,124	135,344,754	102,306,484	153,719,718	117,225,152
Transportation	1,409,410	1,043,080	3,444,264	1,998,682	7,333,030	2,293,299
Interest	8,766,244	9,804,562	10,369,246	11,367,776	11,864,125	15,903,856
Change in equity - joint venture	-	(186,518)	391,306	-	-	-
Total governmental activities expenses	<u>141,156,597</u>	<u>144,861,499</u>	<u>213,181,712</u>	<u>188,838,804</u>	<u>248,641,785</u>	<u>227,871,980</u>
Total business-type activities expenses	<u>18,513,910</u>	<u>20,790,301</u>	<u>20,237,165</u>	<u>21,402,265</u>	<u>23,528,349</u>	<u>25,694,334</u>
Total primary government expenses	<u>159,670,507</u>	<u>\$ 165,651,800</u>	<u>\$ 233,418,877</u>	<u>\$ 210,241,069</u>	<u>\$ 272,170,134</u>	<u>\$ 253,566,314</u>
Program revenues						
Governmental activities:						
Charges for services:						
General government	-	\$ 176,550	\$ 160,199	\$ 405,787	\$ 214,435	\$ 184,244
Judicial administration	479,048	771,383	905,839	1,077,149	1,218,732	728,369
Public safety	3,886,048	4,891,277	5,724,699	6,159,315	7,469,813	6,505,497
Health and social services	76,875	72,345	80,625	72,088	72,325	50,120
Parks, recreation and cultural	1,041,836	1,144,581	1,306,205	1,421,089	1,465,902	1,428,532
Community development	683,579	170,993	380,965	684,653	915,784	919,603
Operating grants and contributions						
General government	536,879	489,410	514,665	529,116	549,804	604,780
Judicial administration	1,344,975	1,035,512	1,035,082	1,197,742	1,471,532	1,914,556
Public safety	3,802,350	3,831,876	4,377,325	4,488,873	5,053,688	5,106,827
Public works	-	-	-	272,722	-	-
Health and social services	5,389,947	6,198,646	6,705,538	6,804,248	7,324,716	7,650,173
Parks, recreation and cultural	-	-	-	31,000	9,000	-
Community development	125,279	194,429	13,983	5,000	5,000	104,382
Transportation	-	22,400	-	1,117,486	-	716,564
Capital grants and contributions						
General government	-	407,800	-	1,312,406	-	-
Public works	-	800,000	-	-	-	-
Parks, recreation and cultural	-	-	-	1,016,158	-	-
Total governmental activities program revenues	<u>17,366,816</u>	<u>20,207,202</u>	<u>21,205,125</u>	<u>26,594,832</u>	<u>25,770,731</u>	<u>25,913,647</u>

COUNTY OF STAFFORD, VIRGINIA

Table S-2
Page 2 of 3

CHANGES IN NET ASSETS
Fiscal Years 2002 - 2007 (1)
(accrual basis of accounting)
(unaudited) (2)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Business-type activities:						
Charges for services	\$ 15,350,637	\$ 14,879,161	\$ 15,882,524	\$ 16,349,586	\$ 18,908,872	\$ 20,457,137
Operating grants and contributions	-	-	87,713	-	15,000	65,702
Capital grants and contributions	22,255,450	18,367,766	16,463,535	22,302,622	24,254,354	18,775,970
Total business-type activities program revenues	37,606,087	33,246,927	32,433,772	38,652,208	43,178,226	39,298,809
Total primary government program revenues	\$ 54,972,903	\$ 53,454,129	\$ 53,638,897	\$ 65,247,040	\$ 68,948,957	\$ 65,212,456
Net (expense)/revenue (3)						
Governmental activities	\$ (123,789,781)	\$ (124,654,297)	\$ (191,976,587)	\$ (162,243,972)	\$ (222,871,054)	\$ (201,958,333)
Business activities	19,092,177	12,456,626	12,196,607	17,249,943	19,649,877	13,604,475
Total primary government net expense	\$ (104,697,604)	\$ (112,197,671)	\$ (179,779,980)	\$ (144,994,029)	\$ (203,221,177)	\$ (188,353,858)
General revenues and other changes in net assets						
Governmental activities:						
Taxes						
General property taxes	\$ 85,426,081	\$ 93,176,182	\$ 102,313,689	\$ 112,385,362	\$ 119,255,939	\$ 134,602,576
Other local taxes	23,658,116	24,816,046	29,694,805	35,434,590	40,352,470	37,760,751
Unrestricted grants and contributions	9,634,265	12,132,969	12,903,423	12,925,795	14,141,680	13,133,856
Investment earnings	703,383	953,799	442,784	1,151,048	1,849,825	5,014,146
Miscellaneous	2,742,452	2,366,015	2,072,290	3,138,769	5,340,574	5,622,502
Gain (loss) on sale of property	(7,980)	(14,321)	-	-	-	-
Transfers	388,761	76,572	146,428	(47,720)	-	-
Extraordinary items	-	-	-	-	336,580	-
Total governmental activities	122,545,078	133,507,262	147,573,419	164,987,844	181,277,068	196,133,831
Business-type activities						
Investment earnings	2,473,016	1,423,391	796,090	1,751,827	3,061,335	3,735,172
Miscellaneous	-	147,917	159,771	200,982	200,344	697,882
Transfers	(388,761)	(76,572)	(146,428)	47,720	-	-
Total business-type activities	2,084,255	1,494,736	809,433	2,000,529	3,261,679	4,433,054
Total primary government	\$ 124,629,333	\$ 135,001,998	\$ 148,382,852	\$ 166,988,373	\$ 184,538,747	\$ 200,566,885
Change in net assets						
Primary government:						
Governmental activities	\$ (1,244,703)	\$ 8,852,965	\$ (44,403,168)	\$ 2,743,872	\$ (41,593,986)	\$ (5,824,502)
Business-type activities	\$ 21,176,432	13,951,362	13,006,040	19,250,472	22,911,556	18,037,529
Total primary government	\$ 19,931,729	\$ 22,804,327	\$ (31,397,128)	\$ 21,994,344	\$ (18,682,430)	\$ 12,213,027
Total primary government						
Net assets, beginning (4)	\$ 44,802,575	\$ 64,734,304	\$ 87,538,631	\$ 56,141,503	\$ 74,311,126	\$ 55,628,696
Net assets, ending	\$ 64,734,304	\$ 87,538,631	\$ 56,141,503	\$ 78,135,847	\$ 55,628,696	\$ 67,841,723

COUNTY OF STAFFORD, VIRGINIA

Table S-2
Page 3 of 3

CHANGES IN NET ASSETS
Fiscal Years 2002 - 2007 (1)
(accrual basis of accounting)
(unaudited) (2)

	Fiscal Year					
Component unit - Widdewater CDA						
Total change in net assets	\$ 29,471	\$ 27,745	\$ 51,468	\$ 132,853	\$ 80,865	\$ 3,775
Net assets, beginning	99,969	129,440	157,185	208,653	341,506	422,371
Net assets, ending	<u><u>\$ 129,440</u></u>	<u><u>\$ 157,185</u></u>	<u><u>\$ 208,653</u></u>	<u><u>\$ 341,506</u></u>	<u><u>\$ 422,371</u></u>	<u><u>\$ 426,146</u></u>

- (1) In fiscal year 2002, the County implemented new reporting requirements to comply with GASB 34. Therefore, ten years of data is unavailable, but will be accumulated going forward.
- (2) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.
- (3) Net (expense) revenue is the difference between the expenses and program revenues. A positive number indicates that the program can be supported by program revenues. A negative number indicates that general revenues are needed to support or supplement the program.
- (4) In 2006, the beginning net assets balance was restated to exclude road construction projects from the County's capital asset balance. These road projects will eventually be turned over to the State to maintain.

COUNTY OF STAFFORD, VIRGINIA

Table S-3

FUNDS BALANCES, GOVERNMENTAL FUNDS

Fiscal Years 1998-2007

(modified accrual basis of accounting)

(unaudited) (1)

	Fiscal Year									
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Fund										
Reserved	\$ 1,976,465	\$ 2,640,220	\$ 4,667,769	\$ 5,592,201	\$ 3,036,123	\$ 3,372,419	\$ 4,254,360	\$ 3,222,625	\$ 1,368,198	\$ 1,118,262
Unreserved										
Designated	4,360,594	517,451	254,024	1,031,583	8,022,118	6,354,494	6,457,203	12,703,770	12,292,979	6,407,832
Undesignated	3,298,589	2,982,818	6,663,682	11,716,705	13,511,420	13,704,601	19,224,667	25,639,124	19,189,249	17,175,009
Total General Fund	<u>9,635,648</u>	<u>6,140,489</u>	<u>11,585,475</u>	<u>18,340,489</u>	<u>24,569,661</u>	<u>23,431,514</u>	<u>29,936,230</u>	<u>41,565,519</u>	<u>32,850,426</u>	<u>24,701,103</u>
All Other Governmental Funds										
Reserved	1,779,980	2,369,011	233,800	542,533	901,499	3,544,233	1,674,452	1,710,935	257,039	261,148
Unreserved										
Designated										
Special revenue funds	-	-	55,650	46,819	2,057,720	1,230,743	4,669,633	3,873,957	3,015,288	6,492,813
Capital projects funds	103,793	116,453	2,113,030	3,195,881	10,897,638	6,994,625	5,857,033	544,868	47,616,579	26,377,422
Undesignated										
Special revenue funds	2,079,941	986,785	1,945,446	1,736,865	2,888,397	5,427,520	1,444,164	1,670,990	1,093,257	2,147,618
Capital projects funds	-	-	-	-	-	151,034	243,988	415,620	609,177	-
Total all other government funds	<u>3,963,714</u>	<u>3,472,249</u>	<u>4,347,926</u>	<u>5,522,098</u>	<u>16,745,254</u>	<u>17,348,155</u>	<u>13,889,270</u>	<u>8,216,370</u>	<u>52,591,340</u>	<u>35,279,001</u>
Total fund balances	<u>\$ 13,599,362</u>	<u>\$ 9,612,738</u>	<u>\$ 15,933,401</u>	<u>\$ 23,862,587</u>	<u>\$ 41,314,915</u>	<u>\$ 40,779,669</u>	<u>\$ 43,825,500</u>	<u>\$ 49,781,889</u>	<u>\$ 85,441,766</u>	<u>\$ 59,980,104</u>

(1) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.

COUNTY OF STAFFORD, VIRGINIA

Table S-4

Page 1 of 2

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS

FISCAL YEARS 1998-2007

(modified accrual basis of accounting)

(unaudited) (1)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues										
General property taxes	\$ 64,556,594	\$ 67,107,740	\$ 71,989,953	\$ 78,377,578	\$ 83,210,821	\$ 91,456,045	\$ 101,258,961	\$ 111,353,798	\$ 121,622,651	\$ 135,859,852
Other local taxes	14,579,513	15,623,794	18,206,189	21,058,168	23,658,116	24,816,046	29,694,805	34,543,355	38,312,276	35,490,473
Permits, privilege fees and regulatory licenses	1,689,938	1,846,647	2,154,090	3,042,396	3,383,535	3,689,647	4,431,676	5,847,703	7,174,717	6,277,427
Fines and forfeitures	277,131	292,386	272,436	395,582	482,193	657,077	833,105	772,566	867,114	905,693
Use of money and property	683,114	829,774	754,797	1,029,403	703,383	953,799	442,784	1,151,048	1,849,825	5,014,147
Charges for services	1,131,161	1,205,884	1,238,935	1,449,347	2,301,658	2,880,405	3,293,751	4,090,615	4,349,136	4,147,093
Miscellaneous	2,045,829	1,775,279	3,379,985	2,736,752	2,681,086	2,366,015	2,072,290	3,138,769	5,675,388	5,390,303
Intergovernmental	7,586,647	12,690,940	13,908,978	19,973,827	20,833,695	23,905,242	25,550,016	27,099,260	29,563,403	29,987,465
Total revenues	92,549,927	101,372,444	111,905,363	128,063,053	137,254,487	150,724,276	167,577,388	187,997,114	209,414,510	223,072,453
Expenditures										
Current operating:										
General government	7,547,954	8,797,427	7,915,037	8,723,252	8,814,108	9,664,490	10,282,188	11,444,218	13,065,292	15,286,072
Judicial administration	2,309,567	2,409,099	2,750,110	3,221,424	3,179,481	3,560,595	4,002,419	4,525,802	5,419,062	6,167,640
Public safety	14,986,339	15,809,426	18,181,433	20,080,311	21,894,334	25,414,534	27,021,222	30,125,219	33,323,162	39,192,264
Public works	1,329,327	1,366,416	1,482,619	1,615,966	1,681,590	1,996,871	2,265,499	2,805,045	3,304,353	3,501,246
Health and social services	5,764,545	7,068,974	6,867,439	6,978,259	9,648,764	10,674,505	10,859,186	12,132,314	12,549,758	13,039,756
Parks, recreation and cultural	4,224,318	4,465,235	4,808,796	5,932,445	6,195,911	6,575,213	6,601,474	7,780,027	8,483,121	10,873,546
Community development	1,990,938	1,900,127	1,998,985	2,144,110	1,962,153	2,481,699	2,698,930	3,513,087	5,064,579	5,160,842
Appropriation to school board:										
School operation	-	-	-	-	67,944,160	66,325,132	71,114,803	72,932,530	89,547,690	95,985,884
School capital projects	-	-	-	-	8,127,383	8,143,992	64,229,951	29,373,954	64,172,028	21,239,268
Capital outlay	1,346,405	265,124	319,908	898,293	2,425,317	3,250,016	8,508,047	9,650,094	22,666,254	26,678,955
Debt service										
Principal	1,228,518	1,406,406	1,385,802	1,453,046	1,396,068	13,596,057	20,078,351	15,438,223	16,233,105	20,274,620
Interest and fiscal charges	964,272	834,662	841,371	807,529	832,574	9,156,119	8,859,992	12,045,756	12,142,734	14,945,078
Total expenditures	41,692,183	44,322,896	46,551,500	51,854,635	134,101,843	160,839,223	236,522,062	211,766,269	285,971,138	272,345,171
Excess of revenues over (under) expenditures	50,857,744	57,049,548	65,353,863	76,208,418	3,152,644	(10,114,947)	(68,944,674)	(23,769,155)	(76,556,628)	(49,272,718)
Other Financing Sources (Uses)										
Issuance of debt	-	-	-	-	-	-	-	27,595,000	100,590,000	20,359,366
Issuance of capital leases	642,869	478,000	-	-	-	-	-	1,102,700	8,434,211	3,451,690
Bond premium	-	-	-	-	50,324	580,512	2,620,702	1,075,564	2,949,267	-
Payments to fiscal agent	-	-	-	-	(4,077,382)	-	-	-	-	-
Transfers in	377,327	32,892	396,600	867,769	421,988	212,712	348,385	390,109	927,731	8,529,884
Transfers out	(54,612,447)	(61,547,064)	(59,429,800)	(70,295,023)	(33,227)	(136,140)	(201,957)	(437,829)	(927,731)	(8,529,884)
Proceeds from indebtedness	-	-	-	1,087,764	15,122,053	8,720,000	68,034,768	-	-	-
Proceeds from capital leases	-	-	-	-	1,619,499	202,617	1,188,607	-	-	-
Total other financing sources(uses)	(53,592,251)	(61,036,172)	(59,033,200)	(68,339,490)	13,103,255	9,579,701	71,990,505	29,725,544	111,973,478	23,811,056
Net change in fund balances	\$ (2,734,507)	\$ (3,986,624)	\$ 6,320,663	\$ 7,868,928	16,255,899	(535,246)	3,045,831	5,956,389	35,416,850	(25,461,662)
Fund balance, beginning (3)	n/a	n/a	n/a	n/a	25,059,016	41,314,915	40,779,669	43,825,500	50,024,916	85,441,766
Fund balance, ending (3)	n/a	n/a	n/a	n/a	\$ 41,314,915	\$ 40,779,669	\$ 43,825,500	\$ 49,781,889	\$ 85,441,766	\$ 59,980,104

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS

FISCAL YEARS 1998-2007

(modified accrual basis of accounting)

(unaudited) (1)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total debt service	\$ 2,192,790	\$ 2,241,068	\$ 2,227,173	\$ 2,260,575	\$ 2,228,642	\$ 22,752,176	\$ 28,938,343	\$ 27,483,979	\$ 28,375,839	\$ 35,219,698
Total expenditures	\$ 41,692,183	\$ 44,322,896	\$ 46,551,500	\$ 51,854,635	\$ 134,101,843	\$ 160,839,223	\$ 236,522,062	\$ 211,766,269	\$ 285,971,138	\$ 272,345,171
Less: Capital outlay	4,510,500	2,545,049	1,742,507	3,019,575	2,854,263	5,267,975	7,484,816	10,768,840	26,514,511	29,508,946
Non-capital expenditures	<u>\$ 37,181,683</u>	<u>\$ 41,777,847</u>	<u>\$ 44,808,993</u>	<u>\$ 48,835,060</u>	<u>\$ 131,247,580</u>	<u>\$ 155,571,248</u>	<u>\$ 229,037,246</u>	<u>\$ 200,997,429</u>	<u>\$ 259,456,627</u>	<u>\$ 242,836,225</u>
Debt service as a percentage of noncapital expenditures	<u>5.90%</u>	<u>5.36%</u>	<u>4.97%</u>	<u>4.63%</u>	<u>1.70%</u>	<u>14.62%</u>	<u>12.63%</u>	<u>13.67%</u>	<u>10.94%</u>	<u>14.50%</u>

(1) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.

(2) For the years 1997 through 2001, the amount used for capital outlay was obtained from the increase to the General Fixed Asset Accounts. For the years 2002 through 2006, the amounts used for capital outlay was obtained from the Reconciliation of the Statement of revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities.

(3) The beginning fund balances were restated in 2002 to reflect changes required with the implementation of GASB 34. Therefore, beginning and ending fund balances are shown only for years 2002 through current.

In 2006, the beginning fund balance was restated. See Footnote 15 of the Financial Statements for 2006.

COUNTY OF STAFFORD, VIRGINIA

Table S-5

ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE REAL PROPERTY
Calendar Years 1998 - 2007
(unaudited) (1)

<u>Calendar Year</u>	<u>Residential Real Property</u>	<u>Commercial and Industrial Real Property</u>	<u>Agricultural Real Property</u>	<u>Total Taxable Assessed Real Property</u>	<u>Percentage Growth Total Taxable Assessed Real Property</u>	<u>Nontaxable Real Property</u>	<u>Total Direct Real Estate Tax Rate (3)</u>
1998 (2)	3,637,268,000	649,389,200	383,193,500	4,669,850,700	8.6%	727,257,700	1.08
1999	3,802,531,300	677,170,400	368,141,000	4,847,842,700	3.8%	742,815,600	1.08
2000 (2)	4,110,562,320	759,885,000	379,563,500	5,250,010,820	8.3%	899,752,300	1.18
2001	4,352,709,820	814,764,500	368,899,400	5,536,373,720	5.5%	912,650,300	1.18
2002 (2)	5,143,139,800	914,306,300	386,353,100	6,443,799,200	16.4%	1,071,966,600	1.14
2003	5,558,075,479	974,267,800	377,963,600	6,910,306,879	7.2%	1,101,844,400	1.14
2004 (2)	7,720,109,900	1,044,385,900	446,627,300	9,211,123,100	33.3%	1,190,906,100	0.97
2005	8,218,284,370	1,102,051,850	451,249,400	9,771,585,620	6.1%	1,197,340,200	0.97
2006 (2)	14,085,066,863	1,700,599,860	1,136,810,550	16,922,477,273	73.2%	1,414,690,900	0.63
2007	14,653,745,227	1,804,449,827	1,019,445,450	17,477,640,504	3.3%	1,444,115,400	0.70

(1) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.

(2) The county reassesses property every two years. Real property is assessed at 100% of the fair market value.

(3) Per \$100 of value.

Source: Office of the Commissioner of Revenue.

COUNTY OF STAFFORD, VIRGINIA

Table S-6

DIRECT AND OVERLAPPING TAX RATES (1)
Calendar Years 1998 - 2007
(unaudited) (2)

Calendar Year	Real Estate	Personal Property (4)	Merchants Capital	Machinery and Tools	Mobile Homes (5)	Aircraft (6)
1998 (3)	\$1.08	\$5.49	\$0.50	\$0.75	\$1.08	\$5.49
1999	1.08	5.49	0.50	0.75	1.08	5.49
2000 (3)	1.18	5.49	0.50	0.75	1.18	5.49
2001	1.18	5.49	0.50	0.75	1.18	5.49
2002 (3)	1.14	5.49	0.50	0.75	1.14	3.00
2003	1.14	5.49	0.50	0.75	1.14	3.00
2004 (3)	0.97	5.49	0.50	0.75	0.97	3.00
2005	0.97	5.49	0.50	0.75	0.97	3.00
2006 (3)	0.63	5.49	0.50	0.75	0.63	3.00
2007	0.70	5.49	0.50	0.75	0.70	3.00

(1) All the rates listed on this page are direct rates, meaning the primary government has the authority to set, modify or approve. Although the County does support some regional activities, there are no rates set or charged by any overlapping governmental bodies.

(2) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.

(3) Years of General Reassessments. Real estate is assessed at 100% of fair market value. Rates are charged per \$100 of assessed value.

(4) Personal property is assessed at 40% of fair market value.
Hence, the effective tax rate is approximately \$2.20 per \$100 of fair market value.

(5) Mobile homes are assessed at 100% of fair market value.

(6) Beginning in calendar year 2002, aircraft is taxed at \$3.00 per \$100 of assessed value.
In years prior to 2002, aircraft was taxed at the personal property rate.

Source: Office of the Commissioner of Revenue.

COUNTY OF STAFFORD, VIRGINIA

Table S-7

PRINCIPAL PROPERTY TAX PAYERS

Calendar Years 2007 vs 1998

(unaudited) (1)

Tax Payer	Type of Business	Calendar Year 2007			Calendar Year 1998		
		Assessed Valuation	Rank	% Total Assessed Valuation	Assessed Valuation	Rank	% Total Assessed Valuation
Silver Companies, Inc	Commercial	\$ 203,221,300	1	1.2%	\$ 24,069,300	5	0.5%
Virginia Power	Utility	100,887,401	2	0.6%	72,398,644	2	1.6%
The Garrett Companies	Commercial	97,358,302	3	0.6%	-		
Northern Stafford Associates LC	Commercial	96,520,500	4	0.6%	-		
Pulte Home Corporation	Commercial	75,949,600	5	0.4%	-		
Government Employees Insurance Co	Commercial	71,749,770	6	0.4%	37,284,300	3	0.8%
Stafford Marketplace LLC	Commercial	64,828,400	7	0.4%	-		
ACPRE ACS Realty LLC	Commercial	64,752,700	8	0.4%	-		
Vine Place II Associates LP	Commercial	39,971,100	9	0.2%	-		
BC Stafford LLC	Commercial	37,301,400	10	0.2%	-		
McLane/Mid-Atlantic Inc, McLane Foods	Commercial				76,036,100	1	1.6%
GTE South, Inc.	Utility	-			25,223,311	4	0.5%
Wal-Mart Real Estate Business Trust	Retail	-			21,349,670	6	0.5%
Bell Atlantic	Utility	-			20,917,339	7	0.4%
United Dominion Realty Trust	Commercial	-			19,544,250	8	0.4%
Salem Properties	Commercial	-			18,036,600	9	0.4%
Widewater Associates	Commercial	-			14,948,100	10	0.3%
Totals		<u>\$ 852,540,473</u>		4.9%	<u>\$ 329,807,614</u>		7.1%
Total taxable assessed real property		\$ 17,477,640,504			\$ 4,669,850,700		

(1) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.

Source: Office of the Commissioner of Revenue.

COUNTY OF STAFFORD, VIRGINIA

Table S-8

REAL PROPERTY TAX LEVIES AND COLLECTIONS

Fiscal Years 1998 - 2007

(unaudited) (1)

Fiscal Year	Taxes Levied for the Fiscal Year (Original Levy)	Adjustments (2)	Total Adjusted Levy	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
				Amount	Percentage of Original Levy		Amount	Percentage of Adjusted Levy
1998	\$ n/a	\$ n/a	\$ 46,477,633	\$ 44,481,591	95.71%	\$ 1,800,586	\$ 46,282,177	99.58%
1999	n/a	n/a	49,115,044	46,886,932	95.46%	2,204,621	49,091,553	99.95%
2000	54,199,011	1,044,375	55,243,386	54,171,912	99.95%	1,060,426	55,232,338	99.98%
2001	60,507,182	784,610	61,291,792	59,221,983	97.88%	2,057,551	61,279,534	99.98%
2002	66,563,806	1,527,739	68,091,545	65,933,432	99.05%	1,785,559	67,718,991	99.45%
2003	72,814,193	2,142,646	74,956,839	72,357,037	99.37%	2,099,948	74,456,985	99.33%
2004	81,251,276	2,439,327	83,690,603	80,586,156	99.18%	2,601,036	83,187,192	99.40%
2005	89,366,328	1,869,954	91,236,282	88,671,724	99.22%	2,422,970	91,094,694	99.84%
2006	98,469,052	573,162	99,042,214	94,744,404	96.22%	2,733,401	97,477,805	98.42%
2007	110,625,880	1,193,666	111,819,546	106,471,292	96.24%	3,079,111	109,550,403	97.97%

(1) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.

(2) Adjustments available separately within financial system beginning with year 2000.

Source: Data provided by the Stafford County Treasurer's Office.

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

Direct Debt Ratios

Fiscal Years 1998 - 2007

(unaudited) (1)

Fiscal Year	Governmental Activities					Business-Type Activities	Total Direct Debt	Total Direct Debt		
	General Obligation Bonds (3)	Lease Revenue Bonds (3)	Literary Loans	Certificates of Participation	Capital Leases	General Obligation Bonds (3)	General Bonded Direct Debt Outstanding	Percentage of Assessed Real Property Value (4)	Percentage of Personal Income (5)	Outstanding Debt Per Capita (6)
1998 (2)	106,868,921	-	8,790,000	10,905,000	1,217,568	2,432,285	130,213,774	2.79%	5.92%	1,508
1999 (2)	131,744,100	-	8,150,000	10,215,000	1,304,423	2,005,000	153,418,523	3.16%	6.08%	1,625
2000 (2)	142,455,238	-	7,510,000	9,475,000	985,645	1,533,043	161,958,926	3.08%	6.09%	1,752
2001 (2)	147,477,917	-	11,045,466	8,700,000	1,711,663	1,045,922	169,980,968	3.07%	5.79%	1,728
2002	160,729,171	6,500,000	10,702,974	7,895,000	2,930,094	552,947	189,310,186	2.94%	6.09%	1,816
2003	157,970,215	6,500,000	9,946,825	7,055,000	2,611,758	-	184,083,798	2.66%	5.55%	1,684
2004	214,581,437	-	9,190,676	6,180,000	3,276,709	-	233,228,822	2.53%	6.43%	2,037
2005	229,012,371	-	8,509,527	5,265,000	3,701,401	-	246,488,299	2.52%	6.24%	2,091
2006 (7)	266,483,041	47,030,000	7,678,378	4,310,000	11,062,986	-	336,564,405	1.99%	8.11%	2,801
2007	272,722,829	47,030,000	6,922,229	3,310,000	12,401,196	-	342,386,254	1.96%	7.81%	2,779

(1) The scope of the independent audit does not include the tables displayed in the Statistical section of the CAFR.

(2) General obligation bonds were restated to include school debt that was reported within the Component Unit -School Board prior to 2002.

(3) Bond numbers shown do not include the impact of deferred amounts for premiums or losses on refunding.

(4) Percentage of Assessed Taxable Real Property = Total Direct Debt/Total Assessed Taxable Real Property Value (See Table S-14).

(5) Percentage of Personal Income = Outstanding Debt Per Capita/Total Per Capita Personal Income (See Table S-14).

(6) Percentage of Assessed Real Property = Total Direct Debt/Population (See Table S-14).

(7) In 2006, \$47M of lease revenue bonds were issued for the construction of public safety projects. \$2.7M was used to pay back commercial paper that was obtained until the \$47M transaction could be executed. Although the \$2.7M of commercial paper was not redeemed until July 2006, it has been excluded from this report so as to provide a more accurate view of the debt ratios.

COUNTY OF STAFFORD, VIRGINIA

Table S-10

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

Direct & Overlapping Debt Ratios

Fiscal Years 1998 - 2007

(unaudited) (1)

Fiscal Year	Total Direct Debt General Bonded Direct Debt Outstanding	Stafford County Portion of Overlapping Debt		Total Direct & Overlapping Debt General Bonded Direct & Overlapping Debt Outstanding	Total Direct & Overlapping Debt		
		Joint Activity Rappahannock Regional Jail (2)	Joint Activity Juvenile Detention Center (3)		Percentage of Assessed Real Property Value (4)	Percentage of Personal Income (5)	Outstanding Debt Per Capita (6)
1998	\$ 130,213,774	\$ -	\$ -	\$ 130,213,774	2.79%	5.92%	1,508
1999	153,418,523	18,940,040	-	172,358,563	3.56%	6.83%	1,826
2000	162,018,148	18,940,040	2,688,000	183,646,188	3.50%	6.91%	1,987
2001	170,028,055	18,940,040	2,605,649	191,573,744	3.46%	6.53%	1,947
2002	189,357,273	18,642,540	2,523,298	210,523,111	3.27%	6.78%	2,020
2003	184,125,835	18,333,140	2,440,947	204,899,922	2.97%	6.18%	1,874
2004	233,265,489	18,009,460	2,358,596	253,633,545	2.75%	6.99%	2,215
2005	246,519,255	17,673,880	2,276,247	266,469,382	2.73%	6.74%	2,261
2006	336,564,405	17,334,939	2,160,080	356,059,424	2.10%	8.58%	2,965
2007	342,386,254	16,968,188	2,084,045	361,438,487	2.07%	8.25%	2,934

(1) The scope of the independent audit does not include the tables displayed in the Statistical section of the CAFR.

(2) Overlapping debt portion represents 47.6% of the total debt liability for the Rappahannock Regional Jail.

(3) Overlapping debt portion represents 33.6% of the total debt liability for the Juvenile Detention Center.

(4) Percentage of Assessed Taxable Real Property = Total Direct & Overlapping Debt/Total Assessed Taxable Real Property Value (See Table S-14).

(5) Percentage of Personal Income = Outstanding Debt Per Capita/Total Per Capita Personal Income (See Table S-14).

(6) Percentage of Assessed Real Property = Total Direct & Overlapping Debt/Population (See Table S-14).

COUNTY OF STAFFORD, VIRGINIA

Table S-11

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

As of June 30, 2007

(unaudited) (1)

	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Direct debt:			
General Government			
General obligation bonds (2)	\$ 272,722,829	100.0%	\$ 272,722,829
Lease revenue bonds (2)	47,030,000	100.0%	47,030,000
Literary loans	6,922,229	100.0%	6,922,229
Certificates of participation	3,310,000	100.0%	3,310,000
Capital leases	12,401,196	100.0%	12,401,196
Total general government direct debt	<u>342,386,254</u>		<u>342,386,254</u>
Overlapping Debt:			
Regional Joint Activities			
Rappahannock Regional Jail	35,625,000	47.6%	16,968,188
Juvenile Detention Center	<u>6,202,515</u>	33.6%	<u>2,084,045</u>
Total regional joint ventures	<u>41,827,515</u>		<u>19,052,233</u>
Total overlapping debt	<u>41,827,515</u>		<u>19,052,233</u>
Total direct and overlapping debt	<u>\$ 384,213,769</u>		<u>\$ 361,438,487</u>

(1) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.

(2) Bond numbers shown do not include the impact of any deferred amounts for premiums or losses on refunding.

DEBT MARGIN INFORMATION

Fiscal Years 1998 - 2007

(unaudited) (1)

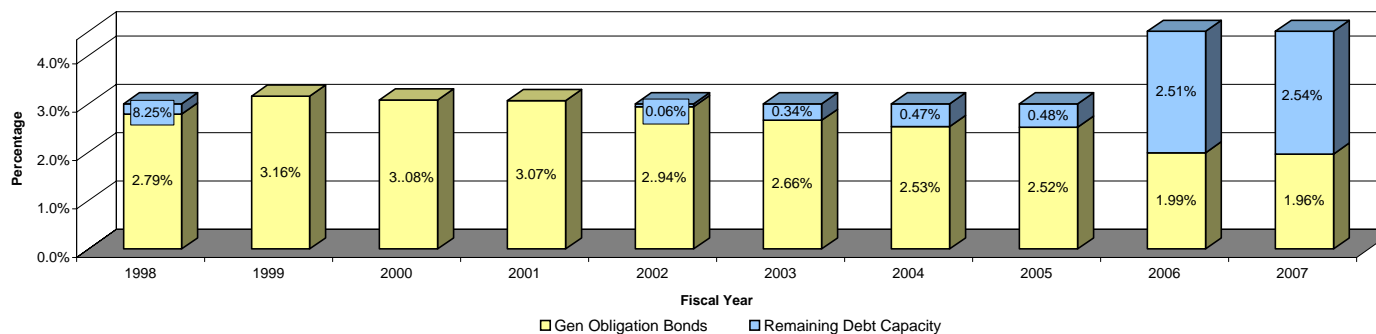
On June 21, 2005, the Board of Supervisors adopted new "Principles of High Performance Financial Management" as a means to strategically plan and account for the County's financial resources, ensure a balanced tax burden from residential and commercial resources and to maintain or upgrade the County's bond rating. The principles include three significant debt limitations as follows:

Debt Limitation 1:

The (tax-supported) general obligation debt shall not exceed 4.5% of the assessed valuation of taxable real property

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Assessed value of taxable real property	\$4,669,850,700	\$4,847,842,700	\$5,250,010,820	\$5,536,373,720	\$6,443,799,200	\$6,910,306,879	\$9,211,123,100	\$9,771,585,620	\$16,922,477,273	\$17,477,640,504
Debt limit, 4.5% of assessed value* * (3% prior to June 21, 2005)	\$140,095,521	\$145,435,281	\$157,500,325	\$166,091,212	\$193,313,976	\$207,309,206	\$276,333,693	\$439,721,353	\$761,511,477	\$786,493,823
Tax-supported general obligation debt (2)	\$130,213,774	\$153,418,523	\$161,958,926	\$169,980,968	\$189,310,186	\$184,083,798	\$233,228,822	\$246,488,299	\$336,564,407	\$342,386,254
% of assessed real property	2.79%	3.16%	3.08%	3.07%	2.94%	2.66%	2.53%	2.52%	1.99%	1.96%
Debt margin (3)	\$ 9,881,747	\$ (7,983,242)	\$ (4,458,601)	\$ (3,889,756)	\$ 4,003,790	\$ 23,225,408	\$ 43,104,871	\$ 193,233,054	\$ 424,947,070	\$ 444,107,569

**Total Debt to Assessed Value of Property
not to exceed 4.5%**



The limit of debt service to assessed value was increased to 4.5% in fiscal year 2005

(1) The scope of the independent audit does not include the tables/charts displayed in the Statistical section of the CAFR.

(2) The tax-supported general obligation debt includes general obligation bonds (including VPSA), lease-revenue bonds (issued for the construction of public safety projects), literary loans, certificates of participation, capital leases and VRS taxable refunding bonds. Any impact of premiums and/or losses on refunding are excluded from these numbers.

(3) Counties in Virginia are not subject to state imposed debt margins. The debt margin above represents a self-imposed debt limitation established by the Board of Supervisors.

COUNTY OF STAFFORD, VIRGINIA

Table S-12
Page 2 of 3

DEBT MARGIN INFORMATION

Fiscal Years 1998 - 2007

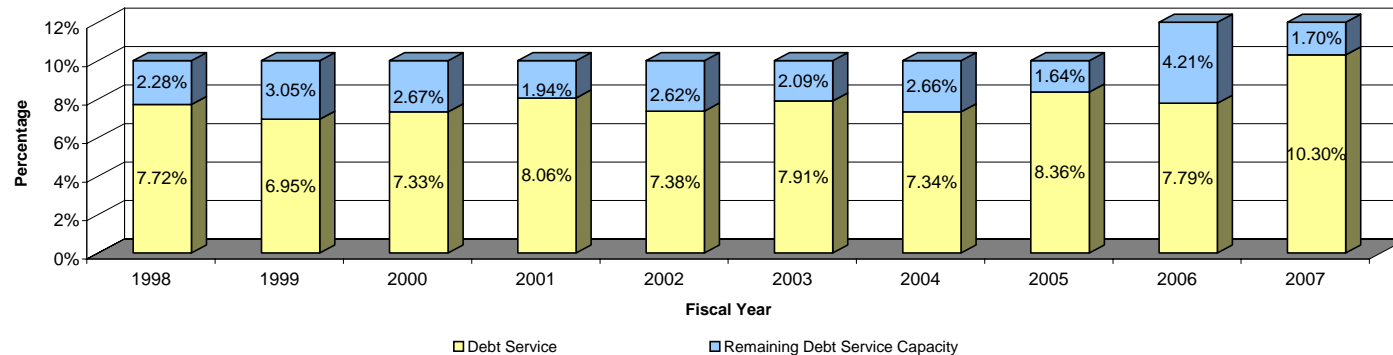
(unaudited) (1)

Debt Limitation 2:

General fund debt service expenditures (County and Schools) shall not exceed 12% of the general government budget.

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government budget	\$ 171,431,894	\$ 203,684,271	\$ 219,799,752	\$ 220,254,239	\$ 246,297,712	\$ 261,684,257	\$ 278,816,785	\$ 303,822,605	\$ 364,107,872	\$ 314,664,138
Debt limit, 12% of general government budget*										
* (10% prior to June 21, 2005)	\$17,143,189	\$20,368,427	\$21,979,975	\$22,025,424	\$24,629,771	\$26,168,426	\$27,881,679	\$30,382,261	\$43,692,945	\$37,759,697
Debt service expenditure (2)	\$13,237,168	\$14,154,799	\$16,117,059	\$17,759,023	\$18,178,458	\$20,688,234	\$20,475,624	\$25,413,847	\$28,375,839	\$32,405,582
Percentage of the general government budget	7.72%	6.95%	7.33%	8.06%	7.38%	7.91%	7.34%	8.36%	7.79%	10.30%
Debt service margin (3)	\$ 3,906,021	\$ 6,213,628	\$ 5,862,916	\$ 4,266,401	\$ 6,451,313	\$ 5,480,192	\$ 7,406,055	\$ 4,968,414	\$ 15,317,106	\$ 5,354,115

Debt Service to General Expenditures
not to exceed 12%



The limit of debt service expenditure to the general government budget was increased to 12% in fiscal year 2005

(1) The scope of the independent audit does not include the tables/charts displayed in the Statistical section of the CAFR.

(2) Debt service expenditures = principal payments plus interest net of capitalized interest and refunding.

(3) Counties in Virginia are not subject to state imposed debt margins. The debt margin above represents a self-imposed debt limitation established by the Board of Supervisors.

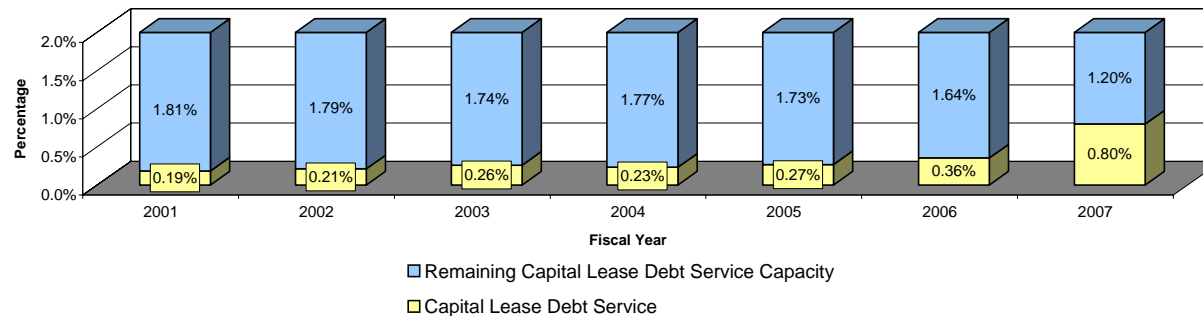
(4) General government is defined in the adopted Principles of High Performance Financial Management as General Fund plus the School Operating Fund less the School Transfer.

DEBT MARGIN INFORMATION
Fiscal Years 1998 - 2007
(unaudited) (1)

Debt Limitation 3:

Capital lease debt service shall not exceed 2% of the general government budget, with 2/3 allocated to Schools and 1/3 to the County

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government budget	\$ 171,431,894	\$ 203,684,271	\$ 219,799,752	\$ 220,254,239	\$ 246,297,712	\$ 261,684,257	\$ 278,816,785	\$ 303,822,605	\$ 364,107,872	\$ 314,664,138
Capital lease debt service limit, 2% of general government budget										
County limit	1,142,879	1,357,895	1,465,332	1,468,362	1,641,985	1,744,562	1,858,779	2,025,484	2,427,386	2,097,761
School Board limit	2,285,759	2,715,790	2,930,663	2,936,723	3,283,969	3,489,123	3,717,557	4,050,968	4,854,771	4,195,521
Total debt service limitation	3,428,638	4,073,685	4,395,995	4,405,085	4,925,954	5,233,685	5,576,336	6,076,452	7,282,157	6,293,283
Amount of debt service applicable to limit										
County	n/a	n/a	376,050	408,023	523,313	678,408	650,134	665,675	774,517	877,602
School Board	n/a	n/a	-	-	-	-	-	149,652	519,333	1,635,858
Total debt service applicable to limit	n/a	n/a	376,050	408,023	523,313	678,408	650,134	815,327	1,293,850	2,513,460
Capital lease debt service as a percentage of general government budget	n/a	n/a	0.17%	0.19%	0.21%	0.26%	0.23%	0.27%	0.36%	0.80%
Debt service margin (2)	\$ 3,428,638	\$ 4,073,685	\$ 4,019,945	\$ 3,997,062	\$ 4,402,641	\$ 4,555,277	\$ 4,926,202	\$ 5,261,125	\$ 5,988,307	\$ 3,779,823

Capital Lease Debt Service to General Government Budget
not to exceed 2%

(1) The scope of the independent audit does not include the tables/charts displayed in the Statistical section of the CAFR.

(2) Counties in Virginia are not subject to state imposed debt margins. The debt margin above represents a self-imposed debt limitation established by the Board of Supervisors.

PLEDGED REVENUE COVERAGE: WATER AND SEWER FUND

Fiscal Years 1998 - 2007

(unaudited) (1)

Fiscal Year	Water and Sewer Fund						Coverage (Times) (4)
	Gross Revenue (2)	Less: Expenses (3)	Net Available Revenue	Debt Service			
				Principal	Interest	Total	
1998	\$ 22,517,551	\$ 7,562,970	\$ 14,954,581	\$ 3,105,000	\$ 2,632,781	\$ 5,737,781	2.61
1999	23,624,565	9,294,481	14,330,084	3,180,000	2,494,777	5,674,777	2.53
2000	25,808,750	8,974,999	16,833,751	3,285,000	2,357,037	5,642,037	2.98
2001	29,908,260	10,640,467	19,267,793	3,285,000	2,240,611	5,525,611	3.49
2002	31,749,543	11,041,968	20,707,575	3,405,000	2,100,585	5,505,585	3.76
2003	29,458,875	12,435,144	17,023,731	3,005,000	1,265,260	4,270,260	3.99
2004	28,124,153	12,696,935	15,427,218	3,190,000	950,253	4,140,253	3.73
2005	34,484,411	13,958,320	20,526,091	3,290,000	1,128,783	4,418,783	4.65
2006	33,984,945	15,409,624	18,575,321	3,085,000	1,148,181	4,233,181	4.39
2007	33,940,137	17,499,110	16,441,027	3,185,000	877,635	4,062,635	4.05

(1) The scope of the independent audit does not include the tables displayed in the Statistical section of the CAFR.

(2) Includes availability fees and any other revenue sources pledged for the retirement of debt which is consistent with Stafford County's Master Bond Covenants.

(3) Total expenses are exclusive of depreciation, amortization and bond interest.

(4) Net revenue coverage required by the covenants is 1.2 times the debt service.

DEMOGRAPHIC AND ECONOMIC STATISTICS

Fiscal Years 1998 - 2007

(unaudited) (1)

Fiscal Year	Population (2)	Civilian Labor Force (3)	At Place Employment(4)	Unemployment Rate (5)	Personal Income (in thousands)(6)	Per Capita Personal Income (7)	Total Taxable Assessed Real Property (8)
1998	86,325	44,547	20,417	1.5%	\$ 2,200,338	\$ 25,489	\$ 4,669,850,700
1999	94,400	46,664	22,328	1.5%	2,522,462	26,721	4,847,842,700
2000	92,446	48,134	24,246	1.7%	2,657,360	28,745	5,250,010,820
2001	98,376	50,469	24,938	2.2%	2,935,933	29,844	5,536,373,720
2002	104,232	53,713	25,874	2.9%	3,107,052	29,809	6,443,799,200
2003	109,341	56,872	26,164	2.9%	3,315,547	30,323	6,910,306,879
2004	114,513	59,954	28,837	2.5%	3,625,940	31,664	9,211,123,100
2005	117,874	61,803	30,398	2.4%	3,952,197	33,529	9,771,585,620
2006	120,170	63,703	32,260	2.4%	4,150,071	34,535	16,922,477,273
2007	123,200	64,860	32,602	2.7%	4,382,347	35,571	17,477,640,504

(1) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.

(2) Population figures (1998 - 2006) provided by the U.S. Census Count. 2007 estimate provided by Stafford County Economic Development & Legislation Department.

(3) The Civilian Labor Force represents the number of people that live in Stafford County. Figures are based on a calendar year. Source: Virginia Employment Commission. (Current year: Year-to-Date average).

(4) The At Place Employment numbers represent the number of jobs in Stafford County. It includes people that commute into Stafford County to work and excludes those that travel out of the county to work. Figures are based on a calendar year. Source: Virginia Employment Commission (Current year: Year-to-Date average).

(5) Unemployment rates are provided by Virginia Employment Commission and represent a calendar year average. (Current year: Year-to-date Average)

(6) Personal Income figures are based on a calculation of per capita and population numbers.

(7) Per capita Personal Income figures (1997-2004) provided by the Virginia Employment Commission (VEC). (<http://velma.virtuallmi.com>) Per capita personal income figures (2005-2006): Estimate provided by Stafford County Finance Department assuming continued growth of 3%.

(8) Total taxable assessed real property figures are based on a calendar year. Source: Stafford County Office of the Commissioner of Revenue.

COUNTY OF STAFFORD, VIRGINIA

Table S-15

COMPARATIVE DEMOGRAPHIC AND ECONOMIC STATISTICS

Census Years 1990 & 2000

(unaudited) (1)

	1990 Census	2000 Census		
	Stafford County	Stafford County	Virginia	United States
Population:				
Median age	29.9	33.0	35.7	35.3
Persons under 18 years old	29.6%	28.6% (2)	24.2% (2)	25.0% (2)
Persons 19 to 64 years old	64.5%	65.8% (2)	64.4% (2)	62.6% (2)
Persons 65 years old and over	5.9%	5.6% (2)	11.4% (2)	12.4% (2)
Persons per square mile	226.5	341.9	178.8	79.6
Education:				
High school or higher	80.9%	88.6%	81.5%	80.4%
Bachelor's degree or higher	21.6%	29.6%	29.5%	24.4%
Income:				
Median household income	\$47,526	\$75,456 (3)	\$50,028 (3)	\$43,318 (3)
Housing:				
Number persons/household	3.1	3.0	2.5	2.6
Percent owner occupied	81.9%	80.6%	68.1%	66.2%
Owner occupied median value (4)	\$125,000	\$156,400	\$125,400	\$119,600

(1) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.

(2) Census numbers reflect percentages for year 2004. (Source: <http://quickfacts.census.gov>)

(3) Census numbers reflect median household income for year 2003. (Source: <http://quickfacts.census.gov>)

(4) The County reassesses property every two years. The most recent reassessment (done in 2006) resulted in a significant increase in the value of assessed real property as compared to the 2000 Census number shown above.

Source: US Census, 1990 & 2000.

COUNTY OF STAFFORD, VIRGINIA

Table S-16

PRINCIPAL EMPLOYERS

Fiscal Years 2007 vs 1998

(unaudited) (1)

Employer	Industry	Fiscal Year 2007			Fiscal Year 1998		
		Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Geico Insurance	Insurance	3,900	1	6.0%	3,100	1	7.0%
Stafford County School System	Education	3,352	2	5.2%	2,338	2	5.2%
FBI Academy (Stafford Facilities)	Government Services	900	3	1.4%	200		
McLane Mid-Atlantic	Retail Distribution	850	4	1.3%	850	3	1.9%
Stafford County Government	County Government	821	5	1.3%	480	6	1.1%
Intuit, Inc.	Computer Services	600	6	0.9%	500	5	1.1%
Northrop Grumman	IT Services/Engineering	300	7	0.5%	-		
Hilldrup United Moving & Storage	Van Line Services	300	8	0.5%	300	7	0.7%
BAE Systems	Weapon Systems	285	9	0.4%	180	9	0.4%
Lifecare	Medical Transports	280	10	0.4%	85		
Capital One	Financial Services	-			650	4	1.5%
Friction, Inc.	Brake Remanufacturer	-			180	8	0.4%
GDC Inc.	Construction	-			230	10	0.5%
Total of top 10 Employers		11,588		17.9%	9,093		20.4%
Total Civilian Labor Force		64,860			44,547		

(1) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.

(The data above does not include the 6,700 Marines or 6,900 civilians stationed/employed at the Quantico Marine Corps Base.)

Source: Stafford County Economic Development & Legislation Department.

COUNTY OF STAFFORD, VIRGINIA

Table S-17

FULL-TIME EQUIVALENT COUNTY GOVERNMENT EMPLOYEES BY FUNCTION

Fiscal Years 1998 - 2007

(unaudited) (1)

Function/Program Employees:	Full-time Equivalent Employees as of June 30									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Primary Government:										
Governmental activities:										
General government	96	111	110	111	115	117	117	123	131	134
Judicial administration	23	25	29	30	30	35	35	39	46	50
Public safety (2)	141	148	167	187	187	216	219	243	265	302
Public services	8	8	10	10	10	14	14	20	24	19
Health and welfare	44	45	48	48	50	50	52	55	60	60
Parks, recreation and cultural (3)	22	23	23	24	24	25	25	29	32	32
Community development	47	48	48	51	51	59	59	66	75	83
Transportation	-	-	-	-	-	-	-	1	1	2
Total governmental activities employees	381	408	435	461	467	516	521	576	634	682
Business-type activities:										
Utilities	99	93	105	113	117	120	120	133	134	139
Total business-type activities employees										
Total primary government employees	480	501	540	574	584	636	641	709	768	821
Volunteers:										
Public safety	700	600	600	300	300	300	300	300	250	250

(1) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.

(2) Includes E-911 Fund employees.

(3) Does not include seasonal employees.

OPERATING INDICATORS BY FUNCTION

Fiscal Years 1998 - 2007

(unaudited) (1)

Function/Program	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Governmental Activities:										
General government										
Commissioner of Revenue										
Taxpayers assisted at real estate and personal property counters	19,837	19,000	19,831	19,919	21,000	23,000	17,983	23,000	24,000	15,258
Building permits reviewed	3,415	3,299	3,200	3,461	3,500	4,168	3,500	4,000	3,300	2,756
State income tax returns processed	18,061	28,641	23,761	22,853	23,000	21,530	16,082	20,000	18,000	13,295
Personal property records processed	45,557	46,720	46,720	48,444	51,500	53,000	55,000	65,000	65,000	61,528
Finance										
Landfill bills processed	212	212	212	212	248	242	250	300	252	297
Water and sewer bills generated	252,000	257,000	267,000	283,523	297,000	314,609	326,265	341,670	358,993	372,221
Accounts payable checks processed	32,700	43,500	45,000	49,848	50,000	27,416	64,881	61,501	55,094	42,036
Department of Human Resources										
Number of new hires	n/a	n/a	274	221	290	263	264	249	332	373
Number of positions recruited	100	239	85	65	95	91	137	294	264	481
Public Services										
Total facilities maintained (sq ft)	180,200	186,250	186,250	186,250	220,335	186,250	220,335	222,696	225,046	231,999
Registrar										
Voters served at polling places	19,075	11,974	27,423	33,876	21,779	23,480	14,112	45,970	26,497	34,000
Treasurer										
Real estate and personal property bills processed	158,732	163,089	165,026	165,777	174,585	215,219	221,758	237,971	241,148	245,845
Auto decals processed	75,000	75,910	77,000	78,030	79,000	83,570	85,000	115,725	133,249	-
Water and sewer bills processed	247,000	252,000	260,000	260,400	261,000	241,000	320,000	331,703	339,528	361,142
Judicial administration										
Victims' services, both direct & indirect	n/a	1,115	775	1,200	1,000	915	1,000	805	849	1,076
Public safety										
Requests for law enforcement service (responded)	56,442	60,314	64,983	65,188	66,904	72,531	73,759	70,611	73,390	73,112
Number of arrests	4,702	5,675	4,676	5,568	6,232	6,381	6,764	7,170	6,144	7,451
Number of fire and EMS calls (3)	16,361	16,051	16,422	17,220	18,218	17,945	20,698	21,799	21,806	22,984

COUNTY OF STAFFORD, VIRGINIA

Table S-18

Page 2 of 3

OPERATING INDICATORS BY FUNCTION

Fiscal Years 1998 - 2007

(unaudited) (1)

Function/Program	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Social Services										
Benefit applications received	n/a	3,500	3,700	4,000	4,000	4,080	4,275	4,369	7,612	9,167
CPS complaints investigated (4)	400	385	415	415	400	338	395	395	400	469
Food stamp households served	n/a	789	800	820	900	1,025	1,200	1,341	1,413	1,615
Foster care children served	120	150	160	160	158	158	157	140	138	127
Parks, recreational and cultural										
Programs offered: gymnastics	78	100	115	400	420	1,280	915	1,250	1,210	1,355
Programs offered: senior citizens	73	75	78	80	82	87	90	95	102	103
Programs offered: sports/recreation	125	125	135	145	150	165	325	335	340	494
Programs offered: aquatics	115	115	120	325	325	452	531	556	572	696
Acres maintained	750	750	760	775	775	872	906	906	1,000	1,000
Community development										
Code Administration										
Permits issues	19,947	24,374	24,715	28,131	19,230	20,093	22,676	21,817	21,396	15,335
Chesapeake bay building permits reviewed (6)	1,300	1,335	1,200	1,250	1,350	2,000	2,560	2,400	3,650	2,365
Building inspections performed	43,036	36,043	35,220	47,260	39,626	42,659	43,306	43,503	53,709	42,302
Zoning site development inspections	n/a	316	225	270	439	257	377	477	205	571
E&S control inspections performed (5)	13,976	9,268	10,517	10,493	23,634	20,898	14,247	22,709	11,336	16,393
Zoning enforcement inspections performed	1,042	977	1,014	822	392	807	811	965	1,075	958
Economic Development/Legislative Affairs										
At-place employment	20,417	22,328	24,246	24,938	25,874	26,164	28,837	30,398	32,260	32,602
Unemployment rate	1.5%	1.5%	1.7%	2.2%	2.9%	2.9%	2.5%	2.4%	2.4%	2.7%
Businesses in the County	1,336	1,365	1,406	1,478	1,561	1,640	1,793	1,948	2,030	2,072
Legislative bills reviewed for action/response	2,979	2,802	3,175	2,856	2,907	2,827	3,108	2,950	3,287	3,069
Planning										
Addresses issued (7)	1,300	2,860	2,600	2,500	2,600	2,600	3,000	3,000	2,512	1,737
Subdivision applications processed	n/a	264	250	268	250	275	300	285	271	190
Site plans processed (8)	n/a	114	102	67	80	80	80	85	84	80

OPERATING INDICATORS BY FUNCTION

Fiscal Years 1998 - 2007

(unaudited) (1)

Function/Program	Fiscal Year									
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Business-Type Activities:										
Water & Sewer Utilities										
Billions of gallons of water treated per year	2.340	2.798	3.057	3.288	2.986	3.310	3.361	3.280	3.768	3.873
Water storage (mg)	14.295	14.295	14.295	14.295	15.295	15.800	15.800	15.800	15.800	16.600
Billions of gallons of wastewater treated per year	2.241	2.290	2.465	2.581	2.138	2.229	2.784	2.983	2.973	3.173
Number of customer accounts served	19,833	21,035	21,781	21,781	24,762	26,472	27,745	29,116	30,553	31,314

(1) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.

(2) Number of court cases includes Circuit Court, General District Court, Juvenile & Domestic Relations Court and Probation Violation Cases Tried.

(3) EMS = Emergency Medical Services

(4) CPS = Child Protection Services

(5) E&S = Erosion & Sediment

(6) The number of permits reviewed in 2006 increased significantly due to applications for home additions now being reviewed, in addition to new construction.

(7) The number of new addresses decreased in 2006, which is reflective of an overall slow down in new home starts.

(8) The number of site plans processed increased significantly in 2006 due to a significant increase in commercial development within the County.

CAPITAL ASSET STATISTICS BY FUNCTION

Fiscal Years 1998 - 2007

(unaudited) (1)

Function/Program	Fiscal Year									
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Parks, recreation and cultural (cont.)										
Private marinas	5	5	5	5	5	5	5	5	5	5
Skateboard parks	0	0	0	0	2	2	2	2	2	2
Senior Citizens centers	1	1	1	1	1	1	1	1	1	1
Gymnastics training centers	1	1	1	1	1	1	1	1	1	1
Community centers	0	0	0	0	3	4	4	4	4	4
Community development										
Libraries (3)	1	1	1	1	1	1	1	1	1	1

(1) The scope of the independent audit does not include the tables displayed within the Statistical section of the CAFR.

(2) Although the County supports the Fire and Rescue stations, the stations are not owned by the County.

(3) The Central Rappahannock Regional Library (CRRL) is a shared facility serving the Central Rappahannock area.

COMPLIANCE SECTION



**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 Board of Supervisors
County of Stafford, Virginia
Stafford, Virginia

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of County of Stafford, Virginia (County) as of and for the year ended June 30, 2007, which collectively comprise County's basic financial statements and have issued our report thereon dated February 8, 2008. We did not audit the financial statements of the County of Stafford School Board. The financial statements for County of Stafford School Board were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these entities is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 07-01 and 07-02.

11710 Beltsville Drive
Suite 300
Calverton, MD 20705-3106
tel: 301-931-2050
fax: 301-931-1710

www.cliftoncpa.com

Offices in 17 states and Washington, DC



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of 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 County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Supervisors, management, the Auditor of Public Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Clifton Gundersen L L P".

Calverton, Maryland
February 8, 2008



**Independent Auditor's Report on Compliance
With Requirements Applicable to Each Major Program
on Internal Control Over Compliance and Schedule of Expenditures
of Federal Awards in Accordance With OMB Circular A-133**

To the Honorable Members of the Board of Supervisors
County of Stafford, Virginia
Stafford, Virginia

Compliance

We have audited the compliance of the County of Stafford, Virginia (County) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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 County'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. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 entity's internal control over compliance.

11710 Beltsville Drive
Suite 300
Calverton, MD 20705-3106
tel: 301-931-2050
fax: 301-931-1710

www.cliftoncpa.com

Offices in 17 states and Washington, DC



A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated February 8, 2008. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Supervisors, management, the Auditor of Public Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Clifton Gundersen LLP". The signature is written in a cursive, flowing style.

Calverton, Maryland
February 8, 2008

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

Federal Grantor/Recipient State Agency/Program Title	CFDA Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
Pass Through Payments:		
Department of Social Services		
State Administrative Matching Grants for		
Food Stamp Program	10.561	\$ 458,807
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Pass Through Payments:		
Department of Social Services		
Social Services Block Grant	93.667	\$ 359,823
Child Care Assistance		
Child Care and Development Block Grant	93.575	483,402
Child Care Mandatory and Matching Funds		
of the Child Care and Development Fund	93.596	499,589
Administration for Children and Families		
Chafee Education and Training Vouchers Program	93.599	1,774
Child Welfare Services - State Grants	93.645	130
Promoting Safe and Stable Families	93.556	57,362
Temporary Assistance for Needy Families	93.558	683,260
Refugee and Entrant Assistance -		
State Administered Programs	93.566	1,329
Low-Income Home Energy Assistance	93.568	13,840
Foster Care Title IV-E	93.658	606,713
Adoption Assistance	93.659	208,829
Chafee Foster Care Independent Living	93.674	25,879
State Children's Insurance Program	93.767	746
Medical Assistance Program (Medicaid; Title XIX)	93.778	404,729
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES		<u>3,347,405</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Pass Through Payments:		
Americorp	94.006	<u>22,227</u>
DEPARTMENT OF DEFENSE		
Direct Payments:		
Office of Chief Engineer		
Department of the Army		
Payments in Lieu of Real Estate Taxes	12.112	<u>3,267</u>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006**

Federal Grantor/Recipient State Agency/Program Title	CFDA Number	Expenditures
U.S. DEPARTMENT OF JUSTICE		
Direct Payments:		
Edward Byrne Memorial Formula Grant Program	16.579	\$ 9,180
Gang Task Force	16.580	13,653
Bulletproof Vest partnership Program	16.607	9,918
Public Safety Partnership and Community Policing Grant	16.710	63,878
Edward Byrne Memorial Justice Assistance Grant Program	16.738	<u>37,612</u>
TOTAL U.S. DEPARTMENT OF JUSTICE		\$ 134,241
U.S. DEPARTMENT OF TRANSPORTATION		
Direct Payments:		
Federal Highway Administration		
Highway Planning and construction	20.205	<u>127,372</u>
Pass Through Payments:		
Department of Motor Vehicles		
State and Community Highway Safety (Section 402)	20.600	<u>49,916</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>177,288</u>
DEPARTMENT OF DEFENSE		
Direct Payments:		
Office of Economic Adjustment		
Community Economic Adjustment Diversification Planning	12.614	<u>8,809</u>
DEPARTMENT OF HOMELAND SECURITY		
Pass Through Payments:		
Department of Emergency Management		
State Domestic Preparedness Equipment Support Program	97.004	99,038
Emergency Management Performance Grants	97.042	12,311
State Homeland Security Program	97.073	120,038
Law Enforcement Terrorism Prevention Program	97.074	<u>124,033</u>
TOTAL DEPARTMENT OF HOMELAND SECURITY		<u>355,420</u>
GRAND TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$ 4,507,464</u>

COUNTY OF STAFFORD, VIRGINIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2007

Note 1. Significant Accounting Policies

A. BASIS OF PRESENTATION

The accompanying "Schedule of Expenditures of Federal Awards" includes the federal grant activity of the County of Stafford, Virginia, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal Financial Assistance – The Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133 define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance. Nonmonetary deferral assistance including food commodities is considered federal assistance and, therefore, is reported on the "Schedule of Expenditures of Federal Awards." Federal financial assistance does not include direct federal cash assistance to individuals.

Direct Payments – Assistance received directly from the Federal government is classified as direct payments on the "Schedule of Expenditures of Federal Awards."

Pass Through Payments – Assistance received in a pass through relationship from entities other than the Federal government is classified as pass through payments on the "Schedule of Expenditures of Federal Awards."

Major Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the criteria to be used in defining major programs. Major programs for the County of Stafford, Virginia were determined using a risk-based approach in accordance with OMB Circular A-133.

Catalog of Federal Domestic Assistance – The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (CFDA Number), which is reflected in the accompanying schedule.

Cluster of Programs – Closely related programs that share common compliance requirements are grouped into clusters of programs. A cluster of programs is considered as one federal program for determining major programs. The following are the clusters administered by the County of Stafford, Virginia: Child Care.

COUNTY OF STAFFORD, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- | | | | | |
|---|--------|-----|--------|----|
| • Material weaknesses identified | _____ | Yes | _____✓ | No |
| • Significant deficiencies identified that are not considered to be material weaknesses | _____✓ | Yes | _____ | No |
| • Noncompliance material to financial statements | _____ | Yes | _____✓ | No |

Federal awards

Internal control over major programs:

- | | | | | |
|---|-------|-----|--------|----|
| • Material weaknesses identified | _____ | Yes | _____✓ | No |
| • Significant deficiencies identified that are not considered to be material weaknesses | _____ | Yes | _____✓ | No |

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

- | | | | | |
|--|-------|-----|--------|----|
| • Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | _____ | Yes | _____✓ | No |
|--|-------|-----|--------|----|

COUNTY OF STAFFORD, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.561	State Administrative Matching Grants for Food Stamp Program
93.667	Social Service Block Grant
93.778	Medicare Cluster

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE
REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING
STANDARDS

A. Significant deficiencies in Internal Control

Finding 7-01: Monthly reconciliations between the Treasurer's Office and Finance were not consistently performed during the year. (Repeat finding)

Condition: During the audit we were unable to substantiate unreconciled cash transactions. We noted that the monthly bank reconciliations between the Treasurer's Office and Finance were not consistently performed and reconciling items were not resolved.

Criteria: Internal Control-Integrated Framework (COSO Report) requires adequate internal controls over account reconciliation and review to ensure the accuracy and reliability of the financial records and reports.

Cause: The Treasurer's office experienced employee turnover which resulted in the bank reconciliation duties being performed by different staff. The staff assigned these duties did not have sufficient training with the County's H.T.E. general ledger accounting system.

Effect: The financial records and reports may be unreliable and not accurately reflect the financial disposition of the County.

Recommendation: We recommend that more timely reconciliations take place, preferably within 30 days in order to identify, investigate, and adjust potential errors in a timely manner.

COUNTY OF STAFFORD, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

**Management's
Response:**

The Treasurer's office lost an experienced employee with significant historical and operational experience, to include knowledge of the County's HTE general ledger accounting system. The loss of this resource resulted in an inability to make timely account and cash reconciliations. These conditions were understood and measures were taken to rectify the situation which included the replacement of the lost employee. By the time this position was replaced, several months had past without monthly reconciliations being performed.

Although these reconciliations were not performed in a timely manner during the year, they were ultimately completed for the entire fiscal year and there were no material errors in the cash transactions for the year.

The audit recommendation in Finding 7-01 has been implemented and there are now cash and investment reconciliations performed on a monthly basis. In addition, the Finance Department and the Treasure's office have implemented monthly communications in order to confirm all financial transactions are properly recorded.

Finding 07-02:

The County does not have adequate segregation of duties over the preparation and review of the financial statements and journal entries. Internal controls over financial reporting also failed to prevent and/or detect material errors in the financial records and statements.

Condition:

The preparer of the financial statements also performed the detailed review of the financial statements. In addition, adjusting journal entries are not reviewed for accuracy by someone other than the preparer.

Criteria:

Internal Control-Integrated Framework (COSO Report) requires adequate segregation of duties between performance, review and record keeping to ensure the preparation of reliable financial statements.

Cause:

The Finance Department experienced turnover in its management staff, and the County did not re-establish procedures for reviewing the financial statements. Two significant adjustments were not made by Finance for investment market adjustments and Capital Projects accounts payable; in addition one significant adjustment for debt services was subsequently reversed because it was posted incorrectly.

Effect:

The financial records and reports may be unreliable and not accurately reflect the financial disposition f the County.

Recommendation:

We recommend the County implement procedures to ensure that a quality control review is performed over financial statements and adjusting journal entries.

COUNTY OF STAFFORD, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

**Management's
Response:**

The department has two (2) accountant vacancies which are unfilled due to budget reductions. These positions would normally handle the noted responsibilities and entries which would then be approved by the Assistant Director of Finance. Allocating financial reporting responsibilities to these positions would provide adequate separation of duties in this area. As soon as budget constraints allow, the positions will be filled and this situation will be remedied. If budget constraints do not allow us to fill these positions we will reallocate department duties to achieve adequate segregation of duties between performance, review and record keeping.

B. Compliance Findings

None Reported

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None Reported

COUNTY OF STAFFORD, VIRGINIA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007**

Finding 06-01: Complete and accurate reconciliations had not been completed throughout the year.

Current Status: The County did not resolve the finding during fiscal year 2007, resulting in a re-issuance of the finding. Refer to finding 07-01.